



County of Ottawa

Board of Commissioners

Philip D. Kuyers
Chairperson

James C. Holtrop
Vice-Chairperson

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January 21, 2011

To All Ottawa County Commissioners:

The Ottawa County Board of Commissioners will meet on Tuesday, January 25, 2011 immediately following the Board of Commissioners meeting for a Board Work Session, at the Ottawa County Fillmore Street Complex in West Olive, Michigan

The Agenda is as follows:

1. Call to Order by the Chairperson
2. Pledge of Allegiance to the Flag
3. Roll Call
4. Public Comments and Communications from Staff
5. Work Session Items:
 - A. Ottawa County Insurance Authority Presentation, Al Vanderberg and Doug Van Essen
 - B. Agricultural Incubator Revolving Loan Fund, Mark Knudsen
6. Public Comments
7. Adjournment

Stuart P. Visser Dennis W. Swartout Jane M. Ruiter Greg J. DeJong Roger G. Rycenga
Joseph S. Baumann Robert W. Karsten James H. Holtvluwer Donald G. Disselkoen



MAC Summer Conference
**“Innovative Approaches
to Reducing Costs”**

Ottawa County Insurance Authority (OCIA)
Monday, August 16, 2010

Alan G. Vanderberg
County Administrator, Ottawa County
Treasurer, OCIA

Douglas W. Van Essen
Attorney-At-Law, Silver & Van Essen P.C.
General Counsel, OCIA




History



Late 1980's – Early 1990's

- Insurance market fluctuated between “soft” and “hard markets”
- Insurance pools began to look attractive, some counties opted to go with no insurance at all
- Ottawa County Property/Casualty premium quotes approached \$1 million
- First \$1 Casualty Insurance was the variable that increased cost
- County looked for ways to stabilize insurance cost over time in General Fund budget

The background of the slide features a close-up, artistic shot of a glass being filled with a vibrant orange liquid. The glass is partially filled, and the liquid is captured in motion, creating a sense of depth and texture. The lighting is soft, highlighting the curves of the glass and the rich color of the liquid. The overall aesthetic is clean and professional.

Then Treasurer Eunice Bareham and Jack Carroll, then of Insurance Audit & Inspection Company proposed consideration of an “insurance authority” to then County Controller Kurt Humphrey.

1990-1993

- **“Insurance Authority” created**

- **Self insured retention for casualty up to \$1 million, still purchased property coverage with lower minimal retention**
- **Self Insurance Loss Fund seeded with \$3.5 million workers compensation fund balance**

Benefits of OCIA

- OCIA provides County and Building Authority with a broad indemnification without exclusions
- Ability to invest more aggressively – i.e. in equities which have a significantly higher return over
- Allows accumulation of assets to pay for future unknown claims – without OCIA GAAP prohibits establishment of a liability to pay for unknown future events
- OCIA retains authority over decision of whether to fight or settle claims
- Risk is spread over time which benefits the General Fund and other budgets

OCIA – Arms Length from County

- **Board (inc. Per diems)**
- **Articles of Incorporation/By laws**
- **Budget**
- **Annual Audit**
- **State Department of Energy, Labor and Economic Growth – Office of Financial and Insurance Regulation – Triennial Audit**

How it works – Business Process

- **Ottawa County Insurance Authority created under the Intergovernmental Contracts Act, MCL 124.1 et seq., which allows separate legal entity insurance pools.**
- **O CIA is the only County insurance company in Michigan**

Insurance Authority Board of Directors

Philip D. Kuyers, Chairperson

- Board of Commissioners Chairperson

Dennis W. Swartout, Vice Chairperson

- Board of Commissioner, Finance and Administration Committee Chair

Bradley J. Slagh, Secretary

- County Treasurer

Alan G. Vanderberg, Treasurer

- County Administrator

Roger G. Rycenga, Director

- County Commissioner at Large

Jack R. Smant, Director

- Ottawa County Building Authority Member

Meetings are held quarterly

Insurance Authority Work Group

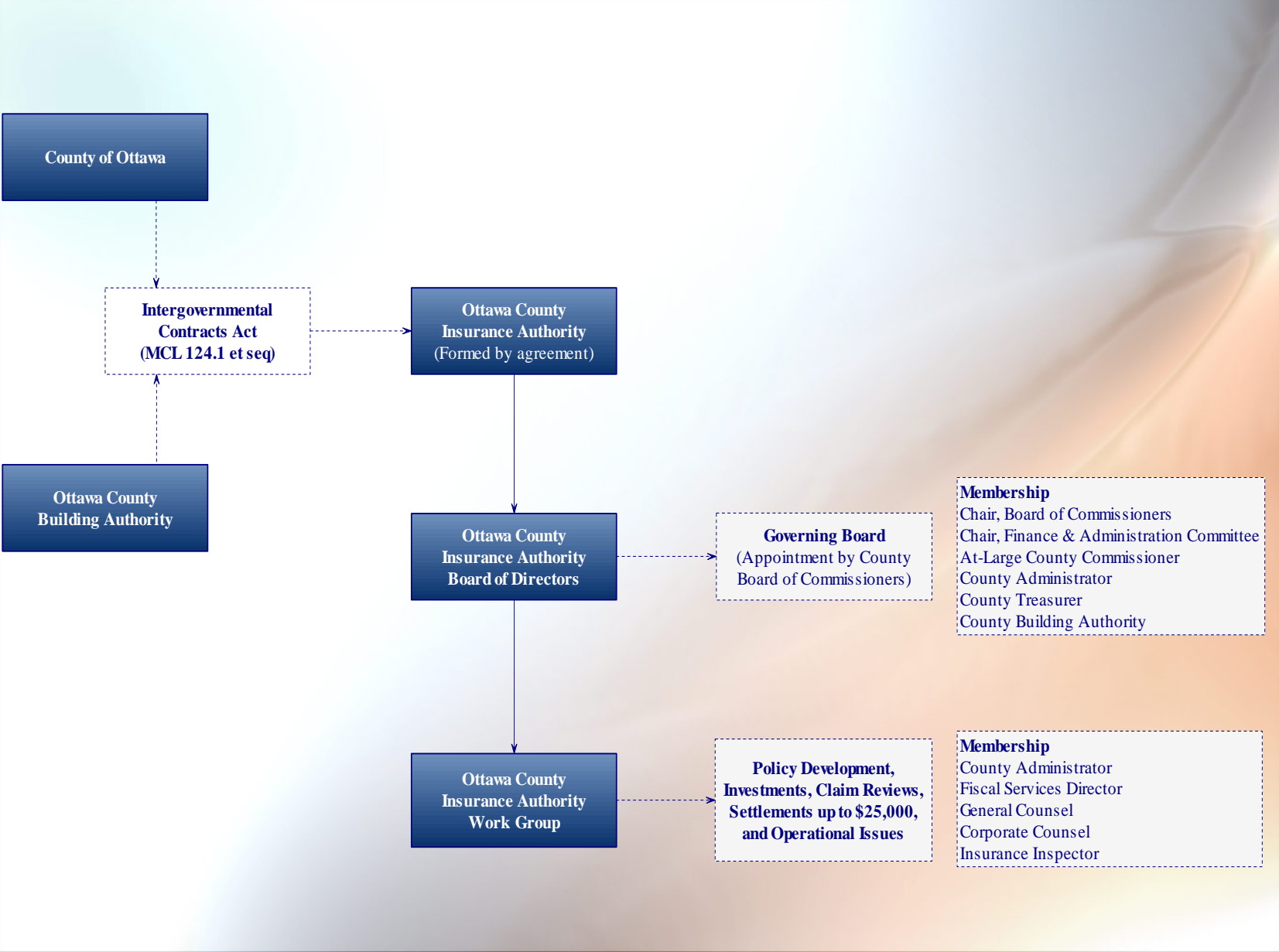
Membership:

- **Al Vanderberg, County Administrator (Chair)**
- **Bob Spaman, Fiscal Services Director**
- **Greg Rappleye, County Corporation Counsel**
- **Doug Van Essen, OCIA General Counsel, Silver & Van Essen P.C.**
- **Ken Bush, Insurance Audit and Inspection Co.**

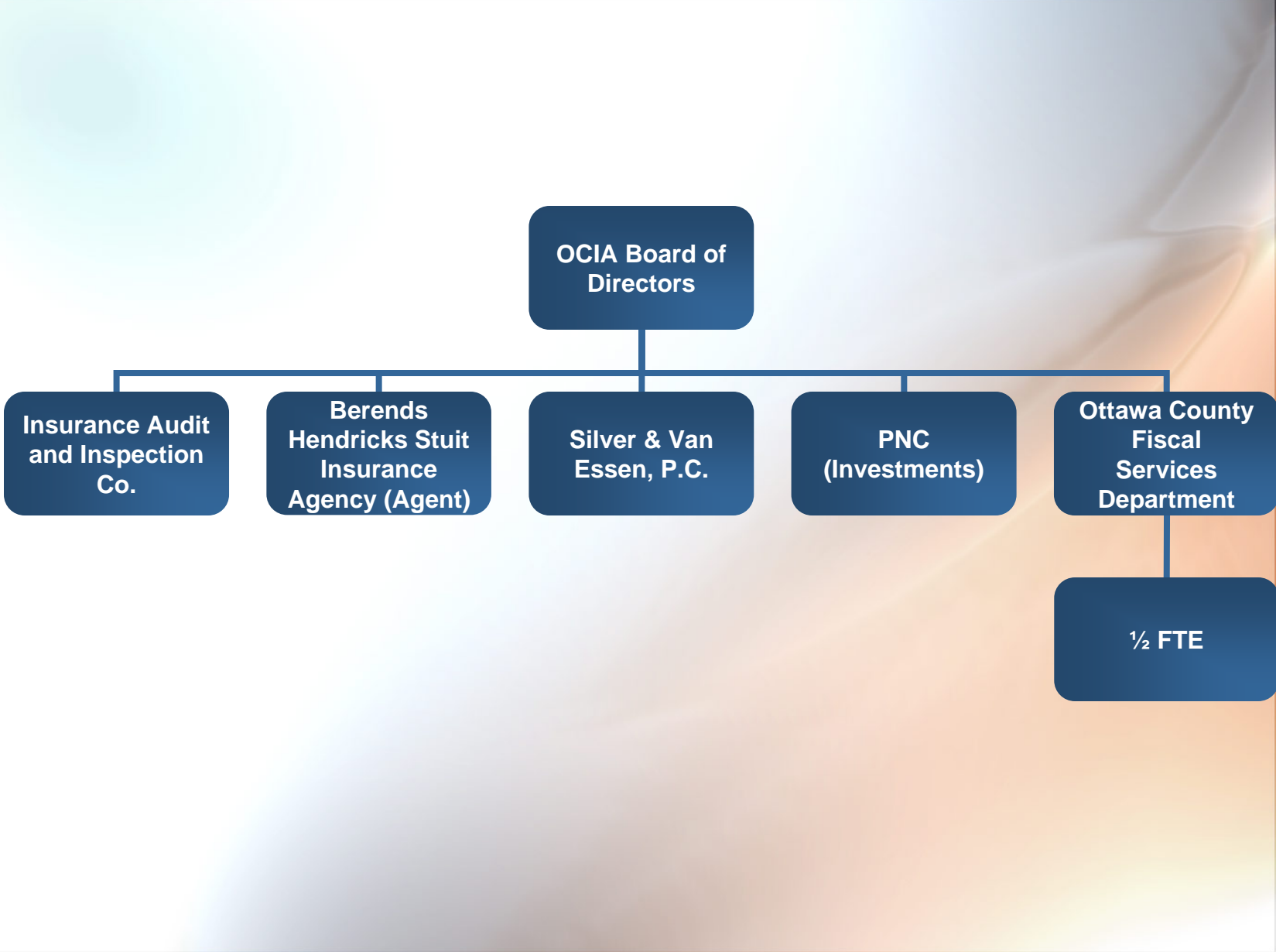
- **Meetings are held monthly**

- **1 half-time FTE, other half assigned to Accounting**

Formation and Organizational Structure



Functional Chart



Budget

<u>ACCOUNT DESCRIPTION</u>				
REVENUE CONTROL		2008	2009	2010
CHARGES FOR SERVICES		2 YEARS AGO ACTUAL	PRIOR YEAR 'ACTUAL	CURRENT YEAR BUDGET
6070.0220	INSURANCE FEES	1,744,192	1,714,623	1,685,420
***** TOTAL CHARGES FOR SERVICES		1,744,192	1,714,623	1,685,420
INTEREST & RENTS				
6650.0000	INVESTMENT REVENUE	407,777	386,160	395,000
***** TOTAL INTEREST & RENTS		407,777	386,160	395,000
OTHER REVENUE				
6710.0000	OTHER REVENUE	9,515	32,641	0
6930.0010	GAIN/ (LOSS) - SALE OF INVESTMENTS	(3,512,043)	1,992,300	0
***** TOTAL OTHER REVENUE		(3,502,528)	2,024,941	0
***** TOTAL REVENUE CONTROL		(1,350,559)	4,125,724	2,080,420
EXPENDITURE CONTROL				
OTHER SERVICES & CHARGES				
8070.0000	LEGAL	65,639	106,335	120,000
8080.0000	SERVICE CONTRACTS	279,242	200,864	257,934
9100.0000	INSURANCE AND BONDS	392,587	384,530	355,000
9110.0000	CLAIMS	115,444	181,760	175,000
9110.0010	UNPAID CLAIMS LOSS	334,095	1,823,992	200,000
***** TOTAL OTHER SERVICES & CHARGES		1,187,007	2,697,481	1,107,934
OTHER FINANCING USES				
9990.5695	OCBA - GH/WO	150,000	150,000	150,000
***** TOTAL OTHER FINANCING USES		150,000	150,000	150,000
***** TOTAL EXPENDITURE CONTROL		1,337,007	2,847,481	1,257,934





Coverage

Ottawa County, Michigan Insurance Authority
For the Coverage Period from April 1, 2010 to April 1, 2011

Coverage Period Aggregate Limit for ALL Covers = \$20,000,000 (except Property, Flood and Earthquake)

Excess Limits = \$8,250,000 XS \$11,750,000	Excess Limits = \$8,000,000 XS \$12,000,000	Excess Limits = \$8,000,000 XS \$12,000,000			Excess Limits = \$18,000,000 XS \$2,000,000	Excess Limits = \$19,000,000 XS \$1,000,000
Catlin \$11,000,000 Policy	Catlin \$11,000,000 Policy	Catlin \$11,000,000 Policy	Affiliated FM Separate \$100,000,000 Policy Aggregate Limit for Earthquake with \$100,000 deductible	Affiliated FM Separate \$100,000,000 Policy Aggregate Limit for Flood with \$100,000 deductible	Affiliated FM \$2,000,000 sub-limit	Hanover \$1,000,000 Policy with DED from \$1,000 to \$25,000
\$750,000 SIR	\$1,000,000 SIR	\$500,000 SIR Selective \$500,000 Policy with \$25,000 DED	with \$50,000 DED			
Employer's Liability	General Liability BI, PD, Personal Injury, Advertising Injury, Employee Benefits E&O, All Other E&O including Medical Professional	Automobile Liability (incl "no-fault") Physical Damage 100% self-insured	Property Flood and Earthquake	Property Extra Expense	Crime Coverage	
			Affiliated FM Policy covers Real and Personal Property with a Blanket Limit = \$122,220,514 (separate limit of \$303k/\$285k/\$220k for communication towers)			

Renewal Process

- Around the first week of January, updated property values, updated schedule of autos and updated liability and crime applications are forwarded to BHS.
- BHS presents our information to current carriers for renewal quotes. Information is also presented to other possible markets for quotes. If competitive quotes are received from other carriers, coverage forms are forwarded to Ken for review.

- The first week of March, a meeting is held with BHS and Work Group Members to discuss our options. If a change of carrier is contemplated, any issues with forms and coverages are discussed.
- By the third week of March, issues are resolved and final quotes are received.
- The fourth Monday of March, a final proposal is approved by the Work Group and accepted by the IA Board. Policies are effective April 1.

Investments

Sent to Allegiant August 2006

Ottawa County, Michigan Insurance Authority						
Allegiant Asset Management Company / National City Bank (now PNC)						
Portfolio Asset Allocation Parameters						
Approved Parameters 07/24/2006					PNC	
Asset	Minimum Dollar Amount	Minimum Percentage	Maximum Percentage	Target Percentage	Management Fees	Prohibited Investments
Fixed Income						
US Treasury - MI	\$5,000,000				0.00%	Bonds or Notes rated below investment grade (i.e. "Junk Bonds")
US Treasury - NCB					0.40%	
Sub-Total Treasury	\$5,000,000					
Corporate Bonds					0.40%	Direct Commercial or Residential Real Estate Investments
Total Fixed Income	\$5,000,000	30%		55%		Direct Loans
Stocks			65%	45%		Direct Individual Repurchase Agreements
Large Cap			45%	25%	0.40%	
Small Cap			20%	10%	1.00%	Futures
International			20%	10%	1.15%	Options
Cash Equivalents				0%	0.00%	Commodities

Requirements for Minimum Dollar Amount in U.S. Treasury and/or Agency Securities:
 First: \$5 million Deposit with Michigan Department of Treasury under MCL 124.7a(3)
 Second: Workers Compensation Funds invested by the Authority, value as of 12/31/2006 is approximately \$3,676,694
 (Note: These WC Funds may be reduced \$150,000 per year = funds returned to the County.)

Case Study

Granholm (DEQ) v. Ottawa County

Re-cap landfill

- Cost = \$2,068,397.67, paid from OCIA

Re-construct & expand groundwater purge system

- Cost = \$1,819,175.62, paid from County
Solid Waste Fund

The Bottom Line.....

Estimated OCIA Premium Savings (15 years)	= \$26.7 million
OCIA cost (15 years)	- \$18.9 million
OCIA payment of non-typical claims	+\$ 2.1 million
Investment Return	+\$ 8.2 million
	<hr/>
Net Benefit of OCIA	\$18.1 million

- **ROI on initial investment of \$3.5 million (which was repaid) = \$1.2 million per year over 15 years**
- **OCIA has reviewed possible endowment. This would take a cash balance of approximately \$27 million depending on the economy and investment returns**

Legal Options for Consolidation and Cooperation



There are three principal statutes that address municipal cooperation and consolidation:

1. Intergovernmental Contracts Between Municipalities Act. MCL §124.1 et seq. This is the foundation used by the Ottawa County, Michigan Insurance Authority.

Pros:

- **Simple to use. Simple contract suffices.**
- **Broadly applies to any Michigan municipal corporate entity.**
- **Doesn't involve preservation of wages and benefits**
- **Permits separate legal entity creation for insurance pool.**
- **Doesn't contain approval restrictions—governor or referendum**
- **May be used to share services in any area that the two units could exercise powers generally, with the exception of insurance, where additional powers are conferred.**

Cons:

- **Doesn't permit formation of separate legal entity for services other than self-insurance pool.**
- **Self-insurance pool cannot issue workers compensation or health or dental insurance.**
- **Can't be used to jointly own a utility.**
- **No provision for borrowing or bonding**

2. Urban Cooperation Act. MCL §124.501 et. seq.c

Pros:

- **Simple to use. Simple contract suffices.**
- **Broadly applies to any Michigan municipal corporate entity.**
- **Permits separate legal entity creation.**
- **Has specific provisions for Sharing Tax Revenue or Imposing Recycling Fees.**
- **Broadly applies to any service that a municipal corporate entity could provide on its own.**
- **May exercise borrowing or issuance of bonds.**

Cons:

- **Requires preservation of wages and benefits.**
- **Requires filing with Secretary of State. Governor has right to veto agreement that involves expenditure of state funds.**
- **Certain provisions, like Sharing Revenue or Recycling fee involve the right of referendum.**

3. Municipal Emergency Services Act. MCL §124.601 et. seq.

Pros:

- **Can be used to levy millage across jurisdiction.**
- **Doesn't require filing with Secretary of State nor is it subject to referendum or Governor's approval.**
- **May acquire property through condemnation.**

Cons:

- **Requires preservation of wages and benefits.**
- **New members are subject to referendum**
- **Only applies to emergency fire, police, or medical services.**

There are also some “lesser” statutes that address specific cooperative activities:

Intergovernmental Transfers of Functions and Responsibilities Act, MCL §124.531 et. seq.

- **Municipal Sewage Disposal, Water Supply and Solid Waste management Systems. MCL §124.281 et. seq.**
- **Mass Transit System Authorities. MCL §124.232 et. seq.**
- **Public Transportation Authorities. MCL §124.451 et. seq.**

Legal Relations Impact of Operating Insurance Authority

Pros:

- **Permits you to control the firm and the lawyers who are defending the County.**
- **Enables you to control the philosophy of settlement—limit nuisance value payments. Ultimately, that means less litigation.**
- **Encourages legal counsel to be cost efficient**
- **Active engagement of county staff in litigation progress facilitates risk management. Almost every litigation involves a failure of risk management.**

Pros continued...

- Encourages rapport and relationship between litigation counsel and the departments that generate the most risk: i.e. law enforcement, which means litigation counsel can get involved prospectively and earlier after an incident to minimize ultimate risk.
- Involves county commissioners in lawsuits in more intimate manner, educating them and encouraging them to invest in risk management.

Cons:

- More work for administration—select counsel, monitor litigation, engage in risk management, etc...



Questions?