

## Pool Freezes Liability & Property Rates

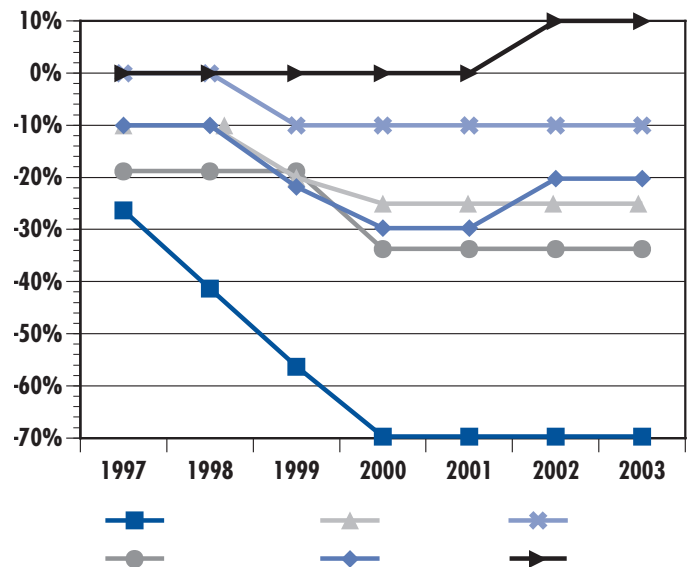
Good news! At a time when insurance companies are passing on double-digit premium increases to their customers, the Pool's Board of Trustees has voted to freeze liability and property rates for 2003-04! With the exception of Property rates, this action means that the Pool's rates remain below their 1997-98 levels.

As local governments face extreme financial challenges, your Pool is doing all that it can to provide rate stability and to help all of its members contain their costs and remain financially sound. Even though the Pool's actuary recommended rate increases for the upcoming year, to aid members in managing their finances, the Board of Trustees voted at their April meeting not to raise rates in the Liability and Property programs.

Because of low interest rates and increasing losses, the Pool's actuary, Deloitte and Touche, recommended a 12.2% increase

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Rate Changes  
10/97 through 10/03



## Larry Dovalina and Tim Vaughn Join Board of Trustees

Larry Dovalina, City Manager of Laredo, has been appointed to the Board of Trustees to fill the unexpired Place 7 term of former City Manager of San Marcos, Larry Gilley. Mr. Dovalina has been the City Manager of Laredo since 1999.

Mr. Dovalina is well versed in municipal affairs, having served in various management positions in the City of Laredo for 25 years. His community involvement includes having served as LULAC District Director and a Board Member of the Laredo Chamber of Commerce. He currently is the Region 8 President of the Texas City Management Association, and has served for 15 years as Vice President of Admissions & Allocations for United Way.

Mayor Tim Vaughn of White Oak was recently appointed to the Pool's Board of Trustees as the ex-officio representative from the Texas Municipal League Board. Mayor Vaughn served as President of TML Region 15 during 1999-2000 and now represents Region 15 as its TML State Board Director.



Larry Dovalina



Tim Vaughn

Mayor Vaughn was elected councilman for White Oak in 1993. In 1996 he was elected Mayor and recently was reelected to his fourth term. Mayor Vaughn is employed as Vice-President of Acquisitions and Marketing for an East Texas oil and gas company.

# Pool Freezes Liability & Property Rates

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in the first \$1 million of coverage for the Liability program. This actuary recommended increase would have totaled approximately \$5 million. Rates in the Property Fund normally would have also increased because reinsurance costs are expected to increase again for 2003-04.

Your Pool's financial condition is strong. Because the Pool has developed members' equity over the years, it is strong enough to step in and hold current rate levels to help members through this period of financial challenge. In providing this financial assistance to its members, the Board approved using approximately \$4 million of members' equity in the Liability Fund. It is projected that the Pool may not need to use any equity in the Property Fund.

Your contributions for 2003-04 will not increase due to rate changes. However, it is still possible for your contributions to increase for the following reasons:

1. Your contribution will reflect any exposure changes. For instance, if you purchased additional vehicles, added offi-

cers to your police force, or increased the values of your property, contributions will increase proportionately.

2. Your contribution will also reflect your entity's loss experience. It is possible for your contributions to increase because your liability or property experience modifiers increased due to your entity's losses.

3. If your entity purchases liability limits greater than \$5 million, the cost of coverage for those layers may increase due to reinsurance cost increase of coverage above \$5 million.

It is at times like this that the true value of pooling is realized. Not only is each member's risk shared across the whole state of Texas, but it is through the strength of pooling that the Pool can establish its own

rates, pass along savings and efficiencies, and be responsive to members' needs.

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*The mission of the Texas Municipal League Intergovernmental Risk Pool is to provide Texas municipalities and other units of local government with a stable source of risk financing and loss prevention services at the lowest cost consistent with sound business practices.*

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## Workers' Compensation Rates Increase Slightly

At the April Board meeting the Pool's actuary recommended an 8% increase in Workers' Compensation rates, which would have increased total contributions to the Pool by approximately \$4 million. The majority of this proposed increase was based on lower projected investment income, higher reinsurance costs, and higher losses and associated expenses.

Because of the Pool's financial strength and the Board's desire to assist its members, the Board voted to forgo an across-the-board rate increase, but continue the 5% each year rate increase for seven payroll classifications with loss ratios significantly above 100%.

Increasing the seven payroll classifications will satisfy approximately 1.6% of the actuary's 8% increase. The Pool's overall loss history will increase the impact of modifiers and decrease the benefits of discounts, which will produce another 1.3% of the actuary's recommended 8% increase. These two actions will produce a combined increase of 2.9%. In the interest of its members, the Pool's

Board decided to assume the remaining 5.1% increase, which equals approximately \$2.6 million.

Your entity's individual contribution may increase or decrease based on your own unique workers' compensation loss experience and resulting experience modifier and discount, changes in your payroll, and your payroll for the seven classifications that have been increased by 5%.

Payroll Code	Description
7520	Waterworks
7704	Firefighters (Paid & Volunteer)
8810	Clerical
8831	Animal Shelters
9102	Parks & Recreation
7580	Sewage Treatment & Collection
9999	EMTs (Paid & Volunteer)

In total, your Pool will be assuming approximately \$6.6 million of Workers' Compensation and Liability rate increases so that members can keep this money in your local communities to help meet current financial needs.

Containing costs should be a goal of every member. To help in this effort, members should continue to implement and utilize strong and effective risk management measures and take

advantage of the loss prevention services provided by the Pool. The Pool's ability to contain costs and hold down rates comes directly from members employing and enforcing strong loss prevention measures.

# Accidents Are Just Waiting to Happen

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The Pool's Loss Prevention personnel recently investigated two incidents. In the first, an individual died and another was severely injured. In the second, no one was injured, but the unsafe practice had to be immediately stopped.

To repair a utility line, a member dug a trench over ten feet deep. Metal shoring was near the site, but to speed up the repair it was not used. As soon as two of the member's employees entered the trench, the water softened dirt collapsed on them. One employee died and the other was uncovered and pulled from the site. A few days later the Pool's Loss Prevention team examined the situation. The member had the trench open again, with employees in the trench with still no shoring in place. The manager was immediately contacted and the operation stopped until shoring was installed.

The second incident involved a member who was putting up holiday decorations. To put the decorations on lamp poles the member had employees stand in the bucket of a backhoe. The backhoe lifted them up to the top of the pole, then drove them to the next pole. When the employees were questioned about

using this improper equipment to install decorations, they readily admitted that they sometimes got bumped and bruised, but since they did not have a bucket truck, this is what they used for tree trimming and similar projects. The member's manager was contacted and asked to consider renting proper equipment for this type of work before employees get seriously injured.

These are examples where employees were unnecessarily exposed to unsafe working environments. In one case, it was simply a matter of the member using the equipment they had nearby. In the second case, the member needed to invest a little money so that the proper equipment could be used. One workers' compensation claim is much more expensive than the relatively small cost to rent a bucket truck.

YOU and every employee in your organization can make a difference in reducing the likelihood of costly accidents. YOU can make a difference in keeping the cost of coverage down, by identifying unsafe environments and encouraging fellow employees to use safe practices.

## Contract Labor – It Doesn't Exist

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There is a significant difference between using an employee or hiring a contractor to have a task performed. Often members are not sure when a person should be considered an employee, or a contractor. Sometimes employers consider certain types of employees to be contract laborers, and thus try to manage those individuals as if they were not employees.

Under Texas local government law there is no category of "contract labor". If a local government hires an individual and pays that person, that person is an employee. By being an employee, that individual causes the public employer to have a responsibility for workers' compensation and to make certain payments to the federal government.

Local governments can contract for a task to be accomplished wherein the contractor provides material and tools to get the job done, works according to the contractor's schedule, is responsible for the work to be accomplished, and provides its own workers' compensation and insurance. When work is performed in this manner, the task is considered to have been "contracted" and the individual performing the job is a contractor and not an employee. The key questions are who provides the materials and tools, who establishes the work schedule, and who provides workers' compensation and insurance coverage?

A simple analysis of the phrase, "contract labor" or "contract

laborers" points out the problem. The term laborer indicates a person who is available to do whatever tasks might be assigned of an unskilled nature. A laborer is not expected to have tools or materials and is not responsible for the job to be accomplished.

The term contract normally implies an understanding that sets forth the work to be done, the timetable to accomplish that work, the compensation to be provided, who is to provide the tools and material, and who will provide the insurance. These conditions are not part of a usual agreement with someone who is employed to provide casual labor.

The length of the period of employment is not relevant. A local government's personnel policy might set up a minimum period of time before an employee becomes eligible for vacation or sick leave, or before a person can participate in the employers' health insurance program and other benefits. The fact that an employee is temporary does not make that person a contract laborer. That person is simply a temporary employee and all the requirements that impact hiring other employees are going to impact hiring the temporary employee.

To say it simply, there is no employment category called contract labor. The concept needs to be deleted from pay plans, ordinances, resolutions, budgets, personnel policies and any other place the phrase is used.

# Pool Receives Unqualified Annual Audit

At the January 2003 Board meeting the Trustees received the audit regarding the Pool's financial condition for the period ending September 30, 2002.

The auditors, Ernst & Young, are required to report on any major or controversial issues, significant audit adjustments, unusual transactions or accounting methods, disagreement with management, or difficulties encountered in performing the audit. The auditors issued an unqualified opinion and did not note any matters involving internal control that they considered to be material weaknesses.

As part of the Pool's audited Annual Financial Statements, which are being distributed to all members, a section is provided to help readers convert the results from the

Governmental Accounting Standards Board (GASB) 31 basis to results that do not include the effects of GASB 31. GASB 31 requires governments to include unrealized gains and losses in their income statements. This process grossly over or understates the Pool's true financial condition. The Pool produces its report following GASB 31 guidelines, but, because the Board's decisions are based on non-GASB 31 reporting, the Pool also reports on a non-GASB 31 basis.

In addition to an unqualified audit, the Pool recently received the Government Finance Officers Association Certificate of Achievement for Excellence in financial reporting for the fiscal year ending September 30, 2001. This is the eighth year that the Pool has received this award.



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