

**TEXAS MUNICIPAL LEAGUE  
INTERGOVERNMENTAL RISK POOL**

Board of Trustees Meeting  
Hyatt Hill Country – San Antonio  
July 25, 2009

**Trustees Present**

Rickey Childers, Chair  
Mary Gauer, Vice Chair  
Byron Black  
Maggie Burkett  
Kevin Caddell  
Nora Chavez  
Makia Epie  
Andres Garza  
Larry Gilley  
Don Henderson  
Robert Herrera  
Larry Melton  
Leo Montalvo  
Pat Norriss  
Paul Parker

**Staff Present**

Marvin Townsend  
Carol Loughlin  
Hank Domeracki  
David Reagan  
Mike Bratcher  
Scott Epperson  
Les Horne  
Matt Jordan  
David Longoria  
Mike Rains  
Allan Romer  
Tito Villegas  
Debbye Mangum

**Also Present**

Pam Beachley, Legislative Consultant  
Mike McClanahan, VOSCO  
Bob Kamm, Legislative Consultant  
Rick Pokorny, Northern Trust Company

Chair Rickey Childers called the meeting of the Board of Trustees of the TML Intergovernmental Risk Pool to order at 7:30 a.m. on Saturday, July 25, 2009.

1. Roll Call and Excused Absences (Tab 1)<sup>1</sup>

Marvin Townsend reported the absences of Greg Ingham, Frank Sturzl, and Henry Wilson and the reasons they asked their absences be excused.

MOTION by Andres Garza, seconded by Mary Gauer, to excuse the absences of Greg Ingham, Frank Sturzl, and Henry Wilson. Motion carried with unanimous approval.

2. Consideration of Minutes of April 18, 2009 Board Meeting at South Padre Island (Tab2)

MOTION by Byron Black, seconded by Larry Melton, to approve the minutes from the Board meeting at South Padre Island on Saturday, April 18, 2009, as written under Tab 2. Motion carried with unanimous approval.

<sup>1</sup> All references to “Tabs” in these minutes are references to the Tabs in the Board of Trustees Agenda packet

### 3. Finance Committee

#### 3a. Review of May 31, 2009 (8-month) Financial Statements (Tab 3)

Tito Villegas presented the eight month Financial Statements for the period ending May 31, 2009, under Tab 3.

#### 3b. Review of May 31, 2009 (8-month) Investment Report including the annual report by the Northern Trust Company (Tab 4)

Hank Domeracki presented an overview of the eight month Investment Report for the period ending May 31, 2009, and Rick Pokorny with Northern Trust reported on the market environment and the performance of the investment managers under Tab 4.

#### 3c. Consideration of Proposed Budget for 2009-10, (separate document), including:

- (1) Adoption of salary schedule for 2009-10
- (2) Determination of changes, if any, in interfund charges
- (3) Health insurance for 2009-10

Hank Domeracki presented the proposed Budget for 2009-10 and the proposed salary schedule for 2009-10 under separate cover.

The Finance Committee suggested a reduction in rates or some type of return of contributions because of the reduced tax revenue of the Pool's members. Robert Herrera suggested a one month break from contribution payments. Leo Montalvo suggested that the Pool let members know the amount of their estimated equity return so they could consider including it as income in their budget preparations. Marvin Townsend presented for consideration an approach to finance a one-time 10% reduction in 2008-09 contributions.

MOTION by Makia Epie, seconded by Pat Norriss, to approve a 10% across the board rate reduction in liability and workers' compensation contributions from members for the 2008-09 fiscal year with a letter of explanation of the rate reduction to the Pool's members at the earliest possible date. Motion carried with unanimous approval.

### Executive Session

Chair Rickey Childers announced that the Board would convene in an Executive Session at 8:45 a.m. under Texas Government Ann. Sections 551.071 to 551.076 to discuss the Executive Director's salary. The Board reconvened into open session at 9:20 a.m.

MOTION by Leo Montalvo, seconded by Pat Norriss, to approve the proposed Budget for 2009-10 fiscal year, including a proposed 3% cost of living salary increase for employees beginning January 1, 2010, a pay increase of 5% for the Executive Director beginning October 1, 2009, and Ray & Associates to conduct a study on the compensation paid by the Pool to its executive staff and department heads, comparing such compensation to the compensation paid comparable internal and external positions. Motion carried with unanimous approval.

3d. Consideration of extending the custodial bank and consultant services contract with Northern Trust (Tab 5)

Tito Villegas presented a proposal under Tab 5 to renew the custodial bank and consultant services with Northern Trust Company. The original contract was for three years from October 1, 2005 through November 1, 2008, with two one-year renewals. The period from December 1, 2009 to November 30, 2010, is the final one-year contract renewal.

MOTION by Byron Black, seconded by Leo Montalvo, to renew the custodial bank and consultant services with Northern Trust Company for the final one-year period from December 1, 2009 to November 30, 2010. Motion carried with unanimous approval.

3e. Consideration of extension of depository agreement with Frost National Bank and authority to request proposals for depository services for 3 years beginning June 1, 2010 (Tab 6)

Tito Villegas presented under Tab 6 renewal of the depository agreement with Frost National Bank through May 31, 2010, and requested authority to receive proposals for depository services for three years beginning June 1, 2010.

MOTION by Byron Black, seconded by Nora Chavez, to renew the depository agreement with Frost National Bank through May 31, 2010, and to authorize the Pool to solicit proposals for banking services to begin June 1, 2010, with the results to be reported at the Board meeting in January 2010. Motion carried with unanimous approval.

3f. Consideration to remove the statutory maximum contribution rate for the Pool's participation in the Texas Municipal Retirement System (Tab 7)

Hank Domeracki presented the increase in the Pool's unfunded liability with the Texas Municipal Retirement System (TMRS) under Tab 7. The staff recommended increasing Restricted Members' Equity in the Stability Fund to \$12,229,384 to equal the amount TMRS has determined to be unfunded.

Allan Romer presented the recommendation to remove the statutory maximum for Total Retirement Rate contributions for the Pool's participation in TMRS. The three options for the Pool were (1) to remove the statutory maximum limits, (2) to raise the statutory maximum rate by 2% to 15.5%, or (3) to take no action which would result in Updated Service Credits and increased benefits to retirees being suspended.

MOTION by Byron Black, seconded by Larry Melton, to increase the amount of Restricted Members' Equity in the Stability Fund to \$12,229,384 to fund the Pool's unfunded liability with TMRS and to adopt the resolution set forth under Tab 7 to remove the statutory maximum for Total Retirement Rate contributions. Motion carried with unanimous approval.

3g. Notification from Conning Asset Management Company of the purchase of Conning by Aquiline Capital Partners, LLC. and consideration of approving assignment of Conning's investment contract (Tab 8)

Hank Domeracki reported under Tab 8 that notification was received from Conning Asset Management Company (Conning) that Aquiline Capital Partners had entered into an agreement to purchase Conning. Aquiline formed Conning Holdings, LLC to purchase all the capital stock of Conning & Company from Swiss Re. Under the Investment Advisers Act of 1940, this change of control is deemed to be an assignment that requires the Pool's consent. The current contract with Conning expires on February 28, 2010 and provides for successive two-year renewal options. Aquiline will retain the current investment and management team, and continue Conning's service model.

MOTION by Nora Chavez, seconded by Leo Montalvo, to consent to the assignment of the Contract for Professional Investment Management Services between the Pool and Conning Asset Management Company as a result of the acquisition of all the capital stock of Conning & Company by Conning Holdings, LLC. Motion carried with unanimous approval.

3h. Information Technology Report on status of hardware and software updates to the computer system (Tab 9)

David Longoria presented under Tab 9 the "Information Technology Report" on the status of hardware and software updates to the computer system.

4. Underwriting and Claims Committee

4a. Property Rate Recommendations for 2009-2010, for First Tier, Orange, Harris, and Jackson counties (Tab 10)

Matt Jordan presented the property rate recommendations for the first tier, Harris, Orange, and Jackson counties for 2009-10 under Tab 10. At the April 2009 meeting, the Board approved a recommendation to keep property rates for 2009-10 at the current levels except for members in Harris, Orange, and Jackson Counties. It has become apparent that these locations have exposures similar to first tier counties.

The following recommendations were made:

1. A 1% / minimum \$1,000 deductible be applied separately to each damaged building, contents and mobile equipment for all wind and flood losses resulting from a named storm in Harris, Orange, and Jackson Counties.
2. The same 1% / minimum \$1,000 named storm deductible be applied to members in first tier counties where the Pool is providing primary coverage, including windstorm coverage through the Coastal Storm Fund and flood coverage on properties not eligible for National Flood Insurance Program (NFIP), and that existing requirements for primary NFIP and Texas Windstorm Insurance Association (TWIA) coverage remain in place.

3. The named storm deductible for tidal flooding be increased to 2% in all cases for property located less than 9 feet above mean sea level.
4. NFIP and/or TWIA deductibles and recoveries be a dollar-for-dollar offset to such deductible requirements.
5. For properties on barrier islands and other properties on the gulf side of the Intracoastal Waterway, flood coverage be excess over what is available from NFIP, regardless of the flood zone in which the property is located and whether or not the member purchases NFIP coverage.
6. Requests for flood coverage on “V” zone and other excluded properties be reviewed on a case-by-case basis and that coverage be placed in the Coastal Storm Fund.

MOTION by Don Henderson, seconded by Larry Melton, to approve the recommendations set forth above and under Tab 10 for first tier, Harris, Orange, and Jackson Counties, to become effective for renewals and new coverage after August 1, 2009. Motion passed with unanimous approval.

4b. Final Report regarding Property Reinsurance Acquisition for May 1, 2009 to May 1, 2010 (Tab 11)

Carol Loughlin presented the final report on the placement of property reinsurance under Tab 11 for May 1, 2009 to May 1, 2010, as authorized by the Board at the April meeting. The Pool was authorized to place property reinsurance, effective May 1, 2009 to May 1, 2010, for a deposit premium between \$8.7 and \$10.2 million subject to reinsured limit of \$96 million excess of \$4 million for losses except those caused by named storms, a reinsured limit of \$90 million excess of \$10 million for losses related to named storms, and a ‘two-risk warranty’ in the layers excess of the first \$25 million. The Board also authorized the staff to obtain additional limits up to \$150 million if coverage was available for no more than \$2 million and to negotiate with NLC Mutual Insurance Company to continue its quota share participation.

The Pool was able to finalize deposit premiums for \$9,387,500 for the first \$100 million, including the Pool’s retention, based on a total insured value of \$22.4 billion, which was within the authorized amounts approved at the April Board meeting. A 40% share of \$50 million limit excess of \$100 million was placed for \$800,000 with the Pool retaining 60% of that layer. NLC-MIC agreed to continue to participate in the first layer by providing 4.76% of \$21 million for losses not related to named storms and 4.76% of \$15 million for named storms.

4c. Consideration of clarifications regarding Board adopted equity return policies (Tab 12)

Carol Loughlin presented the proposed changes to the equity return guidelines under Tab 12. It was recommended that the following updated information be presented to the Board for consideration before final approval of an equity return:

1. Any national or state legislative changes impacting the Pool's activities or liabilities.
2. Catastrophic events.
3. Court decisions directly involving Pool cases or cases that could expose the Pool to added liability.
4. Changes in financial markets that could impact the Pool's investments.

It was recommended that the distribution, eligibility, and timing criteria be set forth in the policy for member guidance:

1. The Board of Trustees will authorize the criteria to be used to determine the amount of equity to be returned to each qualifying member.
2. The distribution criteria will consider both loss experience and longevity of membership.
3. Each distribution shall only involve members purchasing coverage from the applicable Fund as of April 1 of the distribution year or such other date as the Board may determine.
4. The return will be calculated as a percentage of prior year contributions for those coverages in effect on the distribution date.
5. Pass through reinsurance placements will not be included when calculating a member's equity return.

MOTION by Kevin Caddell, seconded by Makia Epie, to approve the changes to the equity return guidelines set forth under Tab 12. Motion carried with unanimous approval.

#### 4d. Coastal Storm Fund Recommendations (Tab 13)

Carol Loughlin presented recommendations for the Coastal Storm Fund under Tab 13. The Coastal Storm Fund was established in October 2007 as an alternative source of windstorm coverage for members in the 14 counties along the Gulf Coast. In order to be a viable alternative to the Texas Windstorm Insurance Association coverage, the Coastal Storm Fund must be financially stable, have an adequate spread of risk along the coastline, and have a strong revenue source to develop equity. In order to meet these goals, the following recommendations were made:

1. Allocate \$4 million of Property Fund equity to the Coastal Storm Fund.
2. Expand the letter of credit commitment from the Stability Fund to \$4 million.
3. Change the attachment point in the Large Loss Fund from \$1 million to \$2 million per occurrence and the participation excess of \$2 million to 50% Large Loss Fund and 50% Property Fund for the next \$4 million; and then 100% Large Loss Fund for losses over \$6 million. Losses excess of TWIA coverage levels would continue to be covered by the Pool's reinsurance.
4. Continue to charge 80% of TWIA's rates in effect on October 1 of each year.
5. Increase the immediate target for wind participation to \$200 million of structures and related improvements distributed throughout Tier 1, and, in addition, provide wind and flood coverage to selected 1<sup>st</sup> tier water or sewage facilities excess of national flood coverage and primary for those properties not eligible for National

Flood coverage. The Coastal Storm Fund will also include the Pool's coverage excess of TWIA at 80% of rates now in effect, and V-zone and over water property that is susceptible to tidal flooding, such as piers and docks, will be individually underwritten and placed in the Coastal Storm Fund.

6. Use the previously established requirements that properties meet certain building standards and be at least 20 miles from the Gulf of Mexico only as underwriting guidelines, acknowledging that certain buildings and some utility facilities closer to the Gulf of Mexico may be better risks than structures located more than 20 miles from the Gulf.
7. Retain the capacity to move covered property back to TWIA should one or several years of high level named storm activity so dictate, assuming TWIA has demonstrated its capacity to finance the losses from such increased level of named storms.

MOTION by Don Henderson, seconded by Larry Gilley, to accept the recommendations set forth above and under Tab 13. Motion carried with unanimous approval.

4e. Consideration of contracts with NLC Mutual Insurance Company for quota share participation in Liability and Workers' Compensation Reinsurance (Tab 14)

Carol Loughlin presented the liability reinsurance renewal terms with NLC Mutual Insurance Company effective October 1, 2009. NLC-MIC has agreed to renew its quota share participation of 22.5% of the \$2 million layer excess of the Pool's \$3 million retention. The renewal terms and conditions will be the same as the coverage expiring and NLC-MIC will follow the liability rate reductions approved by the Board in April.

MOTION by Don Henderson, seconded by Byron Black, to renew the liability reinsurance contract with NLC Mutual Insurance Company effective October 1, 2009, for 22.5% of the \$2 million layer excess of the Pool's \$3 million retention. Motion carried with unanimous approval.

Carol Loughlin presented the workers' compensation reinsurance renewal terms with NLC Mutual Insurance Company effective October 1, 2009. NLC-MIC has agreed to increase its quota share participation from 5% to 10% of the \$20 million layer excess of the Pool's \$3 million retention at the same terms as expiring.

MOTION by Don Henderson, seconded by Mary Gauer, to renew NLC Mutual Insurance Company's reinsurance workers' compensation contract effective October 1, 2009 at the same terms as expiring and increasing the quota share participation from 5% to 10% of the \$20 million layer excess of the Pool's \$3 million retention. Motion carried with unanimous approval.

4f. Consideration of extending the contract with Victor O. Schinnerer & Company, Inc. from August 1, 2009 to July 31, 2010 (Tab 15)

Carol Loughlin presented under Tab 15 the contract extension with Victor O. Schinnerer & Company, Inc. The current contract became effective August 1, 2008, with an option to renew annually through July 31, 2012. With the Pool's staff assuming responsibility for producing property and aviation proposals and rerates effective October

1, 2009, VOSCO and the Pool have negotiated a fee of \$63,000 for ongoing underwriting services for the contract period beginning August 1, 2009 to July 31, 2010, at a decrease of \$330,000.

MOTION by Don Henderson, seconded by Kevin Caddell, to renew the contract with Victor O. Schinnerer & Company, Inc. for one year beginning August 1, 2009 through July 31, 2010 for a fee of \$63,000. Motion carried with unanimous approval.

4g. Significant Cases and Legal Developments Impacting the Pool (Tab 16)

David Reagan presented the report on “Significant Cases and Legal Developments impacting the Pool” under Tab 16

4h. Consideration of settlement for \$600,000 of the death during arrest case of Vera v. City of Allen (Tab 17)

Mike Rains presented the settlement proposal under Tab 17 for the death during arrest case of Vera v. City of Allen in the amount of \$600,000. Settlement of more than \$500,000 must have Board of Trustees approval. Based on the recommendations of the Executive Director and General Counsel, settlement of this lawsuit was recommended.

MOTION by Leo Montalvo, seconded by Paul Parker, to authorize the settlement of Vera v. City of Allen in the amount of \$600,000. Motion carried with unanimous approval. Robert Herrera recommended that the Loss Prevention Department begin law enforcement training on positional asphyxiation.

4i. Update on losses caused by Hurricane Ike (Tab 18)

Mike Rains presented an update on Hurricane Ike losses under Tab 18.

4j. Liability Claims Report on claims that have reserves exceeding \$150,000 (Tab 19)

Mike Rains presented the “Liability Claims Report” under Tab 19.

4k. Workers’ Compensation Claims Report, including (1) new claims that have reserves exceeding \$150,000, (2) fatality claims, (3) presumption claims, (4) status of catastrophic losses, (5) the status of hospital guideline dispute, and (6) update on the Political Subdivision Workers’ Compensation Alliance (Tab 20)

Mike Bratcher presented the “Workers’ Compensation Claims Report” under Tab 20.

4l. Underwriting Report on underwriting results and loss ratios, including the Quarterly Report by Victor O. Schinnerer & Company, Inc. regarding revenues received and contract activities (Tab 21)

Matt Jordan presented the “Underwriting Report” on underwriting results and loss ratios under Tab 18. He also noted that Mike McClanahan, Victor O. Schinnerer & Company, Inc. was there if the Board had any questions regarding the VOSCO quarterly report.

4m. Loss Prevention Report on member surveys, training, and property valuation conducted (Tab 22)

Les Horne presented the “Loss Prevention Report” on member surveys, training, and property valuations conducted under Tab 22.

4n. Field Services Report on Pool membership growth (Tab 23)

Scott Epperson presented the “Field Services Report” on Pool membership growth under Tab 23.

5. General Counsel’s Report

5a. Legislative Update on activities relating to the Texas Legislature since the previous Board meeting (Tab 24)

David Reagan presented an overview of the legislative update in the General Counsel’s report under Tab 24.

5b. Comments by Pool legislative consultants Pam Beachley and Bob Kamm on proposed legislation affecting the Pool and its members.

Pam Beachley and Bob Kamm presented an update on the 2009 Legislative session regarding legislation which might affect the Pool or its members.

Robert Herrera recognized the staff for their work with the legislative consultants and TML staff and asked that the Board place an item on the next agenda to adopt a resolution to thank Frank Sturzl and the TML staff for all the work they do during the legislative session.

5c. Consideration of contract extensions with Bob Kamm and Pam Beachley (Tab 25)

David Reagan presented the recommendation under Tab 25 to renew for a two-year term the legislative consulting agreements with Bob Kamm and Pam Beachley at a monthly fee of \$6,000 for each consultant.

MOTION by Robert Herrera, seconded by Andres Garza, to renew the legislative consulting agreements with Bob Kamm and Pam Beachley for a two-year term beginning August 1, 2009 through July 31, 2011 at a monthly fee of \$6,000 for each consultant. Motion carried with unanimous approval.

6. Comments by ex officio Members from and to TML and Employee Benefits Boards

Maggie Burkett, TML Intergovernmental Employee Benefits Pool representative, reported that the employee benefits pool had agreed to take \$3.2 million out of equity to offset medical rates for 2010. She stated that the staff was working on delivering rerates and preparing for open enrollment. There were no other comments.

7. Executive Committee Report

7a. Status of Lawsuits in which the Pool is a Party (Tab 26)

David Reagan presented the report on “Lawsuits in which the Pool is a Party” under Tab 26.

7b. Personnel Report identifying employment changes (Tab 27)

Allan Romer presented the “Quarterly Personnel Report” identifying employment changes under Tab 27.

8. Meeting Schedule and Board Continuing Education (Tab 28)

Marvin Townsend reviewed the “Schedule of Meetings” and “Board Continuing Education” under Tab 28. The following suggestions were made for 2011 Board meetings: January 2011 at the San Luis Hilton, Galveston; April 2011 at the Marriott, The Woodlands; and, July 2011 at the Hyatt Hill Country, San Antonio.

MOTION by Nora Chavez, seconded by Pat Norriss, to confirm the above locations for 2011 Board meetings. Motion carried with unanimous approval.

9. Adjournment

MOTION to adjourn at 11:40 a.m. by Makia Epie, seconded by Larry Melton. Motion carried with unanimous approval.