

**TEXAS MUNICIPAL LEAGUE  
INTERGOVERNMENTAL RISK POOL**

Board of Trustees Meeting  
San Antonio  
July 26, 2008

**Trustees Present**

Leo Montalvo, Chair  
Rickey Childers, Vice Chair  
Alex Bickley  
Byron Black  
Kevin Caddell  
Makia Epie  
Andres Garza  
Mary Gauer  
Larry Gilley  
Robert Herrera  
Greg Ingham  
Pat Norriss  
Paul Parker  
Bill Storey  
Frank Sturzl  
Henry Wilson

**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**

Gordon Field, VOSCO

Chair Leo Montalvo called the meeting of the Board of Trustees of the TML Intergovernmental Risk Pool to order at 7:32 a.m. on Saturday, July 26, 2008.

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

Marvin Townsend reported the absence of Don Henderson and the reason he asked his absence be excused.

MOTION by Andres Garza, seconded by Alex Bickley, to excuse the absence of Don Henderson. Motion carried with unanimous approval.

**Consideration of Minutes of April 19, 2008 Meeting at Frisco (Tab 2)**

MOTION by Alex Bickley, seconded by Robert Herrera, to approve the minutes from the Board meeting in Frisco on April 19, 2008, 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.

Nominations Committee (Tab 3)

a. Election of Chair and Vice Chair

Byron Black, Chair of the Nominations Committee, presented the recommendations of the Nominations Committee under Tab 3 that Vice-Chair Rickey Childers continues to be qualified to become Chair on October 1, 2008, and that Mary Gauer be nominated to serve as Vice-Chair effective October 1, 2008.

MOTION by Byron Black, seconded by Robert Herrera, to approve the recommendations of the Nominations Committee that Rickey Childers continues to be qualified to serve as Chair on October 1, 2008, and Mary Gauer be elected to serve as Vice-Chair, effective October 1, 2008. Motion carried with unanimous approval.

b. Election for Place 5 (Citizen Member) of the Board of Trustees for the balance of the term ending September 30, 2008, and the 6-year term beginning October 1, 2008, under Tab 3.

Chair Leo Montalvo excused himself from the meeting and Vice Chair Rickey Childers presided. Mr. Childers stated the next item was to appoint an individual to fill the vacant Citizen Member, Place 5 position. Byron Black, Chair of the Nominations Committee, noted that three people had expressed an interest in the position. The Nominations Committee recommended that Leo Montalvo fill the Citizen Member, Place 5 position of the Board of Trustees for the remainder of the term ending September 30, 2008, to be effective upon his resignation from the McAllen Housing Authority Board and appoint Leo Montalvo to Place 5 for the 6-year term beginning October 1, 2008.

MOTION by Andres Garza, seconded by Robert Herrera, to approve the recommendation of the Nominations Committee to appoint Leo Montalvo to fill the Citizen Member, Place 5 position for the remainder of the term ending September 30, 2008, to be effective upon his resignation from the McAllen Housing Authority, and Leo Montalvo to be appointed to Place 5 for the 6-year term beginning October 1, 2008. Motion carried with unanimous approval.

c. Board Election Schedule

David Reagan presented the Board election schedule noting that the notice of nominations had been sent out and nominations are due back on Tuesday, August 12, 2008. He also noted that there was an error on the original notice stating that nominations were due back on *Thursday*, August 12, 2008, and should have read *Tuesday*, August 12, 2008. The ballots will be mailed out to Members on August 17, 2008.

## **FINANCE COMMITTEE**

### Review of May 31, 2008 (8-month) Financial Statements (Tab 4)

Tito Villegas presented the eight-month Financial Statements for the period ending May 31, 2008, under Tab 4.

### Review of May 31, 2008 (8-month) Investment Report (Tab 5)

Hank Domeracki presented an overview of the eight-month Investment Report ending May 31, 2008, under Tab 5.

### Discussion and possible revision of the Pool's investment policy regarding housing finance obligations with implicit, rather than full faith, backing by the federal government (Tab 6)

Hank Domeracki discussed the Pool's investment policy regarding mortgage obligations under Tab 6. He stated that the Pool's investment policy is strong, conservative and contains the three safest securities; U. S. Treasuries, Government National Mortgage Association Mortgages (Ginnie Mae), and U. S. agencies. State law requires that investments be based on preservation of capital, liquidity, and yield. The Pool's portfolio is based on state-law and it contains each of those elements. Fannie Mae and Freddie Mac have 43.35% of the nation's mortgages. These securities are not financially backed by the full faith and credit of the U.S. government, but it is generally believed that the U.S. government will provide financial backing if there is a problem. The Pool has instructed its investment managers to suspend investing in Fannie Mae and Freddie Mac securities until the U.S. government takes affirmative action supporting these securities.

The U.S. House and U.S. Senate has approved different versions of the Housing and Economy Recovery bill that includes provisions that would allow direct involvement by the U.S. government and provide both financial and public support of Fannie Mae and Freddie Mac. The President has voiced his support of the bill.

The recommendation from the Finance Committee is that there be no change in the Pool's current Investment Policy, an annual review of the Board's investment policy be conducted in October 2008, and regular investment policies resume as soon as the Housing and Economy Recovery bill is signed by the President.

MOTION by Bryon Black, seconded by Alex Bickley, to make no changes to the current investment policy, conduct the annual review of the investment policy in October 2008, and resume investment in Fannie Mae and Freddie Mac securities as soon as the Housing and Economy Recovery bill is signed by the President. Motion carried with unanimous approval.

Consideration of the Proposed Budget for 2008-09, (separate document), including:

- (1) Adoption of the salary schedule for 2008-09,
- (2) Determination of changes, if any, in interfund charges,
- (3) Determination of equity or contribution returns, if any,
- (4) Health insurance for 2008-09 (Tab 7).

Hank Domeracki presented the proposed 2008-09 Budget, under separate cover.

The Finance Committee made the following recommendations:

1. No change to the Stability Fund;
2. Large Loss Fund take a less conservative approach by reducing the contribution from the operating funds from 2% to 1 ½ % of contributions until total payments from the operating funds of \$60 million have been attained, excluding interest;
3. Reinsurance Fund take a less conservative approach by reducing the charge to the operating funds from 80% to 75% of the premiums that would probably be charged in the reinsurance market; and
4. Lifetime Benefits Fund take a less conservative approach, when members' equity in the Fund exceeds \$1 million. At that time, claims moved into the Fund will receive a 9% discount if the spouse is 35 or under and a 6% discount if the spouse is 36 or older. If members' equity drops below \$1 million, a 5% discount will be applied thereafter.

The Board discussed return of contributions and equity returns.

MOTION by Byron Black, seconded by Robert Herrera, to maintain the current equity return policy. Motion carried with unanimous approval.

MOTION by Byron Black, seconded by Greg Ingham, to adopt the 2008-09 Budget presented under separate cover and the Finance Committee's recommendations concerning the Stability Fund, the Large Loss Fund, the Reinsurance Fund, and the Lifetime Benefits Fund. Motion passed with unanimous approval.

MOTION by Byron Black, seconded by Makia Epie, to adopt the salary schedule for 2008-09 as set forth in the 2008-09 Budget presented under separate cover. Motion carried with unanimous approval.

Allan Romer presented the proposed re-rate notice and benefit selection form for medical, dental, vision, long-term disability, and life coverage for employees and retirees for 2008-09 from TML Intergovernmental Employee Benefits Pool under Tab 7.

MOTION by Byron Black, seconded by Alex Bickley, to authorize the Executive Director to approve the rerate notices and benefit selection forms with TML Intergovernmental Employee Benefits Pool for 2008-09 as set forth under Tab 7. Motion carried with unanimous approval.

Consideration of a revision to the Stability Fund Guidelines (Tab 8)

Hank Domeracki presented under Tab 8 an amendment to the Stability Fund to provide a reserve for the Pool's estimated future liability in the Texas Municipal Retirement System as presented at the April 19, 2008 Board meeting in Frisco.

MOTION by Byron Black, seconded by Kevin Caddell, to amend the Stability Fund to provide a reserve for the Pool's estimated future liability in the Texas Municipal Retirement System and record that amount as Restricted Equity in the Stability Fund as set forth under Tab 8. Motion carried with unanimous approval.

Consideration of an amendment to the contract with Northern Trust Company for custodial bank and consultant services (Tab 9)

Tito Villegas presented the contract with Northern Trust Company under Tab 9 for custodial bank and consultant services. The Pool's current contract with Northern Trust is from December 1, 2005 to November 30, 2008 with two one-year contract extension options. The staff recommended that the Pool exercise a one-year contract extension option with Northern Trust effective December 1, 2008 and amend the contract with Northern Trust to increase the Asset Holding charge Unit Price from .5 basis points to .6 basis points, increase the Monthly Performance Analysis and Annual Board Presentation Charge to \$20,000, reduce the number of Board presentations to one, and eliminate the Investment Manager Search Service fee.

MOTION by Byron Black, seconded by Mary Gauer, to approve the Northern Trust Company one-year contract extension effective December 1, 2008, and authorize the Executive Director to execute the contract amendment as set forth under Tab 9. Motion passed with unanimous approval.

Management Information Systems Report (Tab 10)

David Longoria presented the "Management Information Systems Report" under Tab 10.

**UNDERWRITING AND CLAIMS COMMITTEE**

Final Report Regarding Property Reinsurance Acquisition for May 1, 2008 to April 30, 2009 (Tab 11)

Carol Loughlin presented the final report on the property reinsurance agreements effective May 1, 2008 to April 30, 2009 as set forth under Tab 11.

Consideration of contracts with NLC Mutual Insurance Company for quota sharing participation in Liability and Workers' Compensation Reinsurance (Tab 12)

Carol Loughlin presented the recommendation under Tab 12 to renew the liability reinsurance coverage with NLC Mutual Insurance Company effective October 1, 2008, for 22.5% quota share of the \$2 million layer excess of the Pool's \$3 million retention. The renewal terms and conditions will be the same as coverage expiring.

Carol Loughlin presented the recommendation under Tab 12 to renew the workers' compensation reinsurance with NLC Mutual Insurance Company effective October 1, 2008, for 5% quota share participation of the \$20 million layer excess of the Pool's \$3 million retention. The renewal terms and conditions will be the same as the coverage expiring.

MOTION by Mary Gauer, seconded by Andres Garza, to renew coverage for liability reinsurance with NLC Mutual Insurance Company effective October 1, 2008, for 22.5% of the \$2 million layer excess of the Pool's \$3 million retention and to renew the coverage for workers' compensation reinsurance with NLC Mutual Insurance Company effective October 1, 2008, for 5% of the \$20 million layer excess of the Pool's \$3 million retention as set forth under Tab 12. Motion carried with unanimous approval.

Consideration of extending the contract with Victor O. Schinnerer & Company, Inc. from August 1, 2008 to July 31, 2009 (Tab 13)

Carol Loughlin presented the recommendation under Tab 13 for the execution of a contract with Victor O. Schinnerer & Company, Inc., for one-year beginning August 1, 2008, with an option to renew. The proposed fee for the first year is \$393,000 which will be reduced by \$150,000 if the Pool assumes responsibility for producing property proposals on or before May 1, 2009, and rerates effective September 30, 2009.

MOTION by Mary Gauer, seconded by Pat Norriss, to renew the contract with Victor O. Schinnerer & Company, Inc. for one year effective August 1, 2008 with an option to renew as set forth under Tab 13. Motion carried with unanimous approval.

Update on the Political Subdivision Workers' Compensation Alliance (Tab 14)

Mike Bratcher presented the update on the Political Subdivision Workers' Compensation Alliance under Tab 14.

Significant Cases and Legal Developments (Tab 15)

David Reagan presented the report on "Significant Cases and Legal Developments" under Tab 15.

Liability Claims Report (Tab 16)

Mike Rains presented the “Liability/Property Claims Report” under Tab 16.

Workers’ Compensation Claims Report (Tab 17)

Mike Bratcher presented “Workers’ Compensation Claims Report” under Tab 17.

Quarterly Report from Contractor Victor O. Schinnerer & Company, Inc. (VOSCO) (Tab 18)

Gordon Field from Victor O. Schinnerer & Company, Inc., was present and thanked the Board for the continued association with the Pool. He presented the quarterly report for Victor O. Schinnerer & Company, Inc., under Tab 18.

Underwriting Report (Tab 19)

Matt Jordan presented the “Underwriting Activity Report” under Tab 19.

Loss Prevention Report (Tab 20)

Les Horne presented the “Loss Prevention Board Report” under Tab 20.

Field Services Report (Tab 21)

Scott Epperson presented the “Field Services Report” under Tab 21.

General Counsel’s Report (Tabs 22)

David Reagan presented the “General Counsel’s Report” under Tab 22.

Comments by Ex-officio Members from and to TML and Employee Benefits Boards

Bill Storey, ex-officio member from the TML Intergovernmental Employee Benefits Pool, had no comments. Henry Wilson, ex-officio member from the TML Board of Directors, thanked the Board for letting him participate on the Pool’s Board of Trustees. Frank Sturzl asked if the Pool could develop an explanatory note relative to the Pool’s equity for members and others on why we hold equity. Some of the reasons expressed at this meeting for holding equity are rate stabilization, reduction of reinsurance costs, member security relative to weather catastrophes, and legislative uncertainty. Frank stated that TML and TMLIRP were coming to a 20-year anniversary of the end of a very ugly dispute between

TML and the Pools. That time was an ugly time for TML, but the last 20 years have been some of the best years. He suggested there should be a celebration of some kind to commemorate the anniversary.

Makia Epie asked if the Board packet could be sent out electronically. Marvin Townsend advised that it could. Byron Black asked whether the Board agenda could be posted on the internet. Allan Romer advised that it is already posted there.

## **EXECUTIVE COMMITTEE REPORT**

### Lawsuits in which the Pool is a Party (Tab 23)

David Reagan presented the report on “Lawsuits in which the Pool is a Party” under Tab 23.

### Personnel Report (Tab 24)

Allan Romer presented the “Quarterly Personnel Report” under Tab 24.

### Meeting Schedule and Board Continuing Education (Tab 25)

Marvin Townsend presented the proposed Board meeting schedule and continuing education opportunities under Tab 25.

### Adjournment

Chair adjourned the meeting at 10:27a.m.