

**TEXAS MUNICIPAL LEAGUE
INTERGOVERNMENTAL RISK POOL**

Board of Trustees Meeting
Bastrop, Texas
October 6, 2007

Trustees Present

Leo Montalvo, Chair
Rickey Childers, Vice Chair
Alex Bickley
Byron Black
Makia Epie
Andres Garza
Mary Gauer
Don Henderson
Robert Herrera
Greg Ingham
Pat Norriss
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 Fields, VOSCO
Steve Luetger, Mesirov Financial
Rick Pokorny, Northern Trust

Chair Leo Montalvo called the meeting of the Board of Trustees of the TML Intergovernmental Risk Pool to order at 7:30 a.m. on Saturday, October 6, 2007.

Welcome New Board Members

Leo Montalvo welcomed Bill Storey, the new ex-officio TML Intergovernmental Employee Benefits Board member. Larry Gilley, City Manager of Abilene and new Board member in Place 12, was unable to attend due to a previous commitment.

Roll Call and Excused Absences (Tab 1)¹

Marvin Townsend noted the absences of Don Dodson and Larry Gilley and reported the reasons they asked that their absences be excused.

MOTION by Byron Black, seconded by Makia Epie, to excuse the absences of Don Dodson and Larry Gilley. Motion carried with unanimous approval.

¹ All references to "Tabs" in these minutes are references to the Tabs in the Board of Trustees Agenda packet.

Consideration of Minutes of July 21, 2007 Meeting at San Antonio (Tab 2)

MOTION by Alex Bickley, seconded by Greg Ingham, to approve the minutes from the July 21, 2007 Board meeting in San Antonio as presented under Tab 2. Motion carried with unanimous approval.

Consideration of Report of the Nominating Committee regarding filling vacancies for the unexpired terms in Place 3 and Place 7 (Tab 3)

Greg Ingham, Nominating Committee Chair, presented the recommendation from the Nominating Committee that Kevin Caddell, Mayor of Dalhart, be appointed to fill the vacancy in Place 7 for a term expiring October 1, 2010 and Paul Parker, City Manager of Lufkin, be appointed to fill the vacant position on the Board of Trustees in Place 3 for a term expiring October 1, 2008 and Mr. Ingham stated that he had contacted Mr. Caddell and Mr. Parker and both confirmed their willingness to serve.

MOTION by Greg Ingham, seconded by Alex Bickley, to appoint Kevin Caddell to Place 7 on the Board and Paul Parker to Place 3 on the Board. Motion carried with unanimous approval.

Consideration of Bylaw Amendments (Tab 4)

David Reagan presented two suggested changes to the Bylaws as requested at the July 2007 Board meeting. The first request was to consider clarifying what constituted disqualification to serve on the Board because of a gap in either a Board member's employment by a Member political subdivision or service as an official of the governing body of a Member political subdivision. The change suggested would amend Article 4 of the Bylaws to allow a Board member that ceases to be an employee or official of a governing body of a Member political subdivision to continue service on the Board for 60 days. If during this 60-day period the Board member becomes again an employee or official of a governing body of a Member political subdivision, then his service on the Board would continue. The second request was to consider changing the composition of the Nominating Committee to include a member of the Underwriting/Claims Committee. In the current Bylaws, the Nominating Committee is composed of members of the Executive Committee. The change suggested would amend Article 8 of the Bylaws to change the composition of the Nominating Committee to be comprised of the Board Chair, the immediate two past Chairs, and each of the Chairs of the Finance and the Underwriting/Claims Committees.

MOTION by Alex Bickley, seconded by Pat Norriss, to present the suggested Bylaw amendments set forth under Tab 4 at the January 19, 2008, Board meeting for formal approval, except the 60-day period of continued service on the Board under Article 4 be changed to 30 days. MOTION TO AMEND THE MAIN MOTION by Mary Gauer, seconded by Robert Herrera, to change the 30-day period of continued service on the Board under Article 4 to 60 days. Motion to amend carried with Makia Epie voting no. Main motion as amended carried.

FINANCE COMMITTEE

Election of Finance Committee Chair

Byron Black announced he was re-elected Chair of the Finance Committee.

Review of August 31, 2007 (11-month) Financial Statements (Tab 5)

Tito Villegas presented an overview of the financial statements under Tab 5.

Review of August 31, 2007 (11-month) Investment Report and report by Northern Trust (Tab 6)

Rick Pokorny of The Northern Trust Company presented an analysis under Tab 6 of the investment market and each investment manager's performance as of August 31, 2007, based on total rate of return. Hank Domeracki presented an overview of the investment report based on return on investments which measures performance based on interest income and realized gains and losses. The total rate of return includes unrealized gains and losses. The Pool makes its financial decisions based on return on investments.

Annual Review of the Pool's Investment Policy and Broker Certification (Tab 7)

Tito Villegas presented the review of the Pool's Investment Policy and the proposed list of qualified brokers under Tab 7.

Tito Villegas reported that the Texas Public Funds Investment Act requires that the Board annually review its Investment Policy and its list of qualified brokers authorized to engage in the Pool's investment transactions. Two changes to the Investment Policy and changes to the list of authorized brokers were recommended for Board approval as set forth under Tab 7.

The first change to the Investment Policy would require certificates of deposit purchased by the Pool be issued by a depository institution that has its main office or a branch in the State of Texas and would limit collateral to certificates of deposit. The second change would increase the collateral percentage protecting Pool funds from 100% to 102%.

MOTION by Byron Black, seconded by Alex Bickley, to adopt the resolution under Tab 7 amending the Investment Policy and approve the list of qualified brokers. Motion carried with unanimous approval.

Consider approval of payments from the Large Loss Fund to the Property Fund to offset individual 2006-07 losses between \$1,000,000 and \$3,000,000 per loss (Tab 8)

Tito Villegas presented the recommendation under Tab 8 to transfer funds from the Large Loss Fund to the Property Fund for three property losses in excess of \$1,000,000 which met the approved criteria for payment from the Large Loss Fund.

The current estimated amount to be paid from the Large Loss Fund to the Property Fund is \$1,537,668. This amount may increase or decrease depending on final actual expenses.

MOTION by Byron Black, seconded by Alex Bickley, to authorize payment from the Large Loss Fund to the Property Fund as set forth under Tab 8 for three property losses based on the actual losses paid, currently estimated to be \$1,537,668. Motion carried with unanimous approval.

Consideration of canceling the investment management contract with Bear Stearns Asset Management (Tab 9)

Hank Domeracki presented the recommendation under Tab 9 to authorize the Executive Director to cancel the contract with Bear Stearns Asset Management effective December 2, 2007 and transfer the investments in their portfolio to the new investment management firm effective December 3, 2007.

MOTION by Byron Black, seconded by Robert Herrera, to authorize the Executive Director to cancel the investment management contract with Bear Stearns Asset Management effective December 2, 2007, and transfer the investments in their portfolio to the new investment management firm effective December 3, 2007 as set forth under Tab 9. Motion carried with unanimous approval.

Interviews with finalists for pending Investment Management Contract (Tab 10a)

Hank Domeracki reported the finalists for the pending Investment Management Contract as set forth under Tab 10a. Fourteen Requests for Proposals were mailed and eight responses were received. Five of the firms not submitting proposals indicated they could not provide the service for ten basis points. Of the proposals received, the two firms recommended for interviews were Mesirow Financial of Chicago, IL. and Conning Asset Management Company of Hartford, CT. The Finance Committee interviewed representatives from Mesirow Financial and Conning Asset Management Company.

Consideration of awarding an Investment Management Contract for three years beginning December 1, 2007 (Tab 10b)

MOTION by Byron Black, seconded by Robert Herrera, to authorize the Executive Director to enter into a contract with Mesirow Financial from Chicago, Illinois for financial

management services effective December 3, 2007 for three years with a 30-day cancellation provision with renewal options for additional two-year periods, and to authorize the allocation of funds in this portfolio to be at or about the same level as the amount allocated to the Pool's other two investment management firms. MOTION TO AMEND THE MAIN MOTION by Makia Epie to award Conning Asset Management Company a contract, without going out for Request for Proposal's or interviews, if the need for another investment manager opened up within the next year. Motion to amend the main motion failed for lack of a second. Main motion carried with unanimous approval.

Consideration of commutation of 2001-02 and 2002-03 claims with National League of Cities Mutual Insurance Company upon payment of \$31,237 (Tab 11)

Hank Domeracki presented the recommendation to commute quota-share reinsurance contracts with National League of Cities Mutual Insurance Company (NLC-MIC) for fund years 2001-02 and 2002-03 workers' compensation claims (excluding the Brandon Burns claim) and fund years 2001-2002 and 2002-2003 liability claims after payment of \$31,237, subject to final adjustments at date of closing.

MOTION by Byron Black, seconded by Don Henderson, to commute the quota-share reinsurance contracts with National League of Cities Mutual Insurance Company for liability reinsurance for fund years 2001-2002 and 2002-2003 and for workers' compensation (excluding the Brandon Burns claim) for fund years 2001-2002 and 2002-2003 upon payment by the Company of \$31,237, subject to final adjustment for updated payment information on the date of closing as set forth under Tab 11. Motion carried with unanimous approval.

Report regarding closeout of the Property Improvement Fund (Tab 12)

Tito Villegas reported on the closeout of the Property Improvement Fund established in April 2001 for the purpose of utilizing funds from the U. S. Highway 183 right-of-way acquisition for improvements to the Texas Municipal Center to offset damages caused by highway construction. All improvements have been completed and the assets in the amount of \$2,179,818 have been divided equally between the Pools. The Property Improvement Fund was closed as of September 30, 2007. No further Board action was required.

Authorization to enter into a contract for purchase of Property Underwriting Software not to exceed \$500,000 (Tab 13) (Underwriting and Claims Committee to Report)

Presented under Underwriting and Claims Committee agenda item 7.c.

Management Information Systems Report (Tab 14)

David Longoria presented the "Management Information Systems Report" under Tab 14.

UNDERWRITING AND CLAIMS COMMITTEE

Election of Underwriting and Claims Committee Chair

Mary Gauer announced she was re-elected Chair of the Underwriting and Claims Committee.

Coastal Storm Fund Recommendation (Tab 15)

Carol Loughlin presented the recommendation that a Coastal Storm Fund be created as a source of windstorm and hail coverage for properties in the first tier counties adjacent to the Gulf of Mexico to reduce the costs to these members who are less likely to sustain damage from hurricanes because of construction and distance from the Gulf.

The Coastal Storm Fund would initially be backed by the ability to borrow up to \$1,000,000 from the Stability Fund. The Coastal Storm Fund would pay the Stability Fund five percent interest for any money borrowed for an initial term of five years. The Storm Fund would be backed by the Large Loss Fund which would pay any loss of the Coastal Storm Fund in excess of \$1,000,000 per occurrence.

Staff recommended that the Coastal Storm Fund be created in stages. Phase I would cover properties that are determined to be semi-wind resistive or better and located 25 miles or more from the Gulf Coast. The contributions would be 80% of rates charged by TWIA. All other properties of these members that do not meet the construction criteria would still be covered by TWIA. Phase II would reduce the 25-mile criteria to 20 miles and eligible buildings would include those constructed of brick or better. Phase II will not be implemented until the program is established and functioning without significant problems.

MOTION by Mary Gauer, seconded by Bob Herrera, to establish the Coastal Storm Fund according to the criteria set forth under Tab 15, including Phases I and II, and approve the budget for 2007-2008 as set forth in Exhibit III under Tab 15. Motion carried with unanimous approval.

Authorization to enter into a contract for purchase of Property Underwriting Software not to exceed \$500,000 (Tab 13)

MOTION by Mary Gauer, seconded by Pat Norriss, authorizing the Executive Director to enter into a contract with either DAVID Corporation or Synergistic Solution Technologies for a property underwriting software system including installation, data migration costs, and additional related underwriting applications at a price not to exceed \$500,000 as set forth under Tab 13. Motion carried with unanimous approval.

Update on the Political Subdivision Workers' Compensation Alliance (Tab 16)

Mike Bratcher presented the update on the Political Subdivision Workers' Compensation Alliance under Tab 16.

Update on Texas Department of Insurance's performance-based oversight results regarding workers' compensation claims (Tab 17)

Mike Bratcher presented the update on the Texas Department of Insurance, Division of Workers' Compensation, performance-based oversight results regarding workers' compensation claims under Tab 17.

Report regarding closing of the bankruptcy proceedings regarding the Estate of Scott Wetzel Services, Inc., one of the Pool's workers' compensation claims administrators prior to 1998 (Tab 18)

Mike Bratcher presented the report under Tab 18 on the bankruptcy proceedings of the estate of Scott Wetzel Services, Inc. The bankruptcy court has closed the Scott Wetzel Services, Inc. Estate and the Trustee's Final Report has been filed. Scott Wetzel Services, Inc., one of the Pool's third party administrators prior to 1998, filed for bankruptcy protection on October 21, 1998. The Pool will receive \$6,989.90 of the \$59,254.76 owed. These payments will be made after the final period for appeals closes and the Bankruptcy Judge authorizes payments.

Significant Cases and Legal Developments (Tab 19)

David Reagan presented the report on "Significant Cases and Legal Developments" under Tab 19.

Report regarding settlement of *Anderson v. City of Farmers Branch*, and request for Board approval (Tab 20)

Mike Rains presented the request under Tab 20 for approval of the settlement of *Anderson, et al. v. City of Farmers Branch* in the amount of \$508,000.

MOTION by Mary Gauer, seconded by Byron Black, to approve the settlement of *Anderson, et al. v. City of Farmers Branch* in the amount of \$508,000. Motion carried with unanimous approval.

Liability Claims Report (Tab 21)

Mike Rains presented the "Liability/Property Claims Report" under Tab 21.

Workers' Compensation Claims Report (Tab 22)

Mike Bratcher presented "Workers' Compensation Claims Report" under Tab 22.

Underwriting Report (Tab 23)

Matt Jordan presented the "Underwriting Activity Report" under Tab 23.

Quarterly Report from Contractor Victor O. Schinnerer & Company, Inc. (VOSCO) (Tab 24)

Carol Loughlin presented the quarterly report from Victor O. Schinnerer & Company, Inc. under Tab 24.

Loss Prevention Report (Tab 25)

Les Horne presented the "Loss Prevention Board Report" under Tab 25.

Field Services Report (Tab 26)

Scott Epperson presented the "Field Services Report" under Tab 26.

General Counsel's Report (Tabs 27)

David Reagan presented the general counsel's report under Tab 27.

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

Frank Sturzl, TML Executive Director, stated that TML will have its hands full in the next session with governmental immunity and tort caps.

Andres Garza, the Pool's ex-officio member on the TMLIEBP Board, stated that the Employee Benefits Board met last week at Los Colinas. The issue of health coverage for employees is a major issue for most cities and the Board has worked diligently with United HealthCare to assist in meeting their concerns.

Mary Gauer, the Pool's ex-officio member on the TML Board of Directors, noted the upcoming TML Annual Conference in November in Dallas and the Pools' breakfast on Thursday morning, November 8.

Henry Wilson, ex-officio member from the TML Board of Directors, stated that he appreciated all the work that the Pool's staff does for cities and other governmental entities and their due diligence to see that the members' rights are protected.

EXECUTIVE COMMITTEE REPORT

Consideration of Employee Health Insurance for 2007-08 (Tab 28a)

Allan Romer presented the employee health insurance rates for 2007-08 as set forth under Tab 28a.

MOTION by Don Henderson, seconded by Mary Gauer, to authorize the Executive Director to execute the rerate notice and benefit selection form for employee health insurance with TML Intergovernmental Employee Benefits Pool for 2007-08. Motion carried with unanimous approval.

Consideration of Retiree's Health Insurance for 2007-08 (Tab 28b)

Allan Romer presented the retiree's health insurance rates and options for 2007-08 as set forth under Tab 28b.

MOTION by Don Henderson, seconded by Robert Herrera, to authorize the Executive Director to execute the rerate notice and benefit selection form with TML Intergovernmental Employee Benefits Pool for retiree health insurance for 2007-08. Motion carried with unanimous approval.

Lawsuits in which the Risk Pool is a Participant (Tab 29)

David Reagan presented the lawsuits in which the Risk Pool is a participant under Tab 29.

Personnel Report (Tab 30)

Allan Romer presented the "Quarterly Personnel Report" under Tab 30.

Meeting Schedule and Board Continuing Education (Tab 31)

Marvin Townsend noted the Board Schedule of Meetings for 2008 and 2009. For 2009, it was recommended that the Board meet on January 23-24 at the Holiday Inn, El Paso; South Padre Island on April 24-25; Hyatt Hill Country, San Antonio on July 24-25; and Four Seasons, Los Colinas, October 9-10.

Adjournment

Chair adjourned the meeting at 10:39 a.m.