

**TEXAS MUNICIPAL LEAGUE
INTERGOVERNMENTAL RISK POOL**

Board of Trustees Meeting
Frisco, Texas
April 8, 2006

Trustees Present

Pat Norriss, Chair
Leo Montalvo, Vice Chair
Alex Bickley
Byron Black
Richard Browning
Rickey Childers
Wayne Collins
Don Dodson
Makia Epie
Andres Garza
Mary Gauer
Don Henderson
Greg Ingham
Frank Sturzl
Henry Wilson

Staff Present

Marvin Townsend
Carol Loughlin
David Reagan
Mike Bratcher
Scott Epperson
Les Horne
Matt Jordan
David Longoria
Mike Rains
Allan Romer
Bill Snyder
Tito Villegas
Debbie Mangum

Also Present

Andy Billinge, Bell & Clements
Debra Fox, Guy Carpenter & Company
Rick Pokorny, Northern Trust
John Prescott, Johnson Lambert & Co.
Penny Wyatt, Victor O. Schinnerer &
Company

Pat Norriss called the meeting of the Board of Trustees of the TML Intergovernmental Risk Pool to order at 7:32 a.m. on Saturday, April 8, 2006.

Roll Call and Excused Absences (Tab 1)¹

Marvin Townsend noted the absences of Harold Dominguez, Larry Dovalina, and Robert Herrera and reported the reasons they were asking that their absences be excused.

MOTION by Makia Epie, seconded by Wayne Collins, to excuse the absences of Harold Dominguez, Larry Dovalina, and Robert Herrera. 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 January 21, 2006 Meeting in Galveston (Tab 2)

Mary Gauer noted the correction needed in spelling of the name of 'Andres Garza' in the January 21, 2006 minutes. Ms. Gauer also inquired as to putting more detail in the motions recorded in the minutes rather than showing "as outlined under Tab". David Reagan stated that for historical purposes it might be better to have more detail in the motion recorded in the minutes; however, it might be difficult to capture the entire substance and background for some motions, such as motions dealing with reinsurance. No recommendation was made that the minutes be changed in the future.

MOTION by Don Henderson, seconded by Mary Gauer, to approve the minutes with spelling corrections. Motion carried with unanimous approval.

FINANCE COMMITTEE

Review of February 28, 2006 (5-month) Financial Statements (Tab 3)

Tito Villegas presented an overview of the financial statements under Tab 3.

Review of February 28, 2006 (5-month) Investment Report and Report by Northern Trust (Tab 4)

Tito Villegas presented an overview of the investment report and Rick Pokorny with Northern Trust reported on the performance of the investment managers, comparing the total rate of return to the benchmark under Tab 4.

Consideration of Award for Auditing Services (Tab 5)

Tito Villegas presented the proposals for auditing services under Tab 5. After reviewing the qualifications and fees of the four proposals, it was recommended that the Pool accept the proposal of Johnson Lambert & Co. to provide auditing services for fiscal years ending September 30, 2006, 2007, and 2008, with the option to extend the agreement for two additional fiscal years. This recommendation is contingent on Johnson Lambert & Co. acquiring a reciprocal license to perform work in the State of Texas.

MOTION by Byron Black, seconded by Leo Montalvo, to award auditing services to Johnson Lambert & Co. for fiscal years ending September 30, 2006, 2007 and 2008, with the option to extend the agreement for fiscal years 2009 and 2010. Motion carried with unanimous approval.

Consideration of a Two-year Extension Beginning June 1, 2006, for Investment Management Services being provided by Columbia Management Group (Tab 6)

Tito Villegas presented the proposal to exercise the Pool's option to extend the Contract for Professional Investment Management Services with Columbia Management Group for a two-year period beginning June 1, 2006, and ending May 31, 2008.

MOTION by Byron Black, seconded by Greg Ingham, to approve the two-year extension beginning June 1, 2006, and ending May 31, 2008, for investment management services provided by Columbia Management Group as stated under Tab 6. Motion carried with unanimous approval.

Consideration of a Two-year Extension Beginning July 1, 2006, for Investment Management Services being provided by Sovereign Asset Management (Tab 7)

Tito Villegas presented the proposal to exercise the Pool's option to extend the Contract for Professional Investment Management Services with Sovereign Asset Management for a two-year period beginning July 1, 2006, and ending June 30, 2008.

MOTION by Byron Black, seconded by Andres Garza, to extend the Pool's contract for the two-year period beginning July 1, 2006, and ending June 30, 2008, for investment services provided by Sovereign Asset Management as stated under Tab 7. Motion carried with unanimous approval.

Management Information Systems Report (Tab 8)

David Longoria presented the "Management Information Systems Report" under Tab 8.

UNDERWRITING AND CLAIMS COMMITTEE

Property Reinsurance Recommendations for 2006-07 (Tab 9)

Carol Loughlin stated that the catastrophic reinsurance market was unsettled because of the hurricanes that hit the Gulf Coast during 2005 – Katrina, Rita and Wilma. When Tab 9 of the Board meeting agenda was prepared, it was anticipated that the property reinsurance placement effective May 1, 2006 would be completed prior to the April 8 meeting, but it has not been completed. Carol introduced Penny Wyatt from Victor O. Schinnerer & Co., Inc. to present an overview of the status of the property reinsurance renewal. Penny introduced Debra Fox from Guy Carpenter & Co. and Andy Billinge from Bell & Clements of London. Debra Fox stated that due to the unusual market for property reinsurance caused by the hurricane season, some of the carriers have opted to leave the market. As a result there isn't the capacity that there was last year and reinsurers are being more conservative and taking smaller lines. Therefore, Guy Carpenter & Co. was exposing the

Pool's proposal to new markets that have not been approached in the past. As of April 7, 2006, 47.5% of the first layer - \$7 million excess of \$3 million – had been placed. The second layer is 45% complete, with 27% of the existing market not heard from yet. The third layer is 38% placed with 23% of the market not heard from. The fourth layer, which is the \$50 million excess \$50 million, is the most attractive layer and should be the easiest to place. Currently it is 48.6% complete. The second and third layers might present the most challenge and it should be known within two weeks where the placement will be. The Pool will be kept informed on a daily basis. Andy Billinge will work toward marketing the reinsurance placement in London.

Carol Loughlin presented the following recommendations: That the Property Fund retain the first \$3 million of losses and that Guy Carpenter be authorized to finalize renewal terms with all participants based on the rate indications of the lead markets for the layers excess of \$3 million. If the lead rate indications must be increased in order to complete the placement, the changes will be brought back to the Executive Committee for review. If Guy Carpenter and Bell & Clements fill out the entire program at or below the lead rate indications, the staff requests authorization to bind coverage. It was recommended that the staff be authorized to adjust the Pool's quota-share from that outlined in Tab 9 to maximize reinsurer participation and offset increased costs. It was further recommended that the staff be authorized to negotiate NLC-MIC's quota-share participation.

MOTION by Mary Gauer, seconded by Byron Black, to accept the recommendations as outlined above. Motion carried with unanimous approval.

Consideration of Property Rates for 2006-07 (Tab 10)

Carol Loughlin presented the proposal for property rates for 2006-07 under Tab 10. The Property Fund gained \$8.6 million in equity and returned \$4.3 million equity to Members. Reinsurance premium increases up to \$2 million have been indicated; however, with current equity gain of \$6.4 million through February 28, 2006, it is the recommendation that property rates not be increased for the 2006-07 fund year.

MOTION by Mary Gauer, seconded by Andres Garza, to maintain property rates at the 2005-06 levels for the 2006-07 fund year. Motion carried with unanimous approval.

Liability Reinsurance Recommendations for 2006-07 (Tab 11)

Carol Loughlin presented the liability reinsurance recommendations for 2006-07 under Tab 11. The recommendations are for the Pool to increase its retention from \$2 million to \$3 million and General Reinsurance Corporation to keep its rates and quota-share for 2006-07 as they were for 2005-06 in the layers above \$3 million. It was further recommended that the staff be authorized to negotiate with NLC-MIC for a quota-share at whichever level NLC-MIC wishes to participate if certain issues related to the Pool's equity with NLC-MIC are resolved before October 1, 2006.

The staff also recommended that the \$1 million layer excess of \$2 million be retained by the Liability Fund and the rates charged to Members for this layer be based on General Reinsurance's renewal quote less ten percent to reflect the Pool's lower expenses. It is

further recommended that the minimum premiums charged by General Reinsurance for this layer be eliminated.

MOTION by Mary Gauer, seconded by Wayne Collins, to approve the recommendations as set forth above. Motion carried with unanimous approval.

Liability Rate Recommendation for 2006-07 for the First \$2,000,000 of Coverage (Tab 12)

Carol Loughlin presented the staff's liability rate recommendations for 2006-07 under Tab 12. The Pool's actuary, PriceWaterhouseCoopers, completed its rate adequacy study for 2006-07, which indicated an overall reduction in liability contributions for all lines for the first \$2 million of coverage.

The staff recommended reducing the actuary's rate indications by making a 3% adjustment for all lines of Liability Coverage, except Law Enforcement, for the first \$1 million of coverage. Final experience modifiers will be calculated using losses valued as of March 31, 2006, which should result in a projected decrease of roughly 3% in contributions.

In the \$1 million excess of \$1 million coverage layer for General Liability, Public Officials and Automobile Liability, the staff recommended implementing the rate factors developed by the actuary. Law Enforcement will remain unchanged.

MOTION by Mary Gauer, seconded by Rickey Childers, to adopt the liability rate recommendations as outlined under Tab 12. Motion carried by unanimous approval.

Workers' Compensation Rate Recommendations for 2006-07 (Tab 13)

Carol Loughlin presented the workers' compensation rate recommendations for 2006-07 under Tab 13. The Pool's actuarial consultant indicated that a 1.2 percent increase was warranted before considering increased costs associated with the new disease presumption statute and the new workers' compensation statute. Modifiers and discounts will be calculated based on March 31, 2006 losses, and a contribution reduction of roughly 9.73 percent or approximately \$5.986 million is expected.

It is recommended that 1) seven workers' compensation payroll classifications be increased by 5%; 2) rates for Firefighters and EMT's be increased 10% for the 2006-07 fund year because of the impact of the presumption statute; 3) loss rates used to calculate experience modifiers be reduced to bring them more in line with current rate levels; and 4) a blended rate of \$5.33 be used when water and wastewater operations are combined and employees split their time between the two areas.

MOTION by Mary Gauer, seconded by Don Henderson, to adopt the rate recommendations as outlined above and under Tab 13. Motion carried with unanimous approval.

Consideration of Aviation Reinsurance for 2006-07 (Tab 14)

Carol Loughlin presented the proposal for aviation reinsurance for 2006-07 under Tab 14. Old Republic Insurance Company currently provides aviation reinsurance for the Pool with limits up to \$20 million per occurrence/per Member. The Pool retains 45% of each loss and 45% of the Member contributions and Old Republic reimburses the Pool for 55% of each loss and receives 55% of the Member contributions. Old Republic proposes to renew coverage with no change in rates, quota-share, or reinsured limits. The Pool's staff recommends that the Old Republic proposal be accepted as outlined above.

MOTION by Mary Gauer, seconded by Leo Montalvo, to accept the renewal terms proposed by Old Republic Insurance Company with no change in rates, quota-share, or reinsured limits as outlined above and under Tab 14 for the 2006-07 fiscal year. Motion carried with unanimous approval.

Consideration of Direct Contracting with Health Care Providers to Provide Workers' Compensation Medical Benefits, Including a Resolution Determining that Certified Networks are not Available or Practical and Authorization for an Interlocal Agreement with Other Pools for the Purpose of Directly Contracting with Health Care Providers (Tab 15)

Mike Bratcher presented the recommendations in regard to direct contracting for workers' compensation medical services, including a resolution stating that certified networks are not available or practical, and authorizing an interlocal contract with the Texas Association of School Boards, Texas Association of Counties, Texas Council Risk Management Fund, and Texas Water Conservation Risk Management Fund to jointly contract directly with health care providers to provide workers' compensation medical benefits.

The staff recommended that the Board adopt a resolution that determines a workers' compensation health care network, certified under Chapter 1305, Texas Insurance Code, is not available or practical for the Texas Municipal League Intergovernmental Risk Pool. The staff also recommended that the Board authorize the Executive Director on behalf of the Pool to execute an interlocal agreement with the Texas Association of School Boards, Texas Association of Counties, Texas Council Risk Management Fund, and Texas Water Conservation Risk Management Fund to jointly contract directly with health care providers to provide workers' compensation medical benefits.

MOTION by Mary Gauer, seconded by Don Henderson, to adopt the resolution set forth under Tab 15 that determines a workers' compensation health care network is not available or practical for the Pool and to authorize the Executive Director to execute an interlocal agreement substantially the same as the agreement set out under Tab 15 to directly contract with health care providers to provide workers' compensation medical benefits. Motion carried with unanimous approval.

Significant Cases and Legal Developments (Tab 16)

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

Liability Claims Report (Tab 17)

Mike Rains presented the “Liability/Property Claims Report” under Tab 17

Workers’ Compensation Claims Report (Tab 18)

Mike Bratcher presented “Workers’ Compensation Claims Report” 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 22-24)

David Reagan presented the Legislative Update under Tab 22.

David Reagan presented the Board election schedule for October 2006 under Tab 23.

David Reagan presented the open meetings and public information training requirements set out under Tab 24. Senate Bill 286, passed by the 79th Texas Legislature, requires each elected or appointed public official who is a member of a governmental body to complete a course of training on open meetings and public information laws. The Texas Attorney General’s Office has made free training videos available for viewing on its website and on free digital video disks (DVD’s). The Texas Municipal League provides such training at its open government workshop, which has been approved by the Texas Attorney General’s office.

In reference to the Open Meetings Training, it was recommended that Board Members who have or will receive training through their political subdivision provide a copy of the completion certificate to the Pool. Board Members who will not receive training through their political subdivision should attend an approved workshop, view the training video online, or view the free DVD from the Attorney General's Office. When the training is received, course completion certificates should be obtained and a copy provided to the Pool.

In reference to public information training, it was recommended that the Board designate David Reagan as the public information coordinator who will obtain the required training and eliminate the requirement for one hour of training for each Board member.

MOTION by Makia Epie, seconded by Byron Black, to appoint David Reagan as public information coordinator for the Board of Trustees. Motion carried with unanimous approval.

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

Richard Browning reported that the TML Intergovernmental Employee Benefits Board will be meeting in two weeks in Frisco. The TML-IEBP will have their budget and audit committee meetings the first weeks in June to start the budget process. There were no significant items to report.

Frank Sturzl commented on the TML Annual Conference concerning the TML-IRP and TML-IEBP annual breakfast that will be on Thursday morning instead of Saturday this year in an effort to boost attendance. The breakfast will also be described in the program for all attendees not just members of either Pool. Mary Gauer inquired if there was a reason to meet with the TML-IEBP Board as had been done in the past. Marvin Townsend indicated that the past meetings were to help in the communication process between the two Pools but lately such assistance has not been necessary.

EXECUTIVE COMMITTEE REPORT

Consideration of Policy Statement regarding Legislative Goals (Tab 25)

Marvin Townsend presented to the Board a proposed new "Statement of Policy" as set forth under Tab 25 regarding the adoption of legislative goals by the Texas Municipal League Intergovernmental Risk Pool.

MOTION by Greg Ingham, seconded by Alex Bickley, to adopt the policy statement set forth under Tab 25 regarding the adoption of legislative goals by the Texas Municipal League Intergovernmental Risk Pool.

TML Contract Amendment (Tab 26)

Marvin Townsend presented the recommendation to amend the Administrative Services contract to increase the amount paid to the Texas Municipal League from \$700,000 to \$770,000 beginning October 1, 2006.

MOTION by Leo Montalvo, seconded by Greg Ingham, to adopt the Administrative Services Contract Amendment No. 3 set forth under Tab 26 to increase the compensation paid to TML from \$700,000 to \$770,000 beginning October 1, 2006. Motion carried with unanimous approval.

Standard & Poors 'A' rating (Tab 27)

Marvin Townsend presented the Standard & Poors 'A' rating for the year ending September 30, 2005, under Tab 27.

Mission National Insurance Company Payment (Tab 28)

Marvin Townsend notified the Board that a settlement check in the amount of \$168,775 had been received from the conservatorship of Mission National Insurance Company for a 1985 liability loss involving the City of Beaumont as set forth under Tab 28.

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

David Reagan presented "Lawsuits in which the Pool is a Participant" under Tab 29.

Personnel Report (Tab 30)

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

Meeting Schedule (Tab 31)

Marvin Townsend reviewed the "Schedule of Meetings" and "Board Continuing Education" under Tab 31 and suggested the new Hyatt Regency in Bastrop as a location for the October 2007 Board meeting. There were no objections. Suggestions for the January 2008 Board meeting site were requested.

Adjournment

MOTION to adjourn by Alex Bickley, seconded by Andres Garza. Motion carried. Meeting adjourned at 10:12 a.m.