

**TEXAS MUNICIPAL LEAGUE
INTERGOVERNMENTAL RISK POOL**

Board of Trustees Meeting
Sheraton Fiesta – South Padre Island
April 18, 2009

Trustees Present

Rickey Childers, Chair
Mary Gauer, Vice Chair
Byron Black
Maggie Burkett
Makia Epie
Andres Garza
Larry Gilley
Robert Herrera
Greg Ingham
Larry Melton
Leo Montalvo
Pat Norriss
Paul Parker
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
Debra Fox, Guy Carpenter & Co. LLC
Mike McCrohan, NCG Professional Risks, Ltd.
Colin Schoenfield, Guy Carpenter & Co. LLC

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, April 18, 2009.

Welcome New Board Member, Larry Melton, Mayor of Odessa

Chair Rickey Childers welcomed new Board member, Larry Melton, Mayor of Odessa, to his first Board meeting.

Roll Call and Excused Absences (Tab 1)¹

Marvin Townsend reported the absences of Kevin Caddell, Nora Chavez, Don Henderson and Frank Sturzl and the reason they asked their absences be excused.

MOTION by Robert Herrera, seconded by Andres Garza, to excuse the absences of Kevin Caddell, Nora Chavez, Don Henderson, and Frank Sturzl. 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 24, 2009 Board Meeting in El Paso (Tab 2)

MOTION by Mary Gauer, seconded by Greg Ingham, to approve the minutes from the Board meeting at El Paso on Saturday, January 24, 2009, as written under Tab 2. Motion carried with unanimous approval.

FINANCE COMMITTEE

Review of February 28, 2009 (5-month) Financial Statements (Tab 3)

Tito Villegas presented the five month Financial Statements for the period ending February 28, 2009, under Tab 3.

Review of February 28, 2009 (5-month) Investment Report (Tab 4)

Hank Domeracki presented an overview of the five month Investment Report for the period ending February 28, 2009, under Tab 4.

Consideration of exercising option to extend audit contract with Johnson Lambert & Company, LLP (Tab 5)

Under Tab 5, Hank Domeracki presented the proposal to extend the auditing services contract with Johnson Lambert & Company, LLP. The contract was for a three year period ending to September 30, 2008, and provides that the contract may be extended for the fiscal years ending September 30, 2009, and September 30, 2010.

MOTION by Byron Black, seconded by Leo Montalvo, to extend the auditing services contract with Johnson Lambert & Company, LLP. for the fiscal years ending September 30, 2009, and September 30, 2010, with compensation being \$121,000 for the year ending September 30, 2009, and \$124,500, for the year ending September 30, 2010. Motion carried with unanimous approval.

Report Regarding Standard & Poor's rating (Tab 6)

Hank Domeracki reported that Standard & Poor's had affirmed an 'A' rating with a stable outlook for the Pool under Tab 6.

Consideration of an equity return in the Property Fund for the year ending September 30, 2008 (Tab 7) (To be presented by Underwriting & Claims Committee) (Deferred from January 24, 2009 meeting in El Paso)

Presented under Underwriting and Claims Committee portion of the agenda.

Information Technology Report on status of hardware and software updates to the computer system (Tab 8)

David Longoria presented under Tab 8 the “Information Technology Report” on the status of hardware and software updates to the computer system.

UNDERWRITING AND CLAIMS COMMITTEE

Property Reinsurance Recommendations for May 1, 2009 to May 1, 2010 (Tab 9)

Carol Loughlin reported on the property reinsurance recommendations under Tab 9 for property reinsurance for the year beginning May 1, 2009. She introduced Debra Fox from Guy Carpenter & Company, LLC. and Mike McCrohan from NCG Professional Risks, Ltd., London, England, the Pool’s reinsurance intermediaries.

Carol Loughlin stated that the Pool’s reinsurance rates will increase, due to losses from Hurricane Ike, possibly between 5% to 24% over current rates based on total insured values of \$22.4 billion with the Pool retaining more risk and with different terms from the Pool’s current coverage. The Pool’s retention will increase from \$3 million to \$4 million per occurrence for losses resulting from causes other than named storms. The Pool’s retention will increase from \$3 million to \$10 million for losses resulting from named storms and a “two risk warranty” will be in place for the layers above \$25 million, which means that two or more scheduled property items must be involved in a loss before reinsurance coverage will be triggered.

Debra Fox, Guy Carpenter & Company, LLC, and Mike McCrohan, NCG Professional Risks, Ltd., stated that the reinsurance marketplace is no different than other financial markets and this is one of the worst years the insurance/reinsurance market has had. The property and casualty market had a 96% decrease in net income and is attributing two thirds of that reduction directly to Hurricanes Ike and Gustav. This means that there is less capital to go around, and less reinsurance available. The brokers had to expand the markets available by allowing for a “two risk warranty” this year. Debra Fox believes Guy Carpenter and the other brokers can place all the layers, but final terms will not be known until closer to the May 1, 2009, renewal date.

Since the reinsurance coverage has not been completely placed as of this Board meeting, it was recommended that Guy Carpenter and NCG Professional Risks be authorized to continue attempts to place the reinsurance program with the target of 25% quota share for the Pool in the \$6 million excess \$4 million and \$15 million excess \$10 million layers, and 15% in the \$25 million excess \$25 million and \$50 million excess \$50 million layers.

It was recommended that the Pool accept the renewal terms proposed under Tab 9 for property reinsurance of \$96 million excess of \$4 million limits except those caused by named storms; \$90 million excess of \$10 million for losses related to named storms, including a “two risk warranty” in the layers excess of the first \$25 million with a reinsurance premium between \$8.7 and \$10.2 million based on total insured value of

\$22.4 billion. The deposit premium will be adjusted based upon the Pool's average total insured values for the 12 month term beginning May 1, 2009 through May 1, 2010.

It was further recommended to purchase reinsurance of \$50 million excess of \$100 million if it is available at a reasonable price, with the Pool's quota share in the \$50 million excess of \$100 million layer be determined based on the capacity available from reinsurers in that layer.

It was also recommended that the staff be authorized to negotiate with NLC Mutual Insurance Company to continue its quota share participation.

MOTION by Paul Parker, seconded by Leo Montalvo, to accept the recommendations of the renewal terms for property reinsurance beginning May 1, 2009, as set forth under Tab 9. Motion carried with unanimous approval.

Property Rate Recommendations for 2009-2010, except for Orange, and portions of Harris and Jackson counties (Tab 10)

Carol Loughlin presented the property rate recommendations for 2009-2010. The Pool's property rates have been very stable for the past 12 years, with only two property rate changes in that time – a 10% increase in 2002-03 after the terrorists' attack of September 11, 2001, and a 7% decrease in 2008-09 for all members except those in Harris, Orange and Jackson counties. Reinsurance costs beginning May 1, 2009 will increase between 5% and 24% based on information available at this time. The Pool's retained losses will increase from \$3 million per occurrence to \$4 million, except the retention for named storms will increase from \$3 million to \$10 million.

The legislature is also considering several bills which could significantly alter coverage provided by the Texas Windstorm Insurance Association (TWIA). The uncertainty of the funding of TWIA and the fate of the National Flood Insurance Program (NFIP) could affect coverage provided by the Pool to members in Tier 1 and Tier 2.

Fifty percent of the damage that was caused by Hurricane Ike was in Orange and Harris counties. In 2005, Orange County experienced high losses from Hurricane Rita. Reinsurance costs are largely driven by the reinsurance underwriters' perceived risk of loss caused by hurricanes in second tier counties. Tier 1 members purchase the Pool's coverage and TWIA coverage so their costs are greater than members in Tier 2 who currently get their wind coverage from the Pool. The Pool's experience indicates that it is not equitable because there have been major hurricane losses in the second tier, Orange County twice, and Harris County once.

It was recommended that the 2009-10 real and personal property and mobile equipment rates remain at the present level except for properties in Orange, Harris and Jackson counties and that rate recommendations for Orange County and portions of Harris and Jackson counties be presented at the July Board meeting after the staff has the opportunity to meet with members and discuss their loss experience.

MOTION by Paul Parker, seconded by Leo Montalvo, to accept the recommendations as set forth under Tab 10. Motion carried with unanimous approval.

Liability Rate Recommendations for 2009-2010 (Tab 11)

Carol Loughlin presented the liability rate recommendations for 2009-10 under Tab 11. The Pool's actuary, Rudd and Wisdom, have completed the liability rate adequacy study for 2009-10, which indicates an overall reduction of approximately 7.5% in liability contributions.

It was recommended that 2009-10 liability experience modifiers be applied using losses valued as of March 31, 2009. It was further recommended that the 2009-10 liability rates be adjusted according to the actuarial consultant's indications for the first \$1 million of coverage; General Liability be reduced 17%, Law Enforcement be increased 3%, Public Officials be reduced 8.5%, and Automobile Liability be reduced 6%. It was recommended that the factors used for calculations for limits of liability in excess of \$1 million remain the same as those in the current year.

In recognition of the Texas Tort Claims Act caps applicable to airport operations and the Pool's favorable loss experience, it was recommended that rates for Aviation Coverage be reduced by 10% for 2009-10.

No rate recommendations were made regarding Sewage Backup Coverage.

MOTION by Paul Parker, seconded by Pat Norriss, to accept the liability rate recommendations set forth under Tab 11 for the 2009-10 fund year. Motion carried with unanimous approval.

Workers' Compensation Rate Recommendations for 2009-2010 (Tab 12)

Carol Loughlin presented the workers' compensation rate recommendations for 2009-10 under Tab 12. The Pool's actuarial consultant, Rudd and Wisdom, have completed the workers' compensation rate adequacy study for 2009-10, which indicates a rate reduction of approximately 12.7% is warranted. It was recommended the rate reduction be implemented by changing the method used to calculate the Fund discount, using five year loss ratios to adjust the rates for individual payroll classifications, and adopting a minimum experience modifier.

The Pool uses a loss sensitive Fund discount which means that the member's loss experience is used to calculate the discount members receive. The member's loss experience is also used to calculate the member's experience modifier. This has caused volatility in contributions paid by individual members from year to year. If a member's loss experience deteriorated, their contributions were affected twice, first through the experience modifier and again through the Fund discount. To address the volatility caused by counting loss experience twice, it was recommended that the Pool move towards using a flat Fund discount of 20% when setting rates. It was recommended that the flat discount be implemented over a 4-year period as set forth under Tab 12.

It was also recommended that workers' compensation rates be adjusted based on five-year loss ratios for each payroll classification as outlined in Tab 12; and a floor of 20% be placed on experience modifiers beginning in 2009-10 with the loss experience floor of

20% to be transitioned as set forth in Tab 12 for the members affected. The overall reduction from these changes was projected to be about 12.6%.

MOTION by Paul Parker, seconded by Byron Black, to accept the recommendations as set forth under Tab 12. Motion carried with unanimous approval.

Consideration of an equity return in the Property Fund for the year ending September 30, 2008 (Tab 7) (To be presented by Underwriting & Claims Committee) (Deferred from January 24, 2009 meeting in El Paso)

Paul Parker stated that the Underwriting Committee would defer to the Finance Committee discussion of the equity return under Tab 7. Byron Black asked Greg Ingham to present the Finance Committee's discussion and recommendations. Greg Ingham indicated that because of the losses from Hurricane Ike, the increased participation in the property reinsurance quota share levels, and the likelihood of increased property reinsurance rates, the Finance Committee's recommendation was to cancel the equity return in the Property Fund for the year ending September 30, 2008.

It was recommended that a letter be sent to all members giving an explanation of why there would not be an equity return from the Property Fund for the year ending September 30, 2008. It was also recommended that the equity return policy be revisited for all Funds giving specific reasons why equity returns might not receive final Board approval.

MOTION by Greg Ingham, seconded by Mary Gauer, to cancel the equity return for the Property Fund for the year ending September 30, 2008. Motion carried with unanimous approval.

Consider changes to the Liability and Property Coverage Documents (Tab 13)

David Reagan presented proposed changes to the Liability and Property Coverage Documents to be effective October 1, 2009. The proposed changes are set forth under Tab 13. The two changes proposed for the Liability Coverage Document make the Pool's coverage excess of private coverage carried by City Attorneys and City Engineers and removes the words '*on dead bodies*' from the autopsy exclusion.

The proposed changes to the Property Coverage Document include changes to coverage on substandard buildings; changes to pollution cleanup and removal; changes to coverage involving the collapse of a property; changes to public employee dishonesty coverage under the crime coverage option; changes to property coverage for property taken into Mexico for brief periods of time; changes to the animal theft coverage; and changes to flood coverage.

MOTION by Paul Parker, seconded by Pat Norriss, to approve the proposed changes to the Liability and Property Coverage Documents as set forth under Tab 13. Motion carried with unanimous approval.

Significant Cases and Legal Developments Impacting the Pool (Tab 14)

David Reagan presented the report on “Significant Cases and Legal Developments impacting the Pool” under Tab 14.

Update on losses caused by Hurricane Ike (Tab 15)

Mike Rains presented an update on Hurricane Ike losses under Tab 15.

Liability Claims Report on claims that have reserves in excess of \$150,000 (Tab 16)

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

Workers’ Compensation Claims Report, including (1) new claims that have reserves exceeding \$150,000, (2) new fatality claims, (3) new presumption claims, (4) status of Employers Casualty receivership, (5) the status of hospital guideline dispute, and (6) update on the Political Subdivision Workers’ Compensation Alliance (Tab 17)

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

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 18)

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

Loss Prevention Report on member surveys, training, and property valuations conducted (Tab 19)

Les Horne presented the “Loss Prevention Report” on member surveys, training, and property valuations conducted under Tab 19.

Field Services Report on Pool membership growth (Tab 20)

Scott Epperson presented the “Field Services Report” on Pool membership growth under Tab 20.

General Counsel’s Report

- a. Legislative Update on activities relating to the Texas Legislature since the previous Board meeting (Tab 21)

David Reagan presented the legislative update under Tab 21.

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

Pam Beachley and Bob Kamm were unable to attend due to legislative meetings in Austin.

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

Maggie Burkett, representative from the TML Employee Benefits Board, reported that although she had missed the last meeting, Susan Smith was working on renegotiating contracts with United HealthCare and CVS Pharmacy for rerates by the end of June.

Henry Wilson stated that Frank Sturzl was up to his eyeballs with the Legislative session and that the cities were fortunate to have Mr. Sturzl working for them.

Mary Gauer stated that Frank Sturzl was very strong in his opposition to the presumption bill this year.

EXECUTIVE COMMITTEE REPORT

Status of Lawsuits in which the Pool is a Party (Tab 22)

David Reagan presented the report on “Lawsuits in which the Pool is a Party” under Tab 22.

Personnel Report identifying employment changes and year end activity (Tab 23)

Allan Romer presented the “Quarterly Personnel Report” identifying employment changes and year end activity under Tab 23.

Meeting Schedule and Board Continuing Education (Tab 24)

Marvin Townsend reviewed the “Schedule of Meetings” and “Board Continuing Education” conferences under Tab 24 and requested suggestions for the location of the April 2011 Board meeting and possibly another location for the October 1-2, 2010 meeting currently scheduled for South Padre Island. There were no suggestions at this time.

Adjournment

MOTION to adjourn by Byron Black, seconded by Andres Garza, at 10:40 a.m. Motion carried with unanimous approval.