

**TEXAS MUNICIPAL LEAGUE
INTERGOVERNMENTAL RISK POOL**

Board of Trustees Meeting
Galveston, Texas
January 21, 2006

Trustees Present

Alex Bickley
Byron Black
Richard Browning
Rickey Childers
Larry Dovalina
Makia Epie
Andres Garza
Mary Gauer
Don Henderson
Robert Herrera
Greg Ingham
Frank Sturzl
Henry Wilson

Staff Present

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

Also Present

Martha King, Ernst & Young
Matthew May, Ernst & Young
Penny Wyatt, Victor O. Schinnerer &
Company

Robert Herrera called the meeting of the Board of Trustees of the TML Intergovernmental Risk Pool to order at 7:32 a.m. on Saturday, January 21, 2006 and made the motion to appoint Greg Ingham as Acting Chair in the absence of Chair Pat Norriss and Vice Chair Leo Montalvo.

MOTION by Robert Herrera, seconded by Andres Garza, to appoint Greg Ingham as Acting Chair for the meeting. Motion carried with unanimous approval.

Roll call and excused absences

Marvin Townsend noted the absences of Wayne Collins, Don Dodson, Harold Dominguez, Leo Montalvo, and Pat Norriss and reported the reasons they were asking that their absences be excused.

MOTION by Robert Herrera, seconded by Don Henderson, to excuse the absences of Wayne Collins, Don Dodson, Harold Dominguez, Leo Montalvo, and Pat Norriss. Motion carried with unanimous approval.

Welcome to new Board member Henry Wilson

Greg Ingham welcomed new Board member Henry Wilson, an ex-officio member representing Texas Municipal League. Mr. Wilson is a City Council member for the City of Hurst.

Announcement of ex-officio appointments to the Texas Municipal League Board of Directors and the Board of Trustees of the TML Intergovernmental Employee Benefits Pool

Greg Ingham made the announcement that Pat Norriss had appointed Mary Gauer to continue as ex-officio member to the TML Board of Directors and Andres Garza to continue as ex-officio member to the TMLIEBP Board of Trustees. Both have agreed to continue serving on the respective boards.

Consideration of minutes of September 17, 2005 meeting in Austin

MOTION by Mary Gauer, seconded by Byron Black, to approve the minutes as shown under Tab 3¹. Motion carried with unanimous approval.

FINANCE COMMITTEE

Presentation of the Financial Audit for October 1, 2004 to September 30, 2005 by Ernst & Young

Tito Villegas presented an overview of the financial statements under Tab 4.

Martha King of Ernst & Young presented the results of the financial audit for October 1, 2004 to September 30, 2005 under Tab 4 and the auditor's letter of January 20, 2006. The auditor reported an unqualified opinion on the September 30, 2005 financial statements.

MOTION by Byron Black, seconded by Larry Dovalina, to accept the audit as presented under Tab 4. 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 changes to the audit scope and authorization to receive proposals for audits for three years with two one-year options (Tab 5)

Tito Villegas presented the consideration of changes to the external auditing of the Pool from a single enterprise unit to individual audits of the three primary funds and the combination of all other funds. It was recommended that, beginning in 2005-06, the Pool distinguish between major funds and other funds, and present and audit the financial statements on a fund basis instead of a combined basis. It was also recommended that the Pool request proposals from nationally recognized auditing firms for auditing services for 2005-06, 2006-07, and 2007-08, with the option to extend for two additional years.

MOTION by Byron Black, seconded by Makia Epie, to change the financial audit of the Pool from a single enterprise unit to individual funds and to request proposals for auditing services as stated under Tab 5. Motion carried with unanimous approval.

Review of November 30, 2005 (2-month) financial statements

Tito Villegas presented a review of the November 30, 2005 (2-month) financial statements under Tab 6.

Review of November 30, 2005 (2-month) investment report

Tito Villegas presented a review of the November 30, 2005 investment report under Tab 7.

Consideration of a two-year extension beginning March 1, 2006 for investment management services being provided by Bear Stearns Asset Management

Tito Villegas presented the proposal to exercise the Pool's option to extend the Contract for Professional Investment Management Services with Bear Stearns Asset Management, Inc. for a two-year period beginning March 1, 2006 and ending February 28, 2008.

MOTION by Byron Black, seconded by Andres Garza, to approve the two-year extension beginning March 1, 2006 and ending February 28, 2008, for investment management services provided by Bear Stearns Asset Management as stated under Tab 8. Motion carried with unanimous approval.

Consideration of consent to transfer investment management contract from John Hancock Advisors to Sovereign Asset Management, L.L.C.

Tito Villegas presented the recommendation to authorize the Executive Director to execute the transfer of the investment management agreement from John Hancock Advisors, L.L.C. to Sovereign Asset Management, L.L.C. John Hancock Advisors reorganized into two separate entities effective December 31, 2005 and Sovereign Asset Management will

manage institutional portfolios, such as the Pool's. The investment team that currently manages the Pool will continue to manage the account.

MOTION by Byron Black, seconded by Mary Gauer, to authorize the Executive Director to execute the transfer of the investment management contract from John Hancock Advisors to Sovereign Asset Management, L.L.C. recommended under Tab 9. Motion carried with unanimous approval.

Management Information Systems Report

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

UNDERWRITING AND CLAIMS COMMITTEE

Consideration of final criteria for Property Equity Distribution at the close of 2004-05

Carol Loughlin presented the final proposed criteria for a property equity return for 2004-2005. It was recommended that the method of calculating the return, based both on loss experience and longevity, be approved; that the equity returns be distributed four months after the property anniversary dates of the Members that continue to be Members of the Property Fund on the distribution date; that the amount of each Member's return be calculated as a percentage of 2004-05 contributions for only those coverages that are in effect four months after the anniversary date; and that pass-through reinsurance placements not be included when calculating a Member's equity return.

MOTION by Mary Gauer, seconded by Byron Black, to approve the property equity refund of approximately \$4.3 million for 2004-05 as presented under Tab 11. Motion carried with unanimous approval.

Consideration of providing optional sewage backup coverage

Marvin Townsend presented the proposed sewage backup coverage endorsement under Tab 12. Some members have requested coverage to reimburse property owners for damages caused by sewage backup from facilities owned or operated by the Member when the Member had no knowledge of the problem which caused the sewage backup and the property owner did nothing to cause the damage. It was recommended that the Pool offer coverage for property damage caused by sewage backups which result from blockage in the Member's line.

MOTION by Mary Gauer, seconded by Rickey Childers, to approve the sewage backup coverage endorsement with the condition that per 'occurrence' is exactly defined in accordance with the staff's presentation and the program is reviewed after the first year. Motion carried with Robert Herrera voting against the endorsement.

Consideration of an amendment to the Liability Coverage Document to include coverage for losses arising out of provision of medical services by employees and volunteers other than physicians, surgeons and dentists

David Reagan presented for consideration an amendment to the Liability Coverage Document extending coverage for medical services or treatments administered on behalf of the Member's public health district, local health units, or local health department by employees or volunteers of a Member, other than physicians, surgeons and dentists, and performed at a location not providing 24-hour overnight bed care. This coverage is to be set forth by endorsement.

MOTION by Mary Gauer, seconded by Robert Herrera, to accept an amendment to the Liability Coverage Document as stated under Tab 13. Motion carried with unanimous approval.

Significant cases and legal developments

David Reagan presented the report on "Significant Cases and Legal Developments" under Tab 14.

Liability Claims Report

Mike Rains presented the "Liability/Property Claims Report" under Tab 15.

Workers' Compensation Claims Report

Mike Bratcher presented "Workers' Compensation Claims Report" under Tab 16.

Underwriting Report

Floyd Schock and Matt Jordan presented the "Underwriting Activity Report" under Tab 17.

Loss Prevention Report

Les Horne presented the "Loss Prevention Board Report" under Tab 18.

Field Services Report

Scott Epperson presented the "Field Services Report" under Tab 19.

General Counsel's Report

David Reagan presented the General Counsel report under Tab 20.

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

Richard Browning noted that the TML Intergovernmental Employee Benefits Pool (TMLIEBP) reported that, after the Ernst & Young audit, TMLIEBP had over-reserved some claims and investments were better than expected ending the year with approximately \$5.3 million in the bank and \$50 million in equity. Mr. Browning also noted that TMLIEBP lost coverage for approximately 6,000 employees and family members due to rate increases.

EXECUTIVE COMMITTEE REPORT

Lawsuits in which the Risk Pool is a Participant

David Reagan presented “Lawsuits in which the Pool is a Participant” under Tab 21.

Personnel Report

Allan Romer presented the “Quarterly Personnel Report” under Tab 22.

Meeting Schedule

Marvin Townsend reviewed the “Schedule of Meetings” and “Board Continuing Education” under Tab 23. A recommendation was made by Robert Herrera to hold the October 2007 Board meeting in the Austin area.

Adjournment

Greg Ingham adjourned the meeting at 10:22 a.m.