

**TEXAS MUNICIPAL LEAGUE  
INTERGOVERNMENTAL RISK POOL**

Board of Trustees Meeting  
South Padre Island, Texas  
April 20, 2002

Trustees Present

Greg Ingham  
Byron Black  
Richard Browning  
Rickey Childers  
Don Dodson  
Makia Epie  
Andres Garza  
Mary Gauer  
Larry Gilley  
Don Henderson  
Robert Herrera  
Mike McGregor  
Leo Montalvo  
Pat Norriss  
David Prewitt

TML Staff Present

Marvin Townsend  
Carol Loughlin  
Hank Domeracki  
Tito Villegas  
David Reagan  
Mike Rains  
Mike Bratcher  
Allan Romer  
Floyd Schock  
Bill Snyder  
Scott Epperson  
Les Horne

Also Present

Penny Haubold, AmGrip  
Tony Koriath, LOTK  
Olga Gilmore, LOTK  
Martha King, Ernst & Young  
Karen Kinnard, TML  
Jan Lomely, Deloitte & Touche  
Kevin Bingham, Deloitte & Touche  
Rick Pokorney, Northern Trust  
George Wassel, Northern Trust

The meeting of the Board of Trustees of the TML Intergovernmental Risk Pool was called to order at 8:02 a.m. on Saturday, April 20, 2002 by Chair Greg Ingham.

Roll call and excused absences

Marvin Townsend noted the absence of Wayne Collins, Alex Bickley, and Frank Sturzl.

MOTION by Don Dodson, seconded by Mike McGregor, to excuse the absence of Wayne Collins, Alex Bickley, and Frank Sturzl. Motion carried with unanimous approval.

Consideration of Minutes of January 19, 2002

MOTION by Mary Gauer, seconded by Don Dodson, to approve the minutes shown under Tab 2. Motion carried with unanimous approval.

## **FINANCE COMMITTEE**

### Further Review and Action Regarding Investment Manager Contract

After reviewing the three finalist candidates, the committee recommended John Hancock Advisers, Inc. to replace Voyageur Asset Management LLC as investment manager and also to enter into a two-year contract with 2 two-year extension options with Stein Roe & Farnham, one of the Pool's current investment managers.

MOTION by Leo Montalvo, seconded by Mike McGregor, authorizing the Pool to enter into contracts with John Hancock Advisers, Inc. and Stein Roe & Farnham for investment management services for two years with each contract providing for 2 two-year extension options. Motion carried with unanimous approval.

### One Year Extension for Auditing Services

Leo Montalvo reported that the finance committee recommended that the Board exercise its option to extend the Auditing Services contract with Ernst & Young, L.L.P. for the final year provided for in the contract amendment (Tab 4). Further, it was recommended that staff go out for proposals in December 2002 for auditing services.

MOTION by Leo Montalvo, seconded by Mary Gauer, authorizing staff to exercise the Pool's option to extend the Auditing Services contract with Ernst & Young, L.L.P. for the final year provided for in the contract amendment and to go out for proposals in December 2002. Motion carried with unanimous approval.

### Return from National League of Cities Mutual Insurance Co.

Tito Villegas gave a report on the "Return from National League of Cities Mutual Insurance Co." under Tab 5. On March 1, 2002, the Pool was notified that the NLC-MIC Board of Directors approved a rate credit for year 2002 of \$155,851 for liability, \$4,051 for workers' compensation and \$27,555 for property. The rate credit represents 34.8%, 5.5% and 14.7% respectively of 2001-2002 premium.

### Financial Statements as of February 28, 2002

Hank Domeracki presented the "Financial Statement as of February 28, 2002" under Tab 6.

### Review of the February 28, 2002 Investment Report and report by Northern Trust

Tito Villegas presented a review of the February 28, 2002 investment report under Tab 7, followed by a report by Rick Pokorney of Northern Trust.

## Management Information System Report

Hank Domeracki presented the "Management Information System Report" under Tab 8.

## **UNDERWRITING AND CLAIMS COMMITTEE**

### Status of *Rodriguez, et al. v. Harlingen* and related actions

David Reagan provided a status of *Rodriguez, et al. v. Harlingen* under Tab 9.

### Review of the Status of Reinsurance Negotiations for 2002-2003

Penny Haubold presented a reinsurance status report under Tab 10. She explained that, in general, reinsurers' combined ratios have increased with resulting price increases and tightened terms and conditions.

### Consideration of Workers' Compensation Rates for 2002-03

Carol Loughlin reported on workers' compensation rates for 2002-03 under Tab 11. The actuary's rate study indicates that workers' compensation rates should be increased 4% for 2002-03. The impact of changes in experience modifiers and discounts will produce an overall increase of approximately \$1.79 million or 4.1%. The use of motorcycles in police operations increases the likelihood that injuries will be severe if an accident occurs. Currently, the Pool's workers' compensation rates do not recognize the increased risk of severe injury to a motorcycle officer as there is only one payroll classification and one rate for police officers. Staff recommended creating a new payroll classification for motorcycle police at a rate twice the current police rate which will produce an increase of approximately \$392,000 or .90%. Last year, as part of the review of workers' compensation rates for 2001-02, the loss experience and rates for individual payroll classifications were analyzed to develop recommendations that would address rate inadequacies by employee grouping or class. Staff recommended that the rates for seven specific payroll classifications be increased by 5% for 2002-03. This will produce an overall increase of approximately \$1.31 million or 3%. The total estimated impact of these changes will increase workers' compensation contributions by approximately \$3.5 million or 8.0 %, which will increase total contributions from \$43.7 to \$47.2 million. An 8.0% increase will achieve the rate level indicated by the actuary and provide financial resources to offset the increased cost of reinsurance even if the increase is 100% or more.

MOTION by Robert Herrera, seconded by Don Henderson, approving the workers' compensation rates for 2002-03 as presented under Tab 11. Motion carried with unanimous approval.

### Consideration of Liability Rates 2002-2003

Carol Loughlin reported on liability rates for 2002-2003 under Tab 12. The Pool's actuaries have completed their liability rate adequacy study for 2002-03 which indicates an overall liability increase of 8.1%. It was recommended that greater weight be given to high loss experience when calculating liability experience modifiers. This can be accomplished by increasing the maximum modifier from 1.05 to 1.20. Raising the maximum modifier will allocate a greater portion of the actuary's indicated increase to those members with the highest losses. However, modifiers capped at 1.20 will not have the same potential to cause disruption for members that uncapped modifiers would have. Overall, the change in modifiers for 2002-03 including increasing the maximum modifier to 1.20, will increase liability contributions approximately 4.68%.

It was also recommended that Aviation Liability contributions, along with General Liability contributions, be used to calculate Public Officials contributions. It is estimated that this action will increase contributions approximately \$250,000, which represents a Public Official's increase of about 2%.

In recent years, the Pool's members have experienced increasingly severe automobile liability claims. The actuary, in recognition of this trend, has indicated that automobile liability rates should be increased 18.4%. Because of the impact of increasing the maximum experience modifier to 1.20, an 18.4% increase is not necessary. Staff recommended that automobile liability rates be increased 9.5% for 2002-03.

These recommendations would produce an overall increase in liability contributions of 8%, which is consistent with the actuaries overall indication that rates should be increased by 8.1%.

MOTION by Makia Epie, seconded by Andres Garza, approving liability rates as proposed under Tab 12. Motion carried with unanimous approval.

In regard to liability reinsurance, it is anticipated that 2002-03 premiums for coverage above \$1 million will increase by 7.5%. Only those members that purchase liability limits greater than \$1 million generate liability reinsurance premiums. Staff recommended that the cost of the layers greater than \$1 million be increased 7.5% in recognition of the increased cost of reinsurance.

MOTION by Don Dodson, seconded by Mary Gauer, approving a 7.5% increase in layers of reinsurance greater than \$1 million. Motion carried with unanimous approval.

### Consideration of Property Rates 2002-2003

Carol Loughlin presented staff's property rate recommendations for 2002-2003 under Tab 13. The Property Fund's 2002-03 expenses are projected to increase by an amount equal to 15% of contributions solely as a result of projected reinsurance premium increases. It was recommended that property rates be increased by 10% to cover the anticipated increased cost of reinsurance premiums that will be paid to outside reinsurers during 2002-03. Additionally, it was recommended

that, due to the Pool's experience with high wind and hail losses in Brown and McCullough counties, that these two counties be moved from their current extended coverage territory to the neighboring territory that carries higher rates.

MOTION by Makia Epie, seconded by Leo Montalvo approving a 10% property rate increase as proposed as well as moving Brown and McCullough counties to the neighboring territory. Motion carried with unanimous approval.

#### Workers' Compensation and Liability Claims Management Audits

Marvin Townsend presented the workers' compensation and liability claim management audit performed by Northshore International Insurance Services, Inc., and summarized in Tab 14.

#### Significant Cases and Legal Developments

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

#### Liability Claims Report

Mike Rains presented the "Liability / Claims Report" under Tab 16.

#### Workers' Compensation Claims Report

Mike Bratcher presented the "Workers' Compensation Claims Report" under Tab 17.

#### Underwriting Report

Floyd Schock presented the Underwriting Report under Tab 18.

#### Loss Prevention Report

Les Horne presented the Loss Prevention Report under Tab 19.

#### Field Services Report

Scott Epperson presented the Field Services Report under Tab 20.

### **GENERAL COUNSEL'S REPORT**

Tony Koriath discussed the upcoming Board trustee election for places 1, 2, 3, and 4 and for Place 5 which will be up for appointment.

## **EXECUTIVE COMMITTEE REPORT**

### Consideration of Revisions in the Pool's Personnel Policies regarding the Compensation Plan

Marvin Townsend presented information regarding revision in the Pool's Personnel Policies regarding the Compensation Plan under Tab 21. The purpose of the Compensation Plan is to provide adequate salary and other benefits for employees so that the responsibilities of the Pool are fully met by competent employees committed to the tasks they have agreed to accomplish. To attain this result, the Compensation Plan must recognize performance and employee growth. For the Compensation Plan to help retain employees, employees need to understand that there is an opportunity for salary advancement in addition to opportunities for promotion. Employees in Steps 6 through 8 may perceive the existing schedule as indicating a salary dead-end as they near Step 9. It was recommended that the Personnel Policies be amended to add a Step 10 at a 5% increment over Step 9 with the time in position requirements for Step 9 to be "Satisfactory - 3 years; Above Average - 2 years; Outstanding - 1.5 years".

MOTION by Don Dodson, seconded by Robert Herrera, approving the Personnel Policies Compensation Plan as proposed under Tab 21. Motion carried with unanimous approval.

### Consideration of Revisions in the Pool's Personnel Policies regarding Military Leave

Marvin Townsend presented a report regarding revisions in the Pool's Personnel Policies regarding Military Leave under Tab 22. After further discussion by the Board, a recommendation was made that the Pool pay the difference between the employees base military pay and the employee's Pool salary when called to duty by Presidential, Mobilization, Involuntary or Governmental Recall.

MOTION by Don Dodson, seconded by Robert Herrera, approving that the Pool's Personnel Policies regarding Military Leave be revised so that the Pool pay the difference between the employee's base military pay and the employee's Pool salary when called to duty by Presidential, Mobilization, Involuntary or Governmental Recall. Motion carried with unanimous approval.

### Status of Highway 183 Related Activities

Bill Snyder presented the "Status of Highway 183 Related Activities" under Tab 23.

Marvin Townsend updated the Board on Texas Water Conservation Pool discussions indicating that nothing had transpired since the last report and the item would not be included in future board packets unless a new development occurs.

### Lawsuits in which the Pool is a Party

David Reagan presented "Lawsuits in which the Pool is a Party" under Tab 24.

## **MEETING SCHEDULE**

Marvin Townsend discussed the “Schedule of Meetings” under Tab 26.

MOTION by Don Henderson, seconded by Don Dodson, to hold the July 2003 board meeting at the San Antonio Hyatt and the October 2003 meeting in Corpus Christi. Motion carried with unanimous approval.

MOTION by Don Henderson, seconded by Don Dodson, to hold the January 2004 board meeting in League City and the April 2004 meeting to be addressed at a future time. Motion carried with unanimous approval.

### Personnel Report

Allan Romer presented the “Personnel Report” under Tab 25.

Meeting adjourned at 11:05 a.m. with consent.