

**TEXAS MUNICIPAL LEAGUE  
INTERGOVERNMENTAL RISK POOL**

Board of Trustees Meeting  
Frisco, Texas  
April 21, 2007

**Trustees Present**

Leo Montalvo, Chair  
Rickey Childers, Vice Chair  
Alex Bickley  
Byron Black  
Richard Browning  
Wayne Collins  
Makia Epie  
Andres Garza  
Mary Gauer  
Don Henderson  
Robert Herrera  
Greg Ingham  
Pat Norriss  
George Shackelford  
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**

Pam Beachley, Consultant  
Andy Billinge, NCG, London  
Juanita Finger, VOSCO  
Debra Fox, Guy Carpenter  
Bob Kamm, Consultant  
Mike McClanahan, VOSCO  
Rick Pokorny, Northern Trust  
Collin Schoenfield, Guy Carpenter  
Penny Wyatt, VOSCO

Chair Leo Montalvo called the meeting of the Board of Trustees of the TML Intergovernmental Risk Pool to order at 7:32 a.m. on Saturday, April 21, 2007. Mr. Montalvo asked that a moment of silence be observed for the victims of the Virginia Tech University shooting incident on April 16, 2007 in Blacksburg, Virginia.

Mr. Montalvo welcomed Hank Domeracki back from his tour of duty in Iraq. He also welcomed Mr. George Shackelford, City Manager of Texarkana, as a new Board member.

**Roll Call and Excused Absences (Tab 1)<sup>1</sup>**

Marvin Townsend reported that he had received a letter of resignation from Board member, Harold Dominguez, City Manager of San Angelo, and distributed copies of the letter to Board members. Marvin also reported that he had a telephone call from Don Dodson who stated that due to health problems he would have to resign from the Board. Don Henderson then stated that he had talked with Don Dodson and Mr. Dodson was reconsidering his resignation.

MOTION by Makia Epie, seconded by Alex Bickley, to accept the resignation of Harold Dominguez from the Board of Trustees effective immediately. Motion carried with unanimous approval.

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

Marvin Townsend noted the absence of Frank Sturzl and reported the reason he was asking that his absence be excused.

MOTION by Rickey Childers, seconded by Wayne Collins, to excuse the absence of Frank Sturzl. Motion carried with unanimous approval.

Consideration of Minutes of January 20, 2007 Meeting in The Woodlands (Tab 2)

MOTION by Alex Bickley, seconded by Mary Gauer, to approve the minutes from the Board meeting in the Woodlands on January 20, 2007 as written under Tab 2. Motion carried with unanimous approval.

**FINANCE COMMITTEE**

Review of February 28, 2007 (5-month) Financial Statements (Tab 3)

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

Review of February 28, 2007 (5-month) Investment Report and Report by Northern Trust (Tab 4)

Tito Villegas presented an overview of the five-month investment report and Rick Pokorny with Northern Trust reported on the performance of the investment managers under Tab 4.

Report Regarding Standard & Poor's "A" Rating (Tab 5)

Tito Villegas reported on the affirmation by Standard & Poor's of an 'A' rating with a stable outlook for the Pool under Tab 5.

Management Information Systems Report (Tab 6)

David Longoria presented the "Management Information Systems Report" under Tab 6.

**UNDERWRITING AND CLAIMS COMMITTEE**

Property Reinsurance Recommendations for 2007-08 (Tab 7)

Carol Loughlin reported on the property reinsurance recommendations under Tab 7 for property reinsurance expiring May 1, 2007. Carol stated the Pool is recommending that the Property Fund and the Reinsurance Fund quota-share with the London/Bermuda Domestic Reinsurers for \$100 million property reinsurance coverage. Carol introduced

Debra Fox of Guy Carpenter and Company, Inc. and Andy Billinge of NCG Professional Risks, Ltd. to update the Board on the property reinsurance.

Debra Fox noted that there was a greater capacity for reinsurance this year and Guy Carpenter was committed to finding the best terms and conditions in the strongest markets. She stated that the London market was the most competitive and the reinsurance was placed two weeks before the expiration date of May 1, 2007.

Andy Billinge of NCG reiterated the market capacity this year and said he was looking forward to working with TMLIRP again this year.

Carol presented the following recommendations for the property reinsurance program which are set forth in more detail under Tab 7.

1. Property Fund retain the first \$3 million layer;
2. Reinsurance Fund's quota-share be 45% of the \$7 million layer excess of \$3 million, subject to negotiations with NLC-MIC to include their 5% participation, 15% in the \$40 million layer excess of \$10 million, and 10% in the \$50 million layer excess of \$50 million;
3. Authorize Guy Carpenter to finalize renewal terms with participating reinsurers at or below 2006-07 expiring rates.
4. NLC-MIC's quota-share participation be presented to the Board at a later meeting for approval.

MOTION by Mary Gauer, seconded by Wayne Collins, to accept the recommendations as set forth under Tab 7. Motion carried with unanimous approval.

#### Consideration of Property Rates for 2007-08 (Tab 8)

Carol Loughlin presented the recommendations for property rates for 2007-08 under Tab 8. Because of the strength of the Property Fund during the first five months of 2006-07 and the equity gained in 2005-06, the Pool recommends that the property rates remain at current levels for 2007-08.

MOTION by Mary Gauer, seconded by Byron Black, to maintain the property rates at the current levels for the 2007-08 fund year. Motion carried with unanimous approval.

#### Liability Reinsurance Recommendations for 2007-08 (Tab 9)

Carol Loughlin presented the recommendation for liability reinsurance for 2007-2008 under Tab 9. Considering the Pool's historical loss experience, Texas tort cap limits, the small number of members that purchase limits in excess of \$3 million, and historical reinsurance costs compared to losses paid by the Pool's reinsurers, it is recommended that the Pool not purchase liability reinsurance for 2007-08, except for the small quota-share participation with National League of Cities Mutual Insurance Company (NLC-MIC). It is also recommended that losses in excess of \$3 million be transferred to the Pool's Reinsurance Fund.

The staff will finalize the quota-share participation with NLC-MIC and present the recommendations to the Board at a later meeting.

MOTION by Mary Gauer, seconded by Pat Norriss, to adopt the recommendations as set forth above. Motion carried with unanimous approval.

#### Consideration of Aviation Reinsurance for 2007-08 (Tab 10)

Carol Loughlin presented the aviation reinsurance recommendations for 2007-08 under Tab 10. Based on the Pool's aviation loss experience compared to payments to Old Republic Insurance Company since 1997-98, the small number of Members purchasing aviation coverage, and the tort cap limits on aviation losses, the staff recommends that the Pool not purchase aviation liability reinsurance for 2007-08. It is recommended that the Liability Fund retain the first \$3 million of coverage and transfer losses excess of \$3 million to the Reinsurance Fund.

It is further recommended that the pricing for aviation coverage be calculated using the rating formulas currently used by Old Republic and that coverage in excess of \$20 million be placed outside of the Pool.

MOTION by Mary Gauer, seconded by Wayne Collins, to accept the recommendations as stated above. Motion carried with unanimous approval.

#### Liability Rate Recommendation for 2007-08 (Tab 11)

Carol Loughlin presented the liability rate recommendations for 2007-08 under Tab 11. The Pool's actuary, PricewaterhouseCoopers, completed its rate adequacy study for 2007-08, which indicated an overall reduction in liability contributions was warranted. Carol stated that members' equity in the Liability Fund rose \$11.7 million since September 30, 2003 to a total of more than \$86.6 million despite returning \$21.1 million in equity between 2003-06.

The staff recommended adjusting rates for the first \$1 million of coverage to reduce General Liability and Public Official rates by 10%, no change in Law Enforcement, and an increase of 3% in Auto Liability rates. These adjustments will reduce overall contributions for the first \$1 million of coverage by approximately 4.39% before considering changes in exposures. It was also recommended that the same factors used during 2006-07 be applied to calculate contributions for limits of liability excess of the first \$1 million.

Liability experience modifiers were calculated using losses valued as of February 28, 2007, which indicated an overall reduction in contributions by 2.25%. It was recommended that liability experience modifiers be applied using losses valued as of March 31, 2007.

Greg Ingham stated that he supports the rate decrease recommendations very cautiously. The Board should be cognizant that the rate decreases are given at a time when the Board is giving equity returns and not purchasing liability reinsurance for the 2007-08 fiscal year. He is concerned of the possibility that rates will have to be increased in the future if the Pool's experience indicates the rates are not sufficient to support the additional liability assumed by the Pool.

Marvin Townsend stated that it was important to note that the Board had created the Reinsurance Fund to back up each of the Funds. The entire program is backed by the Large Loss Fund, which is increasing substantially each year. This allows time to gradually adjust, if bad things happen.

MOTION by Mary Gauer, seconded by Pat Norriss, to accept the recommendations set forth under Tab 11. Motion carried with Robert Herrera voting no.

#### Workers' Compensation Rate Recommendations for 2007-08 (Tab 12)

Carol Loughlin presented the workers' compensation rate recommendations for 2007-08 under Tab 12. The Pool's actuary, PricewaterhouseCoopers completed its workers' compensation rate adequacy study for 2007-08 indicating that a small rate increase of less than 1% was warranted.

Due to the Presumption Statute passed during the 2005 Legislative Session, workers' compensation rates were increased for paid EMTs, volunteer EMS/EMTs, paid firefighters and volunteer firefighters in 2005-06 and again in 2006-07. Based on loss ratios for each of these classifications through March 2007, it was recommended that rates be raised 10% for volunteer firefighters.

In October 2001 the Pool began to increase rates for certain workers' compensation classifications with excessive loss ratios. A review of all workers' compensation classifications was conducted again this year. Based on this review identifying classifications with loss ratios greater than 110% and losses exceeding contributions by more than \$500,000 for the 2001-2006 period, it was recommended that rates for electric distribution, sewage treatment and collection, clerical, animal shelters, day care operations, and outside volunteer classifications be increased by 5%. It was also recommended the volunteer firefighters classification be increased 5% in addition to the 10% increase due to the presumption statute.

In 1999, Texas Department of Insurance rated all housing authority employees under one category with a rate of \$5.64 per \$100 of payroll. In 1999-2000 the Pool adopted a housing authority clerical classification to follow new TDI guidelines with a rate of \$0.90 for each \$100 of payroll. Now that the Pool has seven years of experience with the housing authority clerical classification and the loss ratio for the past five years being 54%, it was recommended that the housing authority clerical rate be reduced to \$0.84.

To lessen the impact that lower modifiers would have on 2007-08 funding levels at a time when medical and indemnity costs are expected to increase, it was recommended that

expected loss rates used to calculate workers' compensation experience modifiers be reduced 10% to bring them more in line with the Pool's workers' compensation rates.

MOTION by Mary Gauer, seconded by Wayne Collins, to adopt the workers' compensation rate recommendations as outlined above and under Tab 12. Motion carried with unanimous approval.

#### Report Regarding Property and Liability Funds Equity Returns Based on September 30, 2006 Results (Tab 13)

Carol Loughlin reported on the Property and Liability Funds equity returns based on September 30, 2006 financial results under Tab 13. A total of 2,341 members received a total of \$9,884,369; \$6,693,138 from the Liability Fund and \$3,191,231 from the Property Fund. The current issue of the Pool's newsletter, *Coverage*, and an upcoming issue of *Texas Town and City* have articles covering the equity returns to members.

#### Recommendation Regarding Sewage Backup Coverage and Rates (Tab 14)

Matt Jordan reported on the review of ratings, limits, and deductibles for the supplemental sewage backup coverage under Tab 14. Matt stated that the Underwriting Department had provided 50 proposals since the inception of the program with 25 members (18 MUD's and 7 cities) accepting coverage for a total annual contribution of \$40,448.

The limited acceptance of Supplemental Sewage Backup Coverage program can be attributed to several factors. Some members prefer to enforce their governmental immunity for sewage backup claims while some Members find the \$1,000 minimum contribution and \$5,000 deductible excessive. The \$1 per customer rate for Members with larger numbers of sewage customers seemed too high with limit of coverage fixed at \$25,000 per occurrence.

The staff recommended that the following changes take effect on October 1, 2007:

1. Reduce the minimum annual contribution from \$1,000 to \$500.
2. Reduce the standard deductible from \$5,000 to \$1,000.
3. Maintain the \$1 per connection rate for the first 4,000 customers, but reduce the rate to \$.50 per customer connection for connections over 4,000.

MOTION by Mary Gauer, seconded by Alex Bickley, to approve the recommendations set forth under Tab 14. Motion carried with unanimous approval.

#### Excused Absences (Tab 1)

Under agenda item number 1 (Tab 1), the Chair asked that a motion be entertained to excuse the absence of Don Dodson since it was reported that he was reconsidering his resignation as a Board member and the Board had not accepted his resignation.

MOTION by Alex Bickley, seconded by Mary Gauer, to excuse the absence of Don Dodson. Motion carried with unanimous approval.

Update on Political Subdivision Workers' Compensation Alliance (Tab 15)

Mike Bratcher presented the update on the Political Subdivision Workers' Compensation Alliance under Tab 15.

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, Pam Beachley and Bob Kamm presented the Legislative Update under Tab 22.

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

Mary Gauer, appointed from the Pool's Board to serve as an ex-officio member on the TML Board of Directors, commented that the training and classes offered at the Association of Governmental Risk Pools (AGRiP) Annual Conference in San Diego were the most informative she had attended.

Richard Browning, ex-officio member from the TML Intergovernmental Employee Benefits Board, stated that the transition to United HealthCare had not proceeded as smoothly as hoped. There was a large backlog of claims, especially for the Pool's smaller cities. The turnaround time for claim payments for these cities had been 34 days. Claim payments for cities provided administrative services only and the larger school districts are being processed within 14 days. The TMLIEBP Board will be meeting the weekend of April 28 at the Lost Pines Resort in Bastrop.

Andres Garza, ex-officio member to the TML Intergovernmental Employee Benefits Pool Board of Trustees, reported that the United HealthCare transition was a huge undertaking for TML-IEBP. He believes TML-IEBP will transition out of the problems in a matter of time.

## **EXECUTIVE COMMITTEE REPORT**

### Lawsuits in which the Risk Pool is a Participant (Tab 23)

David Reagan presented "Lawsuits in which the Pool is a Participant" under Tab 23.

### Personnel Report (Tab 24)

Allan Romer presented the "Quarterly Personnel Report" under Tab 24.

### Meeting Schedule and Board Continuing Education (Tab 25)

Marvin Townsend reviewed the "Schedule of Meetings" and "Board Continuing Education" under Tab 25. Marvin asked for suggestions for the location of the Pool's Board meeting on January 23-24, 2009. Mr. Montalvo stated the Executive Committee had recommended South Padre Island or El Paso for that meeting.

MOTION by Byron Black, seconded by Mary Gauer, to set the Board meeting for January 23-24, 2009 in El Paso. Motion carried with unanimous approval.

### Adjournment

Chair adjourned the meeting at 10:35 a.m.