

**TEXAS MUNICIPAL LEAGUE
INTERGOVERNMENTAL RISK POOL**

Board of Trustees Meeting
San Antonio, Texas
July 20, 2002

Trustees Present

Greg Ingham
Alex Bickley
Byron Black
Richard Browning
Rickey Childers
Wayne Collins
Don Dodson
Makia Epie
Andres Garza
Mary Gauer
Don Henderson
Robert Herrera
Mike McGregor
Leo Montalvo
Pat Norriss

TML Staff Present

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

Also Present

Penny Haubold, AmGrip
Tony Koriath, LOTK
Olga Gilmore, LOTK
Karen Kinnard, TML

The meeting of the Board of Trustees of the TML Intergovernmental Risk Pool was called to order at 8:00 a.m. on Saturday, July 20, 2002 by Chair Greg Ingham.

Roll call and excused absences

Greg Ingham noted the absence of Frank Sturzl.

MOTION by Mary Gauer, seconded by Mike McGregor, to excuse the absence of Frank Sturzl. Motion carried with unanimous approval.

Consideration of Minutes of April 20, 2002

MOTION by Andres Garza, seconded by Robert Herrera, to approve the minutes shown under Tab 2. Motion carried with unanimous approval.

FINANCE COMMITTEE

Texas Political Subdivisions Pool (TPS)

Marvin Townsend provided a brief update concerning the Texas Political Subdivisions Pool under Tab 3. No action was necessary.

Consideration of the 2002-03 Budget

Hank Domeracki provided an overview of the 2002-03 Budget provided under separate cover. Included in the discussion was the activation of the Lifetime Benefits Fund, under Tab 7, to pay claims to beneficiaries of employees who died on the job. The fund would be implemented on September 30, 2002 by transferring Lifetime Benefits claims incurred during fiscal years 1974-75 through 1981-82. The discount rate for this group of claims will be 5%. Thereafter, additional Lifetime Benefits claims will be transferred to the Lifetime Benefits Fund on a discounted basis with the discount rate to be used to be recommended by the Finance and Workers' Compensation Claims departments and approved by the Executive Director.

Also discussed was an "Amendment to the Policy Governing the Stability Fund" under Tab 8. The amendment revises the purpose of the Stability Fund to read:

- Provide protection for the Workers' Compensation, Liability and Property funds to offset the inability of any fund to meet its cash requirements; and
- Provide a reserve for Unallocated Loss Adjustment Expenses.

MOTION by Leo Montalvo, seconded by Robert Herrera, approving the 2002-03 Budget, activation of the Lifetime Benefits Fund as proposed under Tab 7, and the policy amendment to the Stability Fund as proposed under Tab 8. Motion carried with unanimous approval.

Extension of the Actuarial Services Contract

Leo Montalvo presented information regarding the extension of the actuarial services contract under Tab 4. The Agreement for Actuarial Services with Deloitte & Touche, L.L.P., dated July 8, 1999, for the performance of an analysis of the Pool's losses for the Workers' Compensation and Liability Funds for fiscal years ending September 30, 1999, 2000 and 2001 and contribution rates for the Workers' Compensation and Liability Funds for the years beginning October 1, 2000, 2001 and 2002, provided for an optional one-year extension. It was recommended that the Pool amend the Agreement for Actuarial Services to extend its terms by one year. It was further recommended that the Pool approve a contract amendment to provide two additional one-year contract extension options with the rate each year being the previous year's rate plus a rate adjustment based on the Consumer Price Index for the Dallas/Fort Worth area.

MOTION by Andres Garza, seconded by Pat Norriss, approving the Extension of the Actuarial Services Contract under Tab 4. Motion carried with unanimous approval.

Financial Statements as of May 31, 2002

Tito Villegas presented the "Financial Statements as of May 31, 2002" under Tab 5.

Investment Report

Tito Villegas presented the "Investment Report" under Tab 6.

Management Information System Report

David Longoria presented the “Management Information System Report” under Tab 9.

UNDERWRITING AND CLAIMS COMMITTEE

Status of Major Claims

David Reagan provided a status of major claims under Tab 10.

MOTION by Alex Bickley, seconded by Leo Montalvo, giving settlement authority up to \$850,000 in *Butler v. Pelican Bay*. Motion carried with unanimous approval.

MOTION by Alex Bickley, seconded by Mary Gauer, giving David Reagan \$1 million authority to settle *Yarbrough v. Sanger* at the upcoming mediation. Discretion may be exercised to settle for a little over the \$1 million. Motion carried with unanimous approval.

Liability, Property (\$6,000,000 excess of \$1,000,000) Boiler & Machinery and Aviation Reinsurance and Aviation Rates

Carol Loughlin reviewed information concerning the liability, property (\$6,000,000 excess of \$1,000,000) boiler & machinery and aviation reinsurance and aviation rates under Tab 11. Since the April Board meeting, progress had been made toward finalizing the Pool’s reinsurance arrangements for the year beginning October 1, 2002.

Liability

The staff concurred with the recommendations of Penny Haubold with AmGrip. It was recommended that the liability reinsurance renewals with General Reinsurance and NLC Mutual Insurance Company be ratified according to the following terms:

- Rates will increase 7.5% for all lines of coverage and the reinsurers will follow the Pool’s 9.5% Automobile Liability rate increase.
- On new business only, a minimum reinsurance premium will apply to the reinsured layers for each new Member that purchases limits above \$1 million.
- The Pool will continue to retain a 25% quota-share of the \$4 million layer excess of \$1 million and, beginning October 1, 2002, retain a 45% quota-share of the reinsured layers above \$5 million.

MOTION by Alex Bickley, seconded by Don Henderson, ratifying the liability reinsurance renewals with General Reinsurance and NLC Mutual Insurance Company as proposed under Tab 11. Motion carried with unanimous approval.

Property

It was recommended that the property reinsurance renewal with General Reinsurance and NLC Mutual Insurance Company be ratified according to the following terms:

- Rates will increase 10%.
- No changes to the allocation of quota-share participation.
- Terrorism will be excluded if all insured losses sustained by all people in the United States from an act of terrorism exceed \$100 million.

MOTION by Alex Bickley, seconded by Mary Gauer, ratifying the Property reinsurance renewal with General Reinsurance and NLC Mutual Insurance Company as proposed under Tab 11. Motion carried with unanimous approval.

Boiler & Machinery

It was recommended that boiler and machinery reinsurance be renewed with Travelers Insurance Company with a 10% rate increase.

Aviation

It was recommended that aviation reinsurance be renewed with Old Republic Insurance Company according to the following terms:

- Rates will increase 10%.
- The Pool's quota-share participation will increase from 30% to 35%.

It was further recommended that rates for the Pool's aviation coverage be increased by 10% to cover the increased cost of reinsurance.

MOTION by Andres Garza, seconded by Mary Gauer, renewing the boiler and machinery reinsurance with Travelers Insurance Company and aviation reinsurance with Old Republic Insurance Company as proposed under Tab 11. Additionally, the rates for the Pool's aviation coverage be increased by 10% to cover the increased cost of reinsurance. Motion carried with unanimous approval.

Acquisition of Workers' Compensation and Property Excess of \$7 Million Reinsurance for 2002-03

Carol Loughlin and Penny Haubold discussed the "Acquisition of Workers' Compensation and Property Excess of \$7 Million Reinsurance for 2002-03" under Tab 12. Reinsurance renewals for Workers' Compensation and Excess Property have not been finalized. Because the next Board meeting is scheduled after current reinsurance contracts expire on September 30, 2002, it was recommended that a plan be decided by the Board to prevent a lapse in reinsurance coverage.

MOTION by Alex Bickley, seconded by Mary Gauer, authorizing the Executive Committee to meet in late September to vote on and approve reinsurance for Workers' Compensation and Property Excess of \$7 Million for 2002-03 within the budget, plus 10% if needed. If reinsurance cannot be purchased within these limits, the entire board will have to meet to make a decision. Makia Epie voted against the motion. Motion carried.

Extended Coverage Rate Change, Kinney, Medina, Uvalde, Val Verde Counties

Carol Loughlin presented information concerning "Extended Coverage Rate Change, Kinney, Medina, Uvalde, Val Verde Counties under Tab 13. When calculating property contributions, the Pool's underwriting staff applies an "extended coverage" rate to each member's total insured values. The extended coverage rate applies to loss-causes including windstorm and hail. Wind and hail produce many of the Pool's most frequent and large property losses. Evaluation of wind and hail claims indicates that the "extended coverage" rates for Kinney, Medina, Uvalde, and Val Verde counties be increased. The Pool has nineteen members in these counties. It was recommended that the Northwest "extended coverage" rates be applied to new and existing members located in Kinney, Medina, Uvalde, and Val Verde counties effective October 1, 2002. The Northwest "extended coverage" rates range from .183 to .636 per \$100 in value compared to the Central Inland rates currently paid by these members that range from .054 to .199.

MOTION by Alex Bickley, seconded by Leo Montalvo, applying the Northwest “extended coverage” rates to Kinney, Medina, Uvalde, and Val Verde counties effective October 1, 2002. Motion carried with unanimous approval.

Changes to the Liability and Property Coverage Documents

David Reagan reviewed proposed “Changes to the Liability and Property Coverage Documents” under Tab 14.

MOTION by Alex Bickley, seconded by Byron Black, adopting the proposed changes to the Liability and Property coverage Documents under Tab 14. Motion carried with unanimous approval.

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 terrorism reinsurance proposed legislation. Karen Kinnard of Texas Municipal League discussed the legislative activity surrounding this matter.

Tony Koriath provided a board election update reminding the Board that August 12, 2002 was the deadline for nominees for Places 1, 2, 3, and 4.

EXECUTIVE COMMITTEE REPORT

Consideration of the 2002-03 Budget’s Personnel Recommendation

Marvin Townsend presented to the Board the item of an across the board 2% increase for staff. This item was previously discussed by Hank Domeracki under the budget presentation.

MOTION by Robert Herrera, seconded by Mary Gauer, approving an across the board 2% increase for staff. Motion carried with unanimous approval.

Status of Highway 183 Related Activities

Bill Snyder presented “Status of Highway 183 Related Activities” under Tab 21.

Lawsuits in which the Pool is a Party

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

Employee Composition Statistical Report

Allan Romer presented the “Employee Composition Statistical Report” under Tab 23.

Personnel Report

Allan Romer presented the “Personnel Report” under Tab 24.

MEETING SCHEDULE

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

Meeting adjourned at 11:14 a.m. with consent.