

**TEXAS MUNICIPAL LEAGUE
INTERGOVERNMENTAL RISK POOL**

Board of Trustees Meeting
Irving, Texas
September 18, 2004

Trustees Present

Robert Herrera, Chair
Pat Norriss, Vice Chair
Alex Bickley
Byron Black
Richard Browning
Rickey Childers
Don Dodson
Larry Dovalina
Makia Epie
Andres Garza
Mary Gauer
Don Henderson
Greg Ingham
Mike McGregor
Tim Vaughn

Staff Present

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

Also Present

Penny Wyatt, Schinnerer &
Company
Rick Pokorney, Northern Trust
Karen Kennard, TML

Chair Robert Herrera called the meeting of the Board of Trustees of the TML Intergovernmental Risk Pool to order at 8:00 a.m. on Saturday, September 18, 2004.

Roll Call and Excused Absences

Marvin Townsend noted the absence of Wayne Collins and Leo Montalvo and reported the reasons Mr. Collins and Mr. Montalvo were asking that their absences be excused. It was noted that Karen Kennard attended the meeting in the absence of Frank Sturzl.

MOTION by Alex Bickley, seconded by Don Dodson, to excuse the absences of Wayne Collins and Leo Montalvo. Motion carried with unanimous approval.

Consideration of Minutes of July 17, 2004 meeting in San Antonio

MOTION by Alex Bickley, seconded by Andres Garza, to approve the minutes shown under Tab 2¹. Motion carried with unanimous approval.

Committee Appointments

There were no committee appointments.

Consideration of Bylaw amendment to include General Counsel as a Bylaw established position

Marvin Townsend presented a proposal under Tab 3 to amend the Bylaws to identify the General Counsel position in the Bylaws.

MOTION by Alex Bickley, seconded by Mary Gauer, to approve the amendment to the Bylaws to identify the General Counsel position. Motion carried with unanimous approval.

Board Of Trustee Election

David Reagan reported on the upcoming Board of Trustee election under Tab 4 noting that the election was going smoothly with 362 ballots received as of September 17, 2004. The deadline to return ballots is September 30, 2004. Ballots will be counted on October 1, 2004.

FINANCE COMMITTEE

Review of July 31, 2004 (10-month) Financial Statements

Tito Villegas presented a review of the July 31, 2004 (10-month) Financial Statements under Tab 5.

Review of July 31, 2004 (10-month) Investment Report and report by Northern Trust

Tito Villegas set forth the July 31, 2004 (10-month) Investment Report and Rick Pokorney of Northern Trust presented an analysis of market and total rate of return and an analysis of each investment manager's performance as of August 31, 2004 under Tab 6.

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

Annual Review of the Pool's Investment Policy and Broker Certification

Tito Villegas recommended under Tab 7 that the Pool's investment policy be amended to require the Pool and investment managers maintain at least one percent of the investment portfolio in no-load money market mutual funds instead of the current two percent requirement. He stated that one percent will provide sufficient liquidity to pay bills and also enhance investment returns by allowing the other one percent to be placed in long-term investments.

Tito Villegas reported that the Public Funds Investment Act requires that the Board annually review and adopt a list of qualified brokers to be used by the Pool's investment managers and address the requirement for investment training to be attended by Pool staff. He recommended that the Board approve the Texas Public Funds Investment Act training provided by TML as the required training.

MOTION by Rickey Childers, seconded by Byron Black, to approve the resolution under Tab 7 adopting an amendment to the Pool's investment policy, approving the investment training course sponsored by the Texas Municipal League, and adopting a list of qualified brokers. Motion carried with unanimous approval.

Management Information Report

David Longoria presented the "Management Information Systems Report" under Tab 8.

UNDERWRITING AND CLAIMS COMMITTEE

Consideration of the award of property reinsurance for 2004-2005

Carol Loughlin and Penny Wyatt of Victor O. Schinnerer & Co. presented the recommendation for award of property reinsurance for the fund year beginning October 1, 2004 set forth under Tab 9.

It was recommended that the Board approve the Lloyd's of London, Axis Specialty, Ltd., and NLC-MIC renewal terms for \$97 million property reinsurance excess of \$3 million at a combined reinsurance rate of .04297 per \$100 of total insured values. Overall property Reinsurance rates will be 12.9 percent lower than the rates in effect for 2003-04. The Pool will continue to quota share with the reinsurers on the same basis as expiring, retaining the first \$3 million of all losses, 37.5% of all losses of \$4 million excess of \$3 million, and 10% of all losses in the \$93 million excess of \$7 million layer. The National League of Cities Mutual Insurance Company will retain a quota share of 12.5 percent in the \$4 million excess of \$3 million layer, at the same rates proposed by London and AXIS.

MOTION by Alex Bickley, seconded by Don Henderson, to approve the award of property reinsurance for fund year 2004-2005 as outlined under Tab 9. Motion carried with unanimous approval.

Consideration of the award of workers' compensation reinsurance for 2004-2005 and modification of the responsibilities of the Large Loss Fund

Penny Wyatt of Victor O. Schinnerer presented the proposals offered by American Home Assurance Company (AIG) for workers' compensation reinsurance for 2004-2005 under Tab 10. AIG and NLC-MIC were the only companies that offered proposals for coverage for 2004-2005. Considering the Pool's past workers' compensation loss history and cost of reinsurance coverage, it was recommended that the Pool not purchase workers' compensation reinsurance protection from AIG and, instead, utilize the resources of its Workers' Compensation Fund, Reinsurance Fund, Large Loss Fund, and the National League of Cities Mutual Insurance Company (NLC-MIC) to retain the risk as follows:

1. The Workers' Compensation Fund retain the first \$3 million of each loss occurrence.
2. The Workers' Compensation Fund, the Reinsurance Fund, and NLC-MIC participate as quota share partners in the \$20 million layer above \$3 million with the quota shares of each participant to be determined after NLC-MIC's participation is finalized.
3. The Large Loss Fund stand behind the Workers' Compensation Fund and the Reinsurance Fund as outlined in Tab 10.
4. Although arrangements with NLC-MIC have not been finalized, it is anticipated that NLC-MIC's participation will be a continuation of coverage in place in 2003-04, or 2.5% in the \$20,000,000 layer above \$3,000,000, or a modified recommendation between these two alternatives. Approval is requested subject to Board ratification at the January 2005 Board meeting.
5. The reinsurance contribution paid by the Workers' Compensation Fund to the Reinsurance Fund will be based on the quotation received from AIG for statutory limits excess of \$3 million for a rate of .1125 per \$100 of payroll. This rate will be reduced 20% to reflect the Pool's lower expenses and further reduced to reflect NLC-MIC's and the Workers' Compensation Fund's quota share participation.

MOTION by Makia Epie, seconded by Byron Black, to adopt the recommendations set forth under Tab 10 for workers' compensation reinsurance coverage. Motion carried with unanimous approval.

Carol Loughlin presented the recommendation that the Large Loss Fund's participation be increased to reflect updated reinsurance arrangements in the Liability Fund and the recommended increase in the retention of the Workers' Compensation Fund to \$3 million for 2004-2005.

MOTION by Alex Bickley, seconded by Andres Garza, to approve changes in the Large Loss Fund's responsibilities as outlined under Tab 10. Motion carried with unanimous approval.

Discussion regarding boiler and machinery inspections

Carol Loughlin presented a report on boiler and machinery inspections under Tab 11 addressing whether or not the Pool should seek authorization from the state for certain qualified employees to become boiler inspectors. Consideration is to be given as to what, if any, reduction in reinsurance costs would result, and whether reinsurance coverage would continue to be desirable if inspection services were no longer provided, or if retaining the boiler and machinery exposure to loss would better suit the Pool's goals.

Status of Major Claims and Related Action

David Reagan presented the status under Tab 12 of *Rodriguez et al. v. City of Harlingen*.

Significant Cases & Legal Developments

David Reagan presented a report on "Significant Cases and Legal Developments" under Tab 13.

Liability Claims Report

Mike Rains presented the "Liability/Property Claims Report" under Tab 14.

Workers' Compensation Claims Report

Mike Bratcher presented "Workers' Compensation Claims Report" under Tab 15.

Underwriting Report

Floyd Schock presented the "Underwriting Activity Report" under Tab 16.

Loss Prevention Report

Les Horne presented the "Loss Prevention Board Report" under Tab 17.

Field Services Report

Scott Epperson presented the "Field Services Report" under Tab 18.

Legislative Report

David Reagan presented the legislative report. Bob Kamm and Pam Beachley have been retained by the Pool to assist in matters before the Texas Legislature. The Pool staff has been meeting with staff representatives for the Texas Association of School Boards (TASB), the Texas Association of Counties (TAC), and the water districts and MHMR pools to discuss common issues. The main focus before the legislative session begins will be revision to the workers' compensation program. Workers' compensation medical costs have increased significantly making Texas one of the most expensive states in the country for workers' compensation coverage.

TASB, TAC, and the Pool are taking the position that political subdivisions must be able to direct employees to good quality doctors, get employees back to work as soon as possible, and stop excessive regulation by the Texas Workers Compensation Commission (TWCC).

The Sunset Advisory Commission has recommended abolishing TWCC and transferring its duties to the Texas Department of Insurance. The safety and training functions would be transferred to the Texas Workforce Commission.

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

Mary Gauer reported the Texas Municipal League will be focusing this legislative session on workers' compensation and on school finance.

Richard Browning reported that the TML Employee Benefits Pool has delivered their rates for 2004-05 and in most cases there were no rate increases in health coverage. A new interlocal agreement has been delivered to members, and TML-IEBP has lost two members which will result in a loss of \$500,000 in contributions and probably the loss of 15 full-time employees. TML-IEBP will be interviewing financial managers at their next meeting to help improve its return on investments. The Pool has members' equity of \$11-12 million.

EXECUTIVE COMMITTEE REPORT

Consideration of a revised interlocal agreement with Intergovernmental Employee Benefits Pool

Allan Romer reported that the Texas Municipal League Intergovernmental Employee Benefits Pool has requested that a new interlocal agreement be executed. The new agreement makes several non-substantial changes and two significant changes as set forth under Tab 19.

MOTION by Mike McGregor, seconded by Andres Garza, to authorize the Executive Director to execute the new interlocal agreement and any other related service agreements between the Texas Municipal League Intergovernmental Risk Pool and the Texas Municipal League Intergovernmental Employee Benefits Pool. Motion carried with unanimous approval.

Discussion of municipal utility districts with no employees

Marvin Townsend discussed his report concerning municipal utility districts with no employees under Tab 20. Mr. Herrera asked that Marvin Townsend, David Reagan and Carol Loughlin continue to evaluate whether an amendment to the Pool's Bylaws is needed concerning qualifications to serve on the Board of Trustees.

Lawsuits in which the Risk Pool is a Party

David Reagan presented "Lawsuits in which the Pool is a Party" under Tab 21.

U.S. Highway 183 Update

Bill Snyder presented the "U.S. Highway 183 Update" under Tab 22.

Personnel Report

Allan Romer presented the "Quarterly Personnel Report" under Tab 23.

Meeting Schedule

Marvin Townsend reviewed the "Schedule of Meetings" under Tab 24. The dates had previously been set for the first two meetings in 2006 and Mr. Townsend asked for suggestions from the Board for places to meet on those dates.

MOTION by Alex Bickley, seconded by Don Dodson, to adjourn the meeting. Motion carried with unanimous approval.

Meeting adjourned at 10:15 a.m.