

**TEXAS MUNICIPAL LEAGUE
INTERGOVERNMENTAL RISK POOL**

Board of Trustees Meeting
Corpus Christi, Texas
September 27, 2003

Trustees Present

Robert Herrera, Chair
Byron Black
Richard Browning
Rickey Childers
Don Dodson
Larry Dovalina
Makia Epie
Andres Garza
Mary Gauer
Don Henderson
Greg Ingham
Mike McGregor
Leo Montalvo
Tim Vaughn

Staff Present

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

Also Present

Penny Haubold, Schinnerer
& Company
Tony Koriath, LOTK
Elaine Pruden, LOTK
Tony Joseph, Guy Carpenter
Rick Pokorney, Northern
Trust Company

The meeting of the Board of Trustees of the TML Intergovernmental Risk Pool was called to order at 8:00 a.m. on Saturday, September 27, 2003 by Chair Robert Herrera.

Roll Call and Excused Absences

Robert Herrera noted the absences of Pat Norriss, Wayne Collins and Frank Sturzl.

MOTION by Don Dodson, seconded by Don Henderson, to excuse the absence of Pat Norriss, Wayne Collins and Frank Sturzl. Motion carried with unanimous approval.

Consideration of Minutes of July 19, 2003 in San Antonio

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

FINANCE COMMITTEE

Amending the contract with TML to increase the level of investments administered by the Pool

Hank Domeracki presented Administrative Services Contract Amendment No. 2 which would modify the TML Administrative Services Contract (including Amendment No. 1) to increase the maximum amount which could be invested with the Pool from \$3,000,000 to \$4,000,000.

MOTION by Leo Montalvo, seconded by Andres Garza, to grant the Executive Director the authority to execute a contract amendment, which would modify the TML Administrative Services Contract (including Amendment No.1) to increase the maximum amount which could be invested with the Pool from \$3,000,000 to \$4,000,000 under Tab 3. Motion carried unanimous approval.

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

Tito Villegas presented a resolution amending the Pool's investment policy, approving the investment training course sponsored by the Texas Municipal League, and adopting the lists of qualified brokers under Tab 4.

MOTION by Leo Montalvo, seconded by Larry Dovalina, to adopt the resolution amending the Pool's investment policy, approving the investment training course sponsored by the Texas Municipal League, and adopting the attached lists of qualified brokers under Tab 4. Motion carried with unanimous approval.

Review of the August 31, 2003 (11 month) financial statements

Hank Domeracki presented the Financial Statements as of August 31, 2003 under Tab 5.

Review of August 31, 2003 investment report

Tito Villegas presented the Investment Report as of August 31, 2003 under Tab 6.

Semi-annual investment analysis by Northern Trust

Rick Pokorney of Northern Trust presented an analysis of investment management performance as of August 31, 2003 under Tab 7.

Management Information Report

The “Management Information System Report” was presented under Tab 8.

UNDERWRITING AND CLAIMS COMMITTEE

Acquisition of Property reinsurance for 2003-04

Tony Joseph with Guy Carpenter presented a general overview of the current reinsurance market. Penny Haubold of Schinnerer & Company then presented the proposed Property Fund reinsurance program for 2003-04 for approval. The following is a summary of major proposed changes with the new program with Lloyd’s, London serving as the lead reinsurer in the primary reinsurance layer of \$4 million excess of \$3 million:

1. The Pool’s retention will increase from \$1 million per occurrence to \$3 million per occurrence. The Pool’s retention has been \$1 million since October 1, 2000, although the Pool’s capacity to retain risk has grown. Since October 2000, the Pool’s total covered property values increased from \$7.8 billion to over \$14 billion and property contributions increased from \$18.9 million to \$27.6 million. Equity in the Property, Reinsurance and Large Loss Funds has grown from \$28.5 million to \$53.5 million.
2. The Pool’s quota share participation will change in the \$4 million layer above \$3 million from 31.67% to 37.5% and NLC MIC’s participation will increase from 8.83% to 12.5%.
3. The lead reinsurers in the excess property layers of \$93 million excess of \$7 million will be Lloyd’s, London and Axis Specialty, Ltd. The Pool’s quota share participation will increase in the layers above \$7 million from 5% to 10%. The total amount retained by the Property Fund, Reinsurance Fund and Large Loss Fund combined will increase from \$7.55 million to \$13.8 million, with \$4.65 million of the increased retention in the layers above \$7 million.
4. Compared to the 2002-03 reinsurance program’s rates, retention and quota-share participation, the Pool’s total property reinsurance premiums will decrease approximately \$2.4 million based on current total covered property values of \$14.6 billion.

MOTION by Makia Epie, seconded by Rickey Childers, to approve the Property Fund reinsurance program for 2003-04 beginning October 1, 2003 under Tab 9. Motion carried with unanimous approval.

Acquisition of Workers' Compensation reinsurance for 2003-04

Penny Haubold of Schinnerer & Company presented the Workers' Compensation reinsurance program for 2003-04 for approval. The following is a summary of major changes with the new program:

1. The Pool's workers' compensation reinsurer since 1994, Continental Casualty Company (CNA), will be replaced by American Home Assurance Company (AIG).
2. The Pool's retention will increase from \$1.5 million to \$5 million per occurrence. Reinsurance protection will be provided up to statutory limits. American Home will provide 100% of the coverage above the Pool's retention.
3. Workers' compensation reinsurance premiums will be approximately \$800,000 more than the current year's premiums.
4. Additionally, the Pool has negotiated an arrangement with the National League of Cities Mutual Insurance Company (NLC-MIC) for 10% quota share in the \$3 million layer excess of \$2 million for a premium not to exceed \$180,000.

MOTION by Makia Epie, seconded by Mary Gauer, to approve the Workers' Compensation program for 2003-04 beginning October 1, 2003 as outlined under Tab 10. In addition, the staff is given authority to finalize an arrangement with NLC-MIC for 10% quota share for the \$3 million layer excess of \$2 million for a premium not to exceed \$180,000. Motion carried with unanimous approval.

Acquisition of Aviation and Boiler & Machinery reinsurance for 2003-04

Penny Haubold of Schinnerer & Company presented the Aviation and Boiler & Machinery reinsurance program for 2003-04 with the following recommendations:

It was recommended that the Pool accept renewal on the same basis as expiring as proposed by Phoenix Aviation/Old Republic Insurance Company and retain the same 35% quota-share of all losses and reinsurance premiums with Old Republic reinsuring the Pool for 65% quota-share of all losses and receiving 65% of the Aviation coverage contributions.

MOTION by Makia Epie, seconded by Andres Garza, to approve the Aviation renewal program under Tab 11. Motion carried with unanimous approval.

It was recommended that the Pool accept Travelers Insurance Company's offer to renew Boiler & Machinery reinsurance coverage for another 12 months beginning October 1, 2003 with no changes to rates, reinsured limits or reinsurance contract terms.

MOTION by Makia Epie, seconded by Greg Ingham, to approve the Boiler & Machinery reinsurance program under Tab 11. Motion carried with unanimous approval.

Status of major claims and related actions

David Reagan presented the status of three cases involving settlement authority in excess of \$500,000 under Tab 12.

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.

GENERAL COUNSEL'S REPORT

Tony Koriath presented an update of legislative matters of importance to the Pool.

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

Richard Browning commented on the health pool and its decision to assume risk of claims up to \$500,000 and reclassify reserves.

Mary Gauer recommended that the Pool follow the school finance issues at the legislature.

EXECUTIVE COMMITTEE REPORT

Discussion of the Ad Hoc Committee's assignment

Robert Herrera presented the formation of a committee to evaluate the Executive Director's pay, the pay structure of the executive staff, and the evaluation process to be implemented regarding the Executive Director. In addition to Robert Herrera as head of this committee, Greg Ingham and Pat Norriss will also serve. This evaluation task will be completed by the end of December 2003 and presented in a report before the board at the January 2004 meeting.

Litigation in which the Pool is a Participant

David Reagan presented "Lawsuits in which the Pool is a Party" under Tab 19.

U.S. Highway 183 Update

Bill Snyder presented the "U.S. Highway 183 Update" under Tab 20.

Personnel Report

Allan Romer presented the "Quarterly Personnel Report" under Tab 21.

MEETING SCHEDULE AND BOARD CONTINUING EDUCATION

Robert Herrera reviewed the “Schedule of Meetings” under Tab 22. The next Board meeting is scheduled for January 16 – 17, 2004 at South Padre Island. He recommended the Galveston meeting be changed to April 23 –24, 2004 and the Frisco meeting to September 17 – 18, 2004. Finally it was recommended the San Antonio 2005 meeting be held on July 22 – 23, 2005.

MOTION by Leo Montalvo, seconded by Larry Dovalina to approve meeting changes as recommended. Motion carried with unanimous approval.

MOTION by Byron Black, seconded by Makia Epie, to adjourn the meeting. Motion carried with unanimous approval.

Meeting adjourned at 10:18 a.m. with consent.