

**TEXAS MUNICIPAL LEAGUE
INTERGOVERNMENTAL RISK POOL
Board of Trustees Meeting
#1 Kemah Boardwalk, Landry's Third Floor
October 26 & 27, 2018**

Trustees Present

John Fullen, Chair
Randy Criswell, Vice Chair
Byron Black
Andres Garza
Mary Gauer
David Harris
Robert Herrera
Carol Loughlin
Bert Lumbreras
Leo Montalvo
Bennett Sandlin
Michael Smith
Jeffrey Snyder
Peter Vargas
Henry Wilson

Staff Present

Jeff Thompson
Bob Haynes
David Reagan
Hank Domeracki
Mike Bratcher
Lindsey Fields
Susie Green
Irvin Janak
Bo Joseph
Patti Ledesma
Paula Marr-Ludwig
Julie Nguyen
Atul Poladia
Mike Raigosa
Mike Rains

Staff Present (con't)

Allan Romer
Tim Salzman
Tito Villegas
Debbye Mangum

Others Present

Jay Stokes, City Manager, Deer Park

Chair John Fullen called the meeting of the Board of Trustees of the Texas Municipal League Intergovernmental Risk Pool to order at 8:02 a.m. on October 27, 2018. Chair Fullen introduced Mr. Jay Stokes, City Manager of Deer Park, observing the meeting. Mary Gauer presented a TML t-shirt with the logo "Our Home, Our Decisions" to Chair Fullen. Chair Fullen introduced three of the new Board members, Jeffrey Snyder, Place 3, Bert Lumbreras, Place 12, and David Harris, Place 14. Mary Dennis is a new Board member in Place 7, but was unable to attend due to a prior commitment.

1. Roll call and excused absences (Tab 1)¹

Jeff Thompson reported the absences of Rickey Childers, Mary Dennis, and Larry Melton, and the reasons they asked their absences be excused.

MOTION by Mary Gauer, seconded by Robert Herrera, to excuse the absences of Rickey Childers, Mary Dennis, and Larry Melton. Motion carried with unanimous approval.

2. Consideration of Minutes of July 20-21, 2018 Board meeting in San Antonio and October 11, 2018 Special Board Meeting in Fort Worth (Tab 2)

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

MOTION by Robert Herrera, seconded by Randy Criswell, to approve the July 20 & 21, 2018 Board of Trustees minutes in San Antonio and the October 11, 2018 Special Board Meeting in Fort Worth, as written under Tab 2. Motion carried with unanimous approval.

- a. Consideration of Release and Contract of Settlement in *City of Abilene, and Development Corporation of Abilene v. Texas Municipal League Intergovernmental Risk Pool*, Cause No. 11018-D, In the 350th Judicial District Court of Taylor County, Texas

David Reagan presented the reasons for the Board to reapprove the release and contract of settlement in the *City of Abilene, and Development Corporation of Abilene v. Texas Municipal League Intergovernmental Risk Pool*, Cause No. 11018-D, In the 350th Judicial District Court of Taylor County, Texas.

MOTION by Peter Vargas, seconded by Byron Black, to approve the Release and Contract of Settlement in *City of Abilene, and Development Corporation of Abilene v. Texas Municipal League Intergovernmental Risk Pool*, Cause No. 11018-D, in the 350th Judicial District Court of Taylor County, Texas. Motion carried with unanimous approval.

3. Consideration of minutes of the July 20, 2018 Nominations Committee meeting (Tab 3)

MOTION by Randy Criswell, seconded by Peter Vargas, to approve the July 20, 2018 Nominations Committee minutes as written under Tab 3. Motion carried with unanimous approval.

4. Canvassing the 2018 Board Election Results (Tab 4)

David Reagan presented the results of the 2018 Board of Trustees election for Places 11-14 under Tab 4. He reported the following results:

Place 11

Dietrich von Biedenfeld	38
Randy Criswell	282
Rick A. Schroder	67
Carey Palmer (Write-in)	1

Place 13

Byron Black	247
Mike Jones	131
Carey Palmer (Write-in)	1

Place 12

Bert Lumbreras	156
Kimberly Meisner	100
Jana Traxler	61
Rodney D. Wilson	60
Carey Palmer (Write-in)	1

Place 14

Bert Echterling	65
David J. Harris	178
David Rutledge	136
Carey Palmer (Write-in)	1

MOTION by Andres Garza, seconded by Robert Herrera, to accept the results of the 2018 Board of Trustees election. Byron Black, David Harris, Bert Lumbreras, and Randy Criswell abstained. Motion carried.

5. Report from the Chair on Appointment of Representatives to and from TML and TML Multistate IEBP

Chair John Fullen reported that Andres Garza had agreed to serve as the ex officio representative to the TML MultiState Intergovernmental Employee Benefits Pool Board of Trustees and Mary Gauer agreed to serve as the ex officio representative to the TML Board of Directors.

6. Report from the Chair on appointments to Board Committees

Chair John Fullen reported that Carol Loughlin had been elected as Chair of the Finance and Information Technology Committee and Andres Garza as Chair of the Underwriting and Claims Committee. Jeff Thompson noted that, in accordance with the Board's rotation requirements and the Bylaws, the Chair assigned members to the Finance and Information Technology Committee and the Underwriting and Claims Committee as set forth under Tab 1 and were effective for this Board meeting.

7. Finance & Information Technology Committee

7a. Election of Committee Chair

Carol Loughlin announced that she had been elected Chair of the Finance and Information Technology Committee and Leo Montalvo was elected as Vice Chair.

7b. Consideration of minutes of July 20, 2018 committee meeting (Tab 5)

The July 20, 2018 Finance and Information Technology Committee meeting minutes set forth under Tab 5 were approved at the Finance and Information Technology Committee meeting on October 26, 2018.

7c. Report on August 31, 2018 (11-month) Financial Statements and Presentation of Preliminary Year-End (September 30, 2018) Financial Statements (Tab 6)

Julie Nguyen presented the report on the August 31, 2018 (11-month) financial statements under Tab 5 and gave an overview of the preliminary year-end September 30, 2018 financial results.

7d. Consideration of Workers' Compensation, Liability, Property, and Reinsurance Funds Ultimate Loss Selections (Tab 7)

Mike Raigosa presented the recommendations for the ultimate loss selections for the Workers' Compensation, Liability, Property and Reinsurance Funds as set forth under Tab 7. The Pool's actuary, Rudd and Wisdom, reviewed the funds and provided a selection point and range for the funds. The staff recommendations are as follows:

1. Set the Ultimate Loss Selection for the Workers' Compensation Fund at \$40.0 million for the 2017-18 accident year and decrease prior accident years' selections by \$1.8 million and then increase the reserve redundancy balance by \$3.0 million. Fatality

claims, amortization expense and other claim adjustments will result in total loss of \$47.0 million.

2. Set the Ultimate Loss Selection for the Liability Fund at \$41.1 million for the 2017-18 accident year and increase prior accident years' selections by \$2.9 million, for a total of \$44.0 million. This selection maintains a redundancy reserve balance of \$1.0 million, a \$1.5 million decrease from the \$2.5 million balance held at September 30, 2017.
3. Based on total property loss estimate of \$55.1 million, establish negative incurred but not reported (IBNR) losses of \$900,000 for non-occurrence claims in the Property Fund and \$6.3 million for property occurrence losses including Hurricane Harvey property losses in the Reinsurance Fund.
4. Set the Ultimate Loss Selection for the Reinsurance Fund to maintain the IBNR balance at \$750,000 for workers' compensation and liability losses assumed by the Reinsurance Fund.

MOTION by Carol Loughlin on behalf of the Finance and Information Technology Committee, seconded by Robert Herrera, to approve the Ultimate Loss Selections for the Workers' Compensation, Liability, Property, and Reinsurance Funds as set forth above. Motion carried with unanimous approval.

7e. Consideration of updating the Unallocated Loss Adjustment Expense (ULAE) Reserve (Tab 8)

Hank Domeracki presented the recommendation under Tab 8 for updating the unallocated loss adjustment expenses in the Stability Fund as required by generally accepted accounting standards. The recommendations by the staff are as follows:

1. Effective for the 2017-18 fiscal year, increase the target ULAE reserve to \$8.9 million and authorize the funding of this amount through equity transfers scheduled over three years. For the first year, the equity transfer from the Workers' Compensation, Liability and Property Funds will be \$742,823, \$151,177 and \$306,000, respectively. Subsequently, for the next two years, the annual transfer amounts will be \$750,000, \$160,000 and \$290,000, respectively.
2. Conduct the ULAE reserve analysis on an annual basis based on the results of the preceding fiscal year end. The annual change in the reserve will be recognized in the Stability Fund and the related equity transfers from (to) the operating funds will be in addition (reduction) to the funding scheduled established for the target ULAE of \$8.9 million.
3. At the end of each fiscal year, during the two remaining funding years, restrict members' equity for the remaining funding balance.

MOTION by Carol Loughlin on behalf of the Finance and Information Technology Committee, seconded by Mary Gauer, to approve the recommendations for the unallocated loss adjustment expense reserves as set forth above. Motion carried with unanimous approval.

7f. Consideration of updating the discount rate for workers' compensation lifetime and death indemnity benefit claims (Tab 9)

Hank Domeracki presented the recommendations for updating the discount rate for workers' compensation lifetime and death indemnity benefit claims under Tab 9. The Texas Legislature changed the law to provide that surviving spouses of first responders who die as a result of a work-related injury will receive death benefits for life, regardless of whether they remarry or not. Based on considerable length of time that many beneficiaries will be eligible for benefits, the ability to achieve meaningful investment income on reserved claims is important. The staff recommends:

1. Effective September 30, 2018, set the discount rate at 4.4% for qualifying lifetime income benefit reserves and death benefit reserves established for the surviving spouse of a non-first responder; and set the discount rate at 3.5% for death benefit reserves established for the surviving spouse of a first responder.
2. Normalize the discount rates for pre-2013 reserves to be accordance with the current discount policy, by 1/3rd of the amount over three years.

MOTION by Carol Loughlin on behalf of the Finance and Information Technology Committee, seconded by Randy Criswell, to approve the recommendations for updating the discount rate for workers' compensation of lifetime and death indemnity benefits as set forth above. Motion carried with unanimous approval.

7g. Consideration of updating the restricted Member's Equity for the Subsequent Injury Fund's long-term obligations to the Pool (Tab 10)

Hank Domeracki presented the recommendation for updating the restricted Member's equity for the Subsequent Injury Fund's long-term obligations to the Pool. Payments on obligations of the Subsequent Injury Fund are statutory and if the law does not change in the future, the Pool anticipates the Subsequent Injury Fund will pay its claims. The Subsequent Injury Fund is funded solely by death benefit payments from insurance carriers where a compensable death occurs and there is no eligible beneficiary or the claim for death benefits is not made in a timely manner. Since some of the Pool's workers' compensation claims are in excess of 30 years, to ensure funds will be available throughout the life of the claims, the Board approved restricting equity. Based on the present value of the current recoverable balance from the Subsequent Injury Fund, an increase of \$2.0 million is recommended in the restricted equity.

MOTION by Carol Loughlin on behalf of the Finance and Information Technology Committee, seconded by Robert Herrera, to authorize increasing the restricted equity by \$2.0 million from \$4.7 million to \$6.7 million in Members' Equity in the Reinsurance Fund for

possible unpaid or underpaid Subsequent Injury Fund losses. Motion carried with unanimous approval.

7h. Report on August 31, 2018 (11-month) Investment Results and Presentation of September 30, 2018 investment results (Tab 11)

Tito Villegas presented the investment results for the 11-month period ending August 31, 2018, under Tab 11, and gave an overview of the September 30, 2018 investment results.

7i. Annual Review of the Pool's Investment Policy and Proposed Broker List, and consideration of adopting the Policy with amendments (Tab 12)

Tito Villegas presented the annual review of the Pool's Investment Policy and noted that the Pool is not recommending any changes to the Investment Policy for 2018-19. The staff is recommending adding four brokers used by outside investment managers to the proposed list under Appendix C. There are currently 35 brokerage firms on the recommended list.

MOTION by Carol Loughlin on behalf of the Finance and Information Technology Committee, seconded by Byron Black, to approve the resolution adopting the Pool's Investment Policy with no recommended changes and authorizing the list of brokers as presented in Appendix C. Motion carried with unanimous approval.

7j. Update on Hurricane Harvey (including an Overview of the Pool's Response to Hurricane Harvey), Results of the Recent Hurricane Harvey Claims Audit by ICRMS and Consideration of Endorsement of Studying Expanded Service Delivery Mechanisms (Tab 19)

See 8e., under the Underwriting and Claims Committee.

7k. Report from Office of Project Management and Analytics, including report on Progress for Business Application and IT Road Map (Tab 13)

The report from the Office of Project Management and Analytics, including the status on the progress for business application and the IT road map under Tab 13 was submitted for the Board's review without an oral presentation.

7l. Information Technology report on status of hardware and software updates to the computer systems (Tab 14)

The Information Technology report on status of hardware and software updates to the computer systems under Tab 14 was submitted for the Board's review without an oral presentation.

7m. Human Resources Report identifying employment changes (Tab 15)

The Human Resources Report under Tab 15 was submitted for the Board's review without an oral presentation.

8. Underwriting and Claims Committee

8a. Election of a Committee Chair

Andres Garza announced that he had been elected Chair of the Underwriting and Claims Committee.

8b. Consideration of minutes of July 20, 2018 committee meeting (Tab 16)

The July 20, 2018 Underwriting and Claims Committee meeting minutes set forth under Tab 16 were approved at the Underwriting and Claims Committee meeting on October 26, 2018.

8c. Consideration of Increased Limits for Computer Fraud Coverage with the Exclusion of Social Engineering Claims that involve Monetary Loss (Tab 17)

Bob Haynes presented the recommendation of increased limits for computer fraud coverage under Tab 17. Mr. Haynes reported that at the April 2018 Board meeting the Board approved a reduction in coverage limits for computer fraud to \$100,000 because of the increase in social engineering attacks. Social engineering is defined as a loss wherein an employee is intentionally misled in order to induce the employee to part with money or securities through fraud. The Pool has been approached to exclude social engineering fraud from the coverage and increase the limits back to \$1,000,000. Specialized products for social engineering fraud are now available on the market and the Pool believes some Members will take advantage of these opportunities.

MOTION by Andres Garza on behalf of the Underwriting and Claims Committee, seconded by Leo Montalvo, to increase the limits for computer fraud coverage from \$100,000 up to \$1,000,000 when an endorsement is added to the coverage that excludes claims involving social engineering. Motion carried with unanimous approval.

8d. Update on efforts to create a Flood Reinsurance Program through the Coastal Storm Fund (Tab 18)

Bob Haynes presented the update on creating an excess flood coverage option under Tab 18. Mr. Haynes indicated that in visiting with members there was not enough interest to offer an excess flood coverage option and the Pool is suspending efforts to build an excess flood structure. If a Pool member is interested in excess flood coverage for selected locations, the Pool will be able to secure stand-alone proposals. The Pool staff will continue to monitor member interest.

8e. Update on Hurricane Harvey (including an Overview of the Pool's Response to Hurricane Harvey), Results of the Recent Hurricane Harvey Claims Audit by ICRMS and Consideration of Endorsement of Studying Expanded Service Delivery Mechanisms (Tab 19)

Jeff Thompson, Mike Rains, and David Nix presented the update on Hurricane Harvey and the claims audit by ICRMS under Tab 19. In order to better serve its Members if another catastrophic event occurs in Texas, the Pool staff requested:

1. Board formally acknowledge the actions taken by the Pool to protect the life and property of its members as a result of Hurricane Harvey and accept this report as a matter of record.
2. Board acknowledge receipt and review of the Hurricane Harvey Audit Executive Summary from ICRMS as a matter of record, and acknowledge that additional recommendations may need to be developed through the traditional annual budgeting process, as a result of this audit.
3. Endorse staff's further exploration and development of service delivery mechanisms, networks, and/or processes that can be made available to Members so as to achieve the efficient property recovery and cost savings results noted in this report. Efforts will focus on professional services and response of the Pool during catastrophic circumstances. Results of these efforts will be provided at future Board Meetings, and if policy-level changes are appropriate, recommendations made to formalize those changes.

MOTION by Andres Garza on behalf of the Underwriting and Claims Committee, seconded by Leo Montalvo, to acknowledge, approve, and authorize the recommendations set forth above and under Tab 19. Motion carried with unanimous approval.

8f. Significant Cases and Legal Developments impacting the Pool (Tab 20)

Bo Joseph presented significant cases and legal developments impacting the Pool under Tab 20.

8g. Liability and Property Claims Report on trends concerning liability claims and property claims

This item was discussed in Executive Session.

8h. Workers' Compensation Claims Report on trends concerning workers' compensation claims (Tab 21)

The Workers' Compensation Claims Report under Tab 21 was submitted for the Board's review without an oral presentation.

8i. Underwriting Report on underwriting results and loss ratios, including the Quarterly Report by Victor O. Schinnerer & Company, Inc. regarding revenues received and policies placed on behalf of Pool Membership (Tab 22)

The Underwriting Report under Tab 22 was presented for the Board's review without an oral presentation.

8j. Loss Prevention Report on member surveys, training and property valuations conducted (Tab 23)

The Loss Prevention Report under Tab 23 was submitted for the Board's review without an oral presentation.

8k. Report from Office of Project Management and Analytics, including report on Progress for Business Application and IT Road Map (Tab 13)

See 7k. under Finance and Information Technology Committee.

8l. Subrogation Department Performance Report (Tab 24)

The Subrogation Report under Tab 24 was submitted for the Board's review without an oral presentation.

8m. Member Services Report including Membership Activity and Update on Pool Communications Initiatives (Tab 25)

The Member Services report including membership activity and updates on the Pool's communications initiatives under Tab 25 was submitted for the Board's review without an oral presentation.

Chair John Fullen called for a recess at 9:46 a.m.

Chair John Fullen reconvened the meeting at 10:02 a.m.

9. Comments by ex officio Members from and to TML and Employee Benefits Boards

Michael Smith, ex officio from the TML Multi-State Intergovernmental Employee Benefits Pool Board of Trustees, reported that the new Executive Director Jennifer Hoff officially began her duties on October 1, 2018. Mr. Smith also reported the Board of Trustees will have a special-called meeting in November to discuss changes at the Pool and staffing.

Henry Wilson, ex officio from TML Board of Directors, reported the October TML Conference held in Fort Worth was the second largest in attendance in the history of TML. Mr. Wilson reported that Mr. John Love III, city councilmember from Midland, will be the new President of TML, and Eddie Daffern, Mayor of Staples, is the President-elect. Mr. Wilson also noted that TML is preparing for the legislative session, and the Governor wants a 2 ½ % maximum property tax revenue cap on cities. Although property tax revenue and appraisal caps are still on the agenda, TML feels support is dying off for these bills.

Bennett Sandlin, Executive Director of TML, reported one of the trends in Texas is the rising use of city charter initiatives, particularly in large cities. San Antonio has an initiative to put term limits on city managers, and it is the first time TML has seen this in Texas. It is a terrible idea. If initiative in San Antonio is successful, other cities may see similar initiatives. The city

manager profession is aging and it is getting harder to find younger people. It will be even harder to recruit a city manager from out of state or across the state and tell them, "By the way, you will only have a job for six years and then you will be without a job." TML will have a special committee to look at formulating TML's position on the rising use of charter initiatives, especially when used for the wrong reasons. San Antonio also has city charter initiatives to cap city managers' salaries and paying firefighters more. Is this use of charter initiatives really local control or against local control?

Mary Gauer, ex officio to the TML Board of Directors, reported that going into the legislative session the overriding theme that she sees everywhere is the idea of partnership and local control. What is a good idea for one city may not be a good idea for another city. It has to be what the local people want for themselves.

Andres Garza, ex officio to the TML Multi-State Intergovernmental Employee Benefits Pool Board of Trustees, reiterated what Michael Smith had reported on the appointment of the new Executive Director.

Chair John Fullen mentioned that the TML Conference in Fort Worth was the best laid-out and had best break-out sessions he had seen. It was very impressive. The Fort Worth Conference Center made it easy.

10. General Counsel's Report on Legislative Activities (Tab 26)

David Reagan presented the General Counsel's report on legislative activities under Tab 26.

11. Consideration of Topics for January, 2019 Board Planning & Training Session (Tab 27)

Jeff Thompson presented the recommendations for topics for the January 2019 Board Planning Session under Tab 27. He reported that he has tentatively asked Ron Cox to facilitate the session. If there are any particular items you would like to discuss or add to the agenda, please let Chair Fullen know.

Chair John Fullen announced it was now 10:30 a.m., and the Board of Trustees would go into Executive Session to discuss claims and lawsuits under Agenda items 12a., 12b., and 12c., under Texas Government Code section 551.071.

12. Executive Session

12a. Workers' Compensation Claims Report including (1) fatality claims, (2) selected large exposure claims, (3) presumption claims and (4) new claims that have reserves exceeding \$150,000

This item was discussed in Executive Session.

12b. Liability and Property Claims Report on claims that have indemnity reserves exceeding \$300,000, expense reserves in excess of \$250,000

This item was discussed in Executive Session.

12c. Status of lawsuits in which the Pool is a Party

This item was discussed in Executive Session.

Chair John Fullen reconvened the open session of the Board of Trustees at 10:55 a.m. There were no actions to be taken on the items discussed in Executive Session.

13. Meeting Schedule and Board Continuing Education (Tab 28)

Jeff Thompson reminded the Board members of the Board Continuing Education dates for AGRiP Conference in St. Louis in March 2019, the NLC-RISC Trustees Conference in Ft. Lauderdale in May 2019, and the PRIMA Annual Conference in Orlando in June 2019. If Board members are interested in attending any of these conferences, they are to contact Patti Ledesma.

13a. Select a location for the October 23-24, 2020 Meeting

The Gaylord Texan Resort & Convention Center in Grapevine was suggested for the October 23-24, 2020, Board meeting.

MOTION by Andres Garza, seconded by Randy Criswell, to hold the October 23-24, 2020 Board of Trustees meeting at the Gaylord Texan Resort & Convention Center in Grapevine. Motion carried with unanimous approval.

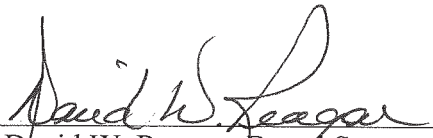
13b. Next Board Meeting

Chair John Fullen announced that the next Board meeting will be held at the Hilton DFW Lakes Executive Conference Center in Grapevine, Texas.

14. Adjournment

MOTION by Byron Black, seconded by Leo Montalvo, to adjourn the meeting of the Texas Municipal League Intergovernmental Risk Pool Board of Trustees meeting at 11:00 a.m. Motion carried with unanimous approval.

Approved by the Board of Trustees on
January 26, 2019


David W. Reagan, Board Secretary