

**TEXAS MUNICIPAL LEAGUE
INTERGOVERNMENTAL RISK POOL
Finance and Information Technology Committee
Boardwalk Inn, Ballroom
8 Kemah Water Front, Kemah, Texas 77565
October 26, 2018**

Committee Members Present

Carol Loughlin, Chair
Leo Montalvo, Vice Chair
Mary Gauer
Robert Herrera
Bert Lumbreras
Henry Wilson

Staff Present

Jeff Thompson
Hank Domeracki
Tito Villegas
Julie Nguyen
Atul Poladia
Mike Raigosa

Also Present

None

Other Trustees Present

Randy Criswell
John Fullen
Bennett Sandlin
Peter Vargas

Hank Domeracki called to order the Finance and Information Technology Committee of the Texas Municipal League Intergovernmental Risk Pool at 3:00 p.m. on Friday, October 26, 2018.

Election of a Committee Chair

Motion by Leo Montalvo, seconded by Bert Lumbreras, to nominate Carol Loughlin as Chair. Motion passed with unanimous approval.

Motion by Bert Lumbreras, seconded by Carol Loughlin, to nominate Leo Montalvo as the Vice Chair. Motion passed with unanimous approval.

Consideration of minutes of July 20, 2018 committee meeting (Tab 5)¹

MOTION by Leo Montalvo, seconded by Bert Lumbreras, to approve the minutes of the Finance and Information Technology Committee meeting of July 20, 2018, as set forth under Tab 5. Motion carried with unanimous approval.

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 financial statements for the 11-month period ending on August 31, 2018 under Tab 6 and gave an overview of the Pool's preliminary projected financial results as of September 30, 2018.

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

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

Mike Raigosa presented the recommended Ultimate Loss Selections for the 2017-18 fiscal year.

MOTION by Robert Herrera, seconded by Mary Gauer, to recommend that the Board:

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 carried with unanimous approval.

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

Hank Domeracki presented the results of the paid-to-paid methodology used to develop the new ULAE reserve amount and the recommendation to increase the ULAE reserve from \$5.3 million to \$8.9 million over a three period for rate stabilization purposes.

MOTION by Leo Montalvo, seconded by Bert Lumbreras, to recommend that the Board adopt the following:

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.

as set forth under Tab 8. Motion carried with unanimous approval.

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

Hank Domeracki presented the recommendation to update the discount rates for workers' compensation death indemnity claims and certain lifetime benefits, and to normalize the discount rates that were in effect from fiscal years 2002 to 2013 to the new discount rates over a three year period for rate stabilization purposes, by increasing the reserve by \$779,000 per year as set forth under Tab 9.

MOTION by Robert Herrera, seconded by Leo Montalvo, to recommend that the Board adopt the following:

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.

as set forth under Tab 9. Motion carried with unanimous approval.

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

Hank Domeracki presented the recommendation to increase the restriction of equity in the Reinsurance Fund for Subsequent Injury Fund losses by \$2.0 million from \$4.7 million to \$6.7 million under Tab 10.

MOTION by Leo Montalvo, seconded by Mary Gauer, to recommend that the Board, effective for the 2017-18 fiscal year, 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 underpaid or unpaid SIF losses. Motion carried with unanimous approval.

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

Tito Villegas presented an overview of the Pool's investment results as of August 31, 2018 under Tab 11 and the year-end projected results as of September 30, 2018.

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

Tito Villegas reviewed staff's recommendation that no changes be made for the 2018-19 fiscal year to the Pool's Investment Policy and presented the recommended changes to the Approved Brokers List, as set forth under Tab 12.

MOTION by Robert Herrera, seconded by Leo Montalvo, to recommend that the Board approve the resolution adopting the Pool's investment policy with no recommended changes and authorizing the list of brokers presented in Appendix C of the investment policy. Motion carried with unanimous approval.

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)

Hank Domeracki and Jeff Thompson provided the Board with an update on the Pool's response to Hurricane Harvey, the actions taken to protect the lives and property threatened by the disaster, the results of the independent claims audit that was conducted, and the recommendations to further explore and develop 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 the report.

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

Mike Raigosa updated the committee on the status of the Office of Project Management and Analytics initiatives set forth in the report under Tab 13, including the numerous Business Application & IT Roadmap projects that are underway and under review. Julie Nguyen informed the Board that the OneSolution Finance application went live on October 1, 2018.

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

Atul Poladia provided an update on the status of hardware and software installation projects, including an update on cyber security efforts, the upgrade to Windows 10, and a feasibility study to phase out Dell laptops with Microsoft Surface Books.

Human Resources Report identifying employment changes (Tab 15)

Hank Domeracki informed the Board that the new OneSolution Human Resources/Payroll system went live on October 26, 2018.

Carol Loughlin adjourned the meeting at 5:02 p.m. on October 26, 2018.

Approved by the Finance and Information
Technology Committee
on January 25, 2019


Henry S. Domeracki
Chief Financial Officer