



**RHODE ISLAND INTERLOCAL RISK MANAGEMENT TRUST
QUARTERLY BOARD OF TRUSTEES MEETING**

Tuesday, January 31, 2006

Held at Trust Offices
501 Wampanoag Trail, Suite 301
East Providence, RI 02915

MINUTES

Chair Alfred called the meeting to order at approximately 10:25 A.M.

1. ROLL CALL

Trustees Present

Stephen Alfred, Town of South Kingstown
Wolfgang Bauer, Town of West Warwick
Cindy Brown, Portsmouth School Department
Rich Kerbel, Town of North Kingstown
John Mainville, Town of Burrillville
A. Ralph Mollis, Town of North Providence
Michael Petrarca, West Warwick School Department
Dick Sartor, Town of Charlestown

Trustees Absent

Robert Dooley, Warwick Public Schools
William Fazioli, City of East Providence
Ralph Malafrente, Barrington School Department
Lori Miller, Lincoln School Department
M. Richard Scherza, Cranston Public Schools
Daniel Beardsley, Rhode Island League of Cities and Towns

Trust Staff Present

Thomas Dwyer, Trust President and Executive Director
Colleen Bodziony, Trust Membership Services Manager
Russ Godin, Trust Interim Claims Manager
Ron Slovak, Trust Chief Financial and Administrative Services Officer

Others Present for Portions of the Meeting

Marc DeSisto, DeSisto Law Offices
Glen Saslow, Saslow Lufkin & Buggy, LLP
David Roberts, Saslow Lufkin & Buggy, LLP

2. Approval of Minutes of Board Meeting of October 19, 2005 and Annual Meeting of the Members' Minutes of January 18, 2006

On a motion made by Trustee Bauer, seconded by Trustee Mollis, the Board voted to approve the minutes of the Board meeting of October 19, 2005 and the Annual Meeting minutes of January 18, 2006.

| <u>Trustee</u> | <u>Vote</u> | <u>Trustee</u> | <u>Vote</u> |
|----------------|-------------|------------------|-------------|
| Stephen Alfred | aye | Ralph Malafronte | absent |
| Wolfgang Bauer | aye | Lori Miller | absent |
| Cindy Brown | aye | A. Ralph Mollis | aye |
| Robert Dooley | absent | Mike Petrarca | aye |
| Bill Fazioli | absent | Dick Sartor | aye |
| Rich Kerbel | aye | Rick Scherza | absent |
| John Mainville | aye | | |

3a. 2004-2005 Audit Presentation and Acceptance

Prior to the meeting, Trustees were provided with the results of the 2004-2005 audit. Chair Alfred introduced Messrs. Glen Saslow and Dave Roberts from the independent public accounting firm of Saslow Lufkin & Buggy, LLP and asked that they provide the Board with an overview of the firm's audit of The Trust's financial statements. Chair Alfred noted that Messrs. Saslow and Roberts had previously met with the Investment and Audit Committee to review the results of the 2004-2005 audit.

Mr. Saslow explained that the auditors' opinion was an unqualified or a "clean" opinion since no material conditions were found and noted that they had received full cooperation in their review from Trust management. He then reviewed the required communication with the Board. Mr. Saslow indicated that there were two accounting issues on the horizon, namely: the ramifications of potential regulation of The Trust by the State of Rhode Island and the accounting implications associated with the new Federal law known as Sarbanes-Oxley.

Mr. Roberts reviewed several key discussion items from the 2005 audit including: the special, one-time adjustment for the State of Rhode Island Workers' Compensation Assessment to align the annual payment schedule with the policy year for which the assessment liability is technically incurred; the evaluation of the adequacy of The Trust's loss reserves; the second actuarial review conducted by Milliman USA of The Trust's primary actuarial report developed by Jeff Kadison of Practical Actuarial Solutions; and the impact of reserve strengthening by The Trust's reinsurer, NLC Mutual Insurance Company (NLC-MIC), subsequent to June 30, 2005.

Board discussion ensued about the financial position of NLC Mutual Insurance Company and its impact on The Trust's financials. Mr. Dwyer indicated that he believed The Trust's investment in NLC Mutual Insurance Company was stated fairly in the financials. Mr. Roberts concurred with Mr. Dwyer's comment that the NLC Mutual investment was recorded appropriately and indicated that the investment numbers were validated during the audit.

Discussion turned to the two recommendations set forth in the management letter issued by the auditors. The first item pertained to the staffing levels and succession planning in The Trust's finance department. Mr. Dwyer noted in response that Trust management will review this item and determine whether to recommend additional staffing in coming fiscal year. The second recommendation was the question of whether the threshold level at which claims checks are released without supervisory review should be lowered. Chair Alfred noted that Trust management will re-examine the threshold levels and identify internal procedures that might be established to effectively monitor the validity of the payments.

Mr. Roberts reviewed the highlights of each section of the Audited Financial Statements and pointed out that The Trust balance as of June 30, 2005 was \$10,440,776, an increase of \$2,428,672 from June 30, 2004.

On behalf of the Investment and Audit Committee of which he is a member, Trustee Mainville said that the Committee had reviewed the audit results with Saslow, Lufkin & Buggy, LLP in detail. He said the Committee had also asked the auditors whether there were any issues that needed to be addressed without management present. He noted that there were none. Chairman Alfred asked the Board if it wished to meet with the auditors without management staff present to review any item in the audited Financial Statements or any other matter the Board thought might be appropriate for it to discharge its fiduciary obligations. Board consensus was that it was satisfied with the report as presented and the ensuing discussion. No request was made by Board members to meet with the auditors independently.

On a motion made by Trustee Bauer, seconded by Trustee Mainville, the Board voted unanimously to accept the 2004-2005 audit report as presented.

| <u>Trustee</u> | <u>Vote</u> | <u>Trustee</u> | <u>Vote</u> |
|----------------|-------------|------------------|-------------|
| Stephen Alfred | aye | Ralph Malafronte | absent |
| Wolfgang Bauer | aye | Lori Miller | absent |
| Cindy Brown | aye | A. Ralph Mollis | aye |
| Robert Dooley | absent | Mike Petrarca | aye |
| Bill Fazioli | absent | Dick Sartor | aye |
| Rich Kerbel | aye | Rick Scherza | absent |
| John Mainville | aye | | |

As Messrs. Saslow and Roberts departed the room, Mr. Dwyer took the opportunity to formally introduce Ronald Slovak as The Trust's new Chief Financial and Administrative Services Officer who replaced Lauren Conway. Mr. Dwyer also re-introduced Russ Godin, The Trust's Interim Claims Manager for both the Property/Liability and Workers' Compensation Pools.

3b. Welcome Back Reserve Status

Mr. Dwyer said that the Welcome Back Reserve Policy requires Trust management to annually update the Board on the amount of Members' Equity associated with the Welcome Back Reserve. He provided the Board with an Annual Status Report showing the Welcome Back Reserve account at \$34,065 as of June 30, 2005. Mr. Dwyer noted that the Johnston School Department, Woonsocket Housing Authority and Exeter West Greenwich Regional School District are the only former Members with a Welcome Back Reserve Account established in their names. Because Chariho Regional School District and Smithfield Schools elected to withdraw from The Trust effective July 1, 2005 and their associated exit capitalization fees have been paid, Mr. Dwyer said they will be added to The Reserve next year. He said that the Town of Johnston also departed The Trust's Workers' Compensation Pool effective June 30, 2005 and indicated that receipt of the associated exit capitalization fee is anticipated momentarily. Chair Alfred updated the Board on the Town of Johnston's membership situation and The Trust's efforts to collect the associated exit capitalization fee.

On a motion made by Trustee Brown, seconded by Trustee Sartor, the Board voted unanimously to accept the Welcome Back Reserve Policy as presented.

| <u>Trustee</u> | <u>Vote</u> | <u>Trustee</u> | <u>Vote</u> |
|----------------|-------------|------------------|-------------|
| Stephen Alfred | aye | Ralph Malafronte | absent |
| Wolfgang Bauer | aye | Lori Miller | absent |
| Cindy Brown | aye | A. Ralph Mollis | aye |
| Robert Dooley | absent | Mike Petrarca | aye |
| Bill Fazioli | absent | Dick Sartor | aye |
| Rich Kerbel | aye | Rick Scherza | absent |
| John Mainville | aye | | |

3c. Report of the Underwriting Committee

i) Review of Management's Multi-Year Funding Outlook

Working off a PowerPoint presentation, Mr. Dwyer, on behalf of the Underwriting Committee, reviewed management's Multi-Year Funding Outlook for the fiscal years 2006 through 2010. In an earlier meeting, the Committee had reviewed this Outlook in depth and examined management's projections of the Loss Fund needed to support the operations of the two Trust risk sharing pools.

Prior to the meeting, Mr. Dwyer had furnished to the Trustees a memorandum dated January 22, 2006 analyzing the trends evident in the Outlook.

Mr. Dwyer's presentation included:

- Projected Loss Fund amounts for both pools
- Anticipated reinsurance costs
- Projected administrative costs
- Estimated changes in prior years ultimate loss levels
- Investment Return assumptions and projections
- Premium needs and options, stated in terms of underwriting rates and exposure growth
- Resultant underwriting and operating results based on the assumptions used in the Outlook.

General Trustee discussion of and questions about these component parts of the Outlook followed. Messrs. Dwyer and Alfred briefed the Board on the target premium revenue levels endorsed by the Underwriting Committee in response to management's Outlook projection. Mr. Alfred further advised that management would be preparing *pro forma* premium estimates for each Member based on the premium target levels set by the Committee, and that the Committee would at its next meeting review those *pro forma* scenarios.

Considerable discussion ensued about the funding levels necessary to support the Workers' Compensation Pool and the general competitive environment for workers' compensation insurance.

Trustees indicated that they concurred with the direction being taken by the Underwriting Committee in establishing premium and pricing targets for the coming policy year.

ii) Underwriting Objectives and Issues for 2006-2007

Messrs. Dwyer and Alfred noted that the Trustees had been provided in their Agenda packets with a set of 2006-2007 Underwriting Objectives and Issues that were under active review and consideration by management and the Underwriting Committee. Because many of the items in the Underwriting Objectives and Issues had been commented upon during the Multi-Year Funding Outlook presentation, there was only brief discussion of this topic.

On a motion made by Trustee Kerbel, seconded by Trustee Sartor, the Board voted unanimously to accept the report of the Underwriting Committee as presented.

| <u>Trustee</u> | <u>Vote</u> | <u>Trustee</u> | <u>Vote</u> |
|----------------|-------------|------------------|-------------|
| Stephen Alfred | aye | Ralph Malafronte | absent |
| Wolfgang Bauer | aye | Lori Miller | absent |
| Cindy Brown | aye | A. Ralph Mollis | aye |
| Robert Dooley | absent | Mike Petrarca | aye |
| Bill Fazioli | absent | Dick Sartor | aye |
| Rich Kerbel | aye | Rick Scherza | absent |
| John Mainville | aye | | |

3d. Bylaw Amendment regarding Member Withdrawal Notice Date

Chair Alfred said that one of the Underwriting objectives discussed by the Underwriting Committee at its recent meeting was whether the April 1st date by which Members must notify The Trust of a potential departure from one of our risk-sharing pools should be changed to May 1st on a permanent basis. He noted that a Bylaw language change would be needed to effect such a change, and said that the Committee had decided to recommend it to the Board for approval. Chair Alfred said that the May 1st deadline would give The Trust more time to prepare renewal quotations and provide Members with more flexibility and time to consider their options for coverage.

On a motion made by Trustee Brown, seconded by Trustee Petrarca, the Board voted unanimously to amend Bylaw section 2.7 Withdrawal as follows:

2.7 Withdrawal

2.7.1 *After a Member's initial period of Membership, which is any period of time set by The Trust up to but not exceeding one full Year, (i.e. 12 months), each Member shall continue its membership for a period of not less than one full Year. A Member may withdraw from membership effective at the end of the initial period of membership, or effective at the end of any subsequent year, but only by providing ~~three~~ two months' written notice to The Trust. A Member withdrawing shall have no claim on the reserves on any of the claims that are being maintained by The Trust or which may be required to be paid by The Trust. The Trust shall continue the servicing of any covered claim after the withdrawal of a Member.*

| <u>Trustee</u> | <u>Vote</u> | <u>Trustee</u> | <u>Vote</u> |
|----------------|-------------|------------------|-------------|
| Stephen Alfred | aye | Ralph Malafronte | absent |
| Wolfgang Bauer | aye | Lori Miller | absent |
| Cindy Brown | aye | A. Ralph Mollis | aye |
| Robert Dooley | absent | Mike Petrarca | aye |

| | | | |
|----------------|--------|--------------|--------|
| Bill Fazioli | absent | Dick Sartor | aye |
| Rich Kerbel | aye | Rick Scherza | absent |
| John Mainville | aye | | |

3e. Reinsurance Considerations for 2006-2007

Prior to the meeting, Mr. Dwyer provided the Board with a memorandum dated January 26, 2006 regarding The Trust's approach to Policy Year 2006-2007 reinsurance coverage for both the Property/Liability and Workers' Compensation Pools. Board members concurred with management's recommendation that The Trust solicit alternative proposals through private sector companies and its current reinsurer, the NLC Mutual Insurance Company (NLC-MIC), for workers' compensation reinsurance and catastrophic property reinsurance. The Board also indicated its concurrence with management's recommendation that The Trust explore alternative placement structures within NLC-MIC – either directly or through a fronting arrangement with an "A" rated carrier for liability and non-catastrophic property coverage. Finally, Board members concurred with management's recommendation to negotiate coverage terms and conditions with its existing reinsurer for equipment breakdown coverage.

3f. Changes to Enabling Legislation related to Regulatory Oversight Questions

Prior to the meeting, Mr. Dwyer provided the Board with a memorandum dated January 25, 2006 regarding management's recommendation for dealing with the potential for State regulatory oversight of The Trust by the Department of Business Regulation (DBR) and passage of desired amendments to our enabling legislation at the General Assembly. In response, the Board indicated its concurrence with management's recommendation to not propose any amendments to Rhode Island General Laws §45-5-20.1, the enabling legislation for intergovernmental pools, to the General Assembly this year.

On a motion made by Trustee Sartor, seconded by Trustee Brown, the Board voted unanimously to accept management's recommendation to not propose any amendments to Rhode Island General Laws §45-5-20.1, the enabling legislation for intergovernmental pools, to the General Assembly this year.

| <u>Trustee</u> | <u>Vote</u> | <u>Trustee</u> | <u>Vote</u> |
|----------------|-------------|------------------|-------------|
| Stephen Alfred | aye | Ralph Malafrente | absent |
| Wolfgang Bauer | aye | Lori Miller | absent |
| Cindy Brown | aye | A. Ralph Mollis | aye |
| Robert Dooley | absent | Mike Petrarca | aye |
| Bill Fazioli | absent | Dick Sartor | aye |
| Rich Kerbel | aye | Rick Scherza | absent |
| John Mainville | aye | | |

3g. Board of Trustee Vacancy

Chairman Alfred noted that there will be a Board opening occurring within the coming month as Trustees Fazioli would no longer be eligible to serve due to his recent announcement that he would be resigning as City Manager of East Providence in late February or early March 2006. He recommended to the Board that Scott Avedisian, Mayor of the City of Warwick, be appointed as a Trustee to fill the vacant term of Bill Fazioli expiring in December 2007.

On a motion made by Trustee Mollis, seconded by Trustee Kerbel, the Board voted unanimously to accept the recommendation of the Chair and appoint Scott Avedisian, Mayor of the City of Warwick, as a Trustee to fill the vacant term of Bill Fazioli expiring in December 2007, said term to commence upon Mr. Fazioli's formal resignation from the Board or from the City of East Providence, whichever occurs first.

| <u>Trustee</u> | <u>Vote</u> | <u>Trustee</u> | <u>Vote</u> |
|----------------|-------------|------------------|-------------|
| Stephen Alfred | aye | Ralph Malafronte | absent |
| Wolfgang Bauer | aye | Lori Miller | absent |
| Cindy Brown | aye | A. Ralph Mollis | aye |
| Robert Dooley | absent | Mike Petrarca | aye |
| Bill Fazioli | absent | Dick Sartor | aye |
| Rich Kerbel | aye | Rick Scherza | absent |
| John Mainville | aye | | |

3h. Annual Reorganization

i) Election of Board Officers: Chair and Vice Chair

Trustee Brown, Chair of the Nominating Committee, reported that no Trustees had contacted her regarding the Officer positions of the Board. She recommended that Stephen A. Alfred be nominated as Chair of the Board of Trustees and Cynthia Brown be nominated as Vice-Chair of the Board of Trustees.

On a motion made by Trustee Kerbel, seconded by Trustee Petrarca, the Board voted unanimously to elect Stephen Alfred, Chair, and Cynthia Brown, Vice-Chair, of the Board of Trustees.

| <u>Trustee</u> | <u>Vote</u> | <u>Trustee</u> | <u>Vote</u> |
|----------------|-------------|------------------|-------------|
| Stephen Alfred | aye | Ralph Malafronte | absent |
| Wolfgang Bauer | aye | Lori Miller | absent |
| Cindy Brown | aye | A. Ralph Mollis | aye |

| | | | |
|----------------|--------|---------------|--------|
| Robert Dooley | absent | Mike Petrarca | aye |
| Bill Fazioli | absent | Dick Sartor | aye |
| Rich Kerbel | aye | Rick Scherza | absent |
| John Mainville | aye | | |

ii) Election of Trust Officers: President and Secretary

Trustee Brown, Chair of the Nominating Committee, recommended to the Board that the following individuals be elected as Officers of The Trust: Thomas E. Dwyer, President and Colleen Bodziony, Secretary.

On a motion made by Trustee Kerbel, seconded by Trustee Petrarca, the Board voted unanimously to elect Thomas E. Dwyer, President, and Colleen Bodziony, Secretary.

| <u>Trustee</u> | <u>Vote</u> | <u>Trustee</u> | <u>Vote</u> |
|----------------|-------------|------------------|-------------|
| Stephen Alfred | aye | Ralph Malafronte | absent |
| Wolfgang Bauer | aye | Lori Miller | absent |
| Cindy Brown | aye | A. Ralph Mollis | aye |
| Robert Dooley | absent | Mike Petrarca | aye |
| Bill Fazioli | absent | Dick Sartor | aye |
| Rich Kerbel | aye | Rick Scherza | absent |
| John Mainville | aye | | |

iii) Election of Trust Officer: Treasurer

Since Lauren Conway, The Trust's former Chief Financial Officer had recently left The Trust's employ for another position, Trustee Brown recommended to the Board that Lauren Conway be removed from the position of Corporate Treasurer.

On a motion made by Trustee Kerbel, seconded by Trustee Petrarca, the Board voted unanimously to remove Lauren Conway from the Trust Officer position of Treasurer.

| <u>Trustee</u> | <u>Vote</u> | <u>Trustee</u> | <u>Vote</u> |
|----------------|-------------|------------------|-------------|
| Stephen Alfred | aye | Ralph Malafronte | absent |
| Wolfgang Bauer | aye | Lori Miller | absent |
| Cindy Brown | aye | A. Ralph Mollis | aye |
| Robert Dooley | absent | Mike Petrarca | aye |
| Bill Fazioli | absent | Dick Sartor | aye |
| Rich Kerbel | aye | Rick Scherza | absent |
| John Mainville | aye | | |

Next, Trustee Brown recommended to the Board that Ronald Slovak, The Trust's newly-appointed Chief Financial Officer, be elected as Corporate Treasurer.

On a motion made by Trustee Kerbel, seconded by Trustee Petrarca, the Board voted unanimously to elect Ronald Slovak to the position of Treasurer.

| <u>Trustee</u> | <u>Vote</u> | <u>Trustee</u> | <u>Vote</u> |
|----------------|-------------|------------------|-------------|
| Stephen Alfred | aye | Ralph Malafrente | absent |
| Wolfgang Bauer | aye | Lori Miller | absent |
| Cindy Brown | aye | A. Ralph Mollis | aye |
| Robert Dooley | absent | Mike Petrarca | aye |
| Bill Fazioli | absent | Dick Sartor | aye |
| Rich Kerbel | aye | Rick Scherza | absent |
| John Mainville | aye | | |

3i. Governmental Tort Reform – Legislative Options

Prior to the meeting, Mr. Dwyer provided the Board with a memorandum dated January 24, 2006, regarding legislative options for changing certain State laws that negatively impact governmental tort liability.

During the meeting, Attorney Marc DeSisto, one of The Trust's leading defense counsels for our Members, elaborated on his January 23, 2006 memorandum (also supplied to the Board) to Mr. Dwyer which specifically identified three key areas for reform and also proposed amendments to current legislation in those areas:

1. changing the way in which statutory interest is calculated;
2. changing the manner in which joint and several liability is triggered; and
3. establishing clearly that the statutory cap applies to governmental employees and officials and not solely to the governmental entity.

Discussion ensued about the many approaches that could be taken to effect change in these areas of governmental liability. Board consensus was in order for these legislative changes to pass, the public sector will have to be united in its support and vocal in its advocacy. The value of building a broad-based coalition of interested groups to support such change was agreed upon.

The Board consensus was that The Trust should not take the lead public role in pushing for the changes, but serve as a catalyst and resource in such an effort to change these laws. It was suggested that the Rhode Island League of Cities and Towns be contacted to determine its willingness to participate in a campaign to effect these kinds of change in the area of governmental liability. Trustee Mollis indicated that he would initiate a

meeting with Senator Montalbano regarding this topic and also suggested that Trust management outline the proposed legislative options for governmental tort reform in a presentation to the League's Board of Directors. Trustee Bauer indicated his willingness to contact Speaker Murphy to schedule a meeting to discuss the proposed legislative options.

3j. Claim Activity Litigation

Prior to the meeting, Mr. Dwyer provided the Board with a confidential memorandum dated January 23, 2006 regarding Station Fire Claimants v. the Town of West Warwick.

Notice of Intent to Seek to Convene into Executive Session

On a motion made by Trustee Bauer, seconded by Trustee Sartor, the Board, after a unanimous roll call vote, convened into Executive Session to review recent activity in significant claims and to consider requests for settlement authority pursuant to the Rhode Island Open Meetings Act, Rhode Island General Laws 42-46-5(a)(1), discussions concerning the physical or mental health of a person(s) and 42-46-5 (a)(2) sessions pertaining to various Station Fire Claimants v. the Town of West Warwick.

| <u>Trustee</u> | <u>Vote</u> | <u>Trustee</u> | <u>Vote</u> |
|----------------|-------------|------------------|-------------|
| Stephen Alfred | aye | Ralph Malafronte | absent |
| Wolfgang Bauer | aye | Lori Miller | absent |
| Cindy Brown | aye | A. Ralph Mollis | aye |
| Robert Dooley | absent | Mike Petrarca | aye |
| Bill Fazioli | absent | Dick Sartor | aye |
| Rich Kerbel | absent | Rick Scherza | absent |
| John Mainville | aye | | |

On a motion by Trustee Mainville, seconded by Trustee Sartor, the Board voted as follows to seal the Minutes of the Executive Session until such time as the matters taken up had been resolved:

| <u>Trustee</u> | <u>Vote</u> | <u>Trustee</u> | <u>Vote</u> |
|----------------|-------------|------------------|-------------|
| Stephen Alfred | aye | Ralph Malafronte | absent |
| Wolfgang Bauer | aye | Lori Miller | absent |
| Cindy Brown | aye | A. Ralph Mollis | aye |
| Robert Dooley | absent | Mike Petrarca | aye |
| Bill Fazioli | absent | Dick Sartor | aye |
| Rich Kerbel | absent | Rick Scherza | absent |
| John Mainville | aye | | |

The meeting stood adjourned at approximately 12:05 p.m. due to the loss of a quorum of the Board of Trustees; however, general discussion of the topics described below continued until 12:40 p.m.

4. Operations and Funding Reports

Mr. Dwyer distributed to the Board the Operations and Funding Report for The Trust's two pools: Workers' Compensation and Property/Liability. The Operations and Funding Report was shown for both the Property/Liability and Workers' Compensation Pools as of December 31, 2005. Mr. Dwyer also distributed to the Board the Report showing the Adjusted Loss Ratio on a consolidated basis for the Property/Liability Pool, the Workers' Compensation Pool and special Member programs.

5. Informational Items

a) Minutes of Committee Meetings

The following Minutes of various Committee meetings were presented to the Board as informational items:

- i) Management Committee: January 19, 2006 and October 28, 2005
- ii) Investment and Audit Committee: December 13, 2005

Also presented as informational items were reports showing:

- Claim Activity of Significance
- the past quarter's Investment Performance for the period ending September 30, 2005 as prepared by Punter Southall, The Trust's investment advisor.

6. Adjournment

The meeting then stood adjourned at approximately 12:40 p.m.

Respectfully Submitted,

COLLEEN M. BODZIONY
Corporate Secretary