



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

**Tuesday, June 27, 2006**

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

***MINUTES***

Chair Alfred called the meeting to order at approximately 9:15 A.M.

**1. ROLL CALL**

**Trustees Present**

Stephen Alfred, Town of South Kingstown  
Wolfgang Bauer, Town of West Warwick  
Cindy Brown, Portsmouth School Department  
Robert Dooley, Warwick Public Schools  
Rich Kerbel, Town of North Kingstown  
John Mainville, Town of Burrillville  
Dick Sartor, Town of Charlestown (items 1, 2, 3A, and 3B only)

**Trustees Absent**

Scott Avedisian, City of Warwick  
Ralph Malafrente, Barrington School Department  
M. Richard Scherza, Cranston Public Schools  
Lori Miller, Lincoln School Department  
A. Ralph Mollis, Town of North Providence  
Michael Petrarca, West Warwick School Department  
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  
Denise Lapolla, Trust Workers' Compensation Claims Manager  
Ron Slovak, Trust Chief Financial and Administrative Services Officer

**2. Approval of Minutes of Board Meeting of April 12, 2006**

**On a motion made by Trustee Kerbel, seconded by Trustee Mainville, the Board voted to approve the minutes of the Board meeting of April 12, 2006.**

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

**3. Introduction of New Workers' Compensation Claims Manager**

Mr. Dwyer introduced Ms. Denise Lapolla, The Trust's new Workers' Compensation Claims Manager. He noted that Ms. Lapolla has been meeting with Members already and brings exceptionally strong experience and background to The Trust.

**4a. 2006-2007 Reinsurance Changes**

Prior to the meeting, Mr. Dwyer provided the Board with a memorandum dated June 22, 2006 outlining changes to The Trust's reinsurance program for the Policy Year 2006-2007 as recommended by the Underwriting Committee and management. He also had supplied the Board with various related correspondence to the Underwriting Committee describing the reinsurance renewal process and recommendations for coverage levels for the Policy Year commencing July 1, 2006. Using a PowerPoint presentation, Mr. Dwyer summarized the reinsurance changes for the Board.

For the Workers' Compensation Pool, Mr. Dwyer said that Trust Management recommended a change in the reinsurance carrier from NLC Mutual Insurance Company to Safety National. Management also recommended a change to the Self-Insured Retention (SIR) level from the current \$500,000 per occurrence to \$500,000 per occurrence with an additional \$250,000 "corridor" deductible. In response to questions from Trustees, Mr. Dwyer explained the working of the corridor aggregate retention and provided several hypothetical examples to illustrate the way the corridor retention would operate.

Next, Mr. Dwyer indicated that The Trust would be retaining in-house all financial risk from an individual claim exceeding \$200,000 in lost wages. He reminded the Board that The Trust already retains fully in-house all the risk associated with losses in excess of each individual Member's wage attachment point for the Injured-On-Duty Program.

For the Property/Liability Pool, Mr. Dwyer elaborated on management's recommendation that the reinsurance coverage for the first \$1 million layer continue to be secured through NLC Mutual Insurance Company, but that The Trust's retention within this layer be increased from \$100,000 to \$300,000 per occurrence pool-wide and to \$400,000 per occurrence pool-wide for claims involving the City of Pawtucket.

Regarding losses above \$1 million, Mr. Dwyer explained that there are material changes in the flood coverage for properties located in Flood Zones A and V after October 1, 2006. He said that if a Member has properties located in Flood Zones A and V, the standard Trust policy coverage for Flood Zones A and V would be at \$2 million per occurrence. By Endorsement, Mr. Dwyer explained, a Member may elect to increase its individual flood coverage to \$10 million by selecting one of two options for those properties: either by securing National Flood Insurance Program (NFIP) coverage or by assuming as a Member deductible the equivalent NFIP coverage limits. Mr. Dwyer stated that The Trust will assist Members in the administrative process of securing NFIP coverage and in analyzing their options. Mr. Dwyer further indicated that The Trust was able to secure a 90 day extension before restricted Flood Zone A and V coverage is implemented so that Members had time to consider these options.

Mr. Dwyer also reviewed with the Board an illustrative Flood Zone A and V loss scenario that could result in The Trust assuming additional financial risk by treating National Flood Insurance Program (NFIP) coverage (or a Member assumed equivalent deductible) as the second responding insurance coverage rather than the first primary coverage. He termed this coverage a "flood zone corridor retention" and explained how the decision to place the NFIP in the second position favored the Members.

Trustees discussed the various considerations that Members would likely have as they considered their options under the new Flood Zone program, and further reviewed with management the implications of the change.

**On a motion made by Trustee Dooley, seconded by Trustee Mainville, the Board voted unanimously to accept the Underwriting Committee report and recommendations as follows:**

- **Change the Workers' Compensation reinsurance carrier from NLC Mutual Insurance Company to Safety National and change The Trust's Self-Insured Retention (SIR) level from the current \$500,000 per occurrence to \$500,000 per occurrence with an additional \$250,000 "corridor" deductible**
- **Assume in-house all claim related financial risk associated with individual claimant losses for the Injured-On-Duty (IOD) program**
- **Increase The Trust's Property SIR from \$100,000 per occurrence pool-wide to \$300,000 per occurrence and to \$400,000 per occurrence pool-**

wide for claims involving the City of Pawtucket

- **Accept the new Flood Zone A and V coverage limits and options required by the reinsurer, RSUI Indemnity Company, as part of its proposal to The Trust, and assume the “Flood Zone Corridor” retention created by treating NFIP coverage or its Member equivalent as secondary rather than primary reinsurance in the event of a loss affecting Flood Zone A and V properties.**

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

**4b. 2006-2007 Budget**

Prior to the meeting, Mr. Dwyer provided the Board with a copy of the 2006-2007 Proposed Budget and an accompanying explanatory memorandum to the Management Committee dated June 8, 2006. Mr. Dwyer noted that the proposed Budget has been reviewed and endorsed by the Management Committee.

Using a PowerPoint presentation, Mr. Dwyer presented the key elements of the proposed Fiscal Year 2007 Budget. His presentation focused on the following elements:

- Comparison of Underwriting/Operating Results
- Review of the Loss Fund and the Incurred But Not Reported Reserve (IBNR) component
- Review of Financial Strength

For Fiscal Year 2006-2007, Mr. Dwyer noted that underwriting losses are not fully offset by Portfolio results. Specifically, Mr. Dwyer said that The Trust would be writing to an overall significant underwriting loss of about \$3,657,805. He noted that expected underwriting losses for 2006-2007 are split between the two Pools (\$2,556,244 underwriting loss for the Property/Liability Pool and \$1,025,937 underwriting loss for the Workers' Compensation Pool) and about \$75,625 in operational loss for the Member Programs' Cost Center. Mr. Dwyer noted that the deficit in the Workers' Compensation Pool prediction for the coming fiscal year 2007 reflects a reduced underwriting loss as a result of The Trust's continuing rate strengthening.

Portfolio results, Mr. Dwyer said, are expected to produce positive income for the coming year of \$1,329,783.

Combining underwriting losses with the net income from Portfolio Results produces a projected loss from Annual Operations of \$2,328,023.

Mr. Dwyer then reviewed the financial implications on The Trust's final year-end results for both Fiscal Years 2006 and 2007 from the actuarial work to be performed over the course of the Summer by The Trust's independent actuary to determine updated expected ultimate loss levels. He presented a chart showing the dramatic and typically positive manner in which prior year reserve changes improve The Trust's financial results from management's conservatively projected levels. Mr. Kerbel asked for further elaboration on the way reserve strengthening contrasted with prior year reserve take-downs affect The Trust's bottom-line. Mr. Dwyer responded with additional description.

In response a question from Mr. Bauer about personnel costs, Mr. Alfred explained that the Budget contained an allowance for staff salary increases for the coming year, but that a final decision on the specific amount or percentage adjustment to be authorized by the Management Committee was deferred, pending receipt of compensation survey and study being conducted by Albert Risk Management. Mr. Alfred added that the Budget does include two new positions – funding for the General Counsel position and the addition of a part-time administrative support person for the Claims Department.

**On a motion made by Trustee Brown, seconded by Trustee Dooley, the Board voted unanimously to approve the 2006-2007 Budget as presented:**

<b><u>Income</u></b>	
Gross Premium and Other Income	\$22,847,445
Reinsurance Premium Ceded	-\$8,180,700
<b>Net Premium and Other Income</b>	<b>\$14,666,745</b>
<b>Expenses, Including Loss Fund</b>	<b>-\$18,324,550</b>
<b>Underwriting Results</b>	<b><u>-\$3,657,805</u></b>
<b><u>Investments</u></b>	
Investment Income	\$1,474,000
Investment Management Fees	-\$144,218
<b>Net Investment Income</b>	<b>\$1,329,782</b>
<b>Operating Results</b>	<b><u>-\$2,328,023</u></b>

<b><u>Trustee</u></b>	<b><u>Vote</u></b>	<b><u>Trustee</u></b>	<b><u>Vote</u></b>
Stephen Alfred	aye	John Mainville	aye
Scott Avedisian	absent	Ralph Malafrente	absent
Wolfgang Bauer	aye	Lori Miller	absent

Cindy Brown	aye	A. Ralph Mollis	absent
Robert Dooley	aye	Mike Petrarca	absent
Rich Kerbel	aye	Dick Sartor	aye
		Rick Scherza	absent

*At this point in the meeting, Trustee Sartor excused himself from the meeting. The meeting stood adjourned at approximately 10:10 a.m. due to the loss of a quorum of the Board of Trustees; however, general discussion of the topics described below continued until 11:25 a.m.*

#### **4c. Membership Status**

##### **i) Member Retention and Competitive Market Situation Report**

Prior to the meeting, the Board was provided copy of a memorandum from Mr. Dwyer and Ms. Bodziony dated June 22, 2006 outlining the competitive market situation, and membership status for Policy Year 2006-2007 for both the Workers' Compensation and Property/Liability Pools.

With regard to Workers' Compensation, Ms. Bodziony said that The Trust's pricing was higher in all competitive situations. She noted that in one case – the pricing for Narragansett Public Schools – the differential was quite large. Ms. Bodziony noted that inconsistencies in workers' compensation experience modifiers calculated by The Trust compared to those calculated by Beacon Mutual Insurance Company, The Trust's only competitor for workers' compensation insurance business, continued again this year during the bidding process. She said The Trust cannot fully explain these inconsistencies, but they complicate the comparative analysis of the quotes provided.

Ms. Bodziony noted that Woonsocket Education Department, Burrillville School Department, Town of Smithfield, Town of Lincoln, Town of Portsmouth, and the Town of Burrillville, all of which solicited competitive proposals either formally or informally, have indicated that they will continue their memberships in The Trust's Workers' Compensation Pool effective July 1, 2006. She noted that The Trust continues to monitor the workers' compensation membership status of the Pawtucket Housing Authority and the Town of West Warwick but expect that both Members will renew as well. Ms. Bodziony noted that only one Member, the Narragansett Public Schools, will not be renewing its workers' compensation coverage with The Trust on July 1, 2006.

Mr. Dwyer and Ms. Bodziony both commented that these results were far better than initially anticipated at the onset of the renewal season in light of The Trust's large rate and premium increases to its Members.

On the Property/Liability side, Ms. Bodziony said that The Trust and the Metrogard/Diplomax program were the only carriers submitting competitive proposals. She indicated that The Trust encountered a few bidding situations where 'he Trust's

proposal was the only one submitted. She noted that the Members who provided a possible intent to withdraw from the Property/Liability Pool (Smithfield School Department, Woonsocket Education Department, Town of Burrillville and the Town of Lincoln) all elected to continue their membership in the Pool effective July 1, 2006.

**ii) New Members**

Prior to the meeting, the Board was provided a copy of a memorandum from Mr. Dwyer and Ms. Bodziony dated June 20, 2006 regarding potential new Members for Policy Year 2006-2007 for both the Workers' Compensation and Property/Liability Pools. It was noted that the Underwriting Committee had reviewed and endorsed the membership applications presented in the memorandum.

First, Ms. Bodziony said that the Newport County Regional Special Education Program (NCRSEP) wishes to join The Trust's Property/Liability and Workers' Compensation Pools no later than July 1, 2006. She noted that NCRSEP is a consortium of East Bay school districts established for the purpose of providing special education programs and services to its participating school districts. Ms. Bodziony explained The Trust's current understanding of the relationships between NCRSEP and the participating school districts as it relates to workers' compensation coverage.

Next, Ms. Bodziony indicated that EBEC Holdings joined The Trust's Property/Liability Pool effective April 28, 2006. She said that EBEC Holdings functions as an instrumentality of the East Bay Collaborative and that its Board of Directors is made up solely of the Collaborative's participating school districts' superintendents of schools. She stressed that EBEC Holdings' function is limited to property ownership and management of an office building used solely in the operations of the East Bay Educational Collaborative, another Trust entity.

Ms. Bodziony next indicated that the Providence Water Supply Board had asked The Trust to quote its workers' compensation coverage for the coming Policy Year 2006-2007 due to some dissatisfaction with its current carrier. Ms. Bodziony noted that Providence Water Supply Board has unfavorable loss history. However, it was noted that Trust management believes that the quoted premium will be sufficient to cover the Water Supply Board's expected losses and related costs if it was to join The Trust. Because of The Trust's relatively high quote, Mr. Dwyer said he does not expect that the Supply Board will ultimately decide to join The Trust.

*Because a quorum did not exist, the Board was unable to vote to accept these new entities as Members, but it was noted that management has the ability under existing Board approved policy to bind coverage with ratification of membership following later.*

**iii) Exit Capitalization Fee Waiver**

Ms. Bodziony explained that The Trust recently received “unofficial” notification from the North Smithfield Water Authority that it had been abolished by the Town of North Smithfield and that coverage would therefore no longer be necessary for this entity after June 30, 2006. It was explained that this change in status for the entity raises the issue of whether an exit capitalization fee would be due to The Trust should the Member not renew its coverage on July 1, 2006. Management recommended to the Board that an exit capitalization fee not be charged since the Authority’s duties and responsibilities would be assumed or folded into those of the Town of North Smithfield, an existing Trust Member.

*Due to a lack of quorum, official action to waive the exit capitalization fee was deferred until a subsequent meeting, with the Trustees present indicating concurrence with management’s recommendation.*

**iv) Insurance Coverage for the West Warwick Housing Authority**

Prior to the meeting, Mr. Dwyer provided the Board with a memorandum dated June 16, 2006 to the Underwriting Committee regarding the advisability or lack thereof of continuing insurance coverage for the West Warwick Housing Authority in relation to various problems at the Authority’s Clyde Towner residential housing structure during the past year. He also provided the Board with copies of memoranda and various related correspondence describing these developments, and with a memorandum dated June 22, 2006 summarizing the actions of the Underwriting Committee in reviewing this matter at its most recent meeting.

At the meeting, Mr. Dwyer summarized for the Board the history of these developments and The Trust’s response to the Authority’s actions. Mr. Dwyer indicated that The Trust is less than satisfied with the actions of the West Warwick Housing Authority in responding to questions raised about the structural integrity of Clyde Tower and the Authority’s apparent lack of appreciation of the potential liability created by these questions. He noted that when The Trust became aware of the condition of this building, management immediately suspended portions of liability and property coverage provided to the Authority. Specifically, he said that restrictions are in place that remove liability and property coverage for Clyde Towers for loss or damage arising from wind or seismic activity.

Mr. Dwyer said that at its last meeting, the Underwriting Committee voted to recommend to the full Board that The Trust cease providing any form of insurance to the West Warwick Housing Authority effective October 1, 2006. Chairman Alfred, a member of the Underwriting Committee, explained the Committee’s thinking and also commented on the Committee’s concern about the role and potential liability of the Town of West Warwick in monitoring this situation. He noted that the Underwriting Committee could

reconsider the continuation of workers' compensation and life insurance coverage to the West Warwick Housing Authority through the end of the policy year.

Trustee Bauer expressed his concern that The Trust was over-reacting to this situation objected to the recommendation of the Underwriting Committee that The Trust cease providing any form of insurance coverage to the West Warwick Housing Authority effective October 1, 2006. He indicated that there has not been any seismic activity in Rhode Island for several hundred years, that the building has withstood at least two hurricanes, and that there is no apparent, current structural damage. Noting his concern about the safety of the residents of the building, Trustee Bauer commented that he was nonetheless not worried that the building might collapse or suffer serious structural failure. He stressed that he does not want any actions by the Town to create additional liability exposure for the Town, and believes that the Town is acting appropriately. He asked that the Board extend coverage to the Authority for six months to determine what further findings emerge from an on-going physical review of the building's structure by independent structural engineers. He explained that this physical review involves the temporary removal and opening of portions of the building's roof and super-structure so that a better inspection and evaluation can be made.

Several Board members indicated that they were not prepared to extend coverage to the West Warwick Housing Authority to January 1, 2007. Board consensus was that another Board meeting should be scheduled to discuss this member issue. It was suggested that representatives from the West Warwick Housing Authority be invited to the next meeting.

Mr. Dwyer indicated that he will continue coverage through October 1, 2006 with the same limitations in place and will schedule a Board of Trustees meeting to discuss this issue in the near future.

#### **4d. Special Police Officer Liability Coverage**

Prior to the meeting, Mr. Dwyer supplied the Board with a memorandum dated June 2, 2006 addressed to the Risk Management Committee in which management recommended that The Trust cease offering liability insurance to special police officers. Mr. Dwyer further reported that the Underwriting Committee at its most recent meeting endorsed management's recommendation as did the Risk Management Committee members in attendance at its last meeting, though the Risk Management Committee did not have a quorum for that meeting.

Mr. Dwyer summarized management's rationale for recommending the coverage be terminated. He explained that recent internal Trust research had concluded that there is no legal authority for a so-called special police officer to use a weapon or effect an arrest. Therefore, he said, it would be inconsistent for The Trust in light of this new knowledge

to continue to grant coverage to Member municipalities and its special police officers for activities for which there is no basis in the law.

Trustees briefly inquired of Mr. Dwyer about some of the implications on the membership of the change in the scope of The Trust's coverage obligations, and alternatives that the Members may have. Mr. Dwyer explained that The Trust will continue to provide full liability coverage at no extra premium for "community service officers" who do not carry a weapon or possess the power of arrest. Mr. Dwyer said the change should be effective with the new policy year commencing July 1, 2007.

*Lacking a quorum, the Board was unable to vote to endorse this change, though Trustees present indicated concurrence with Mr. Dwyer's recommendation. Accordingly, Mr. Dwyer advised that management would implement the elimination of coverage for special police officers effective July 1, 2006, and seek Board ratification at a subsequent meeting.*

**4e. Appointments and Elections**

Due to the loss of a quorum, this matter was deferred until a subsequent meeting.

**4f. Recognition for Retiring Trustee Malafronte**

Due to the loss of a quorum and Mr. Malafronte's absence, recognition for retiring Trustee Malafronte was deferred until a subsequent meeting.

**5. Operations and Funding Report**

Mr. Dwyer distributed to the Board the Operations and Funding Report as of May 31, 2006 for The Trust's two pools: Workers' Compensation and Property/Liability. 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 the Member Programs Cost Center. Mr. Dwyer briefly reviewed recent significant loss activity affecting the Loss Ratios.

**6. Informational Items**

**a. Minutes of Committee Meetings**

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

- i. Notes only for the Investment and Audit Committee of June 15, 2006 due to lack of a quorum

- ii. Notes only for the Risk Management Committee of June 8, 2006 due to lack of a quorum

**b. New Enabling Legislation**

Mr. Dwyer provided the Board with a copy of the revisions passed by the General Assembly to §45-5-20.1, the enabling legislations that allows intergovernmental pools like The Trust to exist in Rhode Island. It was noted that the revisions became law without the Governor's signature.

**c. Quarterly Investment Performance Report thru March 31, 2006**

The past quarter's Investment Performance for the period ending March 31, 2006 as prepared by Punter Southall, The Trust's investment advisor, was presented to the Board as an informational item.

**d. Status of Risk Management Policies:**

**i. Use of Force Policy**

A memorandum dated June 2, 2006 from Mr. Ahern to the Risk Management Committee summarizing Trust Member Police Department compliance to The Trust's Use of Force model policy project was presented to the Board as an informational item.

**ii. Drug and Alcohol Policy**

A memorandum dated June 2, 2006 from Mr. Ahern to the Risk Management Committee summarizing Trust Consortium Member compliance in adopting the revisions to the Controlled Substance and Alcohol Testing Policy was presented to the Board as an informational item.

**7. Adjournment**

The meeting then stood adjourned at approximately 11:25 AM.

Respectfully Submitted,

COLLEEN M. BODZIONY  
Corporate Secretary