



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

Wednesday, October 18, 2006

**Conducted As Part of the Eleventh Annual Joint Meeting of the Board & its Committees
Whispering Pines Conference Center
University of Rhode Island – Alton Jones Campus
West Greenwich, Rhode Island**

MINUTES

1. ROLL CALL

Trustees Present

Stephen Alfred, Town of South Kingstown
Wolfgang Bauer, Town of West Warwick
Robert Dooley, Warwick Public Schools (items 1-3d only)
Rich Kerbel, Town of Coventry
John Mainville, Town of Burrillville (items 1-3k)
Lori Miller, Lincoln School Department (items 1-3j)
A. Ralph Mollis, Town of North Providence (items 1-3b)
Michael Petrarca, West Warwick School Department
Dick Sartor, Town of Charlestown (items 1-3j)
M. Richard Scherza, Cranston Public Schools
Daniel Beardsley, (*Ex-officio*), RI League of Cities and Towns (items 3c – 6)

Trustees Absent

Scott Avedisian, City of Warwick
Ralph Malafrente, Barrington School Department

Others Present

Thomas Dwyer, Trust President and Executive Director
Colleen Bodziony, Trust Membership Services Manager
Ron Slovak, Trust Chief Financial and Administrative Services Officer
Mark Stoughton, Trust Information Services Manager
Linda Grassini, Trust Benefits Program Operations Manager
Brian Ahern, Trust Loss Prevention Manager
Russ Godin, Trust Claims Manager

Denise Lapolla, Trust Workers' Compensation Claims Manager
Debby Maynard, Trust Executive Assistant
Linda Celona, North Providence School Department (items 1-3j)
Col. Stephen McCartney, City of Warwick Police Department
Joe Balducci, Cranston Public Schools
Jeff Kadison, Practical Actuarial Solutions
Mike Lynch, Punter Southall
Kristen Swanson, West Warwick Housing Authority (item 3i only)
Bob Paliotta, West Warwick Housing Authority Commissioner (item 3i only)

2. Approval of Minutes of Board Meeting of June 27, 2006

On a motion made by Trustee Kerbel, seconded by Trustee Mainville, the Board voted to approve the minutes of the Board meeting of June 27, 2006.

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

3a. Loss Trends Review

i) Management of Overview of Actuarial Indications

Prior to the meeting, Mr. Dwyer provided the Board with a memorandum dated October 12, 2006 summarizing the actuarial results as of June 30, 2006 and related financial implications. Mr. Dwyer explained that the actuarial review is conducted each year to determine the actuarial range for Incurred But Not Reported (IBNR) reserve which is recorded as claims reserves in The Trust's Financial Statements. Mr. Dwyer said that the actuarial results are far more favorable than anticipated by management and indicate on a preliminary basis that the Members' Equity position will increase by about \$2 million to between \$12 million and \$12.5 million. He cautioned that management was still reviewing certain loss estimates which could reduce the estimate of the final Members' Equity amount, and briefly explained an adjustment that might need to be made to the loss estimate for the October 2005 Storm Deluge claims and the reason for it. The unexpected favorable actuarial indication for the Workers' Compensation Pool and more favorable than expected Property/Liability loss trends generate the projected increase in Fund Balance as of June 30, 2006, Mr. Dwyer said.

Using a PowerPoint presentation, Mr. Dwyer presented a series of tables and graphs incorporating the Incurred But Not Reported (IBNR) Reserve estimates at 80% of

actuarial high point for the Property/Liability Pool and at the actuary's best estimate for the Workers' Compensation Pool. He noted that the Workers' Compensation Pool best estimate is actually above 80% at 82% of the high point. He reminded the Board that The Trust is gradually changing its recording practices for booking INBR reserves and will eventually book at the actuary's selected or "best" estimate for both Pools. Mr. Dwyer said that last year The Trust recorded ultimate losses at 85% of the actuarial high estimate of INBR reserves for both Pools.

Mr. Dwyer stressed that the exhibits he was presenting differ from the ones which he presents to the Board at the other quarterly meetings because these exhibits include the IBNR reserve, whereas the others do not. He highlighted various trends evident in these exhibits and answered a number of questions from the Board and Committee members about the impact of investment income and changes in loss trends in certain, specific policy years.

ii) Detailed Report from Actuary – Loss Reserve Analysis ending June 30, 2006

Prior to the meeting, the Board received a copy of the detailed actuarial report as of June 30, 2006 prepared by The Trust's actuary, Jeffrey Kadison of Practical Actuarial Solutions, along with a detailed memorandum dated October 12, 2006 from Mr. Dwyer summarizing key aspects of the report.

Using a PowerPoint presentation, Mr. Kadison provided a detailed explanation of the actuarial report using exhibits to illustrate the major trends he found in his analysis of Trust loss data and claims experience.

Mr. Kadison noted his continued concern about The Trust's Workers' Compensation loss ratios, but noted some considerable improvement compared to the results of his similar study one year ago (as of June 30, 2005). For the Current Fund Year, Mr. Kadison noted that Workers' Compensation loss levels, in general, are above average and above the breakeven point.

For the Property/Liability Pool for the Current Fund Year, loss levels increased by 19% from FY 2005 but are at about average levels and near breakeven, he said. For the Prior Years period, he observed that his selected estimate decreased by \$2.3 million and is representative of the typical loss development experience in this Pool. At the high point, the favorable development is \$2.7 million. He noted again, as Mr. Dwyer had earlier observed, that The Trust no longer records at the high point level so the change to be posted on The Trust's books will be a lesser amount.

Mr. Kadison further commented on the loss trends associated with each Pool. In particular, he noted that the claim closing rates still remain slow for the Workers' Compensation Pool, and that the share of workers' compensation lost time claims as a percentage of total claims remains relatively high and appears to be continuing to trend

even higher. He reviewed other important trends that he observed in individual lines of coverage, focusing on workers' compensation, injured-on-duty, auto liability, general liability, and public officials. He commented on the key differences, various ratios, risk margins and general claim activity levels for each line of coverage.

Mr. Bauer questioned Mr. Kadison on differences in workers compensation loss trends in the private sector versus the public sector. Mr. Alfred noted his concern about the high proportionate share of workers' compensation lost time claims.

For the benefit of the Board, Mr. Dwyer briefly described the in-depth review of many key, individual claims undertaken by Mr. Kadison as part of his assessment of Trust loss trends, and complimented him on the thoroughness of his work.

3b. Financial Overview

i) Projected Closing Financial Position as of June 30, 2006

Mr. Dwyer explained that The Trust's audit and financial statements will be completed by the end of November and presented to the Investment and Audit Committee in December and the Board in January. Accordingly, he asked the Board to remember that the numbers presented at this meeting are preliminary and subject to adjustment.

Using a PowerPoint presentation, Mr. Slovak provided the Board with The Trust's preliminary financial results as of June 30, 2006. He noted that management is currently estimating Members' Equity at about \$12.5 million as of June 30, 2006, an increase of about \$2 million from the \$10,440,778 level as of June 30, 2005.

ii) Review of Key Financial Benchmarks

Using a PowerPoint presentation, Mr. Slovak reviewed the benchmarks which The Trust customarily employs to measure its financial position, per the Board approved Financial and Marketing Benchmark Policy. Mr. Slovak presented a series of charts showing the benchmark ratios. The first benchmark ratio compared Premium to Surplus and indicated that Trust ratios are much better than the benchmark. He noted that as more insurance is written, surplus is exposed to greater chance of variation resulting in greater protection against errors in pricing. A related benchmark Ratio compares Loss Reserves to Equity and shows the relationship between loss reserves and fund balance. Mr. Slovak noted that lower ratios indicate more surplus is available and provides more protection against errors in reserving and pricing.

Regarding the Liabilities to Liquid Assets Ratio, Mr. Slovak observed that not only was this Ratio favorable compared to the benchmark but that it also excluded from Liquid Assets the value of The Trust's investment in its reinsurer, the NLC Mutual Insurance

Company. Had that investment been counted, the Ratio would have been even more favorable, he said.

For the benchmark two-year overall Operating Ratio, Mr. Slovak noted The Trust's ratio for the latest 2 year period beats the benchmark for the first time. He explained that this ratio provides a snapshot of "profitability" from operations and investments.

With regard to the Retained Earnings to Self-Insured Retention Ratio, Mr. Slovak's exhibit demonstrated that The Trust ratio compares most favorably with the benchmark range and reflects a significant cushion. He stated that The Trust's maximum Self Insured Retention was \$500,000 for Fiscal Years 2002 through 2006. Since the benchmark calls for Retained Earnings to be able to absorb 5 to 10 full exposure losses, at a \$500,000 retention level The Trust could absorb about 25 full exposure losses, Mr. Slovak observed.

Mr. Slovak noted that reserves continue to grow and include sizable contingencies for actuarial fluctuations (at higher than actuarial selected levels since 1997) and reserves for termination of Trust operations.

3c. Report of the Investment and Audit Committee

Trustee John Mainville, a member of the Investment and Audit Committee, summarized the activity of the Investment and Audit Committee during the last year in monitoring The Trust's Portfolio. During the past year, Trustee Mainville reported that the Investment and Audit Committee had met each quarter with The Trust's Investment Advisor, Punter Southall, to review investment performance. He said that the Committee changed one of its three fixed income investment managers during the year, moving from Loomis Sayles to Galliard Capital Management. Early indications are that this was a beneficial change, Mr. Mainville said.

In January 2006, Trustee Mainville reported, the Committee reviewed the 2005 audit report with the new independent auditors, Saslow, Lufkin and Buggy, noting that The Trust received a clean opinion of its financial statements. He noted that the Committee will be reviewing the upcoming 2006 audit upon completion.

He reported that Mr. Slovak came on board with The Trust in December and began work with the Committee.

Next, Trustee Mainville reported that the Committee is not contemplating recommending any changes to the Investment Policy to the Board at this time.

Finally, on behalf of the Investment and Audit Committee, Trustee Mainville thanked Mr. Dwyer, Mr. Slovak and Mr. Lynch for their help, guidance and continued support during the year.

i) Annual Investment Performance Summary and Review

Prior to the meeting, the Board received the Punter Southall Annual Investment Review Report for The Trust Portfolio. Mr. Lynch of Punter Southall highlighted certain items within the Report. He summarized the performances of the Equity and Liquidity Pools compared to the appropriate indices and manager universes for the period ending June 30, 2006, and also reviewed the distribution of The Trust's fixed income investments among the three bond managers and their respective results. Mr. Lynch explained the dynamics of the Portfolio and how it compares to industry. He reported that The Trust's investment portfolio performed well during the past the fiscal year as well as during the most recent quarter.

1) Portfolio Impact on Trust Bottom Line

Using a PowerPoint presentation, Mr. Slovak showed a series of graphs evidencing the portfolio impact on The Trust's bottom line. He provided graphs showing the Year to Date Net Investment Income and Realized Gains and Losses for FY 2006 (actual versus budget); Year to Date Unrealized Gains and Losses for FY 2006; and Portfolio Earnings. The final graph "Unrealized Gains and Losses YTD- Fiscal Year 2007" showed the month to month fluctuations in the market value of The Trust portfolio for each major component.

Mr. Bauer questioned Mr. Lynch on the Portfolio's allocation of investments between bonds and cash in light of current economic conditions. Mr. Lynch explained the Portfolio's strategy in this regard and offered his assessment of the advantages and disadvantages of switching more of The Trust's invested funds to cash at this point.

Mr. Kerbel initiated a Board discussion about whether The Trust examines the underlying investments of NLC-MIC to ensure that that its purchased securities are not redundant with the investments of The Trust, thereby creating an inadvertent excessive concentration in certain investments. Mr. Dwyer indicated that The Trust does not look at NLC MIC's investments but noted that NLC-MIC, like The Trust, employs a diversified strategy in selecting its investment instruments, so he doubted that an excess concentration existed. He nonetheless agreed that such a review would be appropriate and said management would undertake such an examination.

3d. Report of the Risk Management Committee

Trustee Wolfgang Bauer, Chair of the Risk Management Committee, summarized the activities of the Risk Management Committee during the year and highlighted its accomplishments.

In the area of Workers' Compensation, Trustee Bauer reported that the Committee is proposing that certain revisions to The Trust's *WorkSmart21* program be approved by the Board at this meeting.

On the Property/Liability side, Trustee Bauer said that The Trust's Loss Prevention Department completed an update to the model Controlled Substance and Alcohol Testing Policy as mandated by changes in Federal law and regulations, and is now monitoring Trust Consortium Member compliance in adopting the revisions to the Policy. He noted, too, that the Committee was instrumental in the promoting another law enforcement model policy initiative during the past year regarding Use of Force and is presently tracking Member Police Departments' adoption of the policy. Trustee Bauer said that the Risk Management Committee also recommended the termination of liability coverage for special police officers to the Board of Trustees in light of staff research regarding the legal status of Special Police officers. He reported that The Trust has trained its 4,000th officer through the Firearm Training Simulator (FATS). Trustee Bauer noted that the Committee and the Loss Prevention Department developed a model Automatic External Defibrillator (AED) Policy and conducted training for the membership on the proper use and deployment of these devices so as to minimize liability.

Finally, Trustee Bauer thanked the members of the Risk Management Committee for their continued work on behalf of The Trust.

3e. Workers' Compensation Review

Mr. Ahern began his presentation by thanking the Risk Management Committee members for their dedication and hard work throughout the last year, commenting that many Trust loss prevention initiatives and ideas start at the Risk Management Committee.

Mr. Ahern referenced The Trust's Use of Force Model Policy and said that the Policy represents a year's worth of work by law enforcement personnel, attorneys and Trust staff. In particular, he recognized the great communication and cooperation The Trust enjoys with the law enforcement community, in part because of the fine work of Trust Assistant Claims Manager and Claims Specialist Paul Dutra and Loss Prevention Specialist Paul Brouillette, both former police officers. Mr. Ahern also thanked Col. McCartney, Warwick Police Chief and a member of the Risk Management Committee, for his active support of The Trust's work in the area of law enforcement initiatives.

Turning to The Trust's workers compensation program and loss trends, Mr. Ahern invited Mr. Dwyer to offer introductory comments. Prior to the meeting, the Board had received a memorandum from Mr. Dwyer dated October 4, 2006 regarding the current state of The Trust's program and management's view of its challenges for the coming policy year starting July 1, 2007.

Using a PowerPoint presentation, Mr. Dwyer provided an overview of The Trust's Workers' Compensation Program. First, he reviewed Trust Workers' Compensation income adequacy, stressing that The Trust is still writing to an operational loss in the Workers' Compensation Pool, despite significant premium increases over the last several years and concentrated loss prevention and claims management efforts on the part of Trust staff to prevent and minimize losses. He noted, however, that the gap is closing.

Next, Mr. Dwyer presented trend information about workers' compensation claims and cost drivers excerpted from a recent Rhode Island presentation by the National Council on Compensation Insurance (NCCI). He noted that in August 2006 the State Department of Business Regulation (DBR) approved an average 16% reduction in payroll rates used by our primary competitor for all policies issued as of October 1, 2006. Most recently, he said, NCCI filed for another 3.7% reduction in payroll loss costs for Rhode Island. Pending changes could result in a cumulative manual premium reduction rising to 20% compared to current in-force levels.

In summary, as a result of these proposed changes in rates and The Trust's workers' compensation income inadequacy, Mr. Dwyer noted that there will be increased pressure on The Trust's workers' compensation program in the coming year which will affect our competitive posture with our Members.

Extensive Board discussion ensued about The Trust's objectives for the Workers' Compensation Pool and potential relationships with private sector carriers. Board consideration was given to commissioning an outside consultant to perform a study to review options for the Workers' Compensation program. Mr. Alfred asked management to explore whether a consultant's review might be a worthwhile exercise.

i. *WorkSmart21 – Is it Working?*

Mr. Dwyer then asked the Board to consider specific changes to strengthen the *WorkSmart21* program, which he characterized as The Trust's flagship remedial program designed to help Members with the poorest loss trends remedy the causes of those problems. Prior to the meeting, the Board had received a memorandum dated September 22, 2006 addressed to the Risk Management Committee from Mr. Ahern and Ms. Lapolla identifying the specific proposed revisions to the *WorkSmart21* program.

Using a PowerPoint presentation, Mr. Ahern and Ms. Lapolla provided the Board with a historical review of the *Worksmart21* program and the rationale for the specific changes now being proposed to it. Key revisions, Ms. Lapolla said, include requiring *Worksmart21* participating Members to:

- designate a workers' compensation coordinator,
- demonstrate ability to place injured employees in transitional duty, and

- designate a specific Urgent Care facility to treat injured employees

Mr. Ahern said management was also proposing that Members which met the qualifying criteria for entry into the *Worksmart21* program be surcharged a amount ranging up to 10% of base premium depending on the participant's conformance to the 11 mandatory features of the program. To determine the degree of conformance, he said that Trust management has developed a Report Card to be completed annually for each participant and reviewed it with the Board. Mr. Ahern indicated that it is expected that the Report Card information will be a useful management tool to determine not only the participant's compliance to the mandatory features but also to analyze program effectiveness. At the suggestion of the Risk Management Committee, he commented that model report cards were completed on a test basis for the current 8 *Worksmart21* participants. Based on those results, he said management was now proposing a modification to the grading schedule compared to the one set forth in the memo to the Risk Management Committee, and described that modification.

Extensive discussion ensued about the mandatory features of the program with particular emphasis on the requirement that Members demonstrate an ability to implement effective transitional or modified duty assignments for injured workers. Members also focused on the correlation between the Report Card's scoring and how it would be integrated into The Trust's underwriting program. Mr. Dwyer explained that this program would be introduce a qualitative component to the underwriting process that is currently not present but is often used by insurers to evaluate risk and set price. Mr. Dwyer stressed, too, that the current *Worksmart21* program lacks a consequence as it does not contain any potential penalties for lack of participant compliance.

On a motion made by Trustee Kerbel, seconded by Trustee Mainville, the Board voted to approve the *WorkSmart21* program revisions as proposed (1) except that the 10% premium surcharge would automatically be added, and (2) with the further understanding that the surcharge could be reduced or eliminated on the basis of a sliding scale as delineated in the *WorkSmart21* program Report Card.

Further discussion ensued about the motion.

Mr. Bauer moved to amend the motion to require that the program feature requiring Members to demonstrate the ability to implement effective transitional or modified duty work assignments for injured employees be deferred for two years. Mr. Scherza seconded the motion. This motion failed to pass per the following votes:

<u>Trustee</u>	<u>Vote</u>	<u>Trustee</u>	<u>Vote</u>
Stephen Alfred	no	Ralph Malafrente	absent
Scott Avedisian	absent	Lori Miller	no
Wolfgang Bauer	aye	A. Ralph Mollis	absent

Robert Dooley	no	Mike Petrarca	aye
Rich Kerbel	no	Dick Sartor	no
John Mainville	no	Rick Scherza	noe

Mr. Alfred then asked for a vote on Mr. Kerbel’s original motion without the amendment. It passed per the following vote.

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

3f. Termination of Special Police Officer Liability Coverage

Prior to the meeting, the Board was provided with an updated copy of the memorandum dated June 2, 2006 addressed to the Risk Management Committee from Messrs. Dwyer and Ahern in which management recommended that The Trust cease offering liability insurance to special police officers. Mr. Dwyer explained that due to a lack of quorum at the last meeting the Board was unable to vote to endorse this change, though Trustees present indicated concurrence with Mr. Dwyer’s recommendation. He advised the Board that management has implemented the elimination of special police officer liability coverage effective July 1, 2006.

Mr. Sartor and Col. McCartney reported that there is on-going discussion and concern among municipal officials in Washington County in particular about the role of special police officers in these communities vis-à-vis The Trust’s position on liability coverage and the State law regarding the powers and training of police officers. They said that further discussions are likely to occur with the State Commission on Police Officer Standards and Training.

On a motion made by Trustee Kerbel, seconded by Trustee Sartor, the Board voted to endorse management’s recommendation and support the termination of special police officer liability coverage effective July 1, 2006.

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

3g. Membership Matters

i) New Member Approval

Prior to the meeting, the Board was provided with an updated copy of the memorandum dated June 20, 2006 from Mr. Dwyer and Ms. Bodziony containing supplemental information regarding membership developments subsequent to June 30th for Policy Year 2006-2007. Because the Providence Water Supply Board elected to keep its workers' compensation coverage with its existing carrier, Mr. Dwyer said Board approval of its potential membership is no longer necessary. He indicated that membership approval by the Board of the Newport County Regional Special Education Program and for EBEC Holdings is still required. The matters mentioned in the memorandum were addressed at the last Board meeting but, due to a loss of quorum, no formal action was taken.

On a motion made by Trustee Sartor, seconded by Trustee Kerbel, the Board voted to approve membership in The Trust for the Newport County Regional Special Education Program effective July 18, 2006; and EBEC Holdings effective April 28, 2006.

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

ii) Waiver of Exit Capitalization Fee of Defunct Member

During the renewal season, The Trust 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. This change in status for the entity raises the issue of whether the exit capitalization fee would be due to The Trust because the Member did not renew its coverage on July 1, 2006. Management recommended to the Board, at its June 27, 2006 meeting, 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 loss of quorum at the last Board meeting, no action was taken.

On a motion made by Trustee Kerbel, seconded by Trustee Mainville, the Board voted to waive the applicable exit capitalization fee for North Smithfield Water Authority's withdrawal from coverage effective July 1, 2006 due to a cessation of

operations and the transfer of those operations and duties to another Trust Member, the Town of North Smithfield.

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

3h. Board Governance

i) Meeting Attendance

This matter was deferred until a subsequent meeting.

ii) Trustee Replacement Elections

This matter was deferred until a subsequent meeting.

iii) Board Vice-Chair

This matter was deferred until a subsequent meeting.

iv) Committee Appointments

1) Underwriting Committee

Chairman Alfred explained that Trustee Ralph Malafronte, current Chair of the Underwriting Committee, recently announced his retirement from Barrington School Department. He recommended to the Board that Michael Petrarca, West Warwick Public Schools, be appointed Co-Chair of the Underwriting Committee until Trustee Malafronte retires to ensure a smooth transition of the Chair.

On a motion made by Trustee Sartor, seconded by Trustee Mainville, the Board voted to approve Trustee Petrarca as the Co-Chair of the Underwriting Committee along with Trustee Malafronte, with Trustee Petrarca becoming sole Chair of the Underwriting Committee upon Trustee Malafronte's retirement.

<u>Trustee</u>	<u>Vote</u>	<u>Trustee</u>	<u>Vote</u>
Stephen Alfred	aye	Ralph Malafronte	absent

Scott Avedisian	absent	Lori Miller	aye
Wolfgang Bauer	aye	A. Ralph Mollis	absent
Robert Dooley	aye	Mike Petrarca	aye
Rich Kerbel	aye	Dick Sartor	aye
John Mainville	aye	Rick Scherza	aye

Chairman Alfred recommended to the Board that Trustee Dick Sartor, Town of Charlestown, be moved from the Investment and Audit Committee to the Underwriting Committee.

On a motion made by Trustee Kerbel, seconded by Trustee Mainville, the Board voted to move Dick Sartor from the Investment and Audit Committee to the Underwriting Committee.

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

2) Nominating Committee

Chairman Alfred recommended to the Board that Trustee Lori Miller from the Lincoln School Department be appointed to the At-Large Trustee position on the 2007 Nominating Committee. He also recommended that Ms. Miller serve as the Chair of the Nominating Committee.

On a motion made and seconded, the Board voted to appoint Trustee Lori Miller, Lincoln School Department, as the Chair and At-Large Trustee on the Nominating Committee.

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

3i. West Warwick Housing Authority Coverage (Clyde Tower)

At the request of Mr. Alfred, Mr. Dwyer introduced this Agenda topic by explaining that representatives from the West Warwick Housing Authority were invited to the Board meeting to discuss the Authority's actions in attempting to manage the questions which arose during 2005 about the structural integrity of Clyde Tower, one of the Authority's residential housing complexes. Mr. Dwyer noted that the The Trust's property and liability coverage to the Authority is currently curtailed by excluding loss at Clyde Tower arising from earthquake or wind events. Mr. Dwyer introduced Kristen Swanson, the Executive Director of the West Warwick Housing Authority, and Bob Paliotta, Commissioner for the West Warwick Housing Authority, and thanked them for coming.

Ms. Swanson summarized the scope and severity of the structural problems at Clyde Towner and possible solutions. She recounted the history of the Authority's actions in dealing with this matter, and explained the Authority's rationale for taking certain actions. She said that the Authority intends to make any repairs recommended by the structural engineers now examining the Tower as soon as possible. Based on information from the engineers to date, she said she believes the building is safe. She commented that the matter is under active review by the West Warwick Housing Authority Commissioners and will be further discussed at its November 13th meeting.

Trustee Bauer offered his perspective on the issue, and also advised the Board that The Trust had requested further follow-up and documentation from the Town about actions it has taken or will take to ensure the Tower's safety.

Discussion ensued regarding questions about insurability. Mr. Dwyer stated that the decision on coverage is not fully The Trust's as The Trust's reinsurers have significantly greater financial exposure to loss and have expressed their concern about the Tower's integrity.

Mr. Alfred concluded the discussion by emphasizing to Ms. Swanson and Mr. Paliotta that The Trust Board considers the matter to be one of grave concern and utmost importance, and urged the Authority to be vigilant in taking every reasonable and prudent step to mitigate the potential for personal or property loss at Clyde Tower.

3j. Claims Activity of Note

Prior to the meeting, Messrs. Dwyer and Godin provided the Board with a confidential memorandum dated October 4, 2006 regarding the *Vieira v. City of East Providence* and the Storm Deluge 2005: Multi-Loss Occurrence #47 claims. Management is seeking Board settlement authority for each.

Notice of Intent to Seek to Convene into Executive Session

On a motion made by Trustee Miller, seconded by Trustee Scherza, 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 litigation, with the cases to be discussed including *Vieira v. City of East Providence* and the October 2005 Storm Deluge Claims.

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

Motion to Seal Minutes of the Executive Session

On a motion by Trustee Kerbel, seconded by Trustee Mainville, 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
Scott Avedisian	absent	Lori Miller	aye
Wolfgang Bauer	aye	A. Ralph Mollis	absent
Robert Dooley	aye	Mike Petrarca	aye
Rich Kerbel	aye	Dick Sartor	aye
John Mainville	aye	Rick Scherza	aye

3k. 2006 General Assembly Legislative Initiatives

i) Judicial Fairness (Tort Reform) Coalition Building

Mr. Alfred explained that this topic was on the Board's Agenda to solicit Board and Committee input and support in building a coalition to advance The Trust's Judicial Fairness package of legislative reforms. Board discussion ensued about pressing forward on the set of governmental tort reforms developed last year. Trustees again expressed interest in having The Trust act as a resource and a catalyst for the changes, but not as the out-front agent. Mr. Beardsley suggested that he make contact, on behalf of Board of Trustees, with House and Senate leadership to gauge whether there would be any support for the proposed initiatives.

Mr. Dwyer said that he is available and eager to offer presentations to public sector professional organizations and groups to educate them on these areas concerning governmental liability and to build support for the changes. Mr. Dwyer theorized that the General Assembly will be more receptive to proposals advanced by a broad-based coalition of front-line public sector groups rather than by The Trust.

Board consensus was that Mr. Beardsley should contact House and Senate leadership for the purpose he described, and that The Trust in general should continue to look for opportunities to educate various constituencies about the value of the changes and to build support for a coalition to promote these reforms.

ii) Enabling Legislative Changes

Prior to the meeting, the Board received a memorandum dated October 11, 2006 from Mr. Dwyer questioning whether the Board wishes to pursue certain desired changes to our enabling legislation during the upcoming legislative session. He stated that though The Trust did not proceed forward to seek statutory changes during the last legislative session, the Governmental Health Group of Rhode Island (GHGRI) did, and was successful with its initiative.

But those CHGRI changes, Mr. Dwyer said, did not address five long-standing Trust objectives regarding other needed amendments to the enabling legislation, namely that:

- The Trust is not a State agency but a quasi-public corporation
- The Trust can cover costs of the business activities of its Trustees while they are engaged in the governance of The Trust
- The Open Meeting Act applies to The Trust except for certain enumerated matters
- The Trust's records are public except for certain enumerated matters
- The Trust's employees are not governmental employees

Discussion ensued about whether The Trust's initiatives could be passed during the legislative session and the strategy to take to achieve these objectives. It was agreed that the most important objective was the first – that The Trust is not a State agency but a quasi-public corporation.

Board consensus was that Mr. Beardsley should speak with House and Senate leadership to assess the prospects for securing passage of some or all of The Trust's legislative objectives.

3l. 2007-2008 Member Retention Strategies

Using a PowerPoint presentation, Mr. Dwyer discussed potential Member retention strategies with the Board. He raised the possibility of restricting certain Trust services based on a Member's level of participation, noting that presently little distinction is made. Consequently, a Member participating in only one Pool can access almost all Trust services in the same way that a Member in both Pools can, he said. He explained the marketing implications, both in terms of advantages and disadvantages, of such a practice.

Mr. Dwyer also presented other possible pricing-related inducement strategies, including the implementation of multi-line discounts and potential life insurance discounts.

Finally, he raised the possibility of banning entities from re-joining a Trust pool for a defined period of time once they depart. Mr. Dwyer noted that this strategy once was part of The Trust's Bylaws and is a strategy used by many of our sister Pools to discourage Member departures for short-term gains.

Board discussion ensued about the proposed Member retention strategies. Trustees commented that they did not feel comfortable taking services away from Members while substantial rate and premium increases in the Workers' Compensation Pool are being imposed. Board Members also expressed concern that multi-line discounts could create pricing inequities and mask financial issues.

The Board consensus was it is not interested in implementing the various retention strategies suggested by management for consideration.

3m. NLC-MIC Status Report

Prior to the meeting, the Board received a detailed memorandum dated October 12, 2006 from Mr. Dwyer updating the Board on recent NLC Mutual Insurance Company (NLC-MIC) developments of interest and addressing the question of the continuation of our equity investment in the Company's workers' compensation line of business. Mr. Dwyer indicated that he does not recommend that The Trust exercise its option to withdraw its capital from the Company and provided supporting reasons for the recommendation.

Discussion ensued about NLC-MIC's Member participation and the reduction in the number of reinsurance contracts and premium volume. Mr. Dwyer indicated that the Company's remaining book of business is better, especially in the Workers' Compensation line, because some of the departed member pools had extremely poor loss experience at under-priced levels and serious claims reporting issues. He added that the reduced size of book of business translates into improvements in some benchmark ratios for the Company because surplus is now covering a smaller exposure.

Mr. Dwyer highlighted a letter from NLC-MIC's regulator that expressed continued confidence in the Company's ability to pay claims and remain financially viable.

Trustees expressed the need for management to continue to closely monitor the solvency of the Company and to report periodically to the Board as may be warranted. Trustees did not express any interest in withdrawing The Trust's capital from the Company at the present time.

3n. Life Insurance Status Report

Prior to the meeting, the Board received a memorandum dated October 4, 2006 from Mr. Dwyer and Ms. Grassini providing a status report of the Life Insurance Program. Using a PowerPoint presentation, Ms. Grassini provided a summary of the transition to Standard Insurance Company since 2005-2006 marked the first annual period with them.

Ms. Grassini summarized The Trust's Loss Ratio history for all claims (basic life, accidental death and dismemberment, additional/supplemental insurance and dependent coverage) from the Program's inception date. Next, Ms. Grassini explained that the arrangement with The Standard includes an Experience Rating Refund Agreement and Claims Fluctuation Reserve Account (CFR). She said that the CFR allows The Trust to share in "profits" that might be realized from sustained, favorable loss experience. She detailed the experience to date in the CFR.

In response to a question from Mr. Kerbel, Ms. Grassini and Mr. Dwyer explained the reason that an Incurred But Not Reported reserve amount is established in a life insurance program. Mr. Alfred asked Ms. Grassini if she was comfortable with the life insurance software and retained consultant now being used to help manage the life insurance program; Ms. Grassini indicated that she was.

3o. Flood Zone Coverage Update

Prior to the meeting, the Board received a memorandum dated October 4, 2006 from Mr. Dwyer and Ms. Bodziony regarding the evolution since July 1st of The Trust's property coverage for Flood Zone A and V properties for the 41 Members affected by the new flood zone program requirements. Using a PowerPoint presentation, Ms. Bodziony and Mr. Dwyer provided a summary of these changes.

First, Ms. Bodziony noted that management worked with RSUI, The Trust's property reinsurer, to extend the coverage limitation date to October 15, 2006. Ms. Bodziony next provided a status of Member-chosen flood coverage options effective October 16, 2006, noting that 20 Members have elected the \$2 million coverage limit and 21 Members have elected the \$10 million coverage limit through NFIP coverage or by self-insuring flood zone property. Ms. Bodziony said that about 70-100 individual policies will be placed with NFIP on behalf of the 41 Members with total premium volume expected to be

between \$275,000 and \$350,000. Ms. Bodziony then noted The Trust has received clarification from our reinsurer that Members properties physically located in Zones A and V which do not qualify for NFIP coverage for various reasons nonetheless retain regular flood insurance coverage at the \$10 million limit as if they were not in Zone A and V. Finally, Ms. Bodziony explained that this intensive review of Flood Zone A and V properties revealed some inaccuracies in The Trust's master data base which are now being corrected.

Mr. Dwyer explained that in recognition of the complex and time-consuming work of Trust staff in arranging the NFIP coverage, management is currently negotiating a small administrative fee to be paid to The Trust by our broker to compensate us partially for this activity. He said that the fee will not increase the cost to the Member for NFIP coverage; rather, it reduces the commission that the broker receives on a net basis from First American Property & Casualty Insurance Company, the insurer who quotes and administers the NFIP coverage.

Using a PowerPoint slide, Mr. Dwyer also briefed the Board on a clarification to the way the RSUI limit would be applied in various loss scenarios.

Mr. Alfred complimented The Trust staff on its good work in putting the NFIP together for Members to access on a tight time frame.

3p. Recognition for Retiring Trustees

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

4. Operations and Funding Reports

Mr. Dwyer distributed to the Board the Operations and Funding Report as of September 30, 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, the Workers' Compensation Pool and special Member programs. Mr. Dwyer briefly reviewed recent significant loss activity affecting the Loss Ratios.

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: August 23, 2006; and September 27, 2006

- ii) Investment and Audit Committee: September 14, 2006
- iii) Risk Management Committee: September 28, 2006 (regular and Executive Session)
- iv) Underwriting Committee: June 22, 2006

b) Quarterly Investment Performance Report

The past quarter's Investment Performance for the period ending June 30, 2006 as prepared by Punter Southall & Co. LLC, The Trust's investment advisor, was presented to the Board as an informational item.

6. Adjournment

The meeting stood adjourned at 5:00 p.m.

Respectfully Submitted,



COLLEEN M. BODZIONY
Corporate Secretary