RHODE ISLAND INTERLOCAL

The Trust

RISK MANAGEMENT TRUST

THE TWELFTH ANNUAL JOINT MEETING
OF THE
BOARD OF TRUSTEES AND ITS COMMITTEES
OF
THE RHODE ISLAND INTERLOCAL RISK MANAGEMENT TRUST

Newport Harbor Hotel and Marina
Newport, Rhode Island
October 19 and 20, 2007

MINUTES

Chairman Alfred called the meeting to order at approximately 8:35 A.M., October 19, 2007.

1. ROLL CALL

Trustees Present
Stephen Alfred, Town of South Kingstown
Scott Avedisian, City of Warwick
Mike Petrarca, West Warwick Schools (October 19, 2007 only)
Wolfgang Bauer, Town of West Warwick
Jack Ambrogi, Newport School Department (October 19, 2007 only)
Gerry Kempen, Town of Middletown
Ed Mara, Bristol Warren Regional Schools
Lori Miller, Lincoln School Department
John Mainville, Town of Burrillville
Bruce Keiser, Town of Jamestown
M. Richard Scherza, Cranston Public Schools
Daniel Beardsley (*ex officio),* Rhode Island League of Cities and Towns

Trustees Absent
Mike Petrarca, West Warwick Schools (October 20, 2007 only)
Jack Ambrogi, Newport School Department (October 20, 2007 only)

Others Present
Thomas Dwyer, Trust President and Executive Director
Colleen Bodziony, Trust Membership Services Manager
Ian Ridlon, Trust General Counsel and Director of Legal Services
Ron Slovak, Trust Chief Financial and Administrative Services Officer
Russ Godin, Trust Claims Manager
Brian Ahern, Trust Loss Prevention Manager
Denise Lapolla, Trust Workers' Compensation Claims Manager
Mark Stoughton, Trust Information Services Manager
Linda Grassini, Trust Benefits Program Operations Manager
Debby Maynard, Trust Executive Assistant

Mike Riccitelli, Trust Underwriting Analyst (October 20, 2007 only)
Linda Celona, North Providence School Department
Col. Stephen McCartney, City of Warwick Police Department
Joe Balducci, Cranston Public Schools
Jeff Kadison, Practical Actuarial Solutions (October 19, 2007 only)
Mike Lynch, Punter Southall (October 19, 2007 only)
Bill Heberton, National League of Cities – Mutual Insurance Company
Ron Tarro, Town of Barrington (October 19, 2007 only)
Alan Lord, Town of South Kingstown
Bob Hicks, South Kingstown Schools
Bob Smith, AON Risk Services, Inc. (October 20, 2007 only)
Jim Evans, Albert Risk Management Solutions (October 20, 2007 only)

2. Approval of Minutes of Board Meeting of June 26, 2007

On a motion made by Trustee Avedisian, seconded by Trustee Mainville, the Board voted to approve the minutes, both regular and Executive Session, of the Board meeting of June 26, 2007.

Trustee	Vote	Trustee	Vote
Stephen Alfred	aye	Jack Ambrogi	aye
John Mainville	aye	Gerald Kempen	aye
Scott Avedisian	aye	Edward Mara	aye
Wolfgang Bauer	aye	Lori Miller	aye
Michael Petrarca	aye	M. Richard Scherza	aye
Bruce Keiser	aye		

3. Business Items

3.a. Loss Trends Review

i) Management Overview of IBNR & Actuarial Indications

Prior to the meeting, Mr. Dwyer provided the Board with a memorandum dated October 5, 2007, summarizing the actuarial results as of June 30, 2007, and related financial implications. Mr. Dwyer explained that the actuarial review is conducted each year to determine the actuarial range for the Incurred But Not Reported (IBNR) reserve. Within that range, Management selects an amount which is then 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 significantly (approximately 50%) from slightly over $12.2 million to approximately $18.2 million.
To illustrate the relationship of the IBNR reserve to claim activity, he then asked Russ Godin, The Trust's Property/Liability Claims Manager, and Denise Lapolla, The Trusts' Workers' Compensation Claims Manager, to explain the "Life of a Claim."

Mr. Godin, working from a PowerPoint presentation, discussed the process by which claims are processed by The Trust staff. Specifically, he identified key points in the process, noting that the Loss and Expense Reserve is reviewed regularly and stating that adjustments are made if and when necessary. He also focused on when the actuary becomes involved in the process. Finally, Mr. Godin went through a specific example of an auto liability case.

Next, Ms. Lapolla used the example of a workers' compensation repetitive injury case to demonstrate the variation between the initial claim set-up and the claim closure. During the course of that discussion, Trustee Beardsley inquired about how the investigations are conducted. Trustee Kempen asked similar questions and Committee member Bob Hicks noted the importance of conducting pre-employment physical examinations.

Chairman Alfred the raised the issue of the "conflict" between The Trust's interest in moving injured workers to the pension system and the burden that the municipalities face when the worker moves to the pension system. Further discussion followed on this point.

Mr. Dwyer then presented an analysis of loss ratios by policy year. Utilizing a PowerPoint presentation, Mr. Dwyer first focused on the Workers' Compensation Pool. He explained that, in response to sustained losses, The Trust was forced to sharply increase premium levels beginning in policy year 2004 and thereafter. This was also the result of The Trust drastically cutting the premiums in policy year 1998 to remain competitive. He noted, though, that all of the workers' compensation insurers had maintained unrealistic expectations about losses and that all were forced to raise premiums in response.

Mr. Dwyer observed that the workers' compensation loss ratio trends appear to be changing, and by means of several graphs, showed the potential that the Workers Compensation Pool might be profitable for each of the last three policy years depending on how claims develop in relation to the actuary's estimate of the IBNR reserve.

Next, Mr. Dwyer discussed the profitability of the Property/Liability Pool for the policy years 1994 to 2002. He explained that a large contributing factor to the increase in profitability is that The Trust has been able to decrease its reserved losses for many of those policy years due to the closure of pending claims at levels well below those projected by the claims staff and the actuary. He concluded by indicating that, assuming typical favorable developments over time, policy years 2002 through 2006 should all be profitable, and policy year 2007 may be, as well. Mr. Dwyer then stated that the performance of the Property/Liability Pool has been a major contributing factor to the increase in member Equity, but also noted that the Workers' Compensation Pool is beginning to contribute to that increase, as well.

ii) Projected Closing Financial Position as of June 30, 2007

Utilizing a PowerPoint presentation, Mr. Dwyer indicated that, preliminarily, the Member's Equity for the year ending June 30, 2007 is being estimated by Management at about $18.2 million. He also discussed how this position compared to the historical position of The Trust.

Mr. Dwyer reiterated, however, that this estimate for this fiscal year was still unaudited, and was subject to change.

Report from Actuary – the Loss Reserve Analysis ending June 30, 2007

Prior to the meeting, the Board received a copy of the detailed actuarial report as of June 30, 2007, prepared by The Trust's actuary, Jeffrey Kadison of Practical Actuarial Solutions, along with a detailed memorandum dated October 5, 2007, 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 first discussed the Workers' Compensation loss ratios. For the current policy year, he noted that the ultimate loss ratio to the standard premium was estimated at 72% which is better than breakeven. For the prior policy years' period, actual loss emergence was only $159,000 which was far lower than the anticipated loss emergence by about $2.77 million, a very positive sign, he said.

Mr. Kadison next discussed the loss level drivers. He noted improving claim closing rates and stated that, while the ultimate claim severity is still high, it is beginning to stabilize. He also discussed the fact that though "lost time" claims remain at a high level as a percent of total claims, that percent is no longer increasing. In response to a question from Trustee Keiser about whether changes to the Workers' Compensation statute have impacted our results, Mr. Kadison said that there had not been any significant changes to the statute that would impact the analysis. In conclusion with respect to the Workers' Compensation loss analysis, Mr. Kadison noted that the focus going forward should be on controlling lost time claims.

Mr. Kadison next gave a brief discussion of the Injured on Duty ("IOD") program. For the current policy year, he noted that reported loss and allocated loss adjustment expenses ("ALAE") levels were favorable. In addition, with respect to the prior policy years' period, continuing favorable loss development compared to his previous estimates of needed loss reserves has generated a reserve reduction, he said.

Mr. Kadison then turned to the Property/Liability Pool. He discussed the results from the current policy year noting, among other things, that loss levels are at average levels. For the prior years' period, he stated that the "pleasant surprises" exceeded the "unpleasant surprises" especially with respect to automobile liability claims.

With respect to Property claims in particular, he indicated that loss levels have increased by 78% from fiscal year 2006. Additionally, he said it was significant that, while claim frequency decreased by 10% from fiscal year 2006, the average claim cost has increased by 98%. Mr. Dwyer noted that Management has already recognized this trend as a serious problem and has taken a number of steps to address it. A brief discussion among Management and the Trustees followed regarding the impact of frequency versus severity of claims. At the conclusion of the discussion, Mr. Dwyer noted one positive aspect in handling property claims – the fact that there are very limited IBNR reserves associated with these types of claims making estimation of ultimate loss levels more accurate.

3.b. Report of the Risk Management Committee

Prior to the meeting, Mr. Dwyer provided the Board with the Report of the Risk Management Committee dated October 10, 2007.

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

- Updated Trust Model Sexual Harassment Policy;
- Approved a monetary grant to the Rhode Island Municipal Police training Academy to help fund a Job Task Analysis for police officers;
- Oversaw a Firearms Training System (FATS) upgrade;
- Developing uniform certification standards for training of police tactical teams; and

- Reviewed two independent management audit reports of both The Trust Claims and Loss Prevention Departments conducted by outside agencies on behalf of NLC-MIC.

Mr. Bauer also reported that the Committee had completed work on a Model "Guide to Implementing a Return to Work Program" for Trust Members, and that it had begun to investigate the possibility of offering Members on-line web-based safety training. He concluded by noting that both of these topics would be discussed later in more detail, and by thanking the Committee members and Trust staff for all of their hard work.

Brian Ahern, The Trust's Loss Prevention Manager, reported that The Trust recently trained its 5,000th officer on the FATS system.

i) Mini-Demo of On-line Web Based Training System

Mr. Ahern explained that, at the suggestion of the Risk Management Committee, he had arranged for an abbreviated demonstration of on-line Web based training as part of this meeting so that Trustees could be come acquainted with its potential for use in The Trust's risk management repertoire of training programs, and so that Trustees could offer comments on whether it seemed valuable and useful to them as municipal and school officials. He said that the Committee had recently participated in a lengthier on-line demonstration from FirstNet Learning, one of the leading companies that offer this type of training. FirstNet Learning representatives then joined the meeting by way of conference phone and video for the demonstration.

After the demonstration, a brief discussion about merits of on-line training followed among the Trustees and Committee members. Items covered included: likely costs of the program, term of commitment to the learning company, the value of the courses to local governmental and school employees, and the possibility of trial tests of the program.

The general consensus was that on-line training of the kind demonstrated had considerable potential and should be investigated further as a component of The Trust's overall risk management training offerings. Several Trustees noted that younger employees in particular are already pre-disposed toward this type of on-line training as they have been using this form of learning for some time.

Chairman Alfred then recommended that the issue be returned to the Risk Management Committee for further study.

ii) Return to Work Initiative

Mr. Ahern reported to the Trustees that the "Guide to Implementing a Return to Work Program" was attached to the Report of the Risk Management Committee. He further indicated that Appendix "A" to that document included model language to be used during contact negotiations. Trustee Bauer stated that he believed that Members should be obligated to use the proffered language during contract negotiations and that, if they don't, they should be subject to penalties. Mr. Dwyer advised that the "penalties" could be in the form of an underwriting debit or credit.

Further discussion among Trustees, Committee members and Management centered on the commitment of Members to the basic concept of return-to-work in a limited capacity, the role and cooperation of medical care providers in a successful return-to work program, and impact of collective bargaining provisions in implementing return-to-work programs.

Trustee Beardsley suggested that The Trust Members utilize the sample language provided by the National Public Employer Labor Relations Association for contract negotiations regarding return-to-work provisions and noted that he has found that the language to be "battle tested" and relatively well balanced.

Chairman Alfred concluded the discussion by noting that return-to-work programs are a "balancing act" involving many and sometimes competing interests, but Members need to be encouraged to be more diligent in moving forward on such programs.

3.c. Report of the Investment and Audit Committee

As chair of the Investment and Audit Committee, Alan Lord introduced the report of the Committee and used a PowerPoint slide presentation to highlight key aspects of the Committee's work this past year and plans for the coming year. He noted that Punter Southall had also provided the Committee and the Board with additional detail in an Executive Summary describing The Trust's investments generally for the fiscal year ending June 2007.

Mr. Lord focused his comments on The Trust's Fixed Income Portfolio:

- Loomis Sayles did not live up to expectations during 2005 and was replaced by Galliard Capital Management. He reported that Galliard has been meeting The Trust's investment standards.
- Columbia, another of the fixed income investment managers, had underperformed in the past year, but its performance was still acceptable with respect to the three year benchmarks. He stated, though, that the Committee would continue to carefully monitor Columbia's performance.
- The performance of PIMCO, the third investment manager, was acceptable, but lagging recently. He explained that this was due to the fact that its strategies were based upon an assumption that the Federal Reserve Bank would cut rates. If this happens and continues to happen, the Committee believes that PIMCO's performance should improve dramatically.

Mr. Lord stressed that The Trust's Fixed Income Portfolio has very little exposure to the sub-prime mortgage markets.

Also, Mr. Lord briefly highlighted the Committee's work reviewing The Trust's 2006 Fiscal Year audit results and auditor recommendations.

Next, working from a PowerPoint presentation, Mr. Slovak, The Trust's Chief Financial and Administrative Services Officer, described The Trust's investment program as a primer for the newer Trustees and a refresher for the veteran Trustees. He explained that the investment portfolio had three basic components – fixed income fund, equity funds, and liquidity funds – and described the characteristics of each and its purpose in meeting the overall objectives of the investment program. For each component, he identified the relevant benchmarks, asset quality, and asset allocation, and risk characteristics permitted under The Trust's approved Investment Policy.

Mr. Slovak concluded his presentation by giving an overview of the Committee's focus for fiscal year 2008. Among the items slated for review, he said, were:

- the asset allocation in the Fixed Income Portfolio,
- continued monitoring of the performance of the portfolio managers, especially Columbia,
- the balances in each of the components of the Portfolio with a likely decreased reliance upon the Liquidity Pool,
- continued close analysis of investment fees,

- regular evaluation of the appropriate mix of equity mutual funds within the Equity Pool, and
- continued monitoring of the impact of the sub-prime mortgage collapse on The Trust's portfolio and the overall market.

Chairman Alfred then noted that $4.6 Million of The Trust's projected $18 Million in Member Equity is held by NLC Mutual Insurance Company (NLC-MIC) as restricted funds and is not managed by The Trust. Mr. Lord commented that Saslow, Lufkin & Buggy, The Trust's independent auditors, has examined in depth The Trust's treatment of the NLC-MIC funds and has opined that the treatment is in accord with generally acceptable accounting practices.

i) Annual Investment Performance Summary and Review

Prior to the meeting, the Board received the Punter Southall Annual Investment Summary Report for The Trust Portfolio. Mr. Lynch of Punter Southall began his presentation by discussing the evolution of The Trust's portfolio noting that it was subject to the restrictions set forth in the Investment Policy developed by the Investment and Audit Committee and approved by the Board.

Mr. Lynch then 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, 2007, 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 performance during the past fiscal year was one of its best annual performances ever, and its performance during the most recent quarter has continued to be strong.

Mr. Dwyer concluded the discussion by stating that Punter Southall, and Mr. Lynch in particular, has done an excellent job for The Trust over the last 10 years.

ii) Portfolio Impact on Trust Bottom Line

According to the Punter Southall Executive Summary describing The Trust's investments for the fiscal year ending June 2007, it was indicated that The Trust gained 7.7% (net of fees). The Trust income from investments for fiscal year 2007 was just shy of $4 Million.

3.d. Board Governance

i) Open Trustee Positions

Chairman Alfred noted that the Warwick Public Schools had withdrawn from The Trust, thus making Robert Dooley ineligible to maintain his position as a Trustee. He further noted that Rich Kerbel had resigned his position with the Town of Coventry, thus causing him to lose his position on the Board, as well.

After recommendations to the Board by Chairman Alfred, on motion made by Trustee Avedisian, seconded by Trustee Scherza, the Board voted as follows to appoint Richard Brown to the Trustee position (term expiring 2008) vacated by Rich Kerbel, and Frances Gallo to the Trustee position (term expiring 2010) vacated by Bob Dooley:

Trustee	Vote	Trustee	Vote
Stephen Alfred	aye	Jack Ambrogi	aye
John Mainville	aye	Gerald Kempen	aye

Scott Avedisian	aye	Edward Mara	aye
Wolfgang Bauer	aye	Lori Miller	aye
Michael Petrarca	aye	M. Richard Scherza	aye
Bruce Keiser	aye		

ii) Committee Appointments

(1) Management Committee

Upon recommendation to the Board by Chairman Alfred, on motion made by Trustee Mara, seconded by Trustee Avedisian, the Board voted as follows to appoint Rick Scherza to the Management Committee:

Trustee	Vote	Trustee	Vote
Stephen Alfred	aye	Jack Ambrogi	aye
John Mainville	aye	Gerald Kempen	aye
Scott Avedisian	aye	Edward Mara	aye
Wolfgang Bauer	aye	Lori Miller	aye
Michael Petrarca	aye	M. Richard Scherza	abstain
Bruce Keiser	aye		

(2) Risk Management Committee

Upon recommendation to the Board by Chairman Alfred, on motion made by Trustee Avedisian, seconded by Trustee Bauer, the Board voted as follows to appoint Richard Brown to the Risk Management Committee:

Trustee	Vote	Trustee	Vote
Stephen Alfred	aye	Jack Ambrogi	aye
John Mainville	aye	Gerald Kempen	aye
Scott Avedisian	aye	Edward Mara	aye
Wolfgang Bauer	aye	Lori Miller	aye
Michael Petrarca	aye	M. Richard Scherza	aye
Bruce Keiser	aye		

(3) Investment and Audit Committee

Upon recommendation to the Board by Chairman Alfred, on motion made by Trustee Avedisian, seconded by Trustee Bauer, the Board voted as follows to appoint Frances Gallo to the Investment and Audit Committee:

Trustee	Vote	Trustee	Vote
Stephen Alfred	aye	Jack Ambrogi	aye
John Mainville	aye	Gerald Kempen	aye
Scott Avedisian	aye	Edward Mara	aye
Wolfgang Bauer	aye	Lori Miller	aye
Michael Petrarca	aye	M. Richard Scherza	aye
Bruce Keiser	aye		

(4) Nominating Committee

Upon recommendation to the Board by Chairman Alfred, on motion made by Trustee Ambrogi, seconded by Trustee Keiser, the Board voted as follows to appoint Rick Scherza to the Nominating Committee:

Trustee	Vote	Trustee	Vote
Stephen Alfred	aye	Jack Ambrogi	aye
John Mainville	aye	Gerald Kempen	aye
Scott Avedisian	aye	Edward Mara	aye
Wolfgang Bauer	aye	Lori Miller	aye
Michael Petrarca	aye	M. Richard Scherza	abstain
Bruce Keiser	aye		

Chair Alfred also designated Trustee Scherza to act as Chair of the Nominating Committee for its 2008 Report to the Membership at the January 2008 Annual Meeting.

3.e. Claim Activity Litigation

Notice of Intent to Seek to Convene into Executive Session

On a motion made by Trustee Mara, seconded by Trustee Mainville, the Board, after a unanimous roll call vote, convened into Executive Session pursuant to the Rhode Island Open Meetings Act, Rhode Island General Laws 42-46-5 (a)(2), in order to discuss litigation matters related to the cases of <u>Kane v. Town of Narragansett</u>, <u>McGregor v. City of East Providence</u>, and <u>Fonseca v. City of East Providence</u>.

Trustee	Vote	Trustee	Vote
Stephen Alfred	aye	Jack Ambrogi	absent
John Mainville	aye	Gerald Kempen	aye
Scott Avedisian	aye	Edward Mara	aye
Wolfgang Bauer	aye	Lori Miller	aye
Michael Petrarca	absent	M. Richard Scherza	aye
Bruce Keiser	aye		

Motion to Return to Open Session

On a motion by Trustee Bauer, seconded by Trustee Avedisian, the Board voted as follows to conclude the Executive Session and resume the public meeting:

Trustee	Vote	Trustee	Vote
Stephen Alfred	aye	Jack Ambrogi	absent
John Mainville	aye	Gerald Kempen	aye
Scott Avedisian	aye	Edward Mara	aye
Wolfgang Bauer	aye	Lori Miller	aye
Michael Petrarca	absent	M. Richard Scherza	aye
Bruce Keiser	aye		

Motion To Seal Minutes of The Executive Session

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

Trustee	Vote	Trustee	Vote
Stephen Alfred	aye	Jack Ambrogi	absent
John Mainville	aye	Gerald Kempen	aye
Scott Avedisian	aye	Edward Mara	aye
Wolfgang Bauer	aye	Lori Miller	aye
Michael Petrarca	absent	M. Richard Scherza	aye
Bruce Keiser	aye		

3.f. NLC-MIC Status Report

Prior to the meeting, Mr. Dwyer provided the Board with a memorandum dated October 11, 2007, intended to act as an update regarding The Trust's equity position in, and reinsurance coverage through, NLC Mutual Insurance Company ("NLC-MIC"). Attached to that memorandum was a memorandum to the Board from William B. Heberton, President and Chief Executive Officer of NLC-MIC, dated October 11, 2007, regarding Key Business Planning Considerations. Mr. Dwyer then introduced Mr. Heberton.

Prior to Mr. Heberton speaking, though, Mr. Dwyer, working from a PowerPoint presentation, gave an overview of The Trust's reinsurance structure for the 2007-08 policy year. He presented a chart showing The Trust's self-insured retention level and reinsurer(s) by line of coverage. Mr. Dwyer then used another chart to explain The Trust's Property Reinsurance Structure and Premium. This included a discussion of the "shared" nature of the first catastrophic layer of coverage.

Chairman Alfred noted that he had asked Mr. Dwyer to explain this so that those present would better understand that The Trust has limits to its liability exposure and is not "self-insured" with unlimited liability. He also noted that The Trust routinely reviews its retention levels to ensure that they are appropriate for The Trust's overall financial position given the risk exposure and the quoted reinsurance premium.

i) Presentation and Conversation with NLC-MIC President Heberton

After providing the Trustees with some personal background and the process by which he became President and CEO of NLC-MIC, Mr. Heberton, working from a PowerPoint presentation, discussed how the reinsurance market has changed significantly since 1988. He noted that one of the main drivers of the change is that there are no longer as many participants in marketplace.

He then stated that rating agencies, such as A.M. Best, do not understand how the municipal pools are different from commercial companies, which are driven by investor demand for profit. The municipal pools are more driven by the need to manage risk and keep premiums low and stable.

In his presentation, Mr. Heberton covered the following areas:

- The fraudulent scheme that was perpetrated by one of the NLC-MIC brokers on the Company (and two other insurers). At this point, he said, it appears likely that most, if not all, of the funds paid to the broker who never placed the coverage would eventually be returned to the Company by the Federal government; moreover, he said that since there appear to be no reinsurance claims asserted against those policy years for which coverage was never obtained, there will be no true "harm" to the Company and, in fact, it may well be as though the Company had four years of coverage for free. Mr. Heberton noted, though, that this was simply luck.

- The status of the commercial marketplace. He indicated that, after September 11, 2001, commercial insurers and reinsurers "ran away" from municipalities.

- The rapid Surplus growth experienced by NLC-MIC starting shortly after 2001 when the commercial reinsurers abandoned municipalities and many pools moved their business to NLC-MIC.

- NLC-MIC's most recent monthly Statement of Income and Balance Sheet. He noted that the Company's very sizable asset base presently is allowing sufficient investment income to be generated to pay all claims without even dipping into claims reserves. It was also noted that NLC-MIC has restated its December 31, 2005 Financial Statements to reflect on its books the impact of the broker fraud and an unrelated correction for an accounting error in recording certain reinsurance premiums due.

- The difficulty a reinsurer encounters in setting Loss Reserves compared to a primary insurer like The Trust.

- Recent workers compensation loss development trends in 2004 and 2005 in NLC-MIC's book of business and its negative impact on the Company's A.M Best rating.

Chairman Alfred inquired about what impact the departing member pools had on MLC-MIC. Mr. Heberton stated that, at its peak, NLC-MIC had 27 members and that it was currently down to 13. However, of those members that departed, only one member pool has withdrawn its member capital, and two are now considering returning. Mr. Dwyer stated that many of the members that departed left their capital with the Company to allow them to return without further financial contributions. He further noted that members will likely begin to return based upon NLC-MIC's performance and Mr. Heberton's ability to restore confidence in NLC-MIC's management.

Chairman Alfred concurred that confidence was the key. He further stated that he had lingering concerns about the lack of administrative controls, improper recording and reporting, and other issues. He stated that he wanted to be sure that NLC-MIC had its "house in order" before we bring back our workers' compensation business. He also noted that he wanted to see NLC-MIC's audited financial statements before making any decisions. Mr. Heberton said that Chairman Alfred's concerns were well founded and that he had the same concerns before accepting the job as President and CEO. However, he believes that NLC-MIC is addressing the critical areas.

Mr. Heberton also recommended that The Trust look at commercial lines for catastrophic workers' compensation coverage. For various reasons, he said he did not believe that was an area where NLC-MIC should offer coverage. Instead, he said he believed NLC-MIC should concentrate on offering coverage in the intermediate layer between the pool's retention and the catastrophic exposure layer.

Finally, he stated that he would not recommend that NLC-MIC write coverage below what it should be priced at simply to bring back members that had departed. He said that this was not a good business practice.

To conclude the discussion, Mr. Dwyer advised the Board that he had just a day earlier been informed by The Trust's independent auditors that it might be necessary for an adjustment or restatement to be made to The Trust's June 30, 2006 Financial Statements in light of the re-statement of NLC-MIC's December 31, 2005 Financial Statements. He said that he did not expect that the adjustment or re-statement, if it became necessary, to affect Members' Equity. Instead, it would just change the starting point for the current fiscal year and thus the amount of the Surplus growth that occurred in the past year. He reported that The Trust's auditor was in the process of researching whether such an adjustment or re-statement was required by generally accepted accounting and auditing practices.

3.g. Catastrophic Property Coverage for 2008-2009

Prior to the meeting, Mr. Dwyer provided the Board with a memorandum dated October 11, 2007, regarding Catastrophic Property Reinsurance Considerations and Options. Mr. Dwyer began the discussion of the catastrophic coverage by noting that there were three basic inquiries that the Trustees should be thinking about during the ensuing discussion. The first is whether The Trust should consider reducing the $500 Million cap. The second is whether Members would consider taking a windstorm deductible and, if so, at what level. The third is whether The Trust should rely more heavily on the expectation that FEMA assistance will be available to lessen the need for catastrophic property coverage.

i) Catastrophic Modeling

Bob Smith of AON Risk Services and Jim Evans of Albert Risk Management Solutions were introduced by Mr. Dwyer. Mr. Smith then gave a brief overview of the catastrophic property coverage program as it currently exists. This was similar in nature to Mr. Dwyer's previous discussion of The Trust's Property Reinsurance Structure and Premium. He also pointed out notable conditions and exclusions. Mr. Evans added various comments about coverage options from his perspective as an independent consultant.

After giving an overview of the current program, Mr. Smith indicated that, in prior years, the catastrophic property reinsurer, RSUI Indemnity Company, had been willing to take on the total amount of excess liability. However, because of the new windstorm models that were being created, RSUI could no longer bear all of the risk. That led to the current situation that we have wherein RSUI and Lexington share the middle layer of excess coverage.

Mr. Smith next discussed the premiums paid for the coverage and noted that it was very reasonable under the circumstances, especially in light of the fact that there is no windstorm deductible and full policy limits are available for wind exposure. Trustee Kempen then asked about the terrorism coverage. A brief discussion ensued regarding "certified" and "non-certified" terrorism, but importantly, it was noted that both are covered under the policy.

Mr. Smith then discussed the market trends for catastrophic property loss coverage. He noted that 2005 was the worst year ever on record for insured catastrophic losses. While the absence of large East Coast storms in 2006 resulted in record industry profits, premiums have not yet begun to recede accordingly. Mr. Smith reported that underwriters are indicating that they do not have any confidence in historic trends, so they are relying more upon modeling. The modelers are saying that 2005 is more the norm than the exception. Accordingly, the market reflects that type of thinking with higher premiums and deductibles.

As part of his presentation, Mr. Smith summarized the relevant findings of the "New England Earthquake and Coastal Windstorm" Study performed by AON's Natural Hazards unit for the insured properties of The Trust's Members. The study calculated the damage estimates and probability of catastrophic earthquake and windstorm losses at various magnitudes. The Study was provided to the Board by Management.

Trustee Bauer inquired whether it would be necessary to determine whether the windstorm or the flooding happened first to determine coverage. Mr. Smith stated that, because there is coverage for both, it is an issue of what limit applies rather than whether there is coverage.

ii) Future Coverage Options

Mike Riccitelli, The Trust's Underwriting Analyst, then utilized a brief PowerPoint presentation to demonstrate two loss scenarios. The first involved losses at a limited number of member buildings with and without the 2% windstorm deductible and the second involved losses to all of a number of members' buildings with and without the 2% windstorm deductible. Mr. Smith stressed that the deductible in question is a percentage of the value of the buildings and not a "set" deductible as it is in other coverages.

Trustees, Committee members, Management and the consultants then discussed a variety of payment scenarios, questions and issues regarding the applicability of windstorm deductibles in certain loss situations. Mr. Smith indicated that some of these situations might be able to be negotiated in advance with the reinsurer. Based upon this discussion, Chairman Alfred expressed his opinion that the increased risk to the Member arising from the use of windstorm deductibles did not seem to be worth the decrease in premium.

Discussion next continued on the issue of FEMA coverage, again with various scenarios being considered and the merits and demerits of expecting FEMA assistance in the event of a loss being weighed.

Mr. Dwyer observed that The Trust could develop other strategies such as creating a reserve to partially meet the windstorm deductible that would be funded with the reinsurance premium saved by accepting such deductibles. These strategies are not without difficulties in administration, though, and would, at least in the short run, not be any cheaper and would result in more risk. Thus, Mr. Dwyer concluded that the two most promising strategies would appear to be lowering the $500 Million cap and relying upon FEMA to fill the deductible gap. He then stated that we can defer a decision on this until the market forces us to act. However, it is in our best interest to be prepared for that circumstance.

Mr. Smith then pointed out that relying on FEMA might also be problematic because it can take an inordinate amount of time for entities experiencing damage to get reimbursed. He, too, suggested that reducing the cap would probably be the best way to achieve savings while maintaining the necessary level of coverage, especially in light of the findings in the Earthquake and Windstorm Study.

On a motion by Trustee Bauer, seconded by Trustee Mara, the Board voted as follows to defer on making any decisions relative to coverage levels and deductibles until there is a significant change in the market:

Trustee	Vote	Trustee	Vote
Stephen Alfred	aye	Jack Ambrogi	absent
John Mainville	aye	Gerald Kempen	aye
Scott Avedisian	aye	Edward Mara	aye
Wolfgang Bauer	aye	Lori Miller	aye
Michael Petrarca	absent	M. Richard Scherza	aye
Bruce Keiser	aye		

3.h. Enabling Legislation Changes for 2008 Legislative Session – Another Look

Prior to the meeting, Mr. Dwyer presented to the Trustees a memorandum to him from Ian C. Ridlon, Trust General Counsel and Director of Legal Services, dated October 11, 2007, regarding The Trust's Enabling Legislation. The question he placed before the Trustees is whether The Trust should move forward in the coming legislative session with its effort to change the Enabling Legislation or defer moving on it again.

Trustee Bauer expressed his belief that this issue does not need to be addressed if nothing is changing. Mr. Dwyer responded that certain of the areas to be addressed would help greatly in the administration of Trust operations and eliminate the possibility of problems and complications surfacing at inopportune moments when The Trust might wish to take specific actions with respect to programs and services. Moreover, he noted that the proffered legislation has passed both houses of the legislature in the past and that the stumbling blocks that had derailed its final passage in the past have been greatly diminished, notably the issue of DBR oversight. The only remaining hurdle would appear to be the unfounded opposition of Delta Dental, he observed.

Trustee Beardsley then stated that other issues would likely arise that would hinder the passage of the legislation that were not raised before because there was no reason to raise them. Trustee Beardsley suggested that the better way for The Trust to clarify the issues that are in question would be through the judicial system rather than through the Legislature. The rationale for that position was that the legislature often acts on issues without regard to the merits. Thus, Trustee Beardsley suggested that The Trust defer any action until its practices were subject to challenge and then vindicate them in the courts.

Trustee Avedisian also expressed a concern about trying to take action when there is no pressing need. He noted that this often leads to scrutiny that would not have otherwise existed, and stated that the current political climate may not be conducive to getting the legislation passed.

On a motion by Trustee Bauer, seconded by Trustee Keiser, the Board voted as follows to refrain from moving forward with proposed changes to The Trust's enabling legislation during the 2008 legislative session:

Trustee	Vote	Trustee	Vote
Stephen Alfred	aye	Jack Ambrogi	absent
John Mainville	aye	Gerald Kempen	aye
Scott Avedisian	aye	Edward Mara	aye
Wolfgang Bauer	aye	Lori Miller	aye
Michael Petrarca	absent	M. Richard Scherza	aye
Bruce Keiser	aye		

After the vote, Mr. Ridlon expressed some concerns about our obligations to carefully follow certain statutory mandates such as those set forth in the open Meetings Act and the Public Access to Records Act as we have voluntarily agreed to comply with those statutes. Chairman Alfred requested that Mr. Ridlon prepare a memorandum for the next meeting outlining the obligations that he feels are important for The Trust to consider as part of its overall program of voluntary compliance.

3.i. Applicability of Exit Capitalization Fee to Returning Members

At the suggestion of Chairman Alfred, this matter was deferred to the next quarterly meeting of the Board.

4. Operations and Funding Report

Mr. Dwyer distributed to the Board the Operations and Funding Report as of August 31, 2007 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 noted that the ratios reported were the same as those presented in the Loss Trends Review, but without IBNR. He commented that the Loss Ratios for the Workers' Compensation Pool are continuing to trend downward.

He also identified key developments recently occurring in claim activity that explain the changes in the trend lines during the last several months.

On a motion made by Trustee Kempen, seconded by Trustee Keiser, the Board voted unanimously to accept the Operations and Funding Report as presented.

Trustee	Vote	Trustee	Vote
Stephen Alfred	aye	Jack Ambrogi	absent
John Mainville	aye	Gerald Kempen	aye
Scott Avedisian	aye	Edward Mara	aye
Wolfgang Bauer	aye	Lori Miller	aye
Michael Petrarca	absent	M. Richard Scherza	aye
Bruce Keiser	aye		

5. Informational Items

a. Minutes of Committee Meetings

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

i) Investment and Audit Committee: September 13, 2007
ii) Risk Management Committee: September 27, 2007

b. Member Departure: Central Falls Detention Facility

Prior to the meeting, the Board received a memorandum dated August 27, 2007, from Mr. Dwyer regarding the departure of the Central Falls Detention Facility Corporation as a Member of The Trust's Property/Liability Pool. There were no questions or discussions regarding this informational item.

c. 2006-2007 Life Insurance Status Report

Prior to the meeting, the Board received a memorandum dated October 5, 2007, from Mr. Dwyer and Linda Grassini, The Trust's Benefits Program Operations Manager, regarding the status of the Life Insurance Program. There were no questions or discussions regarding this informational item.

d. Workers Compensation Performance Reporting and Ranking

Prior to the meeting, the Board received a memorandum dated October 5, 2007, from Mr. Dwyer and Denise Lapolla, The Trust's Workers' Compensation Claims Manager, regarding The Trust's Workers' Compensation Performance Reporting and Ranking. There were no questions or discussions regarding this informational item.

e. Quarterly Investment Performance Report

The past quarter's Investment Performance for the period ending June 30, 2007, as prepared by Punter Southall & Co. LLC, The Trust's investment advisor, was presented to the Board as an informational item.

6. Adjournment

On a motion made by Trustee Kempen, seconded by Trustee Mara, the Board voted unanimously to adjourn the meeting.

Trustee	Vote	Trustee	Vote
Stephen Alfred	aye	Jack Ambrogi	absent
John Mainville	aye	Gerald Kempen	aye
Scott Avedisian	aye	Edward Mara	aye
Wolfgang Bauer	aye	Lori Miller	aye
Michael Petrarca	absent	M. Richard Scherza	aye
Bruce Keiser	aye		

The meeting then stood adjourned at approximately 12:30 P.M., October 20, 2007.

Respectfully Submitted,

Ian C. Ridlon
Corporate Secretary