

**TML RISK MANAGEMENT POOL
BOARD OF DIRECTORS MEETING
DATE OF MEETING: FEBRUARY 12, 2016
BRENTWOOD, TENNESSEE**

The Board of Directors of the TML Risk Management Pool (“The Pool”) met at 10:00 a.m. on February 12, 2016 at the Pool’s office in Brentwood, Tennessee in its regular meeting.

Board Members present included: Chairman Samuel Tharpe, Vice-Chair Ken Wilber, Ann Davis, Curtis Hayes, and Garry Welch. Tommy Green, Pete Peterson, Tom Rowland and Kay Senter participated via telephone.

TML Pool staff present were: Dawn R. Crawford, President/CEO; Jon Calvin, Director of Underwriting; and Charles DeMore, Executive Vice President and CFO & Director of Human Resources.

Also present were Russ Farrar, General Counsel; Margaret Mahery, Executive Director, TML; Charles “Bones” Seivers, President, TMBF; and, Gwelda Swilley-Burke with Callan & Associates, Inc.

1. APPROVAL OF MINUTES

Motion was made by Hayes to approve the minutes of the December 16, 2015 Board meeting; seconded by Welch. **PASSED UNANIMOUSLY**

2. INVESTMENT ANALYSIS REPORT FOR 2015

Gwelda Swilley-Burke with Callan & Associates, Inc. directed the Board’s attention to a report entitled *Investment Measurement Service Annual Review* which presented an executive summary of the Pool’s investment performance for the year ended December 31, 2015. She commented on general market conditions and performance in 2015.

The Pool’s portfolio was comprised of 94% fixed-income securities and 6% cash and cash equivalents at year-end. The Pool’s securities portfolio represented approximately 65% municipal bonds with the remaining balance in agency securities. Ms. Swilley-Burke noted that the Pool’s 2015 total composite return (with cash being considered) was 4.39% and its fixed income return (without cash being considered) was 4.70%, both of which returns exceeded each of the Barclays benchmarks, including the Barclays Municipal Index of 3.30%.

The Pool’s portfolio duration of 10.75 years is extended further out than Barclay’s Municipal Bond Index’s duration of 6.24 years. The Pool’s effective yield is also greater at 3.73% compared with the Index’s effective yield of 1.66%. She also noted that the quality of the Pool’s portfolio rating is AA, which complies with the Pool’s investment policy.

Motion was made by Hayes to approve the 2015 investment analysis report; seconded by Davis. **PASSED UNANIMOUSLY**

3. FINANCIAL REPORTS

A. Charles DeMore presented the Statement of Revenues, Expenses and Changes in Net Position for the six months ended December 31, 2015. DeMore informed Board members that for internal management and operational decision-making the Pool's financial statements will be presented to the Board in the same format that is consistent with the past many years. He noted that while such internal presentation is not in strict compliance with GASB Statement No. 65, year-end financial statements presented for public and regulatory presentation will comply with this statement. DeMore stated that gross earned premium was \$35,078,357, which is \$1,229,992 or 3.63% more than this time last year. Reinsurance premiums ceded of \$5,445,705 was \$133,160 or 2.51% more than last year due primarily to increases in workers compensation coverage. Net earned premium was \$29,632,652, which is 3.84% more than the prior year. Investment income totaled \$4,046,625, which was \$251,211 or 5.85% less than last year's actual investment earnings. However, compared with this year's budget projections, investment income is \$334,125 or 9.00% more. Total revenues of \$33,809,475 were \$822,615 or 2.49% more than last year's actual revenues.

In the expense category, DeMore stated that total loss and loss adjustment expenses incurred of \$28,313,883 were \$2,128,966 or 8.13% more than last year. Policy acquisition costs of \$4,073,767 were \$443,801 or 12.23% more than last year. Total General and Administrative Expenses of \$3,425,222 were 5.15% or \$167,908 more than last year's actual expenses. However, compared to this year's budget, administrative expenses are \$533,693 or 13.48% less than projected. Total expenses were \$35,812,872 which is 8.29% or \$2,740,675 more than last year.

The Pool's operating loss at December 31, 2015 was \$2,003,397. DeMore noted that the operating loss combined with the change in unrealized gains on investments of \$2,364,931 for the current period resulted in an increase in net position of \$361,534 for the six months ended December 31, 2015.

DeMore reviewed the Statement of Net Position as of December 31, 2015, which presented cash and cash equivalents of \$15,086,283 and investments of \$238,355,716. Premiums receivable were \$3,292,273. Accrued interest was \$2,553,244 and prepaid reinsurance was \$5,243,366. The majority of reinsurance recoverable on paid losses of \$2,273,117 represents mostly worker compensation reinsurance claims. Net fixed assets were \$1,310,256, and total assets were \$268,769,329, which is 2.9% more than last year.

Deferred outflows of resources of \$486,778 related to the Pool's net pension liability will be actuarially adjusted at the end of this fiscal year. Total assets and deferred outflows of resources were \$269,256,107 at December 31, 2015.

Liabilities included net reserves for losses of \$141,757,802, which is a 4.70% increase over the prior year. Unearned premiums were \$33,039,346; accounts payable and accrued expenses were \$1,517,124; and dividends payable were \$652,954. Total current liabilities were \$176,967,226.

The Pool's net pension liability of \$694,918 will be actuarially adjusted at the end of this fiscal year, as will the deferred inflows of resources of \$488,726 related to the net pension liability. Total liabilities and deferred inflows of resources was \$178,150,870. When beginning net position of \$90,743,703 is combined with this period's change in net position of \$361,534, net position at December 31, 2015 was \$91,105,237.

B. DeMore reviewed the internally-managed fixed income portfolio as of January 29, 2016 as classified by type and maturity. Cash equivalents represent funds invested with the Tennessee Local

Government Investment Pool totaling \$15,682,229 with an average return of 0.270%.

The Pool's portfolio was comprised of 54 municipal bonds and 30 agency bonds and had a book value of \$235,879,327 and a market value of \$237,732,238, representing a net unrealized gain on investments totaling \$1,852,911 at January 29, 2016. DeMore noted that while the average coupon rate of the entire portfolio was 3.895%, the average coupon rate of the municipal bonds alone was 4.25%.

Motion was made by Wilber to accept the financial reports as presented; seconded by Green. PASSED UNANIMOUSLY

C. DeMore presented management's recommendation for a dividend declaration request totaling \$4,000,000 for the Board to consider for FY 2016-2017. This dividend, if approved, would be issued as dividend credits for policies renewing July 1, 2016 through June 30, 2017 and would be allocated as follows: workers compensation-\$1,650,000; liability-\$1,550,000; property-\$800,000. He noted that the amount committed for member dividend credits in the financial statements from the last audit totaled \$4.1 million and stated that the proposed dividend would keep the Pool's reserve balance within the risk level which the Board reviewed and approved previously in connection with the capital reserve study.

After discussion by Board members, a motion was made by Rowland to approve the dividend declaration as recommended; seconded by Green. PASSED UNANIMOUSLY

4. PREMIUM BASE RATES AND POLICY COVERAGE CHANGES – FISCAL YEAR 2016-2017

A. Jon Calvin, Director of Underwriting, presented management's recommendation to the Board for premium base rate changes that would go into effect on July 1, 2016 as follows:

Workers Compensation

- Base rate reduction - 2.0%

Liability

- General Liability: Base rate reduction - 10.0%
- Law Enforcement: Base rate increase - 6.5%
- Errors and Omissions Liability: No base rate change
- Automobile Liability: No base rate change
- Automobile Physical Damage: Base rate reduction - 3.0%

Property

- Base rate reduction - 2.0%

Calvin noted that the overall effect of this recommendation is a base rate reduction of 2.0% for combined lines of coverage.

Chairman Tharpe asked if there were any questions about the base rate change recommendations. Wilber asked about ways to help members reduce law enforcement exposures. After discussion by Board members, a motion was made by Hayes to approve the recommendations for base rate changes effective July 1, 2016 as presented; seconded by Davis. PASSED UNANIMOUSLY

B. Jon Calvin also presented an explanation for the following proposed changes in policy coverages to become effective on July 1, 2016:

Workers Compensation

- No change

Liability Policy

- Clinics; Prisoner Work Projects; Automobile Physical Damage-freezing of firefighting equipment; Unmanned Aerial Systems (“Drones”)-endorsement; Sewer Backup/Water Main Break-excluding weather; Punitive-Exemplary Damages-optional endorsement; Law Enforcement Professional Liability Form-occurrence based

Property

- Unmanned Aerial Systems (“Drones”)-endorsement

After questions and discussion by Board members, a motion was made by Davis to approve the recommendations for changes to policy coverage effective July 1, 2016 as presented; seconded by Wilber. **PASSED UNANIMOUSLY**

Board member Tom Rowland left the meeting at 10:46 a.m. to attend another meeting.

5. DATE OF NEXT MEETING

The date of the next Board meeting will be Saturday, June 11, 2016 at 8:30 a.m. in Gatlinburg, Tennessee in conjunction with the Tennessee Municipal League’s annual conference location.

6. OTHER BUSINESS

A. Russ Farrar provided an update of the status of liquor by the drink litigation being handled by his firm on behalf of the Pool.

Chairman Tharpe asked if there was a motion to adjourn. Motion was made by Welch and seconded by Hayes. Chairman Tharpe called for a vote. **PASSED UNANIMOUSLY**

MEETING ADJOURNED AT 10:56 a.m.

Samuel Tharpe, Chairman

Charles DeMore, Secretary