

**TML RISK MANAGEMENT POOL
BOARD OF DIRECTORS MEETING
DATE OF MEETING: FEBRUARY 23, 2018
BRENTWOOD, TENNESSEE**

The Board of Directors of the TML Risk Management Pool (“The Pool”) met at 10:00 a.m. on February 23, 2018 at the Pool’s office in Brentwood, Tennessee in its regular meeting.

Board Members present included: Chair Ken Wilber, Vice-Chair Garry Welch, Randy Brundige, and Curtis Hayes and Victor Lay. John Holden, Bo Perkinson and Kay Senter attended via telephone conference call.

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

Also present were Russ Farrar, General Counsel; Kristin Barexa, Deputy General Counsel; Margaret Mahery, Executive Director, TML; Charles “Bones” Seivers, President, TML Bond Fund; Cody Chapman with Callan & Associates, Inc., and, Brad Thompson, Community Development Director with the City of Martin.

1. APPROVAL OF MINUTES

Motion was made by Brundige to approve the minutes of the November 29, 2017 Board meeting; seconded by Hayes. **PASSED UNANIMOUSLY.**

2. INVESTMENT ANALYSIS REPORT FOR 2017

Crawford introduced Cody Chapman with Callan & Associates, Inc. to present a report on the Pool’s investment portfolio performance for 2017. He commented that 2017 was another good year for equity securities and noted that volatility which occurred in February was really a return to normalcy. Municipal market rates were fairly steady during the year with strong demand for municipal bonds.

Chapman 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, 2017. At year-end, the Pool’s portfolio of \$282 million was comprised of 92% fixed-income securities and 8% cash and cash equivalents. He noted that the Pool’s 2017 investment return was 7.82% which exceeded both Barclays Municipal Index of 5.45% and Barclays Agency Index of 2.06%. The Pool maintained a AA rating in its securities. He stated that overall the Pool has a high quality portfolio.

Motion was made by Senter to approve the 2017 investment analysis report; seconded by Hayes. **PASSED UNANIMOUSLY**

3. FINANCIAL REPORTS

A. DeMore presented the Statement of Revenues, Expenses and Changes in Net Position for the six months ended December 31, 2017. DeMore stated that gross earned premium was \$36,272,450, which is \$328,258 or 0.91% more than this time last year. Reinsurance premiums ceded of \$4,936,045 was \$308,917 or 5.89% less than last year due to reductions in liability coverage. Net earned premium was

\$31,336,405, which is 2.08% more than the prior year. Investment income totaled \$5,118,921, which was \$1,017,931 or 24.82% more than last year. However, compared with this year's budget projections, investment income is \$1,238,921 or 31.93% more. Total revenues of \$36,577,986 were \$1,628,369 or 4.66% more than last year's actual revenues.

In the expense category, DeMore stated total loss and loss adjustment expenses incurred were \$26,660,134. Policy acquisition costs of \$3,386,027 were \$581,231 or 14.65% less than last year. Total General and Administrative Expenses of \$3,956,654 were 8.91% or \$323,530 more than last year's actual expenses. However, compared to this year's budget, administrative expenses are \$562,768 or 12.45% less than projected. Total expenses were \$34,002,816 which is 57.26% less than last year.

The Pool's operating income at December 31, 2017 was \$2,575,170. DeMore noted that operating income combined with the change in unrealized gains on investments of \$1,669,783 for the current period resulted in an increase in net position of \$4,244,953 for the six months ended December 31, 2017.

DeMore reviewed the Statement of Net Position as of December 31, 2017, which presented cash and cash equivalents of \$23,472,210 and investments of \$258,465,267. Premiums receivable were \$5,800,445. Accrued interest was \$2,574,046 and prepaid reinsurance was \$4,961,110. The majority of reinsurance recoverable on paid losses of \$2,078,173 represents mostly worker compensation reinsurance claims. Net fixed assets were \$1,166,440, and total assets were \$298,887,425, which is 7.30% more than last year.

Deferred outflows of resources of \$1,063,911 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 \$299,951,336 at December 31, 2017.

Liabilities included net reserves for losses of \$152,042,458; unearned premiums of \$35,958,454; accounts payable and accrued expenses of \$1,457,117; and dividends payable of \$1,129,761. Total current liabilities were \$190,587,790. The Pool's net pension liability of \$1,338,849 will be actuarially adjusted at the end of this fiscal year, as will the deferred inflows of resources related to the net pension liability. Total liabilities and deferred inflows of resources was \$191,926,639.

When beginning net position of \$103,779,743 is combined with this period's change in net position of \$4,244,953, net position at December 31, 2017 was \$108,024,696.

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

B. DeMore reviewed the internally-managed fixed income portfolio as of January 31, 2018. On this date the Pool had funds invested with the Tennessee Local Government Investment Pool totaling \$9,471,850 with an average return of 1.31%.

The Pool's portfolio consisted of 61 municipal bonds and 29 agency bonds and one treasury security and had a book value of \$269,282,590 and a market value of \$259,513,227, representing a net unrealized loss of \$9,769,363 at January 31, 2018. DeMore noted that while the average coupon rate of the entire portfolio was 3.390%, the average coupon rate of the municipal bonds alone was 3.639%.

Motion was made by Hayes to accept the investment report as presented; seconded by Welch. PASSED UNANIMOUSLY

C. DeMore presented management's recommendation for a dividend declaration of \$5,000,000 to be considered for FY 2019. This dividend, if approved, would be issued as dividend credits for policies

renewing July 1, 2018 through June 30, 2019 and would be allocated as follows: workers compensation-\$2,225,000; liability-\$2,285,000; property-\$490,000. He noted that the proposed dividend would keep the Pool's reserve balance within the general risk level approved by the Board based on capital reserve study performed a few years ago.

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

4. POLICY COVERAGE AND PREMIUM BASE RATE CHANGES – FISCAL YEAR 2019

A. Jon Calvin, Director of Underwriting, presented proposed changes in policy coverages to become effective on July 1, 2018 as follows:

Workers Compensation

- No change

Liability Policy

- **Inmate Labor: Remove coverage for medical expenses incurred by inmates in municipal work programs**

Property

- No change

Crawford commented that the recommended coverage change puts the Pool's policy in conformity with State law. Barexa answered questions by Board members and clarified that the State statute, which was upheld by the Court of Appeals, requires the county to provide medical expense for county inmates, even if those inmates are working on a city project. She said that the only way a city would be required to pay is if the city expressly agreed to do so.

After discussion, a motion was made by Welch to approve the recommendation for policy coverage effective July 1, 2018 as recommended; seconded by Hayes. **PASSED UNANIMOUSLY**

B. Calvin also presented management's recommendation to the Board for premium base rate changes that would go into effect on July 1, 2018 as follows:

Workers Compensation

- **Base rate reduction: No base rate change**

Liability

- **General Liability: No base rate change**
- **Law Enforcement: No base rate change**
- **Errors and Omissions Liability: No base rate change**
- **Automobile Liability: No base rate change**
- **Automobile Physical Damage: No base rate change**

Property

- **Base rate reduction: No base rate change**

Chairman Wilber asked if there was a motion to approve the recommendation for policy premium base rates effective July 1, 2018 as recommended; motion made by Welch; seconded by Hayes. **PASSED UNANIMOUSLY**

5. APPOINTMENT OF BOARD MEMBERS

Chairman Wilber noted that a Board member position will soon become vacant as Garry Welch has announced his retirement as City Manager of the City of Savannah. Wilber also noted that Senter's position will become open at the end of this fiscal year as she completes her term on the Pool's Board. Additionally, Wilber mentioned that Tom Rowland had made the decision not to run for election again in August and that, at the present time, he himself will not run for election again in November.

Wilber noted that the Pool's bylaws require at least two Board positions be filled by City Managers. Consequently, at the next Board meeting in June, one of the appointments will need to be for a City Manager and the other for an elected official.

6. DATE OF NEXT MEETING

The date of the next Board meeting will be Saturday, June 9, 2018 at 8:30 a.m. in Knoxville, Tennessee in conjunction with the Tennessee Municipal League's annual conference location.

7. OTHER BUSINESS

A. Wilber announced to Board members that Dawn Crawford had achieved her 30th year of service in working at the Pool to which the Board members congratulated Crawford and thanked her for her years of service to The Pool.

B. Crawford informed Board members that the NLC-RISC Trustees conference to be held May 9-11, 2018 in Santa Fe, NM and asked Board members to let Heather McKnight know if they plan to attend in order to finalize registrations by March 23, 2018.

C. Crawford gave an update on TN HealthWorks. She said a small-group program is currently being designed to address the needs of small cities.

D. Crawford provided an update on the new office building. She said she and DeMore have spent much time with the architect in interviewing prospective general contractors. She noted that the Pool's contract with the general contractor would be based on cost-plus, and she expects to break ground in July 2018. She said a rough cost estimate provided by the architect ranges between \$4-\$5 million for both the building and build-out but without additional cost of furniture, HVAC specialists, etc. She informed Board members that she would like to recommend Steelhead Building Group, LLC and asked the Board for authorization to move forward in the selection of Steelhead as general contractor.

Brundige asked the cost per square foot to which Crawford replied the building only (without the build-out) was estimated as \$120-\$130 per square foot.

After discussion, a motion was made by Welch to authorize Crawford, Pool staff and Farrar to proceed in the selection of a general contractor for the new office building; seconded by Hayes. Perkinson asked if the motion includes authority for Crawford to sign the contract with the general contractor to which Chairman Wilber said yes. **PASSED UNANIMOUSLY**

E. Crawford presented a plaque of appreciation to Garry Welch and thanked him for his service as a Pool Board member. Wilber also thanked Welch for his service.

8. ADJOURNMENT

Chairman Wilber declared an adjournment at 11:23 a.m.

Ken Wilber, Chairman

Charles DeMore, Secretary