

**TML RISK MANAGEMENT POOL
BOARD OF DIRECTORS MEETING
DATE OF MEETING: JUNE 22, 2013
MEMPHIS, TENNESSEE**

The Board of Directors of the TML Risk Management Pool (“The Pool”) met at 8:30 a.m. on June 22, 2013 in the Knoxville Room of the Memphis Marriott Hotel in Memphis, Tennessee in conjunction with the TML annual conference location.

Board Members present included: Chair Tommy Green, Vice-Chair Sam Tharpe, Regina Holt, Pete Peterson, Kay Senter, Ken Wilber and Dale Kelley.

TML Pool staff present were: Dawn R. Crawford, President/CEO and Charles DeMore, Executive Vice President & Chief Financial Officer.

Also present were Russ Farrar, General Counsel; Margaret Mahery, Executive Director, TML; and, Charles “Bones” Seivers, President, TML Bond Fund.

1. APPROVAL OF MINUTES

Motion was made by Kelley to approve the minutes of the March 27, 2013 Board meeting; seconded by Tharpe. **PASSED UNANIMOUSLY**

2. FINANCIAL REPORTS

A. Charles DeMore presented the financial statements for the nine months ended March 31, 2013. In reviewing the Statement of Revenues and Expenses, DeMore stated that gross earned premium of \$47,074,856 was 3.70% or \$1,679,119 more than this time last year. Reinsurance premiums ceded were \$7,101,165 which was 16.91% or \$1,027,023 more than last year. Net earned premium was \$39,973,691, which was 1.66% or \$652,096 more than last year. Investment income totaled \$6,067,195, which is 2.14% or \$132,488 less than actual last year. However, compared with budget projections, investment income is \$757,195 or 14.26% greater than anticipated for this period due to gains realized on the sale of some securities. Total revenues of \$46,246,563 were \$520,471 or 1.14% more than actual revenues for the prior year.

In the expense category, DeMore stated that total loss and loss adjustment expense incurred of \$36,712,441 was 9.95% or \$3,323,149 more than last year. Policy acquisition costs of \$4,177,270 were 1.63% or \$66,937 more than last year. General and administrative expenses of \$4,300,401 were 2.89% or \$120,720 more than the prior year actual. When compared with the budget, however, general and administrative expenses were 9.20% or \$435,804 less than projected for this period. Total expenses were \$45,190,111, which was more than last year’s actual expenses by \$3,510,806 or 8.42%. Excess revenues over expenses before unrealized gains and losses on investments totaled \$1,056,452, which is \$2,990,335 less than actual for this time last year.

This period’s change in unrealized gains and losses on investments totaled \$219,833 in net unrealized losses. Excess revenues over expenses for the nine months ended March 31, 2013 totaled \$836,619.

In reviewing the Balance Sheet as of March 31, 2013 DeMore commented that cash and cash equivalents totaled \$18,619,731, and investments totaled \$204,204,067. Premiums receivable at the end of the period were \$3,139,712. Other assets of \$11,406,788 included accrued interest of approximately \$2.4 million and prepaid reinsurance of approximately \$8.9 million. Reinsurance recoverable totaled \$717,372, and net fixed assets totaled \$1,750,143. Total assets were \$241,218,784 at March 31, 2013.

Liabilities included net reserve for losses of \$128,515,685, which was 6.90% or \$8,315,788 more than the prior year amount. The reserve for unearned premiums was \$22,533,136; accounts payable and accrued expenses totaled \$1,560,105; and, dividends payable totaled \$5,452,140 (including \$4.64 million of dividends declared for the 2013/2014 policy year). Total liabilities of \$158,061,067 represent a 6.30% increase over the prior year. The beginning fund balance of \$82,321,098 added to excess revenues over expenses of \$836,619 resulted in an ending fund balance of \$83,157,717 at March 31, 2013.

B. DeMore reviewed the internally-managed fixed income portfolio as of May 31, 2013 as classified by type and maturity. Cash equivalents at that time represented funds invested with the Tennessee Local Government Investment Pool totaling \$22,644,296 with an average return of 0.11%.

The Pool's portfolio included 66 fixed income securities consisting of government and agency bonds, more specifically 49 municipal bonds and the remainder agency bonds. On May 31, 2013, the portfolio had a book value of \$194,022,417 and a market value of \$191,893,551 with an average coupon of 4.098%. DeMore noted that unrealized investment losses of \$2.1 million had changed from a position of unrealized gains of \$1.1 million at the end of March 2013. At the close of business yesterday the unrealized investment losses had increased to \$8.3 million, demonstrating the market's extreme volatility. He emphasized that such unrealized losses are "paper" losses recognized for accounting and financial reporting purposes and do not reflect actual investment settlements. Crawford commented that the Pool has a fund equity appropriation for market value stabilization of \$15 million at March 31, 2013 to serve as a shock absorber for such unrealized investment losses.

A motion was made by Wilber to accept the Financial Reports as presented; seconded by Holt.
PASSED UNANIMOUSLY

3. FY 2013-2014 PROPOSED BUDGET OF GENERAL AND ADMINISTRATIVE EXPENSES

President Crawford presented the proposed budget of general and administrative expenses for fiscal year 2013-2014 to the Board. She noted that the budget presented today varies slightly from the preliminary budget sent to Board members earlier because of changes in the Pool's group medical insurance costs.

She reviewed in detail the major budget categories, beginning with Salaries and Benefits which increased 8.21% due to three new positions. Effective July 1, 2013, the Pool would like to have a Member Services Representative for each of the State's grand divisions as the Loss Control and Underwriting departments are currently structured. Randy William's retirement afforded the Pool the opportunity to do this re-alignment and to provide more "boots on the ground" to service our membership. Proposed Employee Benefits increased 9.67% due to increased group medical insurance rates of 20% with further increases expected in upcoming years. For this reason, the Pool has begun employee cost-sharing of employee health and dental insurance costs.

Travel-related expenses are relatively even, although Auto Expenses has increased due to costs related to new employees who will be on the road. To compensate, out-of-state has been limited to management staff only for one trip per year. Member-related expenses reflect an increase of 5.79% due primarily to

a new online web-based member training program that the Pool would like to offer to member employees. Administrative Expenses reflect an overall increase of 8.00% due mostly to increased depreciation expense on the technology enhancements that are now in operation as well as to two new vehicles for the new employees and three replacement vehicles. Crawford noted that one of the technology projects, the 24/7 on-line claims filing capability, will be up and running within the next few weeks. Professional Expenses are increasing 4.59% primarily for two additional professional reviews that management would like to obtain from our independent actuaries: a rate study and a capital adequacy study.

Crawford summarized that the total requested general and administrative expenses budget of \$6,779,892 represents a proposed increase of 7.36% over last year. She noted that without the costs of the three new employees, the total increase would have been 2.22%.

Holt asked why the Utilities costs is estimated to decrease and Crawford explained that the decrease is due to a more-refined estimate of utility costs. Senter asked the name of the Pool's independent actuaries to which Crawford replied it is PriceWaterhouseCoopers. Peterson commented that he believes the Board will be facing some big decisions within the next twelve months in regard to rates and possibly dividends as well. He commended Crawford and Pool staff for doing a great job with the resources available and in introducing new products and services but stated that the Board will need to discuss generating additional revenue for the Pool at some point. Chairman Green noted that the significant market-share that the Pool has will make it hard to get additional business which leaves other options, such as reducing refunds and/or increasing premium. Crawford mentioned that the rate study will help to determine where the Pool needs to be and that the Pool has the opportunity to provide education to our membership. Holt stated that members will also have to do more on their side in risk management in loss prevention rather than merely rely on having insurance. Crawford added that the online training program will also help. Green mentioned for several years he has supported reducing rates rather than giving back refunds and that now it is at the point where we cannot do both. Tharpe commented that member education will be important and asked Crawford where the Board can fit in to the education process. Crawford replied that she hoped we could begin letting membership know by October after the rate study has been completed.

Chairman Green asked if there were any other questions or comments about the proposed budget. A motion was made by Senter to approve the general and administrative budget for fiscal year 2013/2014 as requested; seconded by Holt. **PASSED UNANIMOUSLY**

4. APPOINTMENT/RE-APPOINTMENT OF BOARD MEMBERS

Chairman Green presented the names of Board members to be re-appointed as follows:

1. Pete Peterson: Term 3, Year 1
2. Ken Wilber: Term 2, Year 1
3. Sam Tharpe: Term 3, Year 1
4. Tom Rowland: Term 3, Year 1

Chairman Green also suggested that Curtis Hayes, Mayor of Livingston, Tennessee be appointed to the Pool's Board to replace Dale Kelley who will be concluding his final term of service.

Chairman Green asked if there were any other questions or comments about the appointment/re-appointment of Pool board members. A motion was made by Kelley to approve the recommendation as presented; seconded by Tharpe. **PASSED UNANIMOUSLY**

5. DATE OF NEXT MEETING

The date of the next meeting will be Friday, September 13, 2013 at 10:00 a.m. at the Pool's office in Brentwood, Tennessee.

6. OTHER BUSINESS

A. Crawford informed Board members that the online claims filing project is nearing completion and will soon be posted on the Pool's website.

B. Crawford provided an update to Board members about the City of Niota.

C. Chairman Green recognized Dale Kelley for his nine years of service on the Pool's Board of Directors and presented him with a commemorative plaque.

MEETING ADJOURNED AT 9:20 a.m.

Tommy Green, Chairman

Charles DeMore, Secretary