

**TML RISK MANAGEMENT POOL
BOARD OF DIRECTORS MEETING
DATE OF MEETING: JUNE 21, 2014
CHATTANOOGA, TENNESSEE**

The Board of Directors of the TML Risk Management Pool (“The Pool”) met at 8:30 a.m. on June 21, 2014 in the Signal Mountain Room of the Chattanooga Marriott Hotel in Chattanooga, Tennessee in conjunction with the TML annual conference location.

Board Members present included: Chair Tommy Green, Vice-Chair Sam Tharpe, Curtis Hayes, Regina Holt, Tom Rowland, Pete Peterson, 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; Charles “Bones” Seivers, President, TML Bond Fund; and, Jim Thomas, Executive Director, Municipal Technical Advisory Services.

1. APPROVAL OF MINUTES

Motion was made by Rowland to approve the minutes of the February 21, 2014 Board meeting; seconded by Hayes. **PASSED UNANIMOUSLY**

2. FINANCIAL REPORTS

A. Charles DeMore presented the financial statements for the nine months ended March 31, 2014. In reviewing the Statement of Revenues and Expenses and Changes in Net Position, DeMore stated that gross earned premium of \$47,908,455 was 1.77% or \$833,599 more than this time last year. Reinsurance premiums ceded were \$7,306,937 which was 7.91% or \$535,857 more than last year. DeMore noted that the Pool received a refund of surplus lines tax on reinsurance policies for prior years totaling \$746,681. Consequently, the 2013 amount of reinsurance ceded as well as beginning net position have been restated to reflect the effect of the cost reduction in the prior years. Net earned premium was \$40,601,517, which was 0.74% or \$297,741 more than last year. Investment income totaled \$6,170,323, which is 1.70% or \$103,128 more than actual last year. Compared with budget projections, investment income is \$717,823 or 13.17% greater than anticipated for this period. Total revenues of \$46,965,955 were \$389,307 or 0.84% more than actual revenues for the prior year.

In the expense category, DeMore stated that total losses and loss adjustment expense incurred of \$36,520,511 was 0.52% or \$191,930 less than last year. Policy acquisition costs of \$4,652,487 were 1.49% or \$68,150 more than last year. General and administrative expenses of \$5,756,806 were 33.87% or \$1,456,406 more than the prior year actual. When compared with the budget, however, general and administrative expenses were 6.92% or \$428,113 less than projected for this period. Total expenses were \$46,929,804, which was more than last year’s actual expenses by \$1,332,626 or 2.92%. Change in net position before change in fair value of investments totaled \$36,151, which is \$943,319 less than actual for this time last year.

This period’s change in fair value (unrealized gains and losses) of investments totaled \$2,248,001 in net

unrealized losses. The total change in net position for the nine months ended March 31, 2014 was a decrease of \$2,211,850.

In reviewing the Statement of Net Position as of March 31, 2014 DeMore commented that cash and cash equivalents totaled \$9,209,120, and investments totaled \$210,546,932. Premiums receivable at the end of the period were \$3,435,735. Other assets of \$5,198,346 included accrued interest of approximately \$2.7 million and prepaid reinsurance of approximately \$2.4 million. Reinsurance recoverable totaled \$748,000, and net fixed assets totaled \$1,723,594. Total assets were \$231,351,320 at March 31, 2014.

Liabilities included net reserve for losses of \$129,687,604, which was 0.90% or \$1,171,919 more than the prior year amount. The reserve for unearned premiums was \$22,836,076; accounts payable and accrued expenses totaled \$1,610,188; and, dividends payable totaled \$2,912,384 (including \$1.5 million for the 2013/2014 policy year). Total liabilities of \$157,046,251 represent a 0.60% decrease from the prior year. The beginning fund balance of \$76,516,919 combined with the change in net position of \$2,211,850 resulted in an ending fund balance of \$74,305,069 at March 31, 2014.

B. DeMore reviewed the internally-managed fixed income portfolio as of May 30, 2014 as classified by type and maturity. Cash equivalents at that time represented funds invested with the Tennessee Local Government Investment Pool totaling \$7,001,541 with an average return of 0.07%.

The Pool's portfolio included 76 fixed income securities consisting of government and agency bonds, more specifically 56 municipal bonds and the remainder agency bonds. On May 30, 2014, the portfolio had a book value of \$221,562,104 and a market value of \$215,364,745. DeMore noted that while the overall portfolio has an average coupon of 4.047%, the municipal securities alone have an average coupon rate of 4.50% and the lower coupon rates of the agency securities reduce the overall portfolio average. DeMore also noted that unrealized investment losses of \$6.2 million as of May 30, 2014 had changed from a loss position of \$13.6 million at the end of March 2014. At the close of business yesterday the unrealized investment losses had increased to \$8.6 million, demonstrating the market's continuing volatility.

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

3. FY 2014-2015 PROPOSED BUDGET OF GENERAL AND ADMINISTRATIVE EXPENSES

DeMore presented the proposed budget of general and administrative expenses for fiscal year 2014/2015 to the Board. The overall proposed budget of \$7,139,295 represents a proposed increase of 5.30% or \$359,404 over the current year budget.

He reviewed in detail the major budget categories, beginning with Salaries and Benefits which increased 7.11% due to the full year cost of three new positions created in the prior year. He explained that the Pool had joined the State of Tennessee Group Insurance Program effective January 1, 2014 for employee group health and dental insurance coverages. He noted that the health insurance premium increase approved by the State for 2015 calendar year was zero, compared with an proposed 20% increase had the Pool remained in its private group health and dental policies. Pool employees share in the cost of health and dental insurance costs as well.

Travel-related expenses are increased 24.59% or \$68,475 for additional travel related to three member services representatives and the possibility of hosting more educational events for members.

Member-related expenses are relatively flat at 1.45% or \$4,500 increase. DeMore noted that the expenses include the new online web-based member training program and the continuation of member workshops. DeMore commented that the Comptroller's Office is allowing participation at the member workshops to count as credit toward the CMFO certification that is required for each local government. Consequently, attendance at the workshops has increased. Safety grant program is being increased slightly by \$2,000 for the cost of materials for Risk Management Public Entity ("RMPE") certification in the form of scholarships. Peterson asked if the amount proposed for the total safety grant program is enough and what type of measurements are used to ensure the Pool is getting the proper returns on its investment in safety programs. Crawford answered that most applications for safety grant funds are for reimbursement of safety equipment. She stated that the Pool is not receiving enough applications for the driver safety grant in proportion to the grant funds available. Peterson asked whether the total line-item should be increased and that he thought it should be a matter of discussion since every dollar spent goes toward safety returns.

Administrative Expenses reflect an overall decrease of 1.92% or \$18,025 due primarily to reductions in depreciation expense for capital assets that have fully depreciated and cost-savings in telephone expense by switching to a "shared" data plan.

Professional Expenses are decreased by 5.36% or \$37,500 due to the conclusion of the capital adequacy study and reduction in legal defense costs.

DeMore summarized that the total requested general and administrative expenses budget of \$7,139,295 represents a proposed increase of 5.30% for FY 2014/2015.

Chairman Green asked if there were any other questions or comments about the proposed budget. Peterson made a motion to increase the safety grant line-item by \$38,000 to a revised total of \$300,000. Motion was seconded by Holt.

Chairman Green then called for a motion to approve the general and administrative budget for fiscal year 2014/2015 as amended. A motion was made by Wilber and seconded by Hayes. PASSED UNANIMOUSLY

4. APPOINTMENT/RE-APPOINTMENT OF BOARD MEMBERS

Chairman Green stated that he has now concluded his term as a Board member and has enjoyed his tenure on the Pool's Board. For this reason, he explained the Board needs to fill this vacancy. Rowland made a motion to nominate Dr. David Gordon, Mayor of Covington, TN to the Pool's Board of directors; seconded by Hayes. PASSED UNANIMOUSLY

Chairman Green suggested that Sam Tharpe be moved from Vice-Chairman to Chairman of the Pool's Board and asked if there was any discussion. Rowland made a motion to appoint Sam Tharpe as the Pool's Chairman; seconded by Hayes. Chairman Green asked if there was any other discussion. PASSED UNANIMOUSLY

Chairman Green asked for nominations for the appointment of a Vice-Chair. A motion was made by Hayes to appoint Ken Wilber as Vice-Chair; seconded by Rowland. Chairman Green asked if there was any other discussion. PASSED UNANIMOUSLY

5. DATE OF NEXT MEETING

The date of the next meeting will be Friday, September 12, 2014 at 10:00 a.m. at the Pool's office in Brentwood, Tennessee.

6. OTHER BUSINESS

A. DeMore presented a list of member dividend credits totaling \$252,772 that represents dividends offered to members in fiscal years 2010/2011 and 2011/2012 who had since non-renewed coverage and, consequently, are no longer eligible for such dividends. DeMore requested the Board to approve the restoration of such lapsed dividends to net position in this fiscal year.

Peterson made a motion to approve the restoration of the lapsed dividends to net position. The motion was seconded by Holt. Chairman Green suggested a motion be made to create a policy that member dividends that lapse be automatically returned to net position after two years. Peterson amended his motion to include this new policy; seconded by Holt. **PASSED UNANIMOUSLY**

B. Crawford expressed her appreciation for the late Robert Watson and the significant impact he had in helping local governments across the State of Tennessee as the Pool's lead defense counsel for over 30 years. Robert helped to shape the laws concerning local governments in Tennessee until his untimely death on April 11, 2014. In honor of Robert's dedication and contribution, the Pool has named its Board room the "Robert H. Watson, Jr. Board Room". To give tribute to Robert's excellent professional service to and achievements made for Tennessee local governments, the Pool has pledged a contribution of \$10,000 to the Municipal Technical Advisory Services (MTAS) in order to name the library in their newly remodeled office facilities the "Robert H. Watson, Jr. Library" and \$4,000 to name the seating area outside of the library. Holt asked this needed Board approval; Crawford stated no as this was within her authorized spending limit.

C. Jim Thomas expressed this appreciation and thanks to the Board for the Pool's contribution to the Robert H. Watson, Jr. Library in the newly remodeled MTAS facilities in Knoxville.

D. Crawford recognized and thanked Chairman Green for his twelve years of service on the Pool's Board of Directors and presented him with a commemorative plaque.

MEETING ADJOURNED AT 9:29 a.m.

Sam Tharpe, Chairman

Charles DeMore, Secretary