

**TML RISK MANAGEMENT POOL  
BOARD OF DIRECTORS  
MINUTES OF REGULAR MEETING  
DATE OF MEETING: JUNE 10, 2017  
BRENTWOOD, TENNESSEE**

The Board of Directors of the TML Risk Management Pool (“The Pool”) met at 8:30 a.m. on June 10, 2017 in Private Dining Room B of the Embassy Suites in Murfreesboro, Tennessee in its regular meeting.

Board Members present included: Chairman Ken Wilber, Vice-Chairman Garry Welch, Curtis Hayes, John Holden, Dale Kelley, Tom Rowland, and Kay Senter.

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

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

## **1. APPROVAL OF MINUTES**

Motion was made by Hayes to approve the minutes of the February 24, 2017 Board meeting; seconded by Rowland. **PASSED UNANIMOUSLY.**

## **2. FINANCIAL REPORTS**

A. Charles DeMore presented the Statement of Revenues, Expenses and Changes in Net Position for the nine months ended March 31, 2017. DeMore stated that gross earned premium was \$53,267,499, which is \$629,611 or 1.20% more than last year. Reinsurance premiums ceded of \$7,867,443 was \$361,190 or 4.39% less than last year. Net earned premium was \$45,400,057, which is \$990,801 or 2.23% more than the prior year. Investment income totaled \$6,506,369, which was \$1,904,057 or 22.64% less than last year due to a final equity distribution of \$1,916,513 received last year from NLC Mutual Insurance Company. Budgeted investment income is \$300,058 or 3.67% less than last year. Total revenues of \$52,090,588 were \$903,587 or 1.71% less than last year’s revenues due to reduced investment income.

In the expense category, DeMore stated that total loss and loss adjustment expenses incurred of \$40,862,980 were \$571,883 or 1.42% more than last year. Policy acquisition costs of \$5,609,255 were \$512,063 or 10.05% more than last year. Total General and Administrative Expenses of \$5,588,088 were 7.94% or \$410,896 more than last year. However, compared to this year’s budget, general and administrative expenses are \$678,475 or 10.83% less than projected. Total expenses were \$52,060,323 which is 2.96% or \$1,494,842 more than last year.

The Pool’s operating income at March 31, 2017 was \$30,265. Operating income combined with the change in unrealized investment losses of \$15,818,861 resulted in a decrease in net position of \$15,788,596 for the nine months ended March 31, 2017.

DeMore reviewed the Statement of Net Position as of March 31, 2017, which presented cash and cash

equivalents of \$20,354,956 and investments of \$240,884,438. Premiums receivable were \$4,179,730. Accrued interest was \$2,371,457 and prepaid reinsurance was \$2,705,358. The majority of reinsurance recoverable on paid losses of \$1,975,163 represents mostly property reinsurance claims. Net fixed assets were \$1,155,992, and total assets were \$274,183,791, which is \$112,289 less than last year.

Deferred outflows of resources of \$850,950 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 \$275,034,741 at March 31, 2017.

Liabilities included net reserves for losses of \$154,699,364, which is a 6.80% increase over the prior year. Unearned premiums were \$26,492,873; accounts payable and accrued expenses were \$1,759,944; and dividends payable were \$5,383,111. Total current liabilities were \$188,335,292.

The Pool's net pension liability of \$898,726 will be actuarially adjusted at the end of this fiscal year, as will the deferred inflows of resources of \$366,545 related to the net pension liability. Total liabilities and deferred inflows of resources was \$189,600,563. When beginning net position of \$101,222,774 is combined with this period's decrease in net position of \$15,788,596, net position at March 31, 2017 was \$85,434,178.

B. DeMore reviewed the internally-managed fixed income portfolio as of May 31, 2017 as classified by type and maturity. The Pool's portfolio was comprised of 70 municipal bonds and 18 agency bonds with an average coupon rate of 3.546% and an average yield of 3.343%. He stated that the average coupon rate for municipal bonds alone was 3.526%. The portfolio book value was \$251,445,095 and had a market value of \$248,341,570, representing a net unrealized loss on investments totaling \$3,103,525 at May 31, 2017. DeMore noted that the portfolio had an average maturity life of 16.5 years and an average call life of 9.5 years. Funds invested in LGIP totaled \$11,264,565 with a coupon rate of 0.79%.

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

### **3. CONSIDERATION OF BUDGET FOR FISCAL YEAR 2017-2018**

DeMore presented management's recommendation to the Board for General and Administrative Expenses for the fiscal year 2017-2018. He stated that the total proposed budget of \$9,038,845 represents an increase of 8.18% or \$683,428 more than last year's budget.

Salaries and Benefits represent an increase of 6.72% or \$381,518 and includes a request for a new position of Property Conservation Consultant for Middle Tennessee. There are currently two other such positions, one each for East and West Tennessee. This new position would enhance service coverage on a greater scale and complete a team concept for each of the three grand divisions of the State whereby each division would then have an assigned Property Conservation Consultant, Loss Control Consultant, Member Services Representative and Underwriter.

Travel-Related expenses represent an increase of \$32,230 or 9.71% and includes \$15,000 more for the Pool's Risk and Insurance Symposium which has been well received and attended by Pool members. Travel also includes the additional cost of travel for the requested new position.

Member-Related expenses represent an overall increase of 4.19% or \$24,900 and includes \$32,000 of additional subscriptions for online loss control training for member employees. The Pool has had a

great response rate to this online training program in addition to the Pool's partnership workshops. The Pool's Safety Grant Program has also had good participation by members, and a slight increase of \$600 is requested to provide additional scholarships to risk management training events for member employees.

Administrative Expenses represent an increase of 19.33% or \$186,900. These expenses include additional depreciation cost of \$31,000 related to technology software and systems that have been developed and placed into service. Data Systems includes an additional \$55,000 for the Pool's ongoing technology plan that includes migrating to a cloud platform for data storage and completing the final phase of a disaster recovery program. DeMore noted that given the Pool's ongoing technology expansions and best industry practices related to storing and securing protected information, the Pool has obtained cyber insurance coverage for itself for approximately \$20,000 which is also included in the this expense category.

Professional Expenses include Auditing, Accounting and Actuarial Services as well as Consultants and Professional Services and represent an overall increase of 7.37% or \$57,880.

DeMore informed Board members that the proposed budget includes funding to pay certain costs associated with the formation and launch of the proposed health insurance consortium, TN HealthWorks, including directors and officers insurance estimated as \$75,000 as well as audit fees estimated as \$25,000. He noted that these expenses are expected to be offset by sponsorship fees to be received from TN HealthWorks after the program is up and running. Crawford informed Board members that she will be spending a significant amount of time with Pool members and Arthur J. Gallagher Benefits in the marketing and promotion of the consortium's insurance program to ensure the Pool's reputation and interests are honored as TN HealthWorks' sponsor.

Senter asked why the Pool would pay the directors and officers insurance coverage for TN HealthWorks since it is a separate board. Farrar responded that the intent of the Pool paying for TN HealthWorks' directors and officers insurance coverage is not to protect TN HealthWorks but rather is cautionary for the Pool's interests as its sponsor by providing such coverage, particularly against any potential legal defense fees. Crawford added that the reason the Pool is paying these costs is that TN HealthWorks will not be generating any income, but instead the Pool will be receiving a sponsorship fee from the consortium to provide for and to offset these types of expenses. Senter said she was not aware that type of arrangement could be done and added that it sounded good.

After questions and discussion by Board members, Chairman Wilber asked if there were any more questions. Welch asked about depreciation expense and setting aside repair expense costs for fixed assets to which DeMore replied that the Pool uses a \$1,000 threshold to capitalize items that expect to have a life in excess of one year and that a lot of the Pool's depreciation is attributed to the building as well as computer system that are being developed in-house. A question was asked about what the Pool does with old computers to which Crawford replied that the Pool offers old computers to be purchased by employees after they are wiped clean; otherwise, they are donated to educational organizations.

A motion was made by Welch to approve the General and Administrative Expenses budget for FY 2017-2018 as presented. The motion was seconded by Senter. **PASSED UNANIMOUSLY.**

#### **4. APPOINTMENT OF BOARD MEMBERS**

Chairman Wilbur recognized Dale Kelley for his years of service on the Pool's Board of Directors and contribution to the Pool. Wilbur also recognized Tommy Green, who was not present, for his service

and added that an appreciation plaque will be presented to him later in the day.

Wilbur called for nominations to replace Tommy Green. Hayes made a motion to appoint Randy Brundige, Mayor of City of Martin, to replace Green as Pool director; seconded by Rowland. PASSED UNANIMOUSLY.

Wilbur called for nominations to replace Jay Johnson. Welch made a motion to appoint Victor Lay, City Administrator of City of Spring Hill, to replace Jay Johnson as Pool director; seconded by Holden. Chairman Wilbur called for a vote. PASSED UNANIMOUSLY.

Hayes asked a question concerning Lay being a candidate under consideration for the position of Executive Director of MTAS. Crawford responded that if Lay is hired by MTAS, he would not be eligible to serve on the Pool's Board of Directors.

## **5. DATE OF NEXT MEETING**

The suggested date of the next Board meeting will be Friday, September 8, 2017 at 10:00 a.m. at the Pool's office in Brentwood, Tennessee.

## **6. OTHER BUSINESS**

A. Crawford provided an update about the health insurance consortium named TN HealthWorks. She informed Board members that TN HealthWorks will have a booth at the TML annual conference manned by a representative of Arthur J. Gallagher Benefits. She said that phase one of the marketing approach is toward members with employee counts of 100-500 employees for introducing a self-insured health insurance and drug cost prescription program. Other benefits (such as life, accident, etc.) will be offered through two or three other vendors. She said a city in West Tennessee is expected to be the first member of the consortium and will make a decision next week. She said once a second member signs the consortium's inter-local agreement, TN HealthWorks will be legally established. She gave a general overview of the insurance program, and said she is very excited about its benefit to the membership. She offered to visit any member to present information more fully and to answer questions. Farrar added that the Pool is protected in its contractual relationships.

Wilbur mentioned that the City of Portland has received such a proposal from the consortium and that the City's council is considering it. Wilbur added that it is a good program with long-term benefits.

Crawford thanked Board members for granting their permission in the last Board meeting to move forward with the consortium.

B. Crawford provided an update about potential building sites for the Pool. She said a tract of land in Franklin north of Moore's Lane is available in addition to an existing building in Maryland Farms that is not yet on the market. She is meeting with the real estate broker next week to discuss these options further. Senter asked if the Pool has a fund set aside for this. Crawford responded that not as such but the sale of the Pool's existing building and the volume of investments the Pool maintains would provide for such a purchase.

Rowland asked if there were any current prospective buyers for this building. Crawford said we have not put the building on the market nor allowed discussion on it until a site has been identified.

**Chairman Wilbur asked if there was a motion to adjourn. Motion was made by Welch and seconded by Holden. PASSED UNANIMOUSLY**

**The Pool Board of Directors adjourned at 9:49 a.m.**

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**Ken Wilber, Chairman**

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**Charles DeMore, Secretary**