

**TML RISK MANAGEMENT POOL
BOARD OF DIRECTORS MEETING
DATE OF MEETING, MARCH 27, 2013
BRENTWOOD, TENNESSEE**

The Board of Directors of the TML Risk Management Pool met on March 27, 2013 at 9:00 a.m. at the Pool's office in Brentwood, Tennessee.

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

TML Pool staff present were: Dawn R. Crawford, President/CEO; Jon Calvin, Director of Underwriting; and Charles DeMore, Executive Vice President and Chief Financial Officer.

Also present were Margaret Mahery, Executive Director, TML; Charles "Bones" Seivers, President, TMBF; Gwelda Swilley-Burke with Callan & Associates, Inc.; and, Jim Thomas, Executive Director, Municipal Technical Advisory Services.

1. APPROVAL OF MINUTES

Motion was made by Rowland to approve the minutes of the November 15, 2012 Board meeting; seconded by Wilber. **PASSED UNANIMOUSLY**

2. INVESTMENT ANALYSIS REPORT FOR 2012

Gwelda Swilley-Burke with Callan & Associates, Inc. opened her presentation with comments about general market conditions in 2012 and then directed attention to a report entitled *Investment Measurement Service Annual Summary Review* which presents an executive summary of the Pool's investments' performance for the year ended December 31, 2012. The Pool's portfolio was comprised of approximately 87% fixed-income securities and 13% cash and cash equivalents at year-end.

Ms. Swilley-Burke said that the Pool's portfolio composite return of 1.24% represents the portfolio's change in structure during 2012 in which the volume of agency security holdings shifted more to municipal securities. Because the Pool's holdings were a mixture of both agency and municipal securities during 2012, Barclays Municipal Index and Barclays Agency Index were both used as benchmarks. She noted, however, that prior to 2012 the Barclays Agency Index provided a more appropriate benchmark for the Pool's portfolio comprised of agency securities. As noted in the report, the Pool's return was 5.42% compared with the Barclays Agency Index of 4.39% for the last rolling five year period, 4.84% versus 3.21% for the last rolling four year period, 4.98% versus 3.78% for the last rolling three year period and 5.09% versus 3.48% for the last rolling two year period. She stated that 2012 was the only year in which the Pool's return was under the benchmark because it was the year of change. Swilley-Burke explained that the Pool's portfolio level of risk was similar to that of the Barclays Agency Index low level of risk and was performing in line with the market benchmarks.

In reviewing general characteristics of the Pool's portfolio, she commented that while the effective duration of the Pool's holdings was a little longer than the Barclays Municipal Bond Index (9.25 versus 6.66), the Pool's effective yield was greater (3.71% versus 2.17%). The Pool's holdings at the end of December 2012 were comprised of 72% municipal bonds, 26% agency securities and 2% US Treasury

securities. She also stated that the Pool's holdings had higher quality ratings than the benchmark.

Motion was made by Tharpe to approve the 2012 Investment Analysis Report as presented; seconded by Holt. PASSED UNANIMOUSLY

3. FINANCIAL REPORTS

A. Charles DeMore presented the Statement of Revenues and Expenses for the six months ended December 31, 2012. DeMore stated that gross earned premium was \$31,193,410, or 3.38% more than this time last year and was tracking within 0.5% of projected amounts. He stated that reinsurance premiums ceded of \$4,710,360 was \$660,932 or 16.32% more than last year due primarily to increases in property coverage. Net earned premium was \$26,483,050, which is 1.37% more than the prior year. Investment income totaled \$4,107,300, which was \$572,480 or 16.20% more than last year's actual investment earnings and 16.03% more than this year's budget projections. Total revenues of \$30,735,872 were \$929,040 or 3.12% more than last year's actual revenues.

In the expense category, DeMore stated that total loss and loss adjustment expenses incurred of \$24,198,918 were almost break-even at 0.45% more than last year. Policy acquisition costs of \$2,827,475 were \$49,239 or 1.77% more than last year. Total General and Administrative Expenses of \$2,861,164 were 1.66% or \$46,732 more than last year's actual expenses. However, compared to this year's budget, administrative expenses are \$296,306 or 9.38% less than projected. Total expenses were \$29,887,557 which is 0.69% or \$205,339 more than last year.

Excess revenues over expenses before unrealized gains and losses on investments (or "operating income") totaled \$848,315, as compared to \$124,614 this time last year. DeMore noted that these amounts include realized gains on investments of \$774,557 for the current period and \$55,761 for the prior year. Consequently, excluding the effect of such realized gains results in current period operating income of \$73,759 compared with \$68,854 for the prior year. This period's change in unrealized gains and losses on investments totaled \$691,178 in net unrealized gains, in contrast to this time last year when unrealized gains on investments totaled \$7,213,555. Excess revenues over expenses was \$1,539,493 for the six months ended December 31, 2012.

DeMore reviewed the Balance Sheet as of December 31, 2012, which presented cash and cash equivalents of \$29,452,893 and investments of \$198,576,018. Premiums receivable were \$3,195,135. Other assets of \$6,615,106 included accrued interest of approximately \$2.3 million and prepaid reinsurance of approximately \$4.2 million. The majority of reinsurance recoverable on paid losses of \$3,441,798 represents a property reinsurance claim of approximately \$2.4 million. Net fixed assets were \$1,747,487, and total assets were \$244,809,852, which is 2.10% more than last year.

Liabilities included net reserves for losses of \$124,956,365, which is a 2.90% increase over the prior year. The reserve for unearned premiums was \$28,417,031; accounts payable and accrued expenses were \$1,469,341; and dividends payable was \$1,466,525. DeMore noted that the \$4.64 million dividend declaration approved by the Board will be posted in the quarter ended March 31, 2013. Total liabilities were \$156,309,262. The beginning fund balance of \$86,961,098 increased by excess revenues over expenses of \$1,539,493 resulted in an ending fund balance of \$88,500,591 at December 31, 2012.

B. DeMore reviewed the internally-managed fixed income portfolio as of February 28, 2013 as classified by type and maturity. Cash equivalents represent funds invested with the Tennessee Local Government Investment Pool totaling \$21,438,840 with an average return of 0.14%.

The Pool's portfolio was comprised of 46 municipal bonds, 17 agency bonds and one Treasury bond and had a book value of \$205,303,773 and a market value of \$207,117,998 with an average coupon of 4.037%.

DeMore noted that one of the securities listed was sold in March for a profit of approximately \$259,000. He also commented that while the unrealized gain on investments was \$1,814,225 at the end of February 2013, that amount had decreased to \$592,622 on the day before the Board meeting. Crawford pointed out that recent security purchases included Tennessee State Housing Development Authority and TVA securities.

Motion was made by Rowland to accept the financial reports as presented; seconded by Peterson. Chairman Green asked if there were any questions. Chairman Green called for a vote. PASSED UNANIMOUSLY

4. BASE RATES AND POLICY COVERAGE CHANGES – FISCAL YEAR 2013-2014

A. Jon Calvin, Director of Underwriting, presented management's recommendation to the Board that base rates that go into effect on July 1, 2013 remain unchanged as follows:

Liability

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

Workers Compensation

- No base rate change

Property

- No base rate change

B. Jon Calvin also presented an overview of the following proposed changes in policy coverage to become effective on July 1, 2013:

Liability Policy

- Clarification work only

Sewer Backup/Water Main Break Option

Differences from prior coverage options:

- Includes water main break
- Has a \$10,000 per occurrence deductible (no repeat location deductible)
- Excess over other insurance (i.e., homeowners) except for deductibles
- Coverage ceases if suit is filed.

Workers Compensation

- No changes

Property

- **Consequential Loss** – removed 500 foot limitation for utility interruption
- **Electrical or Magnetic Injury** – expanded coverage for damage from artificially generated electrical currents from just valuable papers and computer media to include other devices, appliances and wiring
- **Mobile Equipment** – changed from Actual Cash Value to Fair Market Value; will also allow scheduling of stated value up through replacement with new equipment that includes the latest safety equipment.

Crime

- **Added Funds Transfer coverage to Theft Disappearance or Destruction form.**

After various questions and discussion, a motion was made by Holt to approve the recommendations for base rates as presented and for changes to policy coverage that become effective July 1, 2013 as presented; seconded by Peterson. **PASSED UNANIMOUSLY**

5. MUNICIPAL TECHNICAL ADVISORY SERVICES (“MTAS”) UPDATE

Jim Thomas, Executive Director of Municipal Technical Advisory Services, presented a brief update about MTAS and expressed his appreciation to Board members for the cooperative relationship between MTAS and the Pool.

6. DATE OF NEXT MEETING

The date of the next Board meeting will be Saturday, June 22, 2013 at 8:30 a.m. in Memphis, Tennessee in conjunction with the Tennessee Municipal League’s annual conference location.

7. OTHER BUSINESS

A. Ken Wilber expressed his appreciation for Pool employees Halie Gallik, Chester Darden, George Dalton and Michael Fann for the fine assistance and training they provided recently to the City of Portland personnel.

B. Chairman Green informed Board members that Dale Kelley’s final term as a Pool Board member will expire in June 2013 and that plans will be made to be nominate a new Board member.

C. Crawford relayed Russ Farrar’s apologies for not being present due to legislative work matters while the General Assembly is still in session. She then presented a brief legislative update in his absence.

D. Gina Holt presented an overview of a recent visit that she and Crawford made to the Minnesota League of Cities Insurance Trust’s annual Board retreat, at the Trust’s request and expense, to present the Pool’s experience in providing online claims access to its members. Holt provided examples of ways the Trust’s Board of Directors is involved in assisting the Trust’s management team. She expressed her appreciation for and her confidence in Crawford and the Pool’s staff for their professional quality of work. She commented as to whether the Pool’s Board could help to alleviate some of the things that Pool staff are doing without micro-managing or getting into the minutia of what Pool staff does well. Holt noted that Crawford was not aware of what she was going to say and then expressed her

willingness to assist Crawford and the Pool as a Board member.

E. Tom Rowland asked other Board members about cyber-crime as it relates to personal information contained in emails on City computers.

F. Kay Senter expressed her appreciation to Jim Thomas for the assistance provided by MTAS to the City of Morristown in evaluating their fire department.

G. Crawford told Board members that she did not know what Holt was going to say but stated that if there is a higher level of communication that Board members would like, such as a monthly update to supplement what is provided at Board meetings, she would be happy to do so.

H. Peterson asked Crawford if the Pool provides MTAS with claims trend data that might benefit cities through MTAS' training programs across the State. Thomas replied that MTAS would welcome the chance to strengthen its relationship with the Pool in building better cities in Tennessee. Crawford said that the Pool would certainly appreciate the additional assistance in providing training to cities. She added that the Pool's Member Services Department will soon be comprised of a three-member team of Member Service Representatives, one for each grand division to better serve Pool members across the State.

MEETING ADJOURNED AT 10:16 a.m.

Tommy Green, Chair

Charles DeMore, Secretary