

**TML RISK MANAGEMENT POOL
BOARD OF DIRECTORS
MINUTES OF REGULAR MEETING
DATE OF MEETING: SEPTEMBER 9, 2016
BRENTWOOD, TENNESSEE**

The Board of Directors of the TML Risk Management Pool (“The Pool”) met at 10:00 a.m. on September 9, 2016 at the Pool’s office in Brentwood, Tennessee.

Board Members present included: Chair Ken Wilber, Vice-Chair Garry Welch, Tommy Green, Curtis Hayes, and Jay Johnson. Kay Senter participated via telephone conference call.

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

Also present was Russ Farrar, General Counsel.

1. APPROVAL OF MINUTES

Chairman Wilber called for a motion to approve minutes of the June 11, 2016 Board meeting. Motion was made by Green; seconded by Hayes. **PASSED UNANIMOUSLY**

2. FINANCIAL REPORTS

A. DeMore presented the financial statements for the year ended June 30, 2016. In reviewing the Statement of Revenues and Expenses and Changes in Net Position, DeMore stated that gross earned premium of \$70,258,384 was 3.43% or \$2,332,227 more than this time last year. Reinsurance premiums ceded were \$10,956,437 which was 2.53% or \$269,993 more than last year. Net earned premium was \$59,301,947, which was 3.60% or \$2,062,234 more than last year. Investment income totaled \$11,516,754, which is 37.10% or \$3,116,530 more than actual last year and included \$1,280,352 from realized gains on investment disposals as well as \$1,916,513 for the final distribution of equity in excess of its original investment in NLC Mutual Insurance Company. Compared with budget projections, investment income is \$4,091,754 or 55.11% greater than anticipated for this period. Total revenues of \$71,031,287 were \$5,214,841 or 7.92% more than actual revenues for the prior year.

In the expense category, DeMore stated that total losses and loss adjustment expense incurred of \$50,323,702 was 12.98% or \$5,780,749 more than last year. The increase is attributed primarily to the revaluation of certain claim case reserves for life expectancy adjustments as offset by actuarially-determined adjustments of claim IBNR reserves in the amount of \$3,162,181 due to overall favorable loss trends. Policy acquisition costs of \$5,632,615 were 6.11% or \$366,737 less than last year. General and administrative expenses of \$6,814,909 were 6.59% or \$421,203 more than the prior year actual. When compared with the budget, general and administrative expenses were 14.04% or \$1,112,920 under budget for the period. Total expenses were \$62,771,226, which was \$5,835,215 more than last year’s expenses.

Operating income (before change in fair value of investments) totaled \$8,260,062, which is \$620,374 less than last year. This year’s change in fair value (unrealized gains and losses) of investments totaled \$11,241,904 in net unrealized gains. The total change in net position for the year ended June 30, 2016 was an increase of \$19,501,965.

In reviewing the Statement of Net Position as of June 30, 2016 DeMore commented that cash and cash equivalents totaled \$41,792,318, and investments totaled \$220,166,553. Premiums receivable at the end of the period were \$3,507,855. Accrued interest was \$2,409,141 and prepaid insurance was \$108,863. Reinsurance recoverable totaled \$1,062,903, and net fixed assets totaled \$1,310,944. Deferred Outflows of Resources of \$850,950 is related to The Pool's net pension liability in accordance with GASB Statement No. 68. Assets and deferred outflows of resources totaled \$271,786,335 at June 30, 2016.

Liabilities included net reserve for losses of \$144,245,048, which was 8.0% or \$10,649,870 more than the prior year amount. The reserve for unearned premiums was \$13,745,789; premiums billed in advance was \$714,825; accounts payable and accrued expenses totaled \$2,052,596; and, dividends payable totaled \$4,058,370 (including \$4 million declared for the 2016/2017 policy year).

Net pension liability of \$898,726 represents The Pool's actuarially-determined obligation for its defined benefit pension plan administered by the Tennessee Consolidate Retirement System. DeMore noted that The Pool's net pension obligation is 92% funded. Liabilities were \$165,715,353, which represents a 2.1% increase over the prior year. Deferred Inflows of Resources of \$366,545 is also related to The Pool's net pension liability.

The beginning net position of \$86,202,471 combined with the change in net position of \$19,501,965 resulted in net position of \$105,704,436 at June 30, 2016. As noted previously, change in net position includes \$11,241,904 of unrealized or "paper" gains on investments due to increased market values.

B. DeMore presented a brief overview of the budget summary of general and administrative expenses for the fiscal year ended June 30, 2016. He stated that The Pool's combined total revenues were 7.92% greater than last year's actual amounts and were also over budget by 4.62%. General and administrative expenses were under budget by 14.04%, and each operating department remained within its budgeted amount as in prior years.

C. DeMore reviewed the internally-managed investment portfolio as of July 31, 2016 as classified by type and maturity of securities. Cash equivalents at that time represented funds invested with the Tennessee Local Government Investment Pool totaling \$18,713,474 with an average return of 0.35%.

The Pool's portfolio included 77 fixed income securities consisting of government and agency bonds, more specifically 59 municipal bonds and the remainder as agency bonds. On July 31, 2016, the portfolio had a book value of \$217,643,135 and a market value of \$223,898,417 resulting in an unrealized or "paper" gain of \$6,255,282 at that date. DeMore noted that while the overall portfolio has an average coupon of 3.795%, the municipal securities alone have an average coupon rate of 4.09% and the lower coupon rates of the agency securities reduce the overall portfolio average. DeMore also noted that net unrealized investment gain at July 31, 2016 had decreased to \$5.7 million at the close of business yesterday.

D. DeMore presented a Pro Forma Statement of Revenues and Expenses for fiscal year 2016/2017 and reviewed its components. He stated that total projected revenues of \$66,395,173 and estimated total expenses of \$65,950,561 result in estimated operating income of \$444,612 for fiscal year ending June 30, 2017.

Revenue projections include net earned premium of approximately \$58,425,173 comprised of earned premium of \$69,315,173 less reinsurance ceded of \$10,890,000. Earned premium decreased due to an overall 2.0% premium base rate reduction as approved by the Board beginning July 1, 2016. Investment income is estimated at \$7,750,000 due to current market conditions.

Losses and loss adjustment expenses are estimated at \$51,260,001 based on benchmarks established in the recent actuarial review of claim reserves. Policy acquisition costs are estimated at \$6,335,144. General and administrative expenses are estimated at \$8,355,417, based on the budget that the Board previously approved in June 2016. Total expenses are estimated at \$65,950,561.

Based on these estimates, operating income for fiscal year 2016/2017 is expected to be \$444,612 before any actuarial adjustments for loss reserves and for net pension effect as well as the change in investment fair values.

A motion was made by Welch to accept the financial reports as presented above; seconded by Hayes. **PASSED UNANIMOUSLY**

3. DATE OF NEXT MEETING

The date of the next meeting will be Wednesday, November 30, 2016 at 9:00 a.m. at the Pool's office in Brentwood, Tennessee.

4. OTHER BUSINESS

A. In response to a question by Wilber, Crawford provided a status update about The Pool's safety grant program.

B. Crawford responded to Hayes' question about the current status of identifying health insurance partners for the membership. Discussion ensued by Crawford and Board members about The Pool's employee group health insurance coverage.

C. Farrar provided a legislative update, including workers compensation reform, open records and property annexation.

D. Crawford informed Board members that she has begun to consider the Pool's future space/facility needs and will soon engage a commercial real estate agent to help explore available options. Questions and discussion followed by Board members about possible space utilization, locations and estimated cost per square foot.

Chairman Wilber asked for a motion to adjourn. A motion was made by Welch and seconded by Johnson. PASSED UNANIMOUSLY Meeting adjourned at 11:00 a.m.

Ken Wilber, Chairman

Charles DeMore, Secretary