

**TML RISK MANAGEMENT POOL
BOARD OF DIRECTORS
MINUTES OF MEETING
DATE OF MEETING: SEPTEMBER 21, 2018
BRENTWOOD, TENNESSEE**

The Board of Directors of the TML Risk Management Pool (“The Pool”) met at 10:04 a.m. on September 21, 2018 at the Pool’s office in Brentwood, Tennessee.

Board members present included: Chairman Ken Wilber, Randy Brundige, Wallace Cartwright, Curtis Hayes, Victor Lay, Todd Smith and Sam Tharpe. John Holden participated via telephone conference call.

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

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

Chairman Wilber called the meeting to order and announced a quorum was present. He also stated that while the agenda previously distributed showed executive session at the end of the regular meeting, the Board would go into executive session immediately after presentation of the financial reports.

1. APPROVAL OF MINUTES

Chairman Wilber called for a motion to approve minutes of the June 9, 2018 Board meeting. Hayes stated that he had not received an advance copy of the minutes earlier. Chairman Wilber asked Board members to pause to read the minutes after which he asked if there were any questions, and there were none. Motion was made by Hayes; seconded by Brundige. **PASSED UNANIMOUSLY**

2. FINANCIAL REPORTS

A. DeMore presented the financial statements for the year ended June 30, 2018. In reviewing the Statement of Revenues and Expenses and Changes in Net Position, DeMore stated that gross earned premium of \$72,051,081 was 1.64% or \$1,162,040 more than last year. Reinsurance premiums ceded were \$9,870,211 which was \$619,712 less than last year. Net earned premium was \$62,180,869, which was 2.95% or \$1,781,752 more than last year. Investment income totaled \$9,677,793, which is 16.59% or \$1,376,799 more than last year and includes realized gains of \$1,303,859. Compared with budget projections, investment income is \$1,917,703 or 24.71% more than budgeted for the year. Total revenues of \$72,046,333 were \$3,110,974 or 4.51% more than the prior year.

In the expense category, DeMore stated that total losses and loss adjustment expense decreased by \$9,386,448 or 22.77% since last year to a total of \$31,837,878. DeMore noted that the reduction is attributed primarily to the impact of favorable claim loss development in all three lines of coverage in older claim years which resulted in a \$14.6 million actuarial adjustment reducing IBNR and ULAE reserves.

Policy acquisition costs of \$5,606,687 were 15.66% or \$1,041,058 less than last year due to additional agent commission paid in 2017 associated with policies issued in advance. General and administrative expenses of \$7,982,553 were 6.36% or \$477,029 more than the prior year actual. Compared with

budget projections, general and administrative expenses were under budget for the year in the amount of \$1,056,292 or 11.69%. DeMore commented that total expenses of \$45,427,118 represent a decrease of \$9,950,478 from last year.

DeMore stated that a drop in expenses has the effect of increasing our operating income and net position in the same way as having additional revenues. Consequently, the \$9,386,448 decrease in loss and loss adjustment expenses combined with a reduction in agent commissions paid of \$1,041,058 contributed \$9.9 million to net position at year-end. The combination of the increase in net earned premium of \$1,781,752; realized investment gains of \$1,376,799; and, the \$9,950,478 drop in total expenses resulted in a total fiscal year increase of \$13,061,452 in operating income over last year, resulting in total operating income of \$26,619,214 for fiscal year 2018.

This year's change in fair value (unrealized gains and losses) of investments represents a net unrealized (or "paper") loss of \$7,261,158. Operating income of \$26,619,214 offset by the change in fair value of investments resulted in an overall increase of \$19,358,056 in total net position for the year ended June 30, 2018.

Tharpe asked about the drop in expenses. Crawford commented that each year the actuarial review of claim reserves by PricewaterhouseCoopers may result in increases or decreases to loss expenses, depending on how claim losses trend. She said this year was an anomaly and that in some previous years increases to reserves were necessary. DeMore gave an example that during 2018 the Pool incurred 92 fewer property claims that were weather-related, such as flood, tornados, hail storms which contributed to the favorable loss development.

Smith asked about the change in fair value of investments. DeMore explained that number represents the cumulative change for the fiscal year in the difference between the investments' cost as recorded in the financial records and their market value as of year-end. He said that because the Pool's investment policy is to buy and hold investments until maturity, management does not take into consideration the unrealized or "paper" gains and losses when making managerial and operational decisions, such as for member dividends. However, GASB Statement No. 31 requires the Pool to record the fluctuations in market value in its financial records.

DeMore commented that due to time he would review the highlights of the Statement of Net Position as of June 30, 2018. Total assets and deferred outflows of \$284,399,606 at the end of last year decreased to \$277,074,620 at 2018 year-end. The decrease is attributed primarily to a reduction in premiums receivable, which at June 30, 2017 included receivables totaling \$14,534,294 for premium for 2018 policies that were billed in advance near the end of 2017. Also, capital assets increased \$2,037,610 due to the purchase of land and design fees incurred for the new office building.

Liabilities as presented included net reserve for losses of \$136,677,481, which was \$7,501,328 less than the prior year, primarily due to the actuarial reduction for favorable loss development in older claim years as mentioned. Also, the Pool's net pension liability decreased \$144,307 to \$1,194,542 as actuarially-determined.

The beginning net position of \$98,800,942 combined with the change in net position of \$19,358,056 resulted in net position of \$118,158,998 at June 30, 2018. DeMore pointed out that net position includes an amount of \$7,500,000 recommended to be committed for capital outlay for the new office building.

B. DeMore presented a brief overview of a budget summary of general and administrative expenses by department for the fiscal year ended June 30, 2018. He stated that The Pool's combined total revenues were \$3,110,974 or 4.51% more than last year's actual amounts and exceeded budget estimates by \$2,317,237 or 3.32%. Total general and administrative expenses were under budget by \$1,056,296 or 11.69%, which resulted primarily from personnel and employee benefit costs of unfilled positions of

employees who retired during the year and a reduction in retirement expenses as actuarially determined by TCRS. He noted that each operating department remained within its budgeted amount as in prior years.

C. DeMore reviewed the internally-managed investment portfolio as of August 31, 2018 as classified by type and maturity of securities. Cash equivalents at that time represented funds invested with the Tennessee Local Government Investment Pool totaling \$16,049,050 with an average return of 1.91%.

The Pool's portfolio included 92 fixed income securities consisting of 60 municipal bonds and 32 government agency bonds. On August 31, 2018, the portfolio had a book value of \$265,744,449 and a market value of \$253,228,938 resulting in an unrealized or "paper" loss of \$12,515,511 at that date. The unrealized loss later increased to \$17,480,733 on September 19th due to the investment market's recent volatility. DeMore noted that municipal securities alone have an average coupon rate of 3.64% but that the lower coupon rates of the agency securities reduce the average coupon rate of the overall portfolio to 3.388%. The portfolio has an average maturity of 15.4 years with an average call term of 10 years.

D. DeMore presented a Pro-Forma Statement of Revenues and Expenses for fiscal year 2019 and reviewed its components. He stated total projected revenues of \$70,166,348 and estimated total expenses of \$69,033,637 result in estimated operating income of \$1,132,712 for the upcoming fiscal year ending June 30, 2019.

Revenue projections include net earned premium of approximately \$70,166,348 comprised of earned premium of \$72,986,348 less reinsurance ceded of \$10,220,000. Even though premium base rates did not change, earned premium reflects a 1.19% increase over last year due to expected increases in underlying exposures (such as member payroll bases and appraised property values, etc.). Investment income is estimated at \$7,200,000 based on projected market conditions.

Losses and loss adjustment expenses are estimated at \$52,363,449 based on benchmarks established in the recent actuarial review of claim reserves. Policy acquisition costs are estimated at \$7,149,236. General and administrative expenses are estimated at \$9,520,952, based on the budget that the Board previously approved in June 2018. Total expenses are projected at \$69,033,637 and include an additional TML sponsorship fee supplement of \$220,000 requested by TML.

Based on these estimates, operating income for fiscal year 2019 is expected to be \$1,132,712 before any actuarial adjustments for IBNR reserve; the Pool's net pension obligation; and, unrealized gains and losses in investment fair values.

Tharpe asked Crawford if that would be enough for the Pool to operate to which Crawford replied if the actuaries have no change in their ultimate predictions, it is possible there may be no opportunity to declare dividends to the members in the following year. Hayes stated that that means the worst case scenario would be that cities would not get any dividends to which Crawford replied that has happened one time before in 21 years.

A motion was made by Hayes to accept all of the financial reports as presented; seconded by Tharpe.
PASSED UNANIMOUSLY

3. BOARD ENTERED INTO EXECUTIVE SESSION

Chairman Wilber stated that at this time the Board of Directors would go into executive session and invited those persons not involved to leave. Holden asked why the Board adjourns into executive

session and why some people have to leave. Wilber explained that executive session allows the Board to discuss legal issues with General Counsel to which only the Board is privy. Farrar added that executive session is allowed in the Pool bylaws to protect confidential conversations. Because he was participating via telephone, Holden asked who in the meeting needed to leave. Farrar directed the question to Crawford who said it is her understanding that it is up to the Board as to who needed to leave but traditionally all non-staff and non-Board people are asked to leave. Holden asked who that is to which Crawford said this morning non-staff, non-Board, non-counsel people would be Seivers and Mahery. Tharpe asked about Russell to which Farrar said she is Associate General Counsel. Tharpe said he understood and asked if Russell is staff to which Crawford replied that she is legal counsel who stays. Chairman Wilber asked if what the Board has traditionally done is what the Board now wishes to do. Before anyone replied, Seivers and Mahery announced they would leave the room and did so. Seivers and Mahery were told that the Board would resume its regular meeting afterward executive session and they were welcome to return.

The Board entered into executive session at 10:37 a.m.

The Board of Directors later adjourned from executive session and resumed the regular meeting at 12:40 p.m. with all board members still in attendance and Holden participating via telephone conference call. Crawford, DeMore, Farrar and Russell also continued to be present in the meeting.

4. APPOINTMENT OF BOARD MEMBERS

Chairman Wilber recommended Shane McFarlan, Mayor of Murfreesboro, be considered as a director to fill the vacant position. A motion was made by Cartwright to appoint Mayor Shane McFarlan to the vacant director position of the Pool; seconded by Lay. **PASSED UNANIMOUSLY**

5. DATE OF NEXT MEETING

The date of the next meeting was suggested as Wednesday, November 14, 2018 at 10:00 a.m. at the Pool's office in Brentwood, Tennessee to coincide with TML's next board meeting the following day.

6. OTHER BUSINESS

No other business was brought before the Board.

Chairman Wilber asked for a motion to adjourn. A motion was made by Tharpe and seconded by Brundige. **PASSED UNANIMOUSLY** Meeting adjourned at 12:42 p.m.

Ken Wilber, Chairman

Charles DeMore, Secretary