

**TML RISK MANAGEMENT POOL  
BOARD OF DIRECTORS MEETING  
DATE OF MEETING: SEPTEMBER 12, 2014  
BRENTWOOD, TENNESSEE**

The Board of Directors of the TML Risk Management Pool (“The Pool”) met at 10:02 a.m. on September 12, 2014 at the Pool’s office in Brentwood, Tennessee.

Board Members present included: Chair Sam Tharpe, Vice-Chair Ken Wilber, David Gordon, Curtis Hayes, Regina Holt, Pete Peterson and Tom Rowland.

The Pool’s staff present were: Dawn R. Crawford, President/CEO.

Also present were Margaret Mahery, Executive Director, TML. Russ Farrar, General Counsel, was present via telephone conference call.

**1. MOMENT OF SILENCE**

Chairman Tharpe asked Board members to observe a moment of silence to honor George Barrett who died recently and was a passionate person for the Tennessee Municipal League and its mission.

**2. APPROVAL OF MINUTES**

Motion was made by Wilber to approve the minutes of the June 21, 2014 Board meeting; seconded by Peterson. **PASSED UNANIMOUSLY**

**3. FINANCIAL REPORTS**

A. Dawn Crawford presented the unaudited financial statements for the fiscal year ended June 30, 2014 in the absence of Charles DeMore, Executive Vice President and CFO. In reviewing the Statement of Revenues, Expenses and Changes in Net Position, Crawford stated that gross earned premium of \$64,033,106 was 2.00% or \$1,254,784 more than this time last year and virtually breakeven with projected revenues. Reinsurance premiums ceded were \$9,733,050 which was 7.44% or \$673,650 more than last year due to expected rate increases. Net earned premium was \$54,300,056, which was 1.08% or \$581,133 more than last year. Investment income totaled \$8,278,444, which is 4.31% or \$342,282 more than actual last year. Compared with budget projections, investment income is \$1,008,444 or 13.87% greater than anticipated for this period. Total revenues of \$62,816,826 were \$914,238 or 1.48% more than actual revenues for the prior year.

In the expense category, Crawford stated that total losses and loss adjustment expense incurred of \$47,583,955 was 14.97% or \$6,194,124 more than last year. She explained that such an increase is not unusual when an additional year of losses is added to existing historical losses. She noted that the increase is tied to the actuarial review of loss reserves and claims activity. Policy acquisition costs of \$5,965,604 were 3.77% or \$216,832 more than last year. She explained that agent commissions are directly tied to premiums written and that the second injury fund is a payment made to the State of Tennessee based on cash receipts for workers compensation premiums. Contribution to TML is a sponsorship fee based on a formula that the Board adopted and has been in place for a number of years. General and administrative expenses of \$7,485,189 were more than 28% more than the prior

year actual. She explained that the increase is attributed to a number of factors, including three new employees and vehicles related to the new staff to provide three Member Services personnel to service members across the State. When compared with the budget, however, general and administrative expenses were 5.01% or \$394,703 less than projected for the year. Total expenses were \$61,034,748, which was \$8,060,973 or 15.22% more than last year's actual expenses. Operating income before the change in fair value of investments totaled \$1,782,078, compared with \$8,928,813 last year. Crawford noted that reductions in the loss reserves due to actuarial adjustments resulted in the increased operating income in the prior year.

This year's change in fair value (unrealized gains and losses) of investments totaled \$5,094,850 in net unrealized gains, compared with net unrealized losses of \$12,773,290 in the prior year. Total Change in Net Position for the fiscal year ended June 30, 2014 totaled \$6,876,928.

In presenting the unaudited Statement of Net Position as of June 30, 2014, Crawford commented that cash and cash equivalents totaled \$9,212,219, and investments totaled \$215,046,685. Premiums receivable at the end of the year were \$11,241,503. Accrued interest was \$2.5 million and prepaid insurance was \$108,824 at June 30, 2014. Crawford explained that prepaid reinsurance for the prior year included a \$9 million reinsurance premium paid in advance, resulting in the big swing between years. Reinsurance recoverable totaled \$737,223. Net capital assets totaled \$1,753,093 and reflects additional depreciation taken since last year. Total assets were \$241,246,941 at June 30, 2014.

Liabilities included net reserve for losses of \$130,970,736, which was 6.50% or \$7,979,206 more than the prior year and is tied to the actuarially results and estimated ultimate claim losses in all lines since the Pool's inception. Unearned premiums was \$13,220,251; premiums billed in advance totaled \$9,177,063; accounts payable and accrued expenses totaled \$2,079,361 (including full package bonus and agent commissions); and, dividends payable totaled \$2,011,778 (including \$1.8 million of dividends declared for the 2014/2015 fiscal year). Total liabilities of \$157,459,190 represent a 6.40% increase over the prior year, due mostly to the change in loss reserves. Beginning Net Position of \$76,910,823 combined with the current year's Change in Net Position of \$6,876,928 results in ending Net Position of \$83,787,751 at June 30, 2014. Crawford noted that \$5 million of the increase is attributed to the change in fair value of investments.

B. Crawford presented a brief overview of the budget summary of general and administrative expenses for the fiscal year ended June 30, 2014. She mentioned that revenues were discussed previously but overall more revenue was realized than projected. In terms of departmental budgets, the Pool came in 5.01% under budget, and each department remained within its budgeted amount as in the past.

C. Crawford presented the internally-managed fixed income portfolio as of August 29, 2014 as classified by type and maturity. The Pool's portfolio included 71 fixed income securities consisting of approximately 70% municipal bonds and the remainder in U.S. Government agency securities. Coupon rates range anywhere from 2.0% to 4.23% in agency securities and from 2.95% to 7.0% in municipal bonds.

Cash equivalents represented funds deposited with the Tennessee Local Government Investment Pool totaling \$27,906,628 with an average return of 0.07%. Crawford commented that these funds represent premium collections being received as well as the proceeds from some securities that were called. Also, a couple of securities had been down-graded by rating agencies necessitating their sale as the Pool will not keep any security that is not at least "A" rated. The Pool realized almost \$500,000 in gains upon liquidation of these securities.

On August 29, 2014, the portfolio had a book value of \$206,044,958 and a market value of \$202,956,187

with an average coupon of 3.982%. The estimated interest earnings on the portfolio is a little more than \$8 million.

**D. Crawford presented a Pro-forma Statement of Revenues and Expenses for fiscal year 2014/2015 and reviewed its components. Net earned premium is estimated as a little under \$59 million with earned premium being \$69,243,942 and reinsurance ceded at \$10,500,000. Reinsurance costs increased almost 5.00% due to the Pool's exposures (such as six new school systems' properties) increasing rather than reinsurance rate increases.**

**Investment income is projected at \$7,425,000 due to current market conditions. Total revenues are budgeted at \$66,638,942.**

**Losses and loss adjustment expenses are estimated at \$52,173,765 and are based on a benchmark based on the recent actuarial review. Crawford commented that for the past two years, the Pool has been seeing improvement in workers compensation claim trends. However, she said that law enforcement claim trends have been unfavorable. Consequently, she has asked Michael Fann and George Dalton in Loss Control to design a plan to work with the membership in addressing the increasing law enforcement claims. Hayes asked if more claims were being filed as the result of tasers to which Crawford said no more than usual and that the law enforcement claims are from all types of various reasons. Policy acquisition costs are estimated at \$6,224,560 and reflect an increase to coincide with increased premiums. General and administrative (overhead) expenses are estimated at \$7,139,295, based on the budget that the Board previously approved in June 2014. Total expenses are estimated at \$65,537,620.**

**Based on these projections, operating income for fiscal year 2014/2015 (before actuarial review and adjustments and changes in fair values of investments) is expected to be \$1,101,322.**

**Chairman Tharpe asked if there was a motion to approve all of the financial reports as presented. A motion was made by Hayes and seconded by Gordon. Chairman Tharpe asked Board members if there were any further questions, and there were none. He then called for vote. PASSED UNANIMOUSLY**

#### **4. DATE OF NEXT MEETING**

**The date of the next meeting will be Thursday, November 13, 2014 at 10:00 a.m. at the Pool's office in Brentwood, Tennessee.**

#### **5. OTHER BUSINESS**

**A. Crawford informed Board members that the Pool pays for their registration and "accountable" expenses (as defined by the IRS regulations) to attend the National League of Cities' Congress of Cities Conference. This year the conference will be held November 19-22, 2014 in Austin, Texas.**

**B. Chairman Tharpe recognized Farrar who brought to the Board's attention a matter concerning the Pool's bylaws. Farrar stated that in the past the Pool has had an eight-member Board of Directors when the TML President is also serving as a Pool director. He stated that Article 4, Section 2 of the Amended and Restated Bylaws makes it clear that the Pool to always consist of nine members instead of eight. Farrar read aloud these sections of the bylaws and then explained his understanding of these sections. In essence, in the situation where the President of TML is already serving a term as a director on the Pool's Board, the Pool's Board of Directors is to nominate a person to TML for approval to**

serve as an additional director during the term that the person is President of TML. Once that term expires and that person is no longer President of TML and reverts to serving as a regular director on the Pool's Board, then the term of the additional person would expire. Holt asked if the appointment of the additional person nominated by the Pool would be for a year to which Farrar stated yes. Peterson asked for clarification whether such an appointment would be on an annual basis rather than for a three-year term. Farrar replied yes and added that there is nothing in the bylaws to prevent the person nominated for a year to be re-nominated to serve for another year if the Board so desired.

Holt stated that to comply with the bylaws she made a motion to nominate Garry Welsh, City Manager of the City of Savannah, TN to fill the vacant position on the Pool's Board of Directors. Gordon seconded the motion. Hayes asked Farrar to clarify that if he is in line to serve as President of TML in the future, does that mean he will be coming off of the Pool's Board of Directors? Farrar stated no but rather Hayes would continue as a regular Director on the Pool's Board when he completed serving as TML President. Rowland asked whether the bylaws state that the Pool's Directors shall include "up to" two City Managers or Administrators to which Farrar replied no, the bylaws state "at least" two or a minimum of two. Farrar stated that in his opinion, because the bylaws require a majority of the nine-member Board to be City Mayors, the Pool could have up to four City Managers or City Administrators as Board members.

Holt asked when in the year would the nomination would be made, the September meeting or in the June meeting when the new President comes on board? Farrar suggested that from this point forward, the nomination be made in the June meeting to coincide with the full term of whoever is President of TML. Peterson commented that since the TML Board meets right after the Pool's Board meeting in June it would work out within about 48 hours.

Chairman Tharpe asked whether Board members had any more questions of Farrar. There were none further. Chairman Tharpe reminded Board members that a motion was currently on the table. Rowland asked whether the City of Savannah was a Pool member to which Crawford replied yes. Hayes asked whether the Board had to take action today as he found it difficult to vote on someone he does not know or have any background information about.

Rowland made a motion that the nomination be delayed until the Board convenes again. Holt reminded the Board members that a motion was already on the floor. Farrar stated that it is the Board's will to do what they want to do, they could delay it but it would shorten the term the new Director would serve.

Peterson asked Farrar if the Pool's Board could hold a meeting via telephone and vote or does it have to be a meeting in which Directors are physically present before they can vote? Farrar replied that upon a seven-day notice, the Board can hold a meeting via telephone conference.

Gordon stated that due to the current conversation, he is withdrawing his second to the motion that he made earlier. Chairman Tharpe announced that because the seconded motion had been withdrawn, the motion could not be voted upon at this point. Therefore, the Board needs to make a decision on which direction it wants to go with this nomination. Peterson suggested holding an electronic Board meeting and distribute some biographical information to Directors to be able to vote before the TML Board meeting.

Chairman Tharpe asked if information about Garry Welsh could be collected and distributed to which Holt said yes. Farrar confirmed that the Pool Board could hold a meeting via telephone. Rowland then made a motion to delay the nomination until such time that the Board could have an electronic meeting. Seconded by Hayes. Chairman Tharpe called for questions, and there were none.

Peterson suggested a date prior to October 15, 2014. Hayes asked whether the Board is now considering a conference call; Chairman Tharpe replied yes. He then suggested October 14, 2014 at 10:00 a.m. (CST). Crawford said she would send out information about the conference call to each Board meeting.

Chairman Tharpe called for a vote on the motion to hold a telephone conference call on Tuesday, October 14, 2014 at 10:00 a.m. (CST). PASSED UNANIMOUSLY.

Chairman Tharpe asked Board members to get any other information about other nominees to Crawford for her to distribute via email. Hayes asked whether the Board would be putting her in a bad situation by asking her to compile information about potential Board member nominees. Chairman Tharpe said the Board is merely asking Crawford to transfer information received to the other Board members. Crawford stated that she will be glad to serve the Board but that it is a Board action and she supports whatever the Board wants to do.

**MEETING ADJOURNED AT 11:00 a.m.**

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**Sam Tharpe, Chairman**

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**Charles DeMore, Secretary**