TML RISK MANAGEMENT POOL
BOARD OF DIRECTORS MEETING
DATE OF MEETING: FEBRUARY 24, 2017
BRENTWOOD, TENNESSEE

The Board of Directors of the TML Risk Management Pool ("The Pool") met at 10:00 a.m. on February 24, 2017 at the Pool's office in Brentwood, Tennessee in its regular meeting.

Board Members present included: Chairman Ken Wilber, Vice-Chair Garry Welch, Tommy Green, Curtis Hayes, Dale Kelley, Tom Roland. Jay Johnson and John Holden participated via telephone. Kay Senter called requesting to be excused due to a conflict if a quorum had already been attained. Crawford confirmed that there was a quorum, and Senter hung up.

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

Also present were Russ Farrar, General Counsel; Margaret Mahery, Executive Director, TML; and, Gwelda Swilley-Burke with Callan & Associates, Inc.

1. APPROVAL OF MINUTES

Motion was made by Green to approve the minutes of the November 30, 2016 Board meeting; seconded by Kelley. Welch requested the minutes be amended to reflect his request for additional audit documents as required by the State Comptroller's Office. PASSED UNANIMOUSLY AS AMENDED.

2. INVESTMENT ANALYSIS REPORT FOR 2016

Chairman Wilber called on Gwelda Swilley-Burke with Callan & Associates, Inc. to present a report on the Pool's investment portfolio. She commented on general market conditions and performance in 2016 and noted that GEP was up 1.6% for the whole year and unemployment registered at a nine-year low of 4.6% in November. Bond markets experienced a lot of volatility most of the year, and municipal bonds faced some headwinds in late 2016. In response to a question from Farrar, she said that due to the length of time the current bull market has lasted, there is concern for a pending market correction ahead.

Ms. Swilley-Burke directed the Board's attention to a report entitled *Investment Measurement Service Annual Review* which presented an executive summary of the Pool's investment performance for the year ended December 31, 2016. The Pool's portfolio was comprised of 93.5% fixed-income securities and 6.5% cash and cash equivalents at year-end. The Pool's securities portfolio consisted of 71% municipal bonds and 26% government-related agency securities at the end of December. She noted that the Pool's 2016 return was 0.6% which she explained fell midway between Barclays Municipal Index and Barclays Agency Index but leans toward the Municipal Index because of the portfolio's composition. She said from 2015 to 2016 the return on municipal bonds changed from 3.3% to 2.5% which impacted the Pool's earnings. The Pool maintained a AA rating with the combination of bonds it has held. She added that the effective yield on the portfolio is higher than either of the bond or agency indexes.

Motion was made by Welch to approve the 2016 investment analysis report; seconded by Hayes. PASSED UNANIMOUSLY

3. FINANCIAL REPORTS

A. Charles DeMore presented the Statement of Revenues, Expenses and Changes in Net Position for the six months ended December 31, 2016. DeMore stated that gross earned premium was $35,944,192, which is $865,835 or 2.47% more than this time last year. Reinsurance premiums ceded of $5,244,962 was $200,744 or 3.69% less than last year due to reductions in liability coverage. Net earned premium was $30,699,230, which is 3.60% more than the prior year. Investment income totaled $4,100,990, which was $54,365 or 1.34% more than last year. However, compared with this year's budget projections, investment income is $225,900 or 5.83% more. Total revenues of $34,949,617 were $1,140,142 or 3.37% more than last year's actual revenues.

In the expense category, DeMore stated total loss and loss adjustment expenses incurred were $14,021,327. Policy acquisition costs of $3,967,259 were $106,509 or 2.61% less than last year. Total General and Administrative Expenses of $3,633,124 were 6.07% or $207,903 more than last year's actual expenses. However, compared to this year's budget, administrative expenses are $544,584 or 13.04% less than projected. Total expenses were $21,621,710 which is 39.63% less than last year.

The Pool's operating income at December 31, 2016 was $13,327,907. DeMore noted that operating income combined with the change in unrealized losses on investments of $16,776,862 for the current period resulted in a decrease in net position of $3,448,955 for the six months ended December 31, 2016.

DeMore reviewed the Statement of Net Position as of December 31, 2016, which presented cash and cash equivalents of $17,105,061 and investments of $244,610,660. Premiums receivable were $5,499,258. Accrued interest was $2,860,444 and prepaid reinsurance was $5,021,311. The majority of reinsurance recoverable on paid losses of $1,751,914 represents mostly worker compensation reinsurance claims. Net fixed assets were $1,215,217, and total assets were $278,794,420, which is 3.70% more 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 $279,645,370 at December 31, 2016.

Liabilities included net reserves for losses of $138,922,660; unearned premiums of $34,671,763; accounts payable and accrued expenses of $1,569,214; and dividends payable of $960,980. Total current liabilities were $176,124,617.

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 $177,389,888. When beginning net position of $105,704,437 is combined with this period's change in net position of $3,448,955 decrease, net position at December 31, 2016 was $102,255,482.

B. DeMore reviewed the internally-managed fixed income portfolio as of January 31, 2017. On this date the Pool had funds invested with the Tennessee Local Government Investment Pool totaling $11,240,067 with an average return of 0.48%.

The Pool's portfolio consisted of 70 municipal bonds and 18 agency bonds and one treasury security and had a book value of $257,030,774 and a market value of $245,537,954, representing a net unrealized loss of $11,492,820 at January 31, 2017. DeMore noted that while the average coupon rate of the entire portfolio was 3.607%, the average coupon rate of the municipal bonds alone was 3.888%.

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

C. DeMore presented management's recommendation for a dividend declaration of $5,000,000 to be considered for FY 2017-2018. This dividend, if approved, would be issued as dividend credits for policies renewing July 1, 2017 through June 30, 2018 and would be allocated as follows: workers compensation-$2,275,000; liability-$2,235,000; property-$490,000. He noted that the proposed dividend would keep the Pool's reserve balance within the risk level the Board approved as a result of the 2013 capital reserve study.

After some discussion by Board members, a motion was made by Green to approve the dividend declaration as recommended; seconded by Hayes. PASSED UNANIMOUSLY

4. POLICY COVERAGE AND PREMIUM BASE RATE CHANGES – FISCAL YEAR 2017-2018

A. Jon Calvin, Director of Underwriting, presented proposed changes in policy coverages to become effective on July 1, 2017 as follows:

Workers Compensation

- **No change**

Liability Policy

- **Class Action Suit Coverage: Maximum $1,000,000 per occurrence and Annual Aggregate with Defense within the limit**

Property

- **No change**

Calvin explained because Pool competitors do not have an exclusion for class action suits, it would benefit Pool members. The class action suit coverage, if approved, would be added as a separate endorsement and offered to all members simultaneously; it would have a maximum limit of $1,000,000 with defense within the limit and also have an annual aggregate.

B. Calvin also presented management's recommendation to the Board for premium base rate changes that would go into effect on July 1, 2017 as follows:

Workers Compensation

- **Base rate reduction: No base rate change**

Liability

- **General Liability: No base rate change**
- **Law Enforcement: No base rate change**
- **Errors and Omissions Liability: 4.0% base rate increase**
- **Automobile Liability: No base rate change**
- **Automobile Physical Damage: No base rate change**

Property

- **Base rate reduction: No base rate change**

Chairman Wilber asked if there were any questions about the recommendations for changes to policy coverage and base premium rates. After some discussion by Board members, a motion was made by Welch to approve the recommendations for policy coverage and base rate changes effective July 1, 2017 as presented; seconded by Johnson. PASSED UNANIMOUSLY

5. HEALTH INSURANCE CONSORTIUM

For the benefit of newer Board members Crawford informed the Board that in the last couple of years the Pool has been looking into the possibility of doing a sponsored arrangement with a third-party health benefits administrator for self-insured health benefits. This arrangement would be for members interested in a self-insured plan rather than a fully-insured health benefit program. She said that last year the Pool partnered with Arthur J. Gallagher Employee Benefits division, and she has been impressed with them. The results of a feasibility study conducted in which some Board members provided census and loss information had favorable results for exploring market possibilities. She has also been talking with a third-party administrator, Jefferson Health Plan located in Ohio, that has been in business since 1985 and does self-insured, local government employee benefit plans only. Jefferson Health Plan has revenues exceeding $175 million; over 250 public employer entities in their programs and covers 55,000 plan participants. About 60% of their members are school districts with the other 40% being cities, towns and other government agencies.

The plans are very customizable and include medical, prescriptions, dental, vision, life, AD&D and voluntary life as benefit options to be offered. Every member would have a say about their specific plan for their entity as to deductibles, terms, etc. Jefferson Health Plan works with various regional networks that would be customized to this area. They are conservative as to where they invest their funds which have to be collateralized as in Tennessee, but the earnings on those investments go back to the individual members based on their standing.

Crawford stated that Farrar has been involved in a number of these meetings and will let him speak to the legal side. Farrar stated that he has met on various things with various groups about entering into contractual relationships and this group has been as impressive as any he has met with while being the Pool's General Counsel. He stated that this group had answers to his questions and that he concurs with what the Pool is doing. He explained that a sponsorship agreement is being put together where the Pool will get something for offering this and yet the Pool will not have any responsibility for this in that anything we do in the rollout will be our choice.

He said his office is drafting two documents: (1) the agreement between the Pool and Jefferson Health Plan and (2) the interlocal agreement necessary for them to bring cities into a health benefit pooling agreement. He noted he is in the process of working with them on drafting these contracts.

Crawford said the Pool would prefer to set this up outside the umbrella of the Pool's liability, workers compensation and property coverages since it is a completely different nature. She said while this process has been going on for a couple of years, it is finally coming to something that looks very viable, and she's very excited and would like to request authorization from the Board to move forward. She said Arthur J. Gallagher is ready to hit the road and she will be with them in making introductions but they will handle the educational and marketing side of things.

Welch asked if individual cities would be allowed or required to buy a catastrophic policy based on their individual risk instead of the whole group. Crawford replied that Jefferson Health Plan will provide reinsurance coverage with a stop-loss aggregate level. Farrar added that Jefferson Health Plan will sit down with each member to offer a cafeteria list to look at its specific needs. Crawford commented that each member can dictate how they want the policy to look and the program would be all-inclusive so the member would know on a monthly basis how much its payouts/contributions would

be which would help with the budget.

Welch asked if the funds were added together to which Crawford affirmed that they are as it is a pooling concept as a consortium but noted that each member is still rated on its own losses. Wilber asked if they would offer someone like Blue Cross Blue Shield or Cigna to do insurance here in Tennessee to which Crawford replied yes.

Johnson commented that while he has previously had reservations and concerns about the Pool getting into this, he is now impressed with what he his hearing.

Farrar noted that he made three things clear: (1) they had better not tarnish the name of the Pool; (2) they had better not be slack on any services to any of our members; and, (3) the agreement can be ended in very short order if they do not follow through on the promises and the contractual obligations they have. He said to the best of his ability he will ensure the Pool is protected and the Pool's reputation is protected through the work they do.

Wilber asked that since the request is to move forward what would be the earliest date a city like Hayes' city could come in. Crawford replied that they are targeting specific cities as a first phase with employee enrollments between 100-500 and next to identify those with July 1 renewals and those with January 1 renewals. Hayes asked if that would be 100 full-time to which Crawford replied yes. Farrar added that they want to do a rollout of cities of over 100 as a phase one and then they would work down so that it would not be something Hayes' city would not be able to get into. Rather it would merely be a phased-in program.

Crawford stated that if the Board approves going forward, she will hit the ground running as early as this afternoon. Wilber noted that a city with a January 1 renewal could terminate its agreement with notice and join by July 1. Crawford said she has been working with Arthur J. Gallagher in identifying based on employee counts those cities within the 100-500 employee range and July 1 renewals. Of course all the legal documents would need to be done, such as the organization, the naming, educational materials, etc. Wilber commented that it would be a cultural change for his city's employees so that education would be a big part of it.

Welch made a motion to move into the exploration phase to see what is out there. Motion was seconded by Green.

Hayes asked if phase one could possibly go into effect either July 1, 2017 or January 1, 2018. Crawford said that is correct. He then asked if phase two would be a year after that. Crawford replied that she did not know that a timeline had been made based on the variables but that if the program goes well then that timeline would be closer than further away.

Farrar asked for clarification as to whether the motion is going to allow him and Crawford to go ahead and enter into the agreements, i.e., the interlocal and contract, or is it just to explore it further. Welch said that his motion is to enter into the agreements.

Chairman Wilber emphasized to Board members that the vote will be to do the agreements, with legal approval. He asked if anyone had any more questions or comments. PASSED UNANIMOUSLY

6. DATE OF NEXT MEETING

The date of the next Board meeting will be Saturday, June 10, 2017 at 8:30 a.m. in Murfreesboro, Tennessee in conjunction with the Tennessee Municipal League's annual conference location.

7. OTHER BUSINESS

A. Wilber noted that the TML Legislative Conference will be March 20-21 and encouraged Board members to attend.

B. Crawford informed Board members of the NLC-RISC Trustees conference to be held May 16-20, 2017 in Indianapolis, IN and mentioned that Lynn Kirby will be contacting Board members about whether they plan to attend in order to finalize registrations.

C. Crawford gave an update about the search for Pool office space. The real estate broker has told her there is nothing available in Brentwood so that the search parameters have been extended towards Cool Springs area.

D. Welch asked about contractors and professional advisors as to the dollar threshold which Pool staff approves and the amount which the Board approves. Crawford stated that her authorization threshold is limited at $50,000. She noted that if it is a renewal of a contract it will be incorporated in the budget. Welch asked if there are some auto-renewals or if they are timed contracts. Crawford replied that most of them are rollovers.

8. ADJOURNMENT

Chairman Wilber asked for a motion to adjourn. A motion was made by Green and seconded by Hayes. PASSED UNANIMOUSLY Meeting adjourned at 11:03 a.m.

Ken Wilber, Chairman

Charles DeMore, Secretary