

Minutes
Tennessee School Boards Risk Management Trust
October 14, 2005

The trustees of the Risk Management Trust met at the Cools Spring Marriott Hotel on Friday, October 14, 2005. Trust Chairman Tony Tucker called the meeting to order at 1:10 p.m. In attendance were Trustees Robert Stidham, Patricia Gruenewald, Dawn Robinson, David Jones, Mark Farley, Joe Treece, Billy Joe Evans and Larry Griffin. Kristi Coleman, Dan Tollett, Alice Carnahan, John Wilburn, John Evans, Mark Fleck, Lisa Dennison and Keith Dennen were also present.

Mr. Tucker welcomed the trustees and expressed appreciation to each for making the effort to attend. Mr. Tucker relinquished the floor to Dr. Tollett for the introduction of the three new Trustees.

Dr. Tollett stated that the Trust was very fortunate to have three very distinguished new Trustees. He introduced Joe Treece, school board member for 28 years in Wayne County; Billy Joe Evans, Superintendent of Fayetteville City Schools; and Larry Griffin, Crockett County Mayor. He stated that Mark Farley, who had been serving on the board, previously, was also elected by the members in his district to return to the board. This results in four elected members to the board.

Mr. Tucker welcomed the new trustees and expressed confidence that each will enjoy serving on the Trust. He said, "Hopefully, we can move forward and you will not have to go through some of the things that we have gone through in the last year."

Mr. Tucker called for the adoption of the consent agenda.

GRUENEWALD/JONES: Motion to adopt the consent agenda.
CARRIED

Mr. Mark Farley led the Invocation.

Mr. Tucker reviewed events of the last few days including:

1. The TSBA Board of Directors sent the Trust a letter saying they have terminated our sponsorship agreement.
2. John Conley sent a letter of resignation from the Risk Management Trust Board of Trustees. He was a non-voting member.

Mr. Tucker stated that as the Chairman of the Trust, he would like for the Trust to move forward and get back to Trust business. To get back to taking care of our membership, doing what is right for them, and supporting our Trust staff so they can better serve our membership.

Overview of Meeting. Dr. Tollett expressed appreciation to the Trustees who made presentations at the Fall District Meetings: Mark Farley, Dawn Robinson, David Jones, Tony Tucker and John Evans. He felt that the presentations were positive and class acts.

Dr. Tollett said that the STARS claims program conversion has been completed but several problems in getting the program up to speed remain. He stated there will be a discussion today concerning the counties, an actuarial report, a report on claims activity and the on going actions of TSBA leadership. He said that a budget amendment will be presented, along with presentations from property appraisal companies. He stated there would be a discussion concerning the OJI program, a program with potential to save school boards a great deal of money as an alternative to workers compensation.

Investment Report. Mark Fleck of Highland Capital Management reported that they manage a bond portfolio for the Trust which is 100% US Treasuries and Government Agency Bonds. This results in no credit risk with everything being AAA rated.

As of August 31, 2005, the portfolio had \$4,258,664.39. For the fiscal year to date (6/30/05-8/31/05) the account was up .27% vs. the target index of Merrill Lynch US Treasury 1-10 Year was up .23%. For the fiscal year (6/30/04-6/30/05) the account was up 4.66% vs. Merrill Lynch 3.73%. Since 8/31/99 the account was up 5.79% vs. Merrill Lynch target 5.61%.

With the belief that the interest rates will continue to rise; the money needs to be invested shorter than that of the index. This is in anticipation of higher interest rates in the future to invest in. With this in mind the current investment duration is at 2.71 years vs. the index of 3.36. The return on a bond portfolio is made up of two factors, (1) the change in the market value which goes up and down as interest rates go up and down, (2) Coupon return which can be controlled by watching the index-in turn buying a higher coupon but lower duration.

Investment Report. Kristi Coleman reported that the Trust has three managers of Trust assets. The Trust has \$35,000,000 under management and under state law we can only invest in things that are backed by the government. The managers are Highland Capital with \$4.2 million, the Jumper Group with \$11 million and Sovereign with \$16 million. The Jumper Group only invests in Treasuries, whereas, Highland Capital and Sovereign invest in the Ginnie Mae's and Freddie Mac's.

Ms. Coleman said that these managers provide a diversity that will add a little more value and they compliment one another. This has created a portfolio that works well in all market conditions. All the managers have shortened the portfolio duration in anticipation that interest rates will continue to rise. Sovereign and Jumper managers are giving the Trust the best rate of return in the fixed income market over the long term with the restrictions that we have.

Financial Report. Kristi Coleman presented the financial report as of 8/31/2005. The total revenue stands at \$4,654,507.99, which includes investment income of \$237,428.99. The total expenses are \$4,370,821.04, which includes losses incurred of \$4,065,000.

She expressed that under the investment income the current structure is to work with the bank to increase our money market rates for short term needs up to six months and then invest in c.d.'s for our short term needs from six months to a year. Currently, the CDs are making about 4% on a year.

Ms. Coleman said that a sponsorship payment was offered to TSBA but they returned it back to us along with a copy of the letter stating that they were terminating the sponsorship agreement.

She presented charts showing comparisons from 04/05 to 05/06 of premium, losses incurred, and services & fees. A breakdown of the total expenses for the Trust was provided in a chart which showed that 67% is attributable to reinsurance, 31% to losses incurred, 1% to office supplies and 1% to salaries. She stated that since the Trust is on an accrual basis the reinsurance percentage is higher than the losses incurred because only two months are represented. She stated that these numbers would actually be the opposite at the end of the year because the majority of expenses are the losses incurred not the reinsurance. But the two top costs in the pool are for reinsurance and losses incurred.

ROBINSON/FARLEY.

Motion to accept 8/31/2005 financial report.
CARRIED

Actuarial Report. Lisa Dennison of By the Numbers Actuarial Consulting, Inc., presented a report of the estimated reserves as of 6/30/05 and projected losses for 7/1/05-06. She stated that it was important to understand how much money we have and why there has been a change in the funds. In 2004, the Trust had \$13,879,686. This was money that the Trust had in excess of claims. As of 6/30/05 we have approximately \$10,000,000 which represents a decrease of about \$3.8 million.

Ms. Dennison explained for the benefit of the new Trustees that the pool collects premiums in order to pay claims. In the workers comp program, 23% is for expenses, leaving 77% to pay claims. When a claim happens, we have collected premiums to pay for that claim until the last payment is paid out on that claim. With workers comp in Tennessee, it will take 5-6 years for all the claims to be paid out. The Trust has collected the money up front to cover that claim, even though the Trust may be paying it out in five years, they are not supposed to be paying with premiums which will be collected five years from now.

The adjusters determine the case reserves with the information that they know today to determine how much it will take to settle that claim. We know in total the reserves will eventually go up as more facts about the claim become known. The actuary comes up with the IBNR (incurred but not reported). This means they know the claims will go up. This allows for additional developments in claims. These claims we are seeing were incurred prior to 6/30/05 but were reported after 6/30/05 so they will have to be paid out of last year's money. There are two components of IBNR: reporting late and the largest component being incurred but not enough which is where the actuarial adjustment of reserves is reflected. The IBNR for workers comp is \$7 million and liability/property is \$4-5 million. This results in \$34 million in reserves for claims, leaving a balance of \$10.3 million unencumbered.

Mr. Tucker asked if other pools of the same type are experiencing the trend that our Trust is in losses.

Ms. Dennison responded "Yes, but the one thing you have going for you, which our other school programs don't, is the amount of money you have in the bank. The Trust was

started in the late 80's where you could build up this surplus. The problem our other school programs have is that they started in the early to mid 90's in a soft market which was competitive so they could not generate enough surplus. However, the Trust has surplus. When you are competing with a fund that is just starting the one thing you can say to people is we have \$10 million in the bank. So if you have a bad year, you have the surplus to absorb it. A new fund would have to raise premiums to pay for extraordinary claims and that would be difficult."

Ms. Gruenewald asked if it would be advantageous to have more than one actuarial report a year.

Ms. Dennison stated that some clients don't want to find out once a year whether the losses have gone up or down. They want to know before the report is presented how the losses are moving. It can be done quarterly or semi-annually. The cost for both programs would be \$4,500.

GRUENEWALD/JONES: Motion to receive an actuarial report on a quarterly basis. **CARRIED**

Mr. Jones said that what we need to see is "Yes, that even with claims of an additional \$3 million, we still have \$10 million. We are in good shape. This program has had much higher than expected losses this year and we still have \$10 million. We can survive."

Ms. Dennison stated, "Yes, that is where I believe you have the edge over any competition."

FARLEY/STIDHAM: Motion to accept Actuarial Report.
CARRIED

Late Claim Reporting. Mr. Wilburn reported that never before in the history of this program have we seen so many claims reported after the close of the period. In the schools we had 25 claims filed 125 days late on average which results in the staff not being able to reserve those claims in the year in which they occurred. They are being reserved after the actuary has looked at the numbers. Obviously, there is a great deal of erosion that resulted in injury and totaled a million dollars.

Mr. Wilburn stated that one of these claims involved several different children going back a number of years concerning corporal punishment. That system looked back and saw the first episode this teacher did was not serious enough to make a claim, but they saw it was a trend. So a claim was filed on behalf of all the children. There is a very significant reserve on that claim. We have had children that have filed sexual misconduct claims once they became 18 years old even though the claim occurred several years prior to that time.

Mr. Wilburn said that after reviewing claims records, he had seen claims filed after the close of the period totaling \$2.5 million dollars. The only way to handle this occurrence is to ensure that we maintain adequate reserves for such an event.

Schools vs. County Governments. Mr. Evans stated "This program is doing just exactly what it was intended to do and it is working remarkably well. If you look at this program and compare it to any other program you have a program that is performing

admirably. The reserve is there for a reason. For example, if at the end of every policy year we had \$50 million in reserves and it never changed, what should that tell us? It would tell us that you are keeping \$50 million of money that should be out there educating children. If we don't need it then why do we keep it? Because we have had unusual claim development, we have had to spend some of those reserves. This justifies us in keeping the schools money for the period of time we have kept it. We have kept it there to keep from hitting them with an assessment for \$5-6 million a year that would hurt their budgets and hurt the kids. We have not lost anything. The money just went from the surplus line to the reserve column."

In reviewing schools vs. counties, Mr. Evans presented the trustees with graphs and charts revealing the impact of both on the program. Mr. Evans stated that contrary to what some have said, the counties have not had an adverse impact on the reserves. The counties before the investment income in the four years in the program are 5.4% in the hole. For the same period the schools are 20.3% in the hole. If you apply investment income relative to premium contributions the counties are 3.7% over, while the schools remain 5.0% under. The counties are out performing the schools.

Mr. Evans reminded the Trustees at the last meeting he had presented graphs showing that the counties and the schools were performing about the same. Then claims came in that we had no prior knowledge of and we used some of our reserves to do exactly what reserves are designed to do.

Mr. Evans stated in the 04-05 year three of the larger school systems whose premiums would have been raised due to their loss history decided to leave for a company who would give them a low ball premium. We saw a reduction in total premiums of about 2 million dollars, but we will also have a corresponding change in claims.

Dr. Tollett stated that in 2003 we had \$13 million of losses in one school system due to tornadoes. These losses cost the program \$100,000. The loss cost Travelers Insurance Company \$23 million. So, Travelers raised their rates. When this system's premiums were raised, they chose to leave us with a \$13 million loss. That system treated other boards in the Trust unfairly because we will get no premium from them going forward to offset the losses. This is why members do not bid, but commit to stay in the pool long term.

Salary Policy Amendment. Dr. Tollett stated at the last meeting Mr. Stidham had requested a policy amendment concerning salary administration be presented at the next meeting. Dr. Tollett reviewed the proposed amendment to add the following to the policy. "Any employee who does not receive a salary increase will be provided an explanation by his/her supervisor including a letter of documentation."

STIDHAM/GRUENEWALD:

Motion to approve addition of the statement "Any employee who does not receive a salary increase will be provided an explanation by his/her supervisor including a letter of documentation." **CARRIED**

Adjourn for break at 3:15.

Resumed 3:30.

Chairman Tucker resumed the meeting with a discussion concerning Trust sponsorship. He said that TSBA leaders had been recruiting superintendents and board members to attend a meeting on September 29 about the formation of a start-up insurance pool to compete with the RMT. The company making the presentation was Brokers Risk. He said that TSBA gathered information from our records and gave it to this company. He saw the presentation on the 30th and the Brokers Risk representative simply degraded RMT, never saying one thing about their company---not how successful they had been or what they had done for anybody or what their loss records were.

Chairman Tucker stated after that date a letter has been received from TSBA, saying that they disagreed with the management of this Trust and stating that TSBA could not sponsor the Trust anymore. The letter said that TSBA would not accept anymore money from the Trust and the Trust could not use their logos.

He stated we have been consumed with this and it has taken up too much of our time. There are several ways we could handle this and he opened the floor for discussion.

Mr. Stidham said it was very important that the members understand that TSBA leaders are only telling a part of the information and not giving the full picture. It is important that we answer this criticism.

Mr. Tucker stated that they (TSBA) have never allowed us to have anyone in front of their board to address anything from the Trust side. They prefer to leave the impression that the losses that occurred were from mismanagement.

Mr. Farley said throughout this ordeal, the trust has maintained our creditability. We can show we are professional, have always provided good service and will continue to provide good service. This is the stability that school systems want.

Billy Joe Evans said that superintendents and boards needed to be informed. But, he said the Trust should not be negative towards TSBA.

Chairman Tucker said that no one in this room has any desire to bring TSBA down. "Why would that ever be on our agenda. There is no reason for it. That is what they say we are doing, but we are all TSBA members. We are part of that organization too."

Mr. Griffin, asked how does this effect local governments?

John Evans said this does not affect local government insurance coverage. He explained that four methods had been suggested to split the counties off of the school boards. These suggested methods do not transfer any equity nor do they give the county pool any money to take away from what is remaining for the schools.

Billy Joe Evans said that the Trust should send something out to the membership talking about how positive the situation is with the Trust stressing that we have \$10 million in surplus and 36 million in investments. He stated that it was important to get this information out to the superintendents and board members to show how sound this operation is. "It wouldn't take me very long to make a decision regarding which one to go with. If you go with a start-up pool you have a lot of risk involved. I mean a lot of risk."

Ms. Robinson stated that the representative of Brokers Risk had suggested that the people who were going to break away and start a new pool should get the money from our Trust.

Billy Joe Evans stated he assumed that would not be an option. "If you get out of the pool, you just get out of the pool. You don't get any money."

Chairman Tucker requested comments from the Trust attorney, Keith Dennen.

Mr. Dennen referred to a portion of the TSBA letter, dated October 7, 2005: "Because of continuing concerns the Risk Management Trust is not being operated in a manner consistent with the best interest of this state's school boards, the Board of Directors of the Tennessee School Boards Association is terminating the sponsorship agreement between TSBA and the Trust. Termination of the sponsorship agreement is effective immediately."

Mr. Dennen stated that this was "a clear breach of the agreement." You have to give written notice, thirty days has to expire before you can exercise a right to terminate. He said that the agreement was for a term that went through June 30, 2006. Gloria Sweet-Love was the one that set it at 2006, and part of the consideration for that was an agreement by them that they would not endorse, sponsor or allow their name to be associated with another pool. "I have never seen so blatant a breach. It was bad enough when TSBA sponsored a law that would basically put you out of business and then when we caught them on it they basically ignored it." Mr. Dennen stated that in his opinion the school boards cannot legally withdraw their money from the Trust.

Ms. Robinson said that honor and integrity are important to TSBA. That is what we have been about all these years. This type of behavior goes against that.

Various avenues of actions were discussed further.

Chairman Tucker suggested the meeting return to the agenda and resume the discussion later in the meeting.

Budget Request. Ms. Coleman said that the Trust is sharing telephone lines with TSBA. She recommended that the Trust purchase its own system with lines billed to the Trust. Three bids were provided for review, with the recommendation of the "Hiscall" system at a cost of \$8,349. This system will provide a voice security recorder option which is important for the claims staff to record statements and transfer data to computer claim files.

She presented budget recommendations for the publication and distribution of a brochure at a cost of \$800, redesign of the website \$5,500 and a quarterly newsletter to all members at \$2,000 per issue. The promotional items are necessary because the Trust is receiving no support or promotion by the sponsoring organization. The total cost of all promotional items is \$14,300.00.

Ms. Coleman stated that an appreciation dinner on the General Jackson is already planned by the Unemployment Trust for its members, where they will be receiving rebates. Next Generation Underwriters has agreed to co-sponsor a portion of the cost of

booking the entire boat. We are asking if the RMT would be interested in also co-sponsoring it. Obviously, it spreads the cost out and it would be a benefit to our members. The cost for each sponsor would be \$11,915.33.

Ms. Coleman said that the Unemployment Compensation Trust voted at their last meeting to have an Employment Law Seminar for superintendents and business officials that need to get involved in loss prevention and asked the staff to present an option for the RMT to co-sponsor these seminars with the UCT. She stated that the plan would be for three regional meetings, with the RMT having a different set of topics. The projected costs would not exceed \$7,500 per meeting. The RMT projected cost would be \$3,750 for each meeting or a total of \$11,250.

EVANS/ROBINSON: Motion to approve budget requests involving telephones, promotional items and newsletter and seminar.
CARRIED

Property Assessment Proposal: Presentation was given by Bob Shupe of ESP, Inc, which is located in Brentwood, Tennessee, the parent company of RAI (Risk Assurance Inspections). He stated they have been involved with doing such inspections with several of the Tennessee school systems for a number of years. They work for about 35 public entities in Tennessee, many of which are Tennessee school systems. A proposal has been presented to do the school systems listed at a total cost of \$597,000 spread over three years. When finished at the end of the third year, everything will be up to date. This is structured by school system. Everything is recorded on discs, including data, pictures and evaluations, which would be supplied to the Trust.

Mr. Evans, stated that this evaluation has to be done for GASB 34 requirements, and this is a way to help the members and us at the same time.

A presentation was given by Mr. Chuck Nattinger of RCI Appraisal Company, located in San Antonio, Texas, which has been in business since 1980. RCI Appraisal has set a maximum dollar amount that RMT can be charged to do 36 school districts per year at \$200,000.00 or \$600,000.00 over three consecutive years. RMT can be charged less but not more than \$200,000.00 per year to appraise all building/structures and land improvements at the 36 member districts per year. This would consist of doing field appraisals and evaluations of all the schools who are members of the Trust. The project calls for 1/3 of the schools each year.

STIDHAM/ROBINSON: Motion to approve contract with RAI with a provision that the appraisals begin January 1, 2006.
CARRIED

Dr. Tollett suggested that the Trustees give the staff permission to continue the OJI program on an individual system basis.

Chairman Tucker asked how many systems would be interested in this between now and May.

Mr. Evans stated three to four boards.

GRUENEWALD/EVANS: Motion to move forward on an individual system basis with the OJI program. **CARRIED**

It was decided due to the length of the meeting the agenda item of "Awards Program" would be discussed at the February meeting.

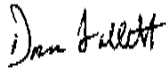
Mr. Conley's letter of resignation was discussed but no action was taken.

Discussion concerning TSBA situation continued.

JONES/GRIFFIN: Motion to revisit TSBA situation at a later date. **CARRIED**

GRUENEWALD/FARLEY: Adjourn subject to call. **CARRIED**

Adjournment. There being no further business, the meeting was adjourned at 6:15 pm.



Dan Tollett
Trust Administrator



Tony Tucker
Chairman