

Tennessee Risk Management Trust
February 26, 2007

Trustees of the Tennessee Risk Management Trust met February 26, 2007 at Sheraton Nashville Downtown Hotel. Attending the meeting were: Chairman Mark Farley, Vice-Chairman Robert Stidham, trustees Billy Joe Evans, Tony Tucker, Dawn Robinson, David Jones, Frank Lacey, Joe Treece; program manager John Evans of Next Generation Underwriters; Buck Wiley of Merrill Lynch Investments; Lisa Dennison of By the Numbers Actuarial Firm; representatives from Bone, McAllister & Norton, Williams & Schwalb and Ortale, Kelley, Herbert & Crawford legal firms; staff members: John Wilburn Trust Administrator; Kristi Coleman, Director of Finance and Administration and Alice Carnahan Finance Specialist. Trustee Larry Griffin was unavailable to attend.

Chairman Mark Farley called the meeting to order at 3:40 p.m.

Frank Lacey gave the invocation.

Chairman Farley asked for any revisions in the consent agenda.

ROBINSON/JONES: Motion to approve the consent agenda, which included the October 6, 2006 minutes. **Motion Carried unanimously.**

Trust Administrator's Preliminary Remarks.

Mr. Wilburn reviewed the day's agenda involving actuarial update, investment portfolio review, financial presentation, review of policies-particularly the ethics policy, changes in the intergovernmental agreement, changes in bylaws, and election of trustees. He spoke of an appraisal proposal for the county governments and the presentations to be given by three legal firms. He informed the trustees of an offer on the office building, to be reviewed.

Mr. Wilburn stated he had just received information concerning proposed legislation that would make significant changes to the Tort Liability Act. One of the bills calls for unlimited medical payments while the other would accelerate the damage caps well beyond the increase scheduled for July 1st, 2007.

Mr. Wilburn stated that presently we do not have very many claims that go to the cap limit, but the proposals, if passed, could have a dramatic effect on the premiums we have to charge our members.

Reinsurance.

Mr. John Evans, of Next Generation Underwriters, stated he was pleased to inform the trustees he had received renewal for the property/liability excess coverage's, both showing a slight decrease. He stated that the insurance market was in a soft cycle which allows a better price on excess, but this in turn allows other companies to become more competitive. They are the first to come in with a soft market and the first to leave when the market gets hard.

Mr. Evans also commented in detail of the effect that passage of the proposed legislation could have on pricing of excess coverage.

Actuarial Report.

Lisa Dennison, of By The Numbers Actuarial Firm review of the 12/31/06 property and liability losses indicated an increase of \$326,487 or roughly 0.5% since 9/21/06. Comparatively speaking, this is not a significant increase

She also reported that workers compensation losses have decreased \$402,003 or 0.4%.

For the combined programs, there has been a decrease of \$75,516 in the total incurred.

Lisa also reported that losses for the 06/07 year are developing slightly lower than originally estimated.

STIDHAM/TUCKER: Motion to approve presented actuarial report. **Motion carried unanimously.**

Trustee Dawn Robinson left the meeting at this point to attend a conflicting TSBA scheduled meeting.

Investment Report.

Buck Wiley, of Merrill Lynch reviewed the investment policy stating that it is very restricted, very conservative policy investing in U. S. Government bonds, Treasury bonds, and bonds of other government agencies including mortgages issued by Fannie Mae and Jennie Mae. The investment portfolio is managed by two investment counselors, Lord Abbett which operates a general bond portfolio which includes treasuries, mortgages and agency bonds, and PIMCO that manages a portfolio involving treasury inflation protected bonds (these adjust according to the inflation rate). Wiley indicated that as bond prices go up, interest rates generally go down. The TIPS portion of the portfolio is there to partially offset that.

The Trust portfolio shows a (0.83%) in comparison to index returns of (0.91%), but in evaluating performance, one must look at interest rates, and inflation. Mr. Wiley stated the Merrill Lynch view is that as economic growth slows down we will start to see

interest rates stabilize and interest rates/inflation may go down. The portfolio is very well positioned at this time. The TIPS exposure will be evaluated over the next few months to determine if we should reallocate based on inflation. We feel that we might see a 4.5% return for the bond market by the end the year. In summary for 2007, we feel it will look much like 2006, as we might see inflation move down a bit.

Financial Report.

Ms. Coleman reviewed the financial statement as of 12/31/06, beginning with the investment income. She informed the trustees that the Trust had begun the year with \$26,168,112.32 to fund our losses for the year. As in current previous years it had been found the avenue for the short term investments was the market money with a rate of 5.2%. The money market is showing an investment income of \$802,827.90 since July 1st.

She gave an overview of expenses. It was noted the office maintenance expenses were slightly over what was projected, and since these are shared expenses, it somewhat out of our control. The losses incurred are still reflecting the projections made by the actuarial in August'2006, with no adjustments being made. The auditor expenses are over about \$400.00 due to the current auditor needing to review the previous auditor's files. The lobbyist is reflected over budget, but really is not, the overage is due to the payment schedule. Both expenses have been approved, but we pay them on a calendar year and our records are on a fiscal year, which causes the expenses to overlap.

When referring to the balance sheet, Ms. Coleman drew attention to the line items of excess reimbursement receivables and deductible receivables. She stated she and John Wilburn were working with STARS personnel to try and extract reliable data concerning these two areas.

She informed the trustees that based on current actuarial/expense projections, we are obviously doing very well. And can expect a stellar year. The un-obligated surplus is at a record high of \$17.8 million.

JONES/TREECE: Motion to approve financial report as of 12/31/06.
Motion carried unanimously.

Policy Review.

Keith Dennen, Trust Attorney, stated the House and Senate, as part of its ethics legislation of last year, required that each local governmental entity adopt a code of ethics.

After a review of both the CTAS and MTAS by Mr. Wilburn and himself, it was decided that due to the hybrid nature of Trust, the MTAS is the better version for this group. The policy must be made a part of the intergovernmental agreement.

Mr. Wilburn drew attention revisions within the TNRMT Policies, specifically language involving reimbursements from the HRA plan, clarification concerning employee disability payments as well as highlighting changes in procedures concerning the collection of premiums for all members. He also mentioned the addition of Section 4000 covering acceptable use of information technology resources.

EVANS/TREECE: Motion to approve proposed changes within the TNRMT Policies. **Motion carried unanimously.**

Intergovernmental Agreement.

Mr. Wilburn reviewed proposed changes within the intergovernmental agreement. All proposed changes were noted in red for clarification. The most notable were the addition of Article VII, Section 7.4-Ethics Policy, which was previously presented and adopted. In Article X, Section 10.2-Member Contributions, the addition of a statement of clarification concerning proportionate share. In Article XVII, Section 17.2-Withdrawal from the Trust, involving the member and their obligation that would be imposed upon them if they withdraw. In Article XVIII, the addition of Section 18.3-Termination of the Trust, effort to define how funds would be liquidated upon the termination of the Trust.

EVANS/TUCKER: Motion to approved proposed changes within the Intergovernmental Agreement. **Motion carried unanimously.**

Bylaws.

Mr. Wilburn presented proposed changes within the Trust Bylaws. Article I, Section 2, Eligibility of Trustees, the addition of statement, "excluding any transaction which is otherwise lawful in which the Trust purchases goods or services from an entity." In Section 4-Nominating Committee, changing the date of voting delegate notification from April to March and giving 30 days of such notification nominating any eligible person for trustee.

LACEY/TUCKER: Motion to approve proposed changes with the TNRMT Bylaws. **Motion carried unanimously.**

Property Evaluations.

Mr. Evans reviewed the current procedures involving property evaluations for school members. He stated we were currently about 1/3 of the way through the property evaluations for the schools, it is working very well, and it is having exactly the effect we wanted it to. What we are trying to do, is to collect an appropriate amount of premium and at the same time make sure we have enough coverage on each building to cover a total loss.

Now that we know we are going to cover other entities in this program, we want to treat everyone the same. Since we are doing the property evaluations on schools, a proposal is being presented for the same evaluations on the counties. The RAI appraisal quote involves a two year program at the cost of \$405,460.00 over 8 payments of \$50,682.50 each.

JONES/STIDHAM: Motion to approve property appraisals for counties at the cost of \$405,460.00. **Motion carried unanimously.**

Selection of Trust Attorney Presentation.

Mr. Wilburn presented to the board three attorneys for consideration as trust attorney. The presentations were given by Keith Dennen of Bone, McAllister & Norton, John Schwalb of Williams & Schwalb and Carl Spining of Ortale, Kelley, Herbert & Crawford.

A brief break was taken by the board between the presentation by Keith Dennen and John Schwalb.

Once the presentations were given, the board entered into discussion concerning each one.

STIDHAM/TREECE: Motion to continue to with Keith Dennen as Trust Attorney, with no signed contract. **Motion carried unanimously.**

Tony Tucker	Yes
Robert Stidham	Yes
Joe Treece	Yes
David Jones	Yes
Frank Lacey	Yes
Billy Joe Evans	Yes
Mark Farley	Yes

Building.

Mr. Wilburn presented a \$2 million offer made by Commodore Medical Services for the purchase of the building, which included all furniture. The current asking price is \$2.6 million. He reviewed with the trustees the original purchase price and upgrading expenses by each of entities, 3 years ago the Trust contributed 1.2 million and TSBA 1 million. TSBA had invested an additional \$200,000 in upgrading the property and recently there has been a shared cost of \$40,000 for roof.

TUCKER/EVANS: Motion to present a counter offer of 2.5 million with no contents, for TSBA board consideration before presentation to Commodore Medical SVCS. **Motion carried unanimously.**

Other Business.

Mr. Stidham raised the point that previously during the appointment of Mr. Wilburn to Trust Administrator there had been a discussion concerning a car allowance. This had not been addressed further since then.

After the review and discussion covering several options the board agreed upon a monthly car allowance and a reimbursing percentage of maintenance expenses.

STIDHAM/JONES: Motion to approve a monthly car allowance of \$500.00 in addition to a monthly 75% reimbursement of cost of maintenance (ex. Gas, oil changes, tires). **Motion carried unanimously.**

Mr. Stidham, Vice Chairman serving as chair of the nominating committee for the upcoming trustee election selected those others to serve on the committee, Trustees Frank Lacey and Joe Treece.

John Evans gave an update concerning the inquiries by the Commerce & Insurance Department. He referenced a letter received from the new departmental attorney indicating they were pleased with the responses he had provided concerning the interest and fee situation, but they still have some questions concerning other issues such as teacher insurance and contract school bus driver coverage. Mr. Evans reminded the trustees that a letter has been issued by the Department of Insurance stating the contract school bus driver coverage was permissible as issued. Evans said he would be meeting with the Commerce & Insurance Department in the near future, and he felt that purpose was to simply complete their files.

Mr. Evans referenced his earlier review concerning the upcoming reinsurance costs. He requested the board to grant John Wilburn, Trust Administrator the authority to accept on behalf of the board if the rates come in as the same expiring rate or lower.

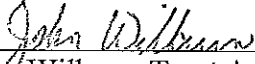
EVANS/JONES: Motion to authorized John Wilburn, Trust Administrator to accept on behalf of the board reinsurance costs rates coming in as the same expiring rate or lower. **Motion carried unanimously.**

Next meeting date set Friday, May 11, 2007.

Meeting adjourned 6:10 pm.



Mark Farley, Trust Chairman



John Wilburn, Trust Administrator