

Tennessee Risk Management Trust
May 11, 2007

Trustees of the Tennessee Risk Management Trust met May 11, 2007 at Sheraton Music City Hotel. Attending the meeting were: Chairman Mark Farley, Vice-Chairman Robert Stidham, trustees Billy Joe Evans, Tony Tucker, Dawn Robinson, David Jones, Frank Lacey; program manager John Evans of Next Generation Underwriters; Buck Wiley of Merrill Lynch Investments; Nathan Poss of Johnson Poss Governmental Relations, Inc.; staff members: John Wilburn Trust Administrator; and Alice Carnahan Finance Specialist. Trustees Larry Griffin and Joe Treece were unavailable to attend.

Chairman Mark Farley called the meeting to order at 11:00 a.m.

Dawn Robinson gave the invocation.

Chairman Farley asked for any revisions in the consent agenda.

ROBINSON/JONES: Motion to approve the consent agenda, which included the February 26, 2007 minutes. **Motion Carried unanimously.**

Trust Administrator's Preliminary Remarks. Mr. Wilburn reviewed the areas of discussion for the meeting, involving a increase request on student accident coverage to \$25,000, adding back of uninsured motorist, the offer on the building, office relocation and equity distribution due to record surplus.

Investment Report. Mr. Buck Wiley, of Merrill Lynch presented an analysis of financial trends for the first quarter, and indicated the Trust is currently in a good financial position. The portfolio is currently up 2.47% this year resulting in an increase of \$947,323.00, showing a balance of \$39,326,533.00.

Wiley indicated that the economy is slowing, but believes short term interest rates will remain basically unchanged from present levels. Wiley went on to explain that the bond portfolio has been diversified avoiding high risk investments which is perfect position for the Trust. The portfolio is composed with 25.08% (PIMCO) in TIPS (Treasury Inflation Protected Securities) which adjusts for inflation and is the best hedge against inflation. A portfolio percentage of 24.96% is invested with Black Rock-short duration which is another defensive measure against interest rates on the long end of the curve going up. They are buying bonds that mature in 2, 3, and 4 years, currently they are paying a good rate of a little over 5%. Lord Abbett is holding 15.53% in very traditional government investments which is bonds maturing in 15 years.

Meeting adjourned for lunch at 11:40 a.m.

Meeting called to order at 12:35 p.m.

Financial Report.

Mr. Wilburn, Trust Administrator presented the financial report as of 3/31/2007, beginning with a review of member contributions of \$37,364,084.82 and investment income of \$2,929,954.32. The program expenses including, reinsurance cost of \$11,210,004.00 and operating expenses of \$19,724,578.38. All resulting in a net income of \$2,822,277.95 and member equity of \$19,181,852.49.

Mr. Wilburn referred to the listing of losses incurred at \$17,782,499.99 based on projections in the August 2006 actuarial report.

Lobbyist fees reflected in the budget reflected payments on a yearly contract of January-December, while the approved budget is July-June, so there will always be an overlap. Currently, the lobbyist is active concerning the Tort Liability limits being reviewed by the state government. Due to this particular issue the proposed 07-08 budget includes lobbyist fees.

STIDHAM/TUCKER: Motion to approve financial as of 3/31/07.
Motion Carried.

07/08 Proposed Budget.

Mr. Wilburn stated that renewal is expected to be about the same as last year. This was taken into consideration when determining the budget, allowing for premiums and expenses to stay generally flat. He explained that the budget was developed on the premise that the Trust would still be at the same location, thus if the building would sell there would be a new budget or amendments submitted for the trustees consideration.

LACEY/EVANS: Motion to approve 07/08 proposed budget request.
Motion Carried.

Marketing Report.

John Evans referred to prior trustee approval that allowed he and John Wilburn authority to work through reinsurance coverage if it was flat or better rates being offered. Evans indicated the cost of excess property coverage was down by 15%, liability down by 10% and the workers compensation excess coverage cost down by 10%.

Mr. Evans reviewed the various attempts by other insurance companies within the state.

Mr. Evans stated the appraisal program is moving forward as planned and is very important to the trust and the members. It is important for all buildings to be appraised properly because the replacement cost maximum is 125% of what is scheduled. Mr. Evans reviewed the packet that is presented to a member after an appraisal has been performed on their property.

Mr. Evans and Mr. Wilburn reviewed current activity involving uninsured motorist coverage.

EVANS/JONES: Motion to add uninsured motorist coverage to the trust policy.
Motion Carried.

Lobbyist Report.

Mr. Nathan Poss, of Johnson Poss Government Relations, reviewed the current environment within the state government, especially concerning the Tort Liability Act. He reviewed the two current bills involving this area and the coverage of unlimited medical expenses. Mr. Poss informed the trustees who is currently involved in sponsoring and opposing these bills. He addressed how this situation could/would be approached.

Student Accident.

Mr. Wilburn stated the Athletic and Student Accident Program continues as a very popular part of the program. Since July 1, 2004, over 5000 claims have been processed. After presenting a graph indicating the number of students covered, claims (closed only), outline of premiums, total incurred value, average cost of claim, it was noted that the trust remains marginally profitable. He indicated that if the current trend continues, we will remain profitable without an increase in the per pupil cost and at the same time, can make the program even more attractive.

Mr. Wilburn requested to increase the limit of \$10,000.00 to \$25,000.00 and to keep the premium for the coming year at \$4.00 per student.

EVANS/STIDHAM: Motion to approve increase of student accident limit from \$10,000.00 to \$25,000.00. **Motion Carried.**

Other Business.

Mr. Wilburn reviewed current activity involving the sale of the building. Discussion continued concerning relocation and the options to be considered buying or renting.

EVANS/ROBINSON: Motion to give John Wilburn the authority to approve \$2.5 million sale price and negotiation authority on contents above that.

Motion Carried.

Mr. Wilburn reviewed a proposal concerning equity distribution. The current financial statement indicates member equity/surplus in excess of \$19 million. This is an increase from \$16 million as of June 30 of this year. The reason for this was the loss experience has been better than our underwriters anticipated.

The generally accepted pooling practice is to have surplus on hand at ten times the amount of the highest self insured retention of the pool. Our highest self insured retention is \$1 million which is the retention on workers compensation claims. If industry guidelines are followed, our surplus/member equity should be a minimum of \$10 million.

The current member equity is approaching double the industry accepted amount, it is recommend a conservative equity distribution of \$2 million to be distributed among the membership as a credit against 2007-08 premiums. The amount per member will be determined based on longevity of membership and the amount of positive contribution toward the existing surplus. This would be determined by our underwriters and subject to the approval of the administrator.

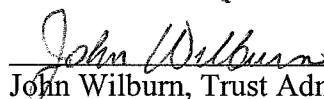
JONES/LACEY: Motion to approve the use of \$2 million from the current member equity for distribution during the 07/08 premium year. **Motion Carried.**

Next meeting date set Friday, October 26, 2007.

Meeting adjourned 2:30 pm.



Mark Farley, Trust Chairman



John Wilburn, Trust Administrator