

**Tennessee Risk Management Trust**  
**February 25, 2008**

Trustees of the Tennessee Risk Management Trust met February 25, 2008 at Sheraton Nashville Downtown Hotel. Attending the meeting was: Chairman Mark Farley, Vice-Chairman Robert Stidham, Trustees Billy Joe Evans, Dawn Robinson, Larry Griffin, David Jones, Tony Tucker and Frank Lacey; program manager John Evans of Next Generation Underwriters; Buck Wiley of Merrill Lynch Investments; Keith Dennen of Bone McAllester Norton PLLC; staff members: John Wilburn Trust Administrator; Tom Meares and Alice Carnahan Finance. Trustee Joe Treece was unavailable to attend.

Chairman Mark Farley called the meeting to order at 3:30 p.m.

David Jones gave the invocation.

Chairman Farley asked for any revisions in the consent agenda.

**ROBINSON/EVANS:** Motion to approve the consent agenda, which included the October 26, 2007 minutes. **Motion Carried Unanimously.**

Mr. Wilburn asked if any of the trustees who had spoken with the state insurance department would like to review any or all of their discussions. A brief review was made by some of the trustees.

**Trust Administrator's Preliminary Remarks.** Mr. Wilburn introduced Mr. Tom Meares, a new staff member in the finance department. Mr. Wilburn referred to the agenda that Ms. Dennison of By the Numbers actuarial firm had not arrived, the agenda would be adjusted for her presentation to be given later in the meeting and the investment report would be presented next.

**Investment Report.** Mr. Buck Wiley, of Merrill Lynch presented an analysis of the financials for December 31, 2007 to January 31, 2008. He stated the Trust has done quite well with the current investment strategy. The government backed securities have actually benefited from the recent financial uncertainty.

Looking forward for the remainder of 2008, Wiley believes the trust is in a good position. There will be more uncertainty, particularly with regard to the meltdown in the housing market. Wiley indicated that one Merrill Lynch economist believes there could be an additional 15% drop this year and 10% drop next year in housing on a national basis. The upcoming presidential election will have an impact on tax policies which in turn could affect on the overall economy and could impact the investments of the Trust.

There is definitely uncertainty in 2008, but uncertainty could be good for treasury investors such as the Trust.

Reviewing the calendar year 2007, the portfolio is up about 8% and about 3.32% of that was realized in the last quarter of the year. Since the Trust changed its investment strategy and invested with Merrill Lynch, the return has averaged about 6% a year. Mr. Wiley stated that the 8% is higher than normal and higher than what would be expected, but when the stock market rebounds, one can expect a lower return due to the changes in the investment strategy.

The Trust portfolio continues to be AAA rated, and the allocations are appropriate, while generating \$1.7 million in interest annually which is very good for government securities.

**JONES/STIDHAM:** Motion to accept investment report. **Motion Carried Unanimously**

**Actuarial Report.** Due to Ms. Dennison not being present, Mr. Wilburn, Trust Administrator reviewed the actuarial reports. He noted that in the past Ms. Dennison has stated that as liability estimates decrease the surplus increases in direct relationship. He noted that the estimates have decreased thus increasing the surplus \$581,411 or 0.9% as of 12/31/2007. He commented on two particular claims which will also reflect an additional surplus increase of \$500,000.

The workers compensation estimates have also decreased, thus increasing the surplus by \$906,587 or 0.8%. Mr. Wilburn reminded the trustees that previously we had written off excess due from Reliance Insurance Company because of that company filing bankruptcy. We have received a notice from Reliance that we may expect some recovery. If we are successful in collecting all claims paid in the excess layer with Reliance, our surplus level may increase by \$811,000 in workers compensation.

Mr. Wilburn stated that if any of the trustees have any specific questions concerning the actuarial reports he would glad to have them addressed, but overall, the actuarial report for both programs looks extremely good.

**TUCKER/GRIFFIN:** Motion to accept actuarial report as presented.  
**Motion Carried Unanimously**

**Financial Report.** Tom Meares presented the financial report as of January 31, 2008. Mr. Meares referred to the profit & loss actual vs. budget (these were the additional handouts distributed at the beginning of the meeting) from 7/1/08-01/31/2008. The report reflects the actual figures for the period and a prorated actual budget figure for seven months. Tom believes that we will continue with the expenses levels that we have budgeted. After reviewing the expenditures, he stated they are tracking as anticipated

and the balance sheet indicates that if one compares the assets to the liabilities we are tracking about 1.4% more assets to liabilities or ratio 1.4 to 1 which is very good overall. The Suntrust money market accounts are currently \$23.5 million, thus we could forestall any huge losses in the very near future without much problem at all.

Mr. Wilburn stated that the bottom line is driven by the investment income.

**ROBINSON/TUCKER:** Motion to approve financials as reported for 1/31/2008  
**Motion Carried Unanimously**

**Comparison of Schools/Governments.** Mr. Evans drew attention to charts which reflected estimated ultimate losses at pool retention vs. total premium of schools vs. governments over a 6 year period. Over this period, we have become more familiar with the counties and other entities which should allow us to more accurately underwrite all entities in the Trust. We should underwrite them for exactly what they cost the Trust to pay the claims.

Mr. Tucker spoke in agreement stating that he felt that the charts provided reflect this approach exactly.

What we should be doing is charging exactly what we need to pay the claims and expenses of the program, while letting the investments produce the profit if there is any which would belong to no one except the ones we service.

Mr. Tucker stated that is why we allowed the governments to come into the trust. The additional premium gave us greater purchasing power in the excess market and also allowed us to increase our investments providing us more stability.

Mr. Evans stated we are reaping the benefit now of the plan that was put into place in 2001 when the counties went into the program. We are putting additional \$15 to \$20 million dollars in our fund in order to realize investment income, which makes a big difference. Such is reflected in the 8% of \$40 million instead of an 8% of \$20 million.

Mr. Evans stated we constantly strive to do better in claims management, loss control which in turn strengthens the program.

Mr. Farley, asked if a motion should be made that from here forward to view it as one entity?

Mr. Wilburn stated that from his view, we can always see it as one entity in terms of total revenue and budget, but to always have two loss programs in order to compare the entities for rating purposes.

Mr. Evans stated that the counties are liability driven, while the schools are property. So they tend to balance each other out, so it very important that each programs performance can be separated for review.

**Legislative Report.** Mr. Dennen stated that last year and every year there is move to increase the amount of limits under the GTLA.

Dennen indicated that there have been several meetings with John Wilburn, John Evans, Dennen and our lobbyist with other interested parties, and that the four met with Senator Doug Jackson, sponsor of the bill that would increase the limits under the GTLA. He indicated they would continue to monitor legislation that might affect the Trust.

Mr. Wilburn stated that we are in the last year of the planned increases in the GTLA so there is a good chance that caps will increase just due to necessity.

**Renewal Process.** Mr. Evans stated that it appears that we will be receiving a 5% percent reduction in our workers' compensation excess and that he had spoken with the liability reinsurance carrier who indicated their rates would remain flat, and in fact, they would absorb the cost of the clash coverage that had been discussed at the previous trust meeting. Mr. Wilburn stated prorated cost for this year was \$118,000, thus for the upcoming year we are getting a \$100,000 reduction in our liability excess.

The excess property coverage will also stay flat, but in additional Mr. Evans has asked them to include an additional \$25 million annual aggregate for earthquake and to increase the total limits to \$250,000 million. Overall, there should be no increase in our excess coverage cost even though we will be increasing our limits

Mr. Farley remarked these reports are showing that our investments are good, our claims are down and the reinsurance is not going to cost us as much.

Mr. Wilburn stated that a few weeks prior he had sent a note to the trustees that he would be asking for another dividend. With the investment income we currently have and based on the flat excess coverage rates he believed we should declare another dividend. As opposed to a premium credit that was given last year, he would like to have a separate check issued for each member dividend.

Mr. Evans stated that the dividend process should reward the members we knew would be renewing with the Trust without bidding. We do not want to give someone a dividend unless we know they are renewing, because what we are all about is stability, longevity and loyal membership.

It was discussed that we could advise the members either thru newsletter notification or individual letter stating that a dividend was being declared and dividend checks would be issued after July 1<sup>st</sup>.

**STIDHAM/EVANS:** Motion to approve a \$2 million dividend payable to members we retain as of July 1 2008. **Motion Carried Unanimously**

**Evaluation Process & Benefits of Administrator.** Mr. Farley referred to documents presented at the meeting to the trustees for consideration concerning performance evaluation instrument and a chart of pool executive compensation 2007 AGRIP.

Mr. Wilburn requested that since Mr. Evans has already stated that the excess quotes are coming in flat, Mr. Wilburn requested the board approve for him to have the authority to accept bids from Markel, Ace and Traveler.

**TUCKER/STIDHAM:** Motion to give authority for Mr. Wilburn, Trust Administrator to approve excess coverage cost at the rate or lower of the previously mentioned discussion. **Motion Carried Unanimously**

Mr. Dennen suggested that Mr. Wilburn put together a list of accomplishments in this year and his objectives for the upcoming year. Mr. Tucker said he felt that the membership feelings about the Trust and the office environment should be in the evaluation.

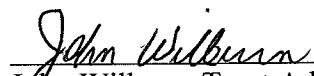
It was decided this topic would be further discussed in the May meeting. Mr. Farley requested that it be placed on the agenda.

Mr. Wilburn reviewed with the trustees' issues concerning the move and the new offices.

Next meeting date set Friday, May 16, 2008.

Meeting adjourned 5:00 pm.

  
\_\_\_\_\_  
Mark Farley, Trust Chairman

  
\_\_\_\_\_  
John Wilburn, Trust Administrator