

**Minutes**  
**Tennessee Risk Management Trust**  
**February 22, 2010**

Trustees of the Tennessee Risk Management Trust met February 22, 2010 at the Sheraton Nashville Downtown Hotel. Attending the meeting was: Chairman Mark Farley, Vice-Chairman Dawn Robinson, Trustees Denise Brown, Billy Joe Evans, David Jones, Paul Ward; program manager John Evans and finance manager Jeff Mathis of Next Generation Underwriters; Buck Wiley of Merrill Lynch Investments; Lisa Dennison of By The Numbers Actuarial; John Wilburn Trust Administrator; Tom Meares and Alice Carnahan, Finance. Trustees Joe Treece and Frank Lacey were unavailable to attend. Also attending as a guest Dr. Wanda Shelton, Director of Lincoln County Board of Education.

Chairman Mark Farley called the meeting to order at 2:45 p.m.

David Jones gave the invocation.

Chairman Farley requested a roll call of trustees attending:

Mark Farley-present  
Denise Brown-present  
Billy Joe Evans-present  
David Jones-present  
Paul Ward-present

It was stated that Ms. Robinson would be attending but had been delayed.

Chairman Farley asked for any revisions in the consent agenda.

**EVANS/JONES:** Motion to approve the consent agenda, which included the June 26, 2009 minutes. **Motion Carried Unanimously.**

**Trust Administrator's Preliminary Remarks.** Mr. Wilburn reviewed the day's agenda topics. He discussed with the board information concerning the proposed contract with Farris, Mathews, Bobango law firm involving the specific services of Mr. Stephen Smith. This would be an actual retainer for Mr. Smith to service the Trust not only as an attorney, a lobbyist in addition to the Trust's current lobbyist, be a consultant for the members and work with Mr. Wilburn with upcoming issues. He stated this would just be another service that we could provide our members who are already familiar with Mr. Smith and his level of knowledge concerning school systems.

**EVANS/JONES:** Motion to approve the proposed contract with Farris Mathews Bobango PLLC for the services of Mr. Stephen Smith.  
**Motion Carried Unanimously**

Mr. Wilburn continued with a review of a proposal from the RAI appraisal program which was begun in 2006. Initially the Trust had a 3 year contract which has now been fulfilled but this service needs to continue in order to fulfill our obligations to Travelers Insurance our excess carrier to be certain the property values are upgraded annually. He stated that the February 10th proposal by RAI raised some issues and he would be addressing those with RAI before going forward, but that he recommended the board to approve the continued employment of the RAI program.

**BROWN/WARD:** Motion to approve the continuation of the RAI appraisal program, subject to Mr. Wilburn's receiving a contract that is appropriate for the Trust. **Motion Carried Unanimously**

Mr. Wilburn informed the trustees that the budget for STARS will see an overage due to the new requirements by The Centers for Medicare.

Mr. Wilburn gave the trustees an overview of a TOSS meeting that was sponsor by TNRMT and NGU that included lectures about sexual misconduct and prayer in schools. A note was received from Dr. Brewer of TOSS stating he felt the seminar went very well and there are plans to do further such seminars on issues that arise.

**Actuarial Report.** Ms. Dennison's review of the activities as of June 30, 2009 indicates that the prior period estimates for the P/C program have improved over \$4,500,000. This means that the 6/30/08 surplus was understated by this amount for the liability/property portion of the program. The estimated net income from 7/1/08-09 underwritings is (\$1,818,901). Offsetting the two figures, it is estimated that surplus will increase \$2,700,000 from 6/30/08 to 6/30/09 for the liability/property portion of the program.

For the workers compensation program, the prior estimates increased \$600,000 and estimated net income is (\$1,200,000) for 7/1/08-09 for an estimated decrease in surplus of \$1,800,000 for the workers compensation program. Adding the \$2,700,000 and (\$1,800,000), it is estimated that surplus for the combined programs will increase about \$900,000.

Ms Dennison also provided a detailed review of both the P/C and W/C programs at December 31, 2009. Her findings suggest that the P/C program losses are not developing as rapidly as anticipated. It appears that the program's reserves will need to be reduced by approximately \$2,500,000. On the other hand, the W/C program is experiencing a larger claim volume.

**WARD/EVANS:** Motion to approve Actuarial Report as presented.  
**Motion Carried Unanimously.**

**Audit Report.** Mr. Ron Connor stated consistent with prior years audits, we have issued an unqualified opinion on TNRMT of 2009 financial statements.

In reviewing the statement of net assets, while looking at the assets and liabilities they have remained generally the same between the periods. This is what would be expected because the general operation of the Trust has remained the same between the periods. The most significant assets of the Trust are the cash and investments which total \$66,371,000 at June 30, 2009.

Connor indicated member premiums increased approximately 3.7% which is consistent with the 4.2% membership increase in 2009 from 2008. The reinsurance premiums increased approximately 4.8% which again is in line with the membership increase. A comparison of 2008 versus 2009 indicated the Trust expenses remained essentially flat. The non-operating revenue did reflect a decrease due to decreases in interest rates from year to year.

Connor stated that there are no matters of concern to report as it relates to internal control over financial reporting. As we have seen over the years the Trust has strengthen and developed very sound controls over financial reporting. There are no matters of non-compliance to report.

**EVANS/WARD:** Motion to approve audit report as presented.  
**Motion Carried Unanimously**

**Break 4:05 p.m.**

**Resumed at 4:25 p.m.**

**Investment Report.** Buck Wiley of Merrill Lynch address the comments by Mr. Connor concerning the Trust's investments and their no custodial credit risk. He explained the securities are safe under what is known as the safe keeping practices. These securities are not held in Bank of America's balance sheet they are the Trust's securities.

A review of the portfolio's performance from last February through the end of January indicates the Trust has realized a 5.25% rate of return, while over the last three year the performance as been 6% per year annualized. This is a very strong performance when you realize that the underlying bonds have only been getting 3.50%, while the portfolio has been getting capital appreciation because interest rates have been going down during this period. This is an implication that he believes interest rates will be going up.

Mr. Wiley stated currently the fixed income portfolio is positioned with 33.52% in long term bonds this is where you get your returns and this is the position that is most exposed to interest rate risk. But of course if you take risk off the table you diminish the rate of return. This will be the area that needs to be continually looked at currently he is not recommending any change but will need to keep a close watch over this investment section.

**Ms. Dawn Robinson joined the meeting at this time. A brief review of the investment information was given to Ms. Robinson.**

**EVANS/BROWN:** Motion to allow John Wilburn, Trust Administrator the authority to make decisions based on the Trust's investment portfolio and inform the Board afterwards.

**Motion Carried Unanimously**

**Financial Report.** Tom Meares reviewed the financial report as of 1/31/2010 using the budget vs. actual with a 7 month period statement. He stated the programs revenues are running about \$521,000 ahead of what was projected as far as investment income for the time period, due predominately to our investments with Merrill Lynch.

After reviewing the expenses for the programs it was noted that the board needs also to take into consideration the actuary reports of the \$1.5 million decreases in projected losses incurred at the end of December that may at some point affect the bottom line. Of course this decrease in projected losses could be affected by unforeseen events.

Mr. Meares discussed charts that covered areas of investment income, monthly expense excluding service fees, service fees, claims payments and investment balances vs. IBNR balance over the last 12 months.

**ROBINSON/EVANS:** Motion to approve financial report as presented.

**Motion Carried Unanimously**

**Excess Renewal.** Mr. Wilburn addressed the copies of letters that were passed out to the board before the meeting concerning excess coverage for both programs. He stated the board has been with the same excess carriers for several years, and due to the Trust's relationship and its stability, the carriers apparently feel we are very predictable. Last year the Trust saw a reduction in premiums and this year they are holding as the same as last year-there will be no rate increases in excess coverage premiums.

Mr. Evans stated that the upcoming year as to membership thus far the response has been remarkable and it gets better every year.

**WARD/BROWN:** Motion to approve for Mr. Wilburn, Trust Administrator to be given the directive by the Board to approve the renewal of excess coverage if everything renews flat or less than the previous year. **Motion Carried Unanimously**

**Coverage Changes.** Mr. Evans addressed the coverage document and there being some language in the coverage document which needs to be changed. There needs to be added to the document language concerning the coverage of punitive damages (ex. punishing damages, above and beyond actual damages or compensatory damages for an act of negligence).

In addition, Mr. Evans introduced Mr. Jeff Mathis of Next Generation Underwriters to give the board some statistic concerning mobile classrooms.

**EVANS/JONES:** Motion to approve removal of the punitive damages exclusions within the coverage document. Also allow to cover the lease portable classrooms at actual cash value instead of replacement cost. **Motion Carried Unanimously**

**Bonds.** Mr. Evans addressed issues concerning the issuance of individual bonds for superintendents by the Trust. The board had previously approved the issuance of these bonds and the State Comptrollers office was notified 2 months before actual issuing of the bonds of the intent to issue such bonds and if they had any concerns to please contact the Trust. No answer was received and two bonds were issued under the board's approval. Upon bond issuance a letter was received from the Department of Insurance which stated this practice must cease. At that time the two bonds that had been issued were rescinded. Mr. Evans reviewed the statute concerning this issue and the avenues that could be pursued in going forward.

After a question and discussion period the board decided to revisit the issue at a later date.

**Policies and Intergovernmental Agreement.** Mr. Wilburn reminded the board that every year the policies should be approved. Currently there are no changes to be made to the policies but they would still need the board approval.

Mr. Wilburn addressed a change in the Intergovernmental Agreement involving the statement concerning the duration of the Trust. A memorandum from the board attorney reviewed the laws concerning the duration of the Trust. The change would be Article

XVIII, Section 18.1 to read, "The Trust shall *survive in perpetuity* or upon the occurrence of any one for the following events."

**ROBINSON/WARD:** Motion to approve policies as they are currently written and to approve proposed change in the Intergovernmental Agreement language concerning duration of the Trust to "survive in perpetuity". **Motion Carried Unanimously**

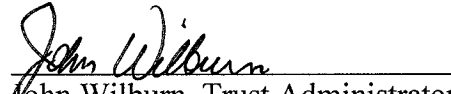
**Dividends.** Mr. Wilburn spoke with the board regarding the financial status of the Trust and whether they would inclined to extend a dividend to the members this year. Wilburn did mention that the Trust should maintain at least \$15 million in surplus funds.

**EVANS/JONES:** Motion to approve a member dividend up to 1 million dollars so as not to reduce the surplus below 15 million based on the March 30, 2010 financials, with a cap of \$25,000 to individual members.  
**Motion Carried Unanimously**

Next meeting date set Wednesday May 12, 2010.

**JONES/WARD:** Motion for meeting to adjourned 5:45 p.m.

  
Mark Farley, Trust Chairman

  
John Wilburn, Trust Administrator