

**PUBLIC ENTITY PARTNERS  
BOARD OF DIRECTORS  
MINUTES OF REGULAR MEETING  
DATE OF MEETING: FEBRUARY 26, 2021  
IN PERSON AND BY ELECTRONIC MEAN PURSUANT TO GOVERNOR LEE'S EXECUTIVE  
ORDER 71**

The Board of Directors of Public Entity Partners ("PE Partners") met at 10:00 a.m. on February 26, 2021 in person and by electronic means pursuant to Governor Lee's Executive Order 60 for the purpose of considering and transacting all business which may properly come before the board.

Board Members present: Chairman Curtis Hayes, Victor Lay, Mayor John Holden, Mayor Lois Preece, Todd Smith, and Commissioner Sam Tharpe

Board Members present via Zoom: Vice Chairman John Brundige, Dr. Christa Martin, and Mayor Mike Werner

PE Partners staff present: Michael Fann, President/CEO; Amanda Shrum, CFO; Halie Gallik, Board Secretary; George Dalton, Vice President of Risk Services; Celeste Taylor, Director of Human Resources; and Jon Calvin, Director of Underwriting and Internal Services

Also present: Russ Farrar, Farrar & Bates; Wade Morrell, TMBF; Ross V. Smith, Farrar & Bates; Jim Morrison, Public Risk Services; Anthony Haynes, TML; Cody Chapman, Callan & Associates

Call to Order – Chairman Hayes

**I. APPROVAL OF MINUTES**

Victor Lay made a motion to approve the minutes of the Board of Directors meeting from December 16, 2020, seconded by Mayor Werner. **MOTION PASSED UNANIMOUSLY.**

**II. INVESTMENTS – ANNUAL REVIEW**

Shrum introduced Cody Chapman with Callan & Associates to present a report about PE Partners' investment portfolio's performance for calendar year 2020. The report summarizes the results over the last year for the investment portfolio and relevant market benchmarks and commentary about what happened in the market broadly and what we anticipate in the coming year.

Chapman discussed the overall investment market's activity during 2020 and the impact on PE Partners' investments. He directed the Board's attention to a report entitled Investment Measurement Service: Annual Review which presents an executive summary of PE Partners' investment performance for the year ended December 31, 2020. At year-end, PE Partners' portfolio of approximately \$312 million in total assets. About 90% of that is in bonds and similar fixed income securities and about 9.7% in cash. Your total portfolio was up 8.45% which is a very good return relative to the Barclays Aggregate Index of about 7.5%. We also show a few other indexes that are of interest include the Barclays Muni Index (5.21%) and the Agency Index (5.48%)

When you look at just the bond portfolio, very good results, as well as the total portfolio. Looking out at the long year term, 3 and 5 year results continue to be very good. PE Partners

Portfolio has consistently outperformed the comparison indexes. Reasonably good returns as compared to the Barclays index.

We think where yields are starting today it may be challenging to get these results with a purely fixed income portfolio.

We can move to page 5 to see context. The gray bars that are presented represent the range of returns from other portfolios. We see diverse ranges of returns in these portfolios. The returns depend on diversity of portfolio, for example, taking on more corporate bonds instead of just agency bonds and duration of portfolio which is how much credit risk you take on in the portfolio. Public Entity Partners is actually ranked in 28<sup>th</sup> percentile of our peers which means we outperformed 72% of our peers.

The other item that has benefited Public Entity Partners' portfolio is the quality of the portfolio with 24% in AAA, 62% in AA and 14% in A. Public Entity Partners has taken on some exposure to lower grade securities or less quality bonds which has worked to Public Entity Partners' favor with the returns.

Mayor Preece made a motion to accept the Investment Annual Review by Callan, seconded by Mayor Werner. MOTION PASSED UNANIMOUSLY.

### III. STRATEGIC PLAN – STATUS REPORT

Michael Fann, President/CEO, explained the Strategic Plan was formally adopted by our Board at the December Board Meeting. As everyone entered the building today, everyone should have noticed our new core values signage in the stairwell in our lobby. This includes our Vision, Mission and Values that the Board adopted.

George Dalton, Vice President of Risk Services - This phase of our strategic planning was to work with Judy King to develop our Key Performance Indicators, or KPI's. These are both qualitative and quantitative measures designed to measure our effectiveness in our efficiencies in achieving goals that have been set for ourselves in our individual departments. These will help us focus on what's important and be more responsive to change if we are not meeting our goals. These will be measured on a regular basis. If we see that we are a little behind in terms of the goals we have set for ourselves, it allows us the opportunity to course correct. It is a very good program and process to keep us all on track for the future. We will also be following the SMART Method, which means the goals will be Specific, Measurable, Attainable, Relevant, and Timely. In the second phase of that, which will start the second week of March, we will meet with Judy King as an organization with the Leadership Team and begin to develop our KPI's based on the Strategic Plan that we have set for ourselves. These will all be relevant to what is important to us and allow us to be more responsive for the organization and more responsive to our members. This is a great program for us and I am looking forward to seeing this through and how far we can go utilizing this.

Fann added that additional training has been planned to begin next week for all of the organization's supervisors.

Halie Gallik, Director of Communications & Research shared one way we reach out to our membership annually is by sending out a copy of our Annual Report to them each year. Each of you has a copy of this in front of you. The theme of this year's report is Vision & Values. It talks about our value, our vision, and each of the priorities that you voted for us to focus on in the future as part of the strategic plan. We also partnered with TML through *Tennessee Town &*

**City in January and rolled out our strategic plan. We will continue to focus on our Vision and our Values and the internal work that is being done to continue that strategic plan not just in what we do internally but shared out with our membership.**

**Mayor Hayes expressed what a good Strategic Planning Retreat that the Board and Leadership Team had in October with Ms. King. She did a wonderful job of guiding us through that. A lot came out of that. I am glad we are seeing it through to implement.**

#### **IV. FINANCIAL REPORTS**

**a. Financial Statements – September 30, 2020**

**Fann shared last meeting we were still waiting on some reconciliation of claims data which is our largest expense. We mailed those out the first week of January and now have these financials to review. They are reprinted again at Tab 4, and I know Amanda put together some comments that we emailed out with those. You have had that, but we'll be happy to cover any of that you would like.**

**Mayor Hayes called for questions. Todd Smith made the motion to approve the September 30, 2020 Financial Statements, seconded by Commissioner Tharpe. Roll call vote was taken. MOTION PASSED UNANIMOUSLY.**

**b. Financial Statements – December 31, 2020**

**Mayor Hayes called for questions. Victory Lay made the motion to approve the December 31, 2020 Financial Statements, seconded by Dr. Martin. Roll call vote was taken. MOTION PASSED UNANIMOUSLY.**

**c. Investment Report – January 31, 2021**

**Amanda Shrum, CFO – While we had significant fluctuations in the change in the fair market value of investments at the end of the prior fiscal year, over the course of February that has declined quite dramatically. We were at a \$3.7 million unrealized loss. We had a treasury sell off yesterday that didn't go so well. We see it coming back next week, but we have taken a big drop in our values over the last couple of weeks. Our average coupon is a 3.56% with a yield of 2.96%. We usually shoot for that 3% which Cody Chapman talked a lot about that. We had about \$95 million that is AAA less risk securities last year. If we are to reinvest those to get yields we can't go back to AAA, because then we are 1.5% or 1.7%. That is where we see the drop off from AAA to AA or A securities in our portfolio. We still feel like we are in a very good spot; it's just we are having to do the balancing act between yields and high credit quality in our portfolio. As of January 31<sup>st</sup> we still show realize gains of \$3.7 million for the fiscal year and that's up approximately \$1.9 million from this time last year.**

**Mayor Hayes called for questions. Mayor Werner made the motion to approve the January 31, 2021 Investment Report, seconded by Todd Smith. Roll Call vote was taken. MOTION PASSED UNANIMOUSLY.**

**d. Dividend Recommendation – FY 2022**

**President Fann expressed that this meeting is where we evaluate our holdings and our reserves. He congratulated Amanda and her team and their work crunching the numbers and allowing us to know exactly where we ended up with our audited financials. This allowed the Leadership Team to know what exactly we could recommend to this Board in regards to the dividend-if there should be one, and if so, what this dividend should be this year.**

**Amanda Shrum, CFO – We went back how our change in net position over the last five years had increased and compared that with what dividends we had returned in comparison over the last few years. We also took into consideration the capital reserve study we had three years ago. It gave us a range of where we wanted to be as a pool; where we needed to be with our reserves. We want to be in the mid-range on the capital reserve study. We came to a \$7.5 million dividend recommendation between the Executive Team and still feel like that keeps us in a good solid position with our capital reserve study.**

**Michael Fann made the recommendation, Mr. Chairman, is a \$7.5 million dividend to be returned to our members distributed beginning July 1.**

**Chairman Hayes asked if this was the largest dividend we have declared. President Fann answered that this was not. Last year the Board approved a \$14 million dividend and then later declared an Emergency Relief Dividend through the pandemic, but this will be one of the top five dividends we have returned back.**

**Chairman Hayes expressed that the dividend program is so important. It is something that we want to do; something we don't have to do, but is a step in giving back to our customers. They deserve it and work hard for it. I don't know of many of us that get dividends back from our insurance companies, I think that this is a reflection of a well-run organization that we are able to have this surplus.**

**Commissioner Tharpe made a motion to return a \$7.5 million dividend to our members beginning July 1, seconded by Mayor Holden. Roll Call vote was taken. MOTION PASSED UNANIMOUSLY.**

#### **V. COVERAGES & RATES**

**Jon Calvin, Vice President Underwriting & Internal Services – From a coverage standpoint we had no pressing issues with coverage this year. So we made the decision not to revise coverages, which came to the delight of our claims department because they have to deal with anything we do with the forms. And with everything else going on that was just a blessing we didn't have to do any of that.**

**From a rate standpoint though it has been a very interesting rate review this year because I think for the first time in my being here we did it as a team. The members of the Executive Team started off meeting with our actuaries and although we didn't do a formal rate review from Price Waterhouse, they were very gracious in giving us some time to talk about all the pieces that go into the study and variables that have to be considered and how the mechanism works. So we were able to take our fall reserve study, which was done by Price Waterhouse, and update the rate study from last year, factor in updates to our premium, expenses, and investments into the study and actually use their tool to come up with a rate suggestion which was reviewed by the entire Executive Team. In section five, you'll see the rate change recommendations.**

**The first item is Workers' Compensation which we are recommending a reduction of 9.1% base rate reduction. This is catching up with things coming out of the reform of 2014. Those are not considered in the rate setting until they actually happen so that's an important change for us.**

**The property market is the exact opposite. It's probably our toughest line because our reinsurance costs are so high and with the storm activity that's been going on we expect another year of large increases and maybe some retention increases in our property reinsurance line. So we're recommending a 12% increase. I know that's on top of a 15% increase from last year, but**

in the property line and the market is going through the roof, it's common to see 30%, 35%, 40% increases in policies.

Liability broken down by general liability with a 9.5% decrease. No change to Errors & Omissions. A plus 8% increase with law enforcement and this is mainly due to the last couple of years we've just been hammered in law enforcement. We're optimistic that changes in our culture will make this improve over the next three years and we've also implemented a lot of training and programs that will impact law enforcement. We're very optimistic about that line. But right now we think we need an 8% increase. Auto liability 2.7% increase. Auto physical damage 4% decrease. The combined liability is -0.83% so it is almost flat.

Combined all funds is a 1% reduction in overall rates. If you took the property line out because it's kind of a problem, there would be a -4.7% decrease in rates when you look at liability and workers' compensation by themselves.

These are our recommendations and we are asking for approval to move forward with these.

Chairman Hayes wanted to know when a private sector insurance company comes in to city hall to speak with the city manager/city administrator or Mayor and we end up having to bid our coverages out, what mechanism do we have in place, and it may be the study you referenced, to make sure that we are in line, or under, and are very competitive in each of these categories?

Jon Calvin – There's a lot of variables that come into play. We have relationships with agents who represent our members, they're probably one of the best sources we get as far as telling us what the competitors are doing. The problem we run into is that you have competitors who come into the state and say we want to take some market share and they're willing to cut their rates ridiculously low to do that. Usually they do not last because they don't have the money to pay the claims after four or five years of doing that. We want to have a stable market. We want to have consistent rates. We don't want to present drastic increases or decreases, if we can avoid it. And, we want to be there when the claims need to be paid.

Chairman Hayes – I believe you just talked about consistency. Right before the meeting started we just talked about healthcare insurance and how much some cities, I know mine went up over 30% by a certain company. But being consistent, I think that's something that we really need to tutor on where we're not all over the board when they think our external marketers could certainly reach out to that in our PEP memos that we send out to customers. I just think it's our job to make sure that we're doing the best we can possibly do for the members we represent. So that's why I wanted to know. And in some scenarios that you just said right now, I understand why you possibly wouldn't be competitive. But we're consistent and I think we all believe that we're second to none.

Consistency and the dividend program, those things are the things that Michael and the guys talked about and things we need to continue to market and hit home every time a memo comes out of this office. Those things have got to be repeated over and over again.

Michael Fann shared one of the things that our Leadership Team spent a lot of time talking about and making sure this message gets out to our members, is that when you're in a risk sharing situation, our job is to keep the market stable, and there will be situations where we are not the cheapest game in town. We're not designed to be. But we're designed to stay in town. We're designed to be there in a hard market situation where the commercial insurance companies may vanish on us. We're obviously going to be cheaper if you can find a competitor at

all but in an extremely soft market, which we're not seeing right now, we may not always be the lowest price. We have to be able to get that job as well.

Chairman Hayes – I think we all know the lowest is not always the best.

Mayor Preece made a motion to approve the rate changes as presented, seconded by Mr. Lay. Roll Call vote was taken. MOTION PASSED UNANIMOUSLY.

## VI. HUMAN RESOURCES – STATUS REPORT

Celeste Taylor, Director of Human Resources provided an update to changes in employee health insurance and recruitment efforts for open positions. Taylor also shared information about upcoming internal supervisory training for all directors and assistant directors.

## VII. OTHER BUSINESS

### a. Adjustment to Public Risk Services Funding

Fann – Tab seven, the second page is the recommendation. Celeste mentioned in her report the difficulty a number of our departments have experienced in this transition on our claims management systems from iVOS to Origami. I think Jim Morrison mentioned that in his report back in September and we were just then discovering what amount of work it was going to be. That has continued when we provided a couple of temporary employees on some data entry issues to help our Claims operation get caught up, or hopefully, closer to being caught up with that process. That is an ongoing process that is going to take some months to get everything done. One of the things that we met as an Executive Team with Jim and his systems analyst and talked about their needs. What we are recommending is to adjust what was approved last year during the budget process last year, our expenses toward our claims operation with our Public Risk Services contract by \$115,000 such that Jim can go ahead and move one of his experienced supervisors from a claims adjustment position into a systems assistant position that will help him get some of these transitions completed. Then he will replace that position with a new claims adjuster. You'll notice it says up to \$115,000. That would be the annualized amount that we will be back for the regular contract in June for the new year. We won't spend the \$115,000 these last four months of the fiscal year. But we wanted to go ahead and make you aware of what that likely was going cost. We just ask for the approval to spend up to \$115,000 with Public Risk Services for an additional adjuster.

Mayor Werner made a motion to approve the addition \$115,000 to be spent on an additional adjuster with Public Risk Services, seconded by Dr. Martin. Roll Call vote was taken. MOTION PASSED UNANIMOUSLY.

### b. Adjustment to Investment Policy

Michael Fann – There are four pages or so show our current statement of investment objectives and our policies and guidelines on how we manage the portfolio that we have. On the third page back you are going to see an adjustment that we are recommending listed in red. I'll briefly give you the basics of this: For a number of years, our investment advisor has recommended we make this move and we've not done it. In other words, he has asked for the ability in a temporary situation to utilize something less than A rated security because of the nature of the yields that we're dealing with, the coupons that we're dealing with and we've tied our own hands by not being able to at least take a percentage of that down in to the BBB and BAA rated securities which are still investment grade securities on a temporary basis. When Charles was leaving, he and I had a long discussion with Harry about this, he recommended that we really needed to look at it. So Amanda and I did look at it. We're

both in agreement with Harry's recommendation that we allow him with this tool that will help us with our performance and our yield.

Amanda Shrum, CFO – Harry could see the changes in the market, administration, and how this might come into play because what has happened now because those AAA agency bonds are getting called and we're having to replace them with some A's. If for some reason that investment gets downgraded, we are in a forced sale position that may be a perfectly good security that we want to keep that will bounce back. It's just for a time period. Right now the way the policy is written, if we had one of those A securities that did get downgraded, we would be forced to sell it regardless of what kind of returns we would be looking at. Right now we are in a position where we've got more of those A's than we've ever had in the past just to be able to build them. So we want to have a safety net in place in case we run into that in the next few months.

Also, there was a requirement that has been in policy, but not in practice for a long time, that each security had to have two agency ratings. We don't presently have that, didn't have that when I or Charles started taking this over. A lot of these don't want to pay because it is very costly to get rated by one of these agencies. We have AAA securities in our portfolio that only have one rating that we would be forced to sell if we follow this policy. We want to practice what our written policy says, and would like to remove this requirement so we can update our policy to where we are currently.

Commissioner Tharpe inquired as to who "Harry" might be? Amanda Shrum answered, "He is our investment broker. He's the one that I work with daily on our portfolio." Commissioner Tharpe, "And he is working for..." Ms. Shrum, "Crews & Associates." Commissioner Tharpe, "I just want to get it straight. What is Harry's last name?" Ms. Shrum, "Rosenblum" Commissioner Tharpe, "Rosenblum, well, ok."

Mr. Lay – If we want to change the policy, I'm not at all against changing the policy, do we need to change it to something that's even more flexible? That says that if there is a decision or a need or a situation where the president and CFO need to make a decision they have the latitude to make that decision together? I completely understand that we have currently tied our hands. I understand that we want to be restrained in our investments and be conservative, but from my perspective, we're paying you two to insure the financial stability of this organization. If there's a decision that needs to be made, I'm not sure that I would want to set a policy that would not allow it.

Chairman Hayes – Russ (Farrar) have you read the policy?

Russ Farrar, PEP General Counsel – No. I'd be glad to work on it if necessary.

Chairman Hayes – Do we need to, I mean, I agree with what he's saying about why... I'm seeing you shake your head.

President Fann – The issue that Amanda, Harry and I have looked at is we're in this kind of market now. If we need to make it more flexible, that will be fine, but I think we kind of need this piece now.

Mr. Lay – While I think that is appropriate, I think going forward we need to take a more comprehensive look; more flexible policy. Please bring that back to us.

**Mr. Lay made a motion to approve the changes to the Investment Policy as presented to the Board, seconded by Mayor Brundige.**

**Mr. Smith – If we can see a trend of our security being downgraded, do we have to do anything to meet that 5% threshold? Do we have to change funds around to be less than that 5% for our policy?**

**Amanda Shrum, CFO – That 5% is what will only be allowed to go down into the B level. If we have an A security that gets downgraded to a B level security, we are allowed to keep at least 5% there. We don't normally want to make it practice to invest in B grade, we just want to give ourselves a little cushion just in case. With more of our investments going to that A rating there could be a possibility that we just don't want to have to be forced to sell.**

**Mr. Smith – In practicality, do we risk being close to that 5% threshold?**

**Amanda Shrum, CFO – We have none there right now.**

**President Fann – If you remember Cody's evaluation I think it was 14% that are even A.**

**Amanda Shrum, CFO – The majority are AA right now. We still want an average of a AA in our portfolio.**

**Mr. Smith – My question was answered, I just wanted make sure we have enough flexibility.**

**Russ Farrar, PEP General Counsel – Between now and next meeting, I'll get the policy reviewed and get with Michael. We'll discuss what needs to be done in an emergency situation.**

**Chairman Hayes – The motion is on the floor to approve the requested changes as presented. Not in the motion, but an action item for next quarterly meeting, Russ is going to get with Michael and Amanda and see if there's any more language and there will be an amendment to the policy at next meeting, if needed.**

**A Roll Call vote was taken. MOTION PASSED UNANIMOUSLY.**

**c. Additional Funding for Origami Transition**

**President Fann – This goes with how we are trying to get Public Risk Services some additional help on the adjusting side. The other issue that we've had is we've run out of hours in the agreement that this board approved previously with our contract with Origami. Anthony and Jon have estimated that we will need an additional 270 hours of work in that programming process. It only goes up to \$49,950, which technically we didn't necessarily need to bring to this board, but we just wanted you to be aware that we are working through that process. It has taken a number of our departments but especially our claims folks, our IT folks and our Finance folks a significant amount of work. So we needed to extend that contract and that expenditure. This is just an issue I felt like since you had approved the original amount, since we were going to have to go back for some additional dollars that we would present that to you as well.**

**Chairman Hayes – Called for questions.**

**Mr. Lay made a motion to approve additional funding for the Origami transition, seconded by Mayor Holden.**



**Chairman Hayes – Does everyone remember what Origami is?**

**President Fann – Yes, this is our Claims system that we transitioned to. This was a decision that was made a couple of years ago, with very few of us having an opportunity to go through this. We have been straightening this transition out. We made the move from iVOS to Origami on September 1 and have been working on that transition ever since. It has been quite a burden, I know, for Amanda and her team, Jim and his team, and Anthony and his IT team. But we are still working through the programming to make sure we don't lose any claims data. Certainly on any new claims that are coming in that go into the new system, that would work now. Now what we're working on with Origami is the transition of old data into the new system. This is our Claims Management System that Jim and his people use to enter all of our claims and that we use to evaluate those claims and study those.**

**Mr. Lay made a motion to approve additional funding for the Origami transition, seconded by Mayor Holden. Roll Call vote was taken. MOTION PASSED UNANIMOUSLY.**

**d. Other**

**President Fann – The next few pages under Tab seven, are our departmental written reports. As you know the last couple of years we have asked our Leadership Team to present an oral report to this Board of their activities and their productivity. At the September meeting and then at the February meeting you had asked for a written report. So this is just an update on what they've been working on since September.**

**I would like to thank the Chairman. We had an event back in January here, where even though we were socially distanced, we had a staff meeting and I wanted to thank the Chairman for coming up. We had, myself included, three off us that were going to be recognized for 35 years of service to this organization. So Mr. Chairman thank you, it meant a lot to our team that you drove down and participated in that.**

**I would also like to thank Mayor Brundige and Mayor Preece. They have had me in their city halls in the last few weeks and I've enjoyed that so I wanted to thank them.**

**VIII. DATE OF NEXT MEETING**

**Chairman Hayes - The date of our next meeting will be Friday, June 11<sup>th</sup>. Normally this meeting is at our TML Conference. However, it is now official according to Mr. Haynes that the TML Conference has been moved to September 17 – 21<sup>st</sup>. So, in June we will still need to meet here in Franklin to pass our budget and any other business that will come before us.**

**President Fann – You may want to jot down that since the TML Conference has moved to September, we had tentatively scheduled our September Board meeting for that Friday. We will adjust that now to meet at that TML Conference on that Saturday morning which has been our tradition anyway. Saturday morning, September 18 and we'll work with Anthony and his team for that meeting in Chattanooga. We'll get additional information out, but that will be a change from what we mentioned previously.**

**Todd Smith – What is the status of the Risk & Insurance Symposium?**

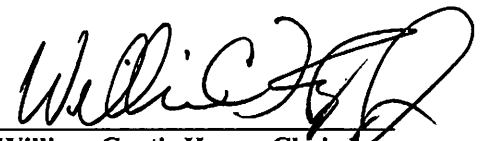
**Halie Gallik, Director of Communications & Research – We are still planning to have this event in person in August. You may remember all of the safety precautions we publicized last year before the pandemic shut us down. All of those measures are still in place for 2021. So we do believe we will be able to have a very engaging and educational Symposium that has safety**

related to COVID as well as all the other safety areas that we've promoted. We anticipate launching registration in April, but we have not put out any preliminary information yet. We are lining up speakers and build our registration site. It will be August 25-27<sup>th</sup> at the Marriott in Franklin. We've had tremendous support from our membership that have enjoyed this in the past and we're really proud of this event.

Chairman Hayes – What about the Board of Directors attending NLC, are we still going to have that?

President Fann – There's still a question on that. I talked with the NLC-RISC folks this week they are at least going to do a virtual event, but they are trying to evaluate whether they can do an in-person piece of that. Both Erin Ryan and some of the folks at NLC said as soon as they make a decision they will let us know. And as soon as we know, we'll let the Board know. That's typically in April; maybe May.

Commissioner Tharpe made a motion to adjourn, seconded by Mayor Brundige. MOTION PASSED UNANIMOUSLY



William Curtis Hayes, Chairman



Halie Gallik, Secretary