

PUBLIC ENTITY PARTNERS

BOARD OF DIRECTORS

MINUTES OF CALLED MEETING

DATE OF MEETING: MAY 15, 2020

VIRTUAL MEETING PURSUANT TO GOVERNOR LEE'S EXECUTIVE ORDER 16

The Board of Directors of Public Entity Partners ("PE Partners" or "PEP" met at 11:00 a.m. on May 15, 2020 via Zoom. Instructions were provided to the general public for participation.

Board Members participating via Zoon included: Chairman Curtis Hayes, Vice-Chair Randy Brundige, Mayor John Holden, Mayor Jill Holland, Victor Lay, Dr. Christa Martin, Mayor Lois Preece, Todd Smith, Commissioner Samuel Tharpe

No Board members were absent.

PE Partners Staff present were: Charles DeMore, President / CEO; and Halie Gallik, Director of Communications & Research

Also present were: Russ Farrar, General Counsel; Ross Smith, Farrar & Bates; Margaret Mahery, Executive Director, Tennessee Municipal League; Wade Morrell, President / CEO, Tennessee Municipal Bond Fund.

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

1. APPOINTMENT OF CORPORATE SECRETARY

Chairman Hayes informed the board of the need to appoint a Corporate Secretary. The agenda listed this as item #2, but due to the Tennessee Non-Profit Laws, it is necessary to fill this position first.

Charles DeMore resigned this position when he was promoted to President / CEO. Charles DeMore recommended to the Board the appointment of Halie Gallik, Director of Communications & Research.

A motion was made by Todd Smith and seconded by Victor Lay. Chairman Hayes asked for any discussion. There was none. Chairman Hayes called for a vote and asked all for the motion to let it be known by saying aye. Hayes then asked for those opposed to let it be known by like sign. There was no response. Hayes said the motion passed.

2. EMERGENCY RELIEF CREDIT

Charles DeMore shared with the Board that the management team of PE Partners has been looking at how COVID-19 is impacting our membership and the company itself. We have gone through to look at different possibilities and options. One being that we are waiving all finance charges and installment fees. Allowing any member to go to a quarterly payment basis for their premiums as opposed to an annual basis. If that is not sufficient for their cash flow needs, they can reach out to us directly and request monthly or special repayment plan. We are anticipating a significant cash flow problem [for members] because of loss of revenue.

One other aspect of what we can do as a company to address some of this with our members is considering an emergency relief dividend. In some of the information I sent out earlier I referred to it as a credit, but it would actually be a dividend. Similar to what the board approved recently at its meeting in February. This is a return of surplus. We are looking at it as a onetime emergency provision as a return of surplus based on longevity of members.

It would be calculated based on premium that has been contributed since inception. We are looking at giving this out in July. We will not make members apply for it, but if they are actively participating in coverage programs, we would certainly give that to them. It would come in the form of a check, not a credit, which is why we wanted to emphasize the change in terminology. We currently apply paper credits against invoice bills, but this would be one check that would come to them. We would calculate it based on premium.

The calculation would be the dividend for all three lines of coverage added together. There is a minimum of \$750 and a maximum. A total Emergency Relief Dividend of \$7million is recommended to be divided up among members based on premium participation.

We've been very fortunate during this pandemic that the investment market, we've been able to strengthen our portfolio by getting rid of some securities whose revenue streams might be in distress in the next several months or year and replacing those with higher quality securities and our investment broker has been very astute, top flight, and so we have amassed approximately \$5.1 million in investment gains. And those are not paper gains I always gripe about, these are cash in the bank, on investment trades. So, we would fund this emergency dividend on investment gains we have earned to date and additionally, there was \$3.5 million set aside or earmarked June 30, 2019 for the new corporate headquarters.

The building is complete, and since we are occupying it, those reserves that were set aside will be going back to the general surplus. We are looking at funding this through the investment gains and the release of those capital outlay reserves that would just go back into the general reserves at the end of the year. The Emergency Relief Dividend would not have any effect on our current operations. What questions can I address?

Mayor Brundige: When will the calculation be made and be made known to the cities for the repayment?

Charles DeMore: We have done some preliminary calculations to get an idea and so those would be available now.

Chairman Hayes: Can you go over exactly where the \$7million is coming from?

Charles DeMore: The \$7 million would be a dividend coming out of our surplus. We currently have roughly \$140 million in surplus. \$3.5 million of that surplus has been dedicated to completing our current building. That was set on the books at the beginning of last year. The \$3.5 million of capital reserves will return to our general fund balance (if you want to use the old terminology) so it will no longer be earmarked. The other part of that, we've made \$5 million in profit from the sales of our investments, which is current through the beginning of the week. So those investment gains will, as you know, at the end of June this year roll back into our general surplus. So that is over and above any surplus we currently have. So, we are taking some of those investment gains and some of those

currently capital outlay reserves and drawing on those to make up this \$7 million dollar Emergency Relief Dividend.

Chairman Hayes: What do you have to do to be qualified? Do you have to be a member? Are there going to be some folks who are not getting a piece of the pie? How does that work?

Charles DeMore: No sir, it's based on their participation of premium since inception. For those that have contributed to the surplus over the years, not just one month or one year, but for a while, the percentages will be in their favor because it is calculated as ratio of premium to the total, but to get the dividend you just have to have active coverage with PEP.

Commissioner Tharpe: Do you have a chart on that already Charles to put that to the cities? Are you going to send that to us?

Charles DeMore: I'd be glad to. I can send it while we are on the Zoom call or I can send it after.

Commissioner Tharpe: Another question I have, what about the sale of the building that you just left from. What did that sell for and where did that money go?

Charles: We are fine tuning those numbers because we are getting ready for the auditors and since that occurred in the last quarter we are giving a little extra attention to make sure about both the building and furnishings for those construction costs and are getting those ready for depreciation so that once we book it we are good with the numbers, but we are going to get roughly \$2 million in gain on the sale of the old building. And that money will also go back into the general surplus.

Todd Smith: Charles, you have obviously done a great job on the investment side, so congratulations and great work on that. On the expense side, have you seen our claims numbers go down any?

Charles DeMore: It's a little too soon to tell, there is a little bit of a lag in this. I have signed some big checks. A week ago I signed a \$1.2 million claim check that was a Workers' Compensation claim settlement that was an annuity we set up, but at this point we expect with the downturn of the economy and with our folks being first responders on the front lines we have been informed of roughly 50 COVID-19 incidents. I'm not saying they are claims, but we have official notification. As we go on, I'm sure that may change, but at this point it's a little soon to see any uptick on those claims.

Mayor Holland: I remember an amount we were supposed to have in our surplus, so it didn't drop below a certain amount. What was that?

Charles DeMore: The Capital Outlay Risk Study, based on this last study in January perhaps, the updated one we do every five years put us between \$90-\$92 million and \$180 million and I will verify those numbers. Every year with the Workers' Compensation Reform Act of 2014 we have been seeing a very positive trend in our losses as a risk pool, so we have been seeing favorable improvement on that. Each year we have an actuarial analysis of our case reserves to see how much is too much, so we've been letting out some of those reserves as the actuaries tell us. The numbers are improving so we expect our reserves will, which means those balances will also diminish.

Chairman Hayes: Jill to answer your question just a little bit, and Charles and I have talked about this, not that I am trying to sell it, because you guys are certainly able to make your own decisions, but

basically a lot of this money comes from our accounts that Dawn had been overseeing for some time and now Charles has. And this is another effort and a step in a positive direction and we are showing our members and we are giving a little money back to the communities and not just sit on a big fat bank account and we are doing that without bankrupting or even close to bankrupting PEP. So, this should help on several different levels along with what we have already done with recruiting new members to PEP and retaining members in PEP. In your personal life I don't know of many dividends we get back over homeowners or car insurance, but certainly we have done that and also taken the biggest dividend return as far as I know in the history of PEP and then this emergency relief fund is unprecedented as well. I think this is another positive move in the right direction if that answers your questions. From our portfolio is where a lot of this money is coming from.

Mayor Holland: Thank you, so everyone would get this including the customers that are not cities, right?

Charles DeMore: Yes, any member.

Mayor Holland: And we don't have to ask for it, we just get a check.

Charles DeMore: That is correct. There will be a notification given so people will be on alert to look for this and we try to be sensitive, this is a very terrible catastrophe, so we are mindful of not beating our chests. We have the resources and we want to help without jeopardizing the integrity or financial stability of our home base. We did discuss and this is an effort from the management team collectively and we did discuss if this is setting a precedent that every time there is a catastrophe the Board will be looked on to where is our relief dividend. And we are saying no, we think this is the only pandemic that we see, this is global, and this is not just in east Tennessee, west Tennessee, or middle Tennessee. The May 2010 flood was devastating, but this is nationwide and global so our position is that we would like to have you all consider this as our recommendation.

Mayor Holland: And PEP was created to help cities.

Charles DeMore: Yes

Dr. Martin: When you say the word active as a participant in the organization. What date are you establishing as the active point?

Charles DeMore: We are looking at if they are with us July 1. If they cancel today, we are not trying to tie this together with their renewal period, but from a practical standpoint we have to pick a time as a point of reference. This does impact our cash flows, and so it is a timing of our cash flows. I've been working with our investment broker, because by allowing our members to go on a quarterly basis, about 60% of our members renew July 1st. They are usually the large and medium size, so we are looking at a big chunk of cash and if we are giving them an option to go on quarterly basis to be mindful of members' cash flow then we are losing 75% of our cash flow.

So we are working with our CFO, Amanda, to ensure that we are not doing anything that would jeopardize our cash flow. So, the timing of this would be in July and to kind of coordinate that with our company's cash position as well.

Commissioner Tharpe: This reminds me of something we just came through with the stimulus with the state and I hope it is organized to the point where it is going to be systematic to where every member do get their funds so that nobody is eliminated from the process. We are trying to be generous, but we

don't want to leave someone out. The other question I have are the points, those valuable points, we have coming back from those dividends and investments. Have you decided how that is going to be handled, is that going to be included in this process, or are we going to give dividends to people like it has been before?

Charles DeMore: Looking at what we have at a raw calculation we had 32 members who would have had less than \$500 in a minimum amount. I think the lowest one was \$4 and the next one was \$10. We felt that was an insult, so we put a minimum to address that. We wanted it to be a valid relief effort, and not just a token. We are not trying to match their payroll or their local needs, but we want to make this so everyone who has a current coverage with us does participate in some modest way. This would be irrespective of any other dividend calculations for premium ratings. This would be irrespective of any current dividend calculation and would not go against their current experience ratings or impact experience ratios that are included in their pricing calculations.

Commissioner Tharpe: What about those points? You know we were paying Dawn a tremendous amount of money and I'm just curious as to where that money is going.

Chairman Hayes: I have to remind everyone that we are on a called meeting and we are only to discuss only what is on the agenda. Sam, I agree you have linked it into the process [of the Emergency Relief Dividend], but I want to caution everyone. I certainly do not want to be in violation of any sunshine laws.

Charles DeMore: Mr. Chairman if I might just address that, the investment commission that you are referring to ended with the former President. I am not accepting or taking any commission on any investment management at all. I am just doing it for a fixed salary. All those investment commissions are remaining with the company.

Russ Farrar: I wanted to follow up for the record that this meeting is a special called meeting, it is pursuant to the Governor's Executive Order, that being the case we cannot wander outside of what the agenda calls for because we could be in violation of the open meetings law if we do.

Chairman Hayes: Charles I think you have done a good job; we've had a good group discussion on this. Are there any other questions or comments on this for Mr. DeMore?

Commissioner Tharpe: I make a motion that we accept what has been presented to us under the conditions that exist. The Emergency Relief Credit. Seconded by Jim Holland to accept this presentation that Mr. DeMore has brought to us for an emergency relief credit for all members of PEP. Any more discussion?

Todd Smith: Just a thank you to the staff, because you really have got the members best interest at heart in doing this. I really appreciate as a member and a Board member you doing this.

Charles DeMore: This has been a team effort from our entire management team, and we've got a great team with lots of creative ideas and who are really passionate about taking care of our membership.

Dr. Martin: I echo what I want to make sure that we can put that July 1st date in that motion to be an active member.

Commissioner Tharpe: I would like to add that to it. July 1st.

Any More Discussion: None

Roll Call Vote:

Mayor Hayes -yes

Mayor Brundige - yes

Mayor Holden - yes

Mayor Holland - yes

Victor Lay - yes

Dr. Martin - yes

Mayor Preece - yes

Tod Smith - yes

Commissioner Tharpe – yes

Chairman Hayes: Thank you for your time. We do not have anything for executive session.

Thank you for your time.

Motion by Sam Tharpe, Second by Randy Brundige

Meeting Adjourned at 11:45 a.m.

William Curtis Hayes, Chairman

Halie Gallik, Corporate Secretary