

**PUBLIC ENTITY PARTNERS
BOARD OF DIRECTORS
MINUTES OF REGULAR MEETING
DATE OF MEETING: JUNE 26, 2020**

IN PERSON AND BY ELECTRONIC MEANS PURSUANT TO GOVERNOR LEE'S EXECUTIVE ORDER 16

The Board of Directors of Public Entity Partners ("PE Partners" or "PEP") met at 10 a.m. on Friday, June 26, 2020 in person and by electronic means pursuant to Governor Lee's Executive Order 16 for the purpose of considering and transacting all business which may properly come before the Board.

Board members present: Chairman Curtis Hayes, Victor Lay, Todd Smith, Mayor Jill Holland, and Commissioner Sam Tharpe.

Board members present via Zoom: Vice-Chairman Randy Brundige, Mayor John Holden, Dr. Christa Martin, Mayor Preece

PE Partners staff present: Charles DeMore, President / CEO, Halie Gallik, Corporate Secretary, Amanda Shrum, CFO, Michael Fann, Director of Loss Control, and Jon Calvin, Director of Underwriting.

Also Present: Russ Farrar, General Counsel (via phone); Ross V. Smith, Associate General Counsel (via phone), Margaret Mahery, Executive Director, TML; Wade Morrell, President, Tennessee Municipal Bond Fund; Jim Morrison, President, Public Risk Services, Inc.

CALL TO ORDER

Chairman Hayes requested a Roll Call due to meeting virtually and in person. All members present.

I. APPROVAL OF MINUTES

Chairman Hayes called for a motion to approve the minutes of the Board of Directors meetings on February 21, 2020 and May 15, 2020. Motion was made by Todd Smith; seconded by Victor Lay.
MOTION PASSED UNANIMOUSLY

II. REVIEW OF KEY CONTRACTS

General Counsel Russ Farrar was attending via phone. Chairman Hayes asked to move to item VII. on the agenda for Russ Farrar to present the renewal of two contracts. Charles DeMore presented an overview of the two contracts with Farrar & Bates and Ramsey, Farrar & Bates for General Counsel and Lobbyist services. Under tab 7 of the board book there is an overview of the key terms, dates, and values of contracts the board requested. More details of this were also presented at the January 2020 Board of Directors meeting. The General Counsel contract has a value of \$343,222 and the Lobbying contract is valued at \$228,062. This gives PE Partners access to 15 attorneys at Farrar & Bates and access to five full time lobbyist including Russ Farrar himself.

Chairman Hayes asked for questions

Mayor Jill Holland: I have a question. It may be obvious, but we have Russ and his firm as a lobbyist and then #16 we have Margaret Duncan as a lobbyist.

Charles DeMore: Margaret Duncan is the Executive Director of the Tennessee Association of Chiefs of Police.

Mayor Jill Holland: So that's Maggie.

Russ Farr: My firm is the chief lobbying firm for us. Maggie works on issues other than the ones we have. Direct police issues, guns, body cameras.

We work with her on those, but our firm is the chief lobbying firm.

Mayor Holland: One more question on #10. Since we pay for those are those online training are those free to our officers?

Charles DeMore: This is a subsidy to Virtual Academy. It charges a \$69 fee that covers the officer throughout the year.

If they have 10 officers, we will subsidize those officers by 50%. The more officers a have the lower that subsidy goes. #10 was something that was added in November's meeting to give a 6-month introduction. This proposes 12 months of that subsidy. Michael, can you share more about this.

Michael Fann: When we started the program with our 240 law enforcement members that we insure for LEL, roughly 150 of them were already a part of the Virtual Academy training. Since we started, we've picked up 6-8 of the small towns in the first 6-month timeframe. That 6-month program has been about \$70,000 that have been reinvested into our police departments. As a matter of fact at the police chief's meeting I heard from your chief that he had gotten his reimbursement check. Most of them are not reimbursement but since you renewed in December you got a check back. For most we pay the subsidy directly to Virtual Academy.

Russ Farrar: I can't hear real well. If there are any questions on our contracts if someone would make a motion, I'd be more than humble and grateful.

Chairman Hayes: Is there any other questions? If not, I will entertain a motion to renew the general counsel and lobbyist contracts.

Motion to renew the contract of general counsel and lobbying contract with Russ Farrar. Motion made by Sam Tharpe; second by Randy Brundige. MOTION PASSED UNANIMOUSLY.

Chairman Hayes shared we will fall back into order now.

III. FINANCIAL REPORTS

Welcome Amanda. For the board members that don't know this is Ms. Amanda Shrum. She took Charles Demore position at the table as CFO. I hear great things about you.

Amanda Shrum reviewed the financial reports:

Statement of Revenue and Expenses

In summary, we've had good financial performance the 1st nine months ended 3/31/2020 with \$6.4M operating income compared to \$2.5 million last year. This comes primarily from additional revenues from net premium, investments income and sale of the old building on Maryland Way.

Net EARNED PREMIUM falls within our expectations with that at \$49.7M or 4.0% more than last year.

INVESTMENT INCOME – We are getting healthy returns. Investment Income is \$10 million for the year as of 3/31/2020 which is \$3.3 million over last year. We are actually \$4.8 million over budget. COVID-19 has wreaked havoc on investment markets worldwide but has also presented opportunities for taking gains on sales of investments while improving investment quality and yield.

TOTAL REVENUES are \$61.7 million or \$7 million more than prior year at this point. That represents a 12.8% increase over last year. Resulting from additional net earned premium \$1.9 million; investment earnings of \$3.3 million; gain on sale old building \$1.7 million.

TOTAL LOSS AND LOSS ADJUSTMENTS are consistent with last year's at \$40.7 million which is an increase of \$114,000.

TOTAL POLICY ACQUISITION COSTS are fairly flat at \$5.4 million. There are not any major changes within policy acquisition.

GENERAL AND ADMINISTRATIVE EXPENSES are at \$9.1 million from \$6.2 million based on additional expenses approved by the Board of Directors. Which brings us to a total operating income of \$6.4 million for the year as of 3/31/2020.

Statement of Net Position

CASH & INVESTMENTS - up \$16 million

CAPITAL ASSETS – Overall cost of new building was approximately \$7million, including parking lot, irrigation system & buildout of 2nd & 3rd floors. Land valued at \$1.9 million. Building cost approximates \$224 per square foot for building shell only and an additional \$90 per square foot for buildout of two floors.

NET RESERVE FOR LOSSES - Decrease of \$5.8 million or a 4.0% drop from last year, comprised of an increase in reserve for reported claims of \$4.5 million but a drop in reserves for IBNR and ULAE of \$10.4 million. This was because of the results of actuarial study showing favorable trends in losses last year.

Unearned Premiums – showing to be pretty consistent

Dividends Payable –\$14.8 million balance includes \$14 million Member Dividend Credit declared in February but does not included \$7 million Emergency Relief Dividend that was declared in May.

Under Net Position you will see the Net Position Committed for Capital Outlay has been extinguished. Previously committed reserves went back into unreserved "Fund Balance, "which of course you all know, we used the unused portion of that to fund part of our recommended amount for the Emergency Relief Credit.

Our Total Net Position (or Net Position, End of Period) has increased \$6.5 million to \$141.7 million at 3/31/2020. \$7 million of that fund balance will be used to fund the Emergency Relief Dividend.

Investment Report as of 5/31/2020

As of 5/31/2020, we owned 100 securities with a book value of \$267,119,438, at a fair market value of \$270,380,059.

The majority of our holdings (82%) are municipal bonds. The average coupon rates of those municipal bonds are 3.39% roughly compared to an average overall coupon rate of 3.28%. The total portfolio had an average maturity term of 17.5 years and an average call period of 6 years, 4 months. Our federal agency securities are actually averaging about 8 months to call date, so we expect to see several of those being called in the upcoming months.

As of 5/31/2020, we are showing Unrealized Gains on our investments of roughly \$3.26 million. As of close of business Thursday, 6/24/2020, unrealized gains were up to \$5.9 million.

Since the beginning of Fiscal Year, we've had "realized" gains of \$5.7 million through 3/31/2020 - compared to \$324,000 this same time last year. This reflects the volatile impact of COVID-19 on the investment market since \$3.8 million of these gains have been realized since March 1st.

At 3/31/2020 we had \$1 million on deposit with LGIP at an annual interest rate of 0.51%.

IV. TML Sponsorship Formula

Charles DeMore shared that PE Partners has been providing a sponsorship fee since PE Partners was created in 1979. The formula was designed so that if we benefited, they would benefit also through the sponsorship. So, if we had a lot more premium coming in, TML would also benefit.

The last PE Partners board approved formula was PE Partners net earned premium times a base percentage rate of 1.90%, but there was a cap on it to 3.25%. On November 22, 2013, the board approved an increase of the cap percentage rate to 4% over last year.

Margaret, Wade, the Chairman, and I have talked about this and where they are and where they want to go in the future and how we could accommodate that in the formula. If we increased that base percentage from 1.9% to 2.5%, but also to reset the cap to \$1.4 million that the cap is applied to. This established a new baseline for FY 2021 and thereafter. Under this formula it would increase the amount by \$150,000 to \$1.4 million for FY 2021. This recalibrates it for the future.

Chairman Hayes shared we give TML money to help operate. PEP is a sister company to the Tennessee Municipal League, and we have continued obligations to support them. Chairman Hayes called for questions. Chairman Hayes said he would entertain a motion to accept the new formula.

Motion made by Mayor Jill Holland; seconded by Commissioner Sam Tharpe. MOTION PASSED UNANIMOUSLY.

V. General and Administrative Budget – FY 2021

Charles Demore shared the budget has a theme behind it to address succession planning, leadership planning, as well as services for our members.

Under tab 4 there are two organization charts. The second chart realigns our reporting structure for the President from eight departments to four. It provides for clusters for departmental reporting on the theme of services provided internally and services provided externally. Admin, IT, and Underwriting are internal while Loss Control, Communications & Research, and Member Services are external service. Succession planning is one of the top initiatives I had when becoming President/CEO. Succession planning is not something you can wait to do 6 months into the year, it needs to happen at the beginning of a budget cycle. This proposed structure would free the President up from operational duties and allow the role to focus on executive duties and allow them to get out and visit with our members.

Chairman Hayes shared that competition is coming after our members. I've had companies reach out to me as recently as last week. We do have boots on the ground, but we do not have enough boots on the ground for service after the sale. I've talked to Charles and Michael about this to get in front of people at city hall, at housing authorities, and letting them know exactly what PEP offers. There needs to be some bullet points for why we are at PEP. This is an opportunity to allow the CEO to travel and let that city manager know about dividends and give us a chance to brag about what exactly our company has done. I'm not sure that the right people know what is going on. A couple years ago I had MTAS, TML, and PE Partners do a board orientation for what the organizations do. We hear this nationally as well at the NLC-RISC conference where folks are coming after our members. I want to give my blessing to free up time to give more education and understanding of the benefits of PEP membership.

Charles DeMore shared that another concern is that as an entity participating in TCRS we have many employees that qualify or retirement under TCRS. This succession planning will also help as we give rise to the next upcoming group of leaders.

Amanda Shrum reviewed the proposed budget.

Salaries & Benefits – proposing an increase of \$550,000. This includes six promotions and a full year budgeted for the new HR Director & EPL Consultant; this also includes the two Vice President positions proposed along with the employee benefits associated with those positions.

Travel Related Expenses – proposing an increase of \$47,000.

Although we are taking an initiative to be more visible at conference in the upcoming year when things hopefully return to normal, due to COVID-19, several of the conferences have been canceled. We've cut expenses of the Symposium due to decreased registration this year; we have not budgeted for the TML Conference as normal but have left \$10,000 in the budget to assist with the TML Legislative Conference. We have increases in travel related expenses due to new positions, added resources for additional member visits and have included Director stipends into this amount.

Member Related Expenses – proposing approximately \$197,000 increase.

This includes additional monies for our Safety Grant programs, includes the third year of the MTAS grant and funds for two full-time police consultants. We also added \$65,000 to our external training to fund website resources for our members.

Administrative Expenses – We are proposing a decrease of \$114,000. We restructured our copier leases when moving to the new building for a five-year term at a lower rate. In the insurance area, we no longer have the builder’s risk insurance and we are no longer funding the D&O insurance for TN Healthworks. The majority of the reduction in this area is actually in the Data Systems area with a decrease of \$100,000. We’ve completed some large IT projects and upgraded some of our computer hardware due to the COVID-19 pandemic, so we don’t expect to have those same expenses in the upcoming year.

Professional expenses – We are proposing an \$11,000 decrease.

We will no longer be funding the TN Healthworks audit and we have not included a Capital Reserve Study this upcoming year, as we only perform these studies every 5 years.

Overall, this brings us to a \$670,000 or 6.49% increase in our General & Administrative budget for the 20/21 year.

Chairman Hayes called for questions.

Motion made by Todd Smith to approve the FY 2021 General and Administrative Budget; seconded by Victor Lay.

Commissioner Tharpe commended the organization for doing this and make it more cohesive. I want to thank you for identifying these needs early and move on in an effective way.

Dr. Christa Martin wanted to share with Charles and the management team that she is in agreement with the new organizational chart. When I got the agenda and board book I was appreciative of it, because it shows alignment and allows you to put your experts where they need to be. I liken it to higher education. Charles this shows that you are allowing yourself to be out there with members. We know from what we hear in our communities our CEO must get out and do that. The things that we have done in the past are not going to secure us in the future. This is a step out in a time where we have three major global issues going on with the pandemic, the economic downturn, and with race relations and other things that are on the table. This is a much needed step out so that our members will know we are going to do what is necessary to ensure this is a premiere organization.

Mayor Jill Holland asked how many employees we have total?

Charles Demore answered we have 31 currently and we will have a total of 33 after this budget.

Todd Smith asked with the internal promotions are we adding from the positions we are promoting from.

Charles DeMore shared that the two prospective vice presidents are currently in the room, but one already has an Assistant Director that will be promoted to Director. The other will leave a vacant position in the department, but there is money in the budget for the department to pull from after 6 months not to a person, but to the department to give time over the next year to groom, mentor for who will take on management responsibilities for the departments. If that is the case we will go out and rehire for that position for an entry level position.

We have a motion and a discussion. **MOTION PASSED UNANIMOUSLY.**

VI. APPOINTMENT OF VICE PRESIDENTS

Charles DeMore shared, now that we have a structure, we'd like to recommend people to fill that structure. I would like to recommend Michael Fann to be promotion to Vice President of Risk Services.

The President can do the hiring based on our bylaws, but Vice Presidents are corporate officers and they must be approved by the Board.

I wanted to recommend Michael to be Vice President of Risk Services and have direct supervision of Loss Control, Communications & Research, and Member Services.

I would also like to recommend Jon Calvin as Vice President of Underwriting and Internal Services.

Michael is currently Director of Loss Control. Jon is currently Director of Underwriting. Jon would be directly supervising our Administrative Services, Underwriting, and IT. This fits within our internal and external service teams.

Chairman Hayes shared the caliber of employees here is unbelievable and the years of service these two employees have I can certainly see why you would want to promote these two to VP positions.

Charles DeMore shared this is about creating a corporate structure that creates a system and fill the people you need in the system, but this is also an acknowledgement of their expertise and knowledge to fit that system.

Chairman Hayes shared that in the past there has been a communications gap and this is another way to close that gap between management and the employees.

Commissioner Tharpe asked how many years of service the two candidates had.

Michael Fann – 34 years

Jon Calvin – 10 years, but started in insurance industry in the 1978.

Commissioner Sam Tharpe made a motion to promote Jon Calvin to Vice President of Underwriting and Internal Services and Michael Fann to Vice President of Risk Services.

A Motion to promote Jon Calvin and Michael Fann to Vice President was made by Commissioner Sam Tharpe; seconded by Mayor Jill Holland. MOTION PASSES UNANIMOUSLY.

VII. APPOINTMENT OF PEP REPRESENTATIVES TO TN HEALTHWORKS BOARD OF DIRECTORS

Charles DeMore shared that TN HealthWorks is the health pool that PEP sponsored formation of in 2017. Recently the By Laws were amended so that PEP will only have one representative on TN HealthWorks Board of Directors. It is up to PEP Board of Directors to determine who will represent them.

Chairman Hayes shared currently there are two members – the City of Martin and McMinnville Electric.

Charles DeMore shared the current board members for TN HealthWorks are a representative of Jefferson Health Plan, Randy Boyd for McMinnville Electric, Mayor Randy Brundige for City of Martin, and a PE Partners representative.

Chairman Hayes recommended Randy Brundige since he has skin in the game since Martin participates in TN HealthWorks.

Ross V. Smith, associate general counsel, pointed out that Mayor Randy Brundige isn't currently the PE Partners representative since he serves on that board by virtue of participating in TN HealthWorks.

Mayor Jill Holland made a motion to appoint Chairman Curtis Hayes as the PE Partners representative on the TN HealthWorks Board of Directors; seconded by Commissioner Sam Tharpe. Any discussion?

Victor Lay asked if Chairman Hayes wanted to serve in that role.

Chairman Hayes thanked Victor Lay for asking. Chairman Hayes shared he did for right now, because he wanted to learn more about the organization then would be happy to pass the baton later.

MOTION PASSED UNANIMOUSLY

VIII. RECOGNITION OF BOARD MEMBER

Mayor Jill Holland's service on the PE Partners Board of Directors board is coming to an end as her term as President of TML's Board is expiring. A plaque recognizing her service was presented.

IX. DATE OF NEXT REGULAR MEETING

SUGGESTED THURSDAY, SEPTEMBER 17, 2020 10A.M.

Chairman Hayes shared that Charles DeMore is retiring as of September 1, 2020. That was agreed on from the beginning of him stepping into the Presidents role. It is time for us to make some decisions on the direction we want PE Partners to go. I've had Charles working on a job description and a listing of the essential functions. They are a work in progress.

There are a couple ways we can do this with a national search. With Board approval, we could advertise nationally for the position beginning July 13-24. The PEP board would go through resumes

through July 30-31st. We'd interview in mid August. That's the timeframe we are in and we have our backs against the wall a little bit because of COVID-19.

Todd Smith asked if we needed to meet as a board to review applicants.

Chairman Hayes said the plan would be that as the resumes come in we would meet in person on July 30 or 31st to trim those applicants down and then start the interviewing process a week or two after that. My goal would be on August 7th if we have 5,6, or 7 applicants we would interview that day.

Commissioner Tharpe said we just finished talking about the strength of what we already have within our organization. I've been with TML in an nationwide search and Margaret is from Athens, TN. I don't see any needs to do a national search. In my experience doing that it has been a failure. We have people within this organization who can lead PEP. I would like to see Charles identify who within our organization can fill that role. As an educator, before I go outside the system if we have people internally that can do the job, we always want to give them the opportunity. We need to look seriously at what we already have. I don't know what the board feels, but I feel strongly about it and we have people within the organization that can lead PEP.

Mayor Brundige shared that to get the best person available you need to open it up to try to find the best person available. It may not be within PEP that the person is. I've done searches, some of them work out, some don't. I just don't think that with an organization of this magnitude you can constrain yourself to within. I do think we need to open it up and let everyone compete on an equal scale.

Mayor Lois Preece shared she agreed with both Mayor Brundige and Commissioner Tharpe. I think the people that are with PEP right now, they need to submit their applications or resumes and have them gone over with everyone else's. I really feel that someone who is connected with the outfit now would be a better fit and have an easier time stepping in.

Mayor Jill Holland shared that in looking with the people who we have contracts with there are people out there that are familiar with the association. If we just limit it to in house there may be some of them that are interested and would be as good as someone in house. I would say that it should not be limited, but I agree that it is always best to promote from within, but just because we go outside, it doesn't mean they would be coming in brand new and not knowing anything.

Todd Smith shared that we could consider a search committee to go through the applicants to cull the applicants down to a handful at that point you could call in the board to interview the finalists.

Chairman Hayes asked why we would take it out of our hands.

Todd Smith shared that it would be the board, but a smaller group.

Victor Lay shared that this is a very important decision and we need to have someone that is going to bring back some trust internally within the organization. I want to make sure we don't do it so quickly

that we lose something in the process. Is there a hybrid of your plan where we bring someone from within as an Interim while we do a national search.

Chairman Hayes said that he has discussed with Charles DeMore about staying on board as a consultant, regardless of who we bring on as CEO. He has agreed to do this for 6-12 months. His last day is the last day of August. We could hire an Interim on September 1st and then extend that period out to when the Board sees fit. I don't think we should be in a hurry, I just threw out a timeline so that we know the amount of time it will take. A candidate will likely need to give a 30-day notice to a previous employer.

If we want to do a national search, in the July 30th meeting, it would be an advertised called meeting and at that point if we wanted to hire an interim effective September 1, we could certainly do that.

Todd Smith pointed out that we have a scheduled board retreat in October and it would be nice to have a new president at that time

Mayor Randy Brundige made a motion to do a national search; seconded by Todd Smith.

Any discussion?

Commissioner Sam Tharpe said he wanted to be clear he would vote against a national search.

Chairman Hayes called for a roll call vote.

Commissioner Tharpe – No

Smith – Yes

Preece – No

Martin – No

Victor Lay – No

John Holden – Yes

Vice Chair Brundige – Yes

Chairman Hayes - No

Motion Fails

Dr. Martin asked if we could make a motion to do a search within the State of Tennessee. Legal counsel was concerned about limiting it to a geographic area and asked for time to answer the question.

Commissioner Sam Tharpe made a motion to allow the CEO, Chairman and General Counsel to write up the advertisement for the CEO position of PEP and then before it goes to the press or anywhere it goes to the board of directors of PEP. At that time, they can put their two cents in; seconded by Dr. Martin. MOTION PASSED UNANIMOUSLY.

Chairman Hayes asked if the dates for the CEO interview process worked.

Date of special called meeting is July 30th at 10am.

X. Other Business

Chairman Hayes asked Charles DeMore where we were with the HR Director position. Ross and Kristin have taken a list of 80-90 and culled those down to 15 or 16. We are beginning that process this coming week to contact applicants to get people in to interview.

Chairman Hayes asked if the CEO hired or the Board. Charles responded that the CEO hires, but the board terminates the position.

Chairman Hayes requested a plan for within a year, and I don't mean by mail, to get in front of folks and get in front of folks who make decisions to tell them our story. I'd like for the leadership to put their heads together and come up with a plan that we can do that and perhaps bring something back to the board in September.

Victor Lay asked how many of the cities and towns do we have now. Charles DeMore said he believes it is 319 cities and towns.

Motion to adjourn by Victor Lay; second by Todd Smith. MOTION PASSED UNANIMOUSLY.

William Curtis Hayes, Chairman

Halie Gallik, Secretary