

**PUBLIC ENTITY PARTNERS
BOARD OF DIRECTORS
MINUTES OF MEETING
DATE OF MEETING: September 29th, 2023
10:00am**

The Board of Directors of Public Entity Partners (“PE Partners”) met at 10:00am on September 29th, 2023, at PE Partners’ offices in Franklin, Tennessee.

Board Members Present: Vice Chairman Randy Brundige, Mayor Lois Preece, Mayor John Holden, Councilmember DaVena Hardison, Todd Smith, Commissioner Sam Tharpe, and Victor Lay.

PE Partners Staff Present: Michael Fann, President/CEO; Amanda Shrum, CFO; Halie Gallik, Board Secretary; George Dalton, Executive Vice President; Celeste Taylor, Director of Human Resources; Callie Westerfield, Director of Member Services; Chester Darden, Director of Loss Control.

Also Present: Russ Farrar, Farrar & Bates; Kristin Berexa, Farrar & Bates

Vice Chairman Brundige called the meeting to order.

Roll call was taken. All members were present except Mayor Hayes and Mayor Williams.

I. Citizen Comments
No citizen comments were made.

II. Approval of Board Minutes

Motion made by Victor Lay to approve the board minutes from the meeting of September 29th, 2023, seconded by Todd Smith. **PASSED UNANIMOUSLY.**

III. Property Reinsurance Renewal

Michael Fann – Thank you Mr. Chairman, this is just a matter of information really, no action will be necessary from the Board, but as we have been talking about since last year’s renewal, we knew that this year’s property renewal was going to be a difficult one. We do our property reinsurance renewal as a 10/1 renewal date, we do workers comp and liability July 1, got through those in good shape, as we expected to, but as we’ve been hopefully preparing you for the last year, we knew this was going to be a difficult property renewal. Many industry experts have called this one of the hardest property insurance markets in the history of our organization. I know we began back in the Spring, Halie and I had a number of meetings in Atlanta during the RIMS Conference with underwriters from here, from London, so we’ve been working pretty diligently along with our broker at Arthur J. Gallagher to structure our program, so I felt like since we renew in two days on October 1 that we would just take a few minutes. We have bound coverage and we are increasing our deductible that PEP will retain.

[Michael Fann shared the details of the property program retentions along with the property reinsurance market.]

Overall reinsurance premium for the property, liability, and workers' compensation programs are up to \$19 million dollars. The property program that was put together, just like last year, has an upper limit of \$500 million dollars, which we felt strongly about last year, we engaged Chubb at the higher \$200 million dollar level again this year.

One additional thing that we are engaged in, George is leading this effort with our risk services team and our underwriting team, is we're going to put out an educational effort to our members. You know there's a lot of things on the property side of things we cannot affect. You know there was very little that Dresden could do when the tornado hit them. There was a little they could do and you know what they did, they got their equipment safe and those sort of things so there are some things we can do and so I know our loss control team, our underwriting team, our member services team, and communications team will come up with some innovative suggestions for our cities to engage in control the things we can control. So we're excited about that.

Victor Lay – Question just about the losses. You think our losses, was it primarily wind driven, flood driven...

Michael Fann - Ice driven...

Victor Lay - Ice driven, all the above.

Jim Morrison – Christmas Day. It was a powerful event and similar to the 2010 flood, it then moved across the state and where we had almost had a 30% volume increase in claims irrespective of severity. We're normally getting 3 - 5 property claims a day, they were coming in 30 at a time so that just gives you kind of a visualization. The 2010 flood, you know how bad that was across the state, this event was comparable to that and then on its heels we had storm after storm after storm move across the state so it's not just one member getting hit at a time. We're getting 7 - 10 members getting hit out of each storm as it comes across the state and so it all just had a multiplying effect. This is just the end result. But we weren't the only ones in that boat.

Michael Fann – I was on a conference call yesterday afternoon with a number of pool administrators. Our primary business was to admit the Oklahoma pool back into the NLC mutual family so once that meeting was over, the wailing and gnashing of teeth began on the property renewals and I actually began to feel a little bit better when I heard some of those numbers. We've had a rough year loss wise as a result of some of the storms Jim is talking about, especially the big wind events, the convective storm. Tennessee is no longer on the edge of the tornado belt, we're right there in it and so that effects rate. They have to prepare for that so hopefully we can have a better year, wind and freeze and flood wise, but we have to prepare for that and so I think some the efforts of the risk control folks and underwriting are going to look at, you know, we have to control those things we can control. Like making decisions like Dresden did to move their equipment out of the fire hall when they knew that the tornado was making a dead run at downtown. We've talked even simple things, you know, if we're going have a freeze while city hall is going to be closed for the holidays, we need to find somebody that can show up at city hall to turn the water off if we need to turn the water off instead of letting it run for a few days.

Jim Morrison – That exacerbated, that's exactly why it exacerbated this event. They didn't know and it was a week, two weeks, three weeks before they ever turned a claim in. Let us know you're really behind the eight ball when you have water sitting in drywall, wood, whatever it may be.

Michael Fann – Other questions, concerns. Yes.

Samuel Tharpe – City of Dresden, they lost their whole city hall.

Michale Fann – Do we know yet, what the final number is on Dresden?

Jim Morrison – I don't know yet. We're still, we have not closed those claims from December of last year just because of in general the timetable they got to us, how the damage crept, and then you add the resources aren't there to address this breath of an event. There are not enough contractors, there's not enough materials and it just all has a magnifying effect. Then all of a sudden, the price goes up for the labor and then the price goes up for the materials and then we're left to deal with that.

Halie Gallik – I was going to add that we are also taking steps to address the data side of this equation. All the reinsurers are using catastrophic modeling and with that, all of our locations have specific data points that get reported to the reinsurers. We are undertaking a project to implement something called RMS codes which is a cat modeling program that Moody's uses. There are two main cat modeling platforms that the reinsurers use. We hope to have that started in the next year but will take us multiple years, because we have close to 18 to 20,000 locations to get the codes established for each of those locations. There's close to 100 different codes and we are going to focus in on water and wastewater, because we believe that will have the most impact to the reinsurance pricing, but it could take up to four years to get every location evaluated by Huber and Lamb which is our third-party valuation service. We're addressing it from the risk management side, but we are also taking proactive steps to improve the data that goes to the reinsurers so hopefully it will improve the model that there're looking at for convective storms which is what's really driving the cost. The code that we currently use are ISO codes and the reinsurers are taking those codes and converting them to RMS code. When the code is converted it is not as accurate and we could benefit from selecting the RMS code for each location.

Jim Morrison – We've also started the next project with Origami to be able to gather loss data by specific locations rather than member having ten locations that got damaged. We need them to be searchable, reportable so that we can provide information to our reinsurers by location and the specific amount of what type of loss and how much the loss was and the date of the loss by location, so we can also find locations that are more susceptible to loss and then we can underwrite those additionally to just the building or whatever that facility might be but we have been fortunate in a lot of high value properties, our wastewater treatment facilities are more hardened and we're not, at this point, experienced a total loss on a \$30 or \$40 million dollar property.

Michael Fann - Any other questions? Thank you all. Mr. Chairman.

IV. Financial Reports

a) Financial Reports FYE 6/30/2023

Vice Chairman Brundige – All right. We'll go into the financial reports. Amanda.

Amanda Shrum –We're going to start with the Statement of Revenues, Expenses and Changes in Net Position and this is where we're going to focus mainly on. We're reporting as of June 30th. Of course, you all know we're in process of our regularly scheduled financial audit for the year. I don't expect any adjustments to come from the audit but just know that we are in that process so until the audit is done, these are not final. As of June 30th, we're reporting net earned premium at \$69.7 million which is up \$2.2 million from last year. Our revenues were reported at \$78.5, up \$8.3

million from last year. The two main factors in the increase in revenue would be, of course, the premium increase of approximately \$2.2 and our investment income increased \$6.2 million. We took losses in the previous year to get out of some of those lower yielding securities so we're seeing our investment income come back to what we will expect. We will have a few realized losses in this year but those are going down so we expect our investment income to get back up to around \$10.7, so we are in better condition with our investment income then we were in 2022.

Total expenses were \$58.6 million, went down from \$62.9 million. One major factor in that decrease was with our loss and loss adjustment expenses and we'll talk more about that in a moment, but that was a result of our actuarial review. It was favorable to us; we are seeing development, or we did see as of 6/30, development of those claims to trend downward. Operating income for the year came to \$19.9 million. We had a decrease in the fair value of investments of another \$12.6 from the previous year which left us with a change in net position of \$7.3 million. That leaves us with an ending net position of \$116.9 which is up from \$109.6 from the previous year.

Todd Smith – It's going in the right direction.

Michael Fann – Yes.

Amanda Shrum – Yes, as of June 30th. Are there any questions on that one? Then we will turn over, I'm not going to go all the way through the statement of net position, but I did want to mention results the actuarial study. If you look under the reserve for losses. As a result of that study, we had a decrease of \$1.7 million in workers' compensation, a decrease of \$1 million for liability and an increase in property of \$110,000 in our reserve for IBNR. That's just the IBNR. So total, because of the study we decreased IBNR reserves by \$2.5 million. However, we also reported an increase to our reinsurance recoverable of \$5.6 million and although that did really well for our financials last year, as Michael talked about, what that indicates is that there are more claims following outside of that retention, so even though it's recoverable from 2022 back to us, they're going to get it back from us. It really did help with our financials and where we were at the end of last year. Our net position ended \$116 about \$117 million.

Motion made by Mayor John Holden to accept the Financial Report, seconded by Commissioner Samuel Tharpe. PASSED UNANIMOUSLY.

b. Year-End Budget Report FYE 6/30/2023

Amanda Shrum – So the next page you'll see the annual expense budget to actual for year end, overall we had June expenses of \$11 million and so we ended the year approximately \$1.8 million dollars under our budget and we have already approved the budget for this current fiscal year.

Motion made by Victor Lay to approve the Year-End Budget Report FYE 6/30/2023, seconded by Mayor Lois Preece. PASSED UNANIMOUSLY.

c. Investments Report

Amandra Shrum – If you will look on the second page of the investment portfolio analysis, you do have a complete investment report with every single security in the portfolio. We're going to focus more on the overview. You will see that as of August we have an additional unrealized loss of \$5.5 million from the previous report as of June 30, so we have incurred additional unrealized losses of \$5.5 since year end. Our average coupon on the portfolio is 3.7%, the average yield is 4.6% so you can see that the coupons and the yields are moving upward as we're investing in new things. We are looking at 6% yields versus our previous 3%. Our projected yearly interest income is approximately \$10.7 million now based on our portfolio. However, we are now at the end of September and although we've looked backwards at August, we will not have the final September report until next week. But just since August, those market values have dropped an additional \$11.5. September was not a good month in the market. At the next board meeting, we will be presenting through October 2023.

Vice Chairman Brundige – I have a motion accepted for the investment report.

Motion made by Todd Smith to approve the Investments Report, seconded by Victor Lay.
PASSED UNANIMOUSLY.

d. Pro-Forma Statement of Revenue and Expenses Fiscal year 2023.

Amanda Shrum – So this is the last thing that we have to look at, of course you know in September we present the Pro-Forma every year. It gives us time to see, as far as our July renewals and reinsurance renewals. Michael has already explained why the reinsurance is showing \$19.7 million for the current year, but let's just look at it for under the revenue section earned premium is projected to be up 8.3%. For 2023, we reported \$83.9 and for 2024 we expect an increase of 7%. Of course, in that premium, you know we set the base rates back in February, but this also takes into account the increases in member payroll we've seen, increases in the property values that we've seen. So, not only is it the base rate, it's the exposure too that are included in that.

Investment income is shown at \$10.3 million, other income of \$177,000 so our projected revenue overall we're looking at \$81.7 million this year. Under expenses our total loss and loss adjusted expenses is projected at \$61 million. When added to policy acquisition costs of \$7.5 million and you've already approved the General & Administrative budget of \$13.2. Projected expenses are shown to be \$81.7 million for the year and so with the projections in front of you, we are expecting an operating income of \$24,000 for the year. Does anyone have any specific questions on any of this?

Motion made by Todd Smith to approve the Pro-Forma Statement of Revenue and Expenses Fiscal year 2024 Report, seconded by Mayor Lois Preece.
PASSED UNANIMOUSLY.

Vice Chairman Brundige – The next meeting is suggested Wednesday, December 13th.

Michael Fann – Yes, Mr. Chairman. Under tab 4 you've got that meeting, then we've also got suggested meetings for February and June for your consideration and for your calendar. Obviously, we'll take those up at our next meeting. You'll also see a schedule of other events that you have participated in over the last three years. I do want to point out that the TML Legislative

Conference on March 4-5 here in Nashville is the same time as the AGRIP Governance conference that some of you went to last year in Orlando.

**Motion made by Victor Lay to adjourn, seconded by Mayor John Holden.
PASSED UNANIMOUSLY**

William Curtis Hayes, Chairman

Halie Gallik, Secretary