

**PUBLIC ENTITY PARTNERS
BOARD OF DIRECTORS
MINUTES OF MEETING
DATE OF MEETING: February 28, 2025
10:00 a.m.**

The Board of Directors of Public Entity Partners (“PE Partners”) met at 10:00a.m. on February 28th, 2025, at PE Partners’ offices in Franklin, Tennessee.

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

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; Elisha Hodge, Director of Legal & Member Services; Chester Darden, Director of Loss Control; Carly Salah, Communications and Research Manager, Allen Dean, IT Manager, Jason Dodson, Assistant IT Manager, and Janine Helton, Assistant Director of Underwriting.

Also Present: Russ Farrar, Farrar & Bates; Kristin Berexa, Farrar & Bates; Jim Morrison, PRS; Anthony Haynes, TML

Chairman Randy Brundige called the meeting to order.

Roll call was taken. All members were present.

Citizen Comments – no one spoke.

I. Approval of Minutes

Motion made by Victor Lay to adopt the minutes of December 11, 2024 seconded by Mayor Preece.
PASSED UNANIMOUSLY

II. Investments – Annual Review

Amanda Shrum – We’ve got Bill Emmett here with Callan. I’m going to pass out the bound copies for the board members.

Michael Fann – And this is the same that we’ve got in the board books, they’re just bound?

Amanda Shrum – Yes.

Bill Emmatt - Thank you everyone for the opportunity to come and talk to you today. As we do every year annually, we talk a little bit about how the performance has been of the portfolio, and just

generally about municipal bond markets and I'm always happy to answer any questions you all might have. I know you probably have a weighty agenda today.

The good news for you all from a performance standpoint, the portfolio was up 1.94%. That doesn't sound like something that you go ringing the happy bell on, but I think from our perspective, it actually is. And the results you'll see (I'm working off some notes that I have) but if you want to see the results there on page three of the book. And what you'll see is 92% of the portfolio is invested in what we consider to be bonds and not cash, the remaining 8% is in cash and what you'll notice is that over the last year, cash has been the highest earning asset still. Much better yield at the beginning of the year and it didn't face some of the headwinds the longer duration securities did. But overall, the portfolio being up that 1.94% is pretty meaningfully positive. What's happened in fixed income markets this year is that yields have been all over the place, so the yields on treasury securities, we started out ...2022 they raised rates really significantly. You all remember the capital market results in 2022 being a pretty tough year. 2023 and 2024 we saw some recovery there, rates came down at bits and then stayed stable in other parts. Last year, yields for municipals overall were up about 78 basis points on the 10 year. You all have a little over 10 year duration of secure portfolio, so a little bit longer maturity and duration. And then the shorter stuff is up about 30, so generally speaking when yields are up that's bad, right? So, yields up bond prices come down, that's where you start to see those really big negative returns like we saw in 2022. What we're actually seeing here that's been really a positive is, yields come up that is a higher income, so than what you earn coming back on the portfolio generally better than it was in 2021 or something like that where rates were moving up. So, the returns that you're seeing, that positive 1.94% is a pretty good reflection of being able to have to yield to the portfolio income fees absorb some of those capital losses. So that's the good news that we can take out of it. Other than having the positive return and not a negative. Overall, the municipal market continues to be really healthy. There was about 42 billion dollars of money coming into funds. That's the only piece that we can really measure accurately is money coming in there. So, that's good news. That's people coming in and saying they want to invest in municipal bonds. The actual issuance was a record. A little bit short of \$500 billion. That's a 32% increase over the prior year. Issuance again is also a pretty good thing. Some of that is a little bit of the Covid federal money expiring and municipalities needing to issue quite a bit more. The overall quality of the space has also been really good. So, we're seeing about double the number of upgrades in the municipal bond space than we are downgrades. It's not a record by any means, but it's still quite positive, that 2-to-1 ratio. And defaults have been really low. Since about 2017, we haven't seen that many defaults, so when you look at the space overall higher yields on the income side which I know of your issuing and paying for things that's probably not great, but as an investor that's a positive. Fewer defaults, more upgrades, lots of investor interest coming in the space.

Still the performance overall for municipals has been a little bit of what we call a barbell. So, the results were shorter data securities, your 2 years and 5 years has been better. Kinda where you all invest has been somewhat lower and then the very longest-dated municipals have done about as well as the short end. So, then that creates sort of a weird looking return. But overall things have been relatively positive. You'll see we talk about munis a lot, but if you look on page 8 of the results you'll actually see that there is a bit of a split, about 90% or so is municipal securities. You've got a little bit in corporate 6%, a little bit in RMBS, which is Residential Mortgage Backed Securities and then agencies and then government related which is the last two. So predominantly municipal bond portfolio, which is why we talk about it that way and I don't have a whole lot additive here to say anything any different. I think the forecast for 2025 is fairly pretty positive for municipals. I think people are expecting a bit of a slowing economy. Probably more tepid results for equity markets which usually means people start looking for other sources of income, other places to invest and municipals continue to be pretty attractive from that standpoint. The headwinds issue is changes in tax rates, changes in issuance just overall, we start to see a real slowdown that starts at tax revenues

that would be a real big problem, but I don't think anybody at this point is forecasting a particularly bad year from that standpoint. BCE which is the feds measure of inflation came out today, I think it was spot on to what they expected, so I think the market was up a little bit after the InVideo sell off a few days ago, so it's been quiet in capital market terms from the standpoint that nothing's really blown up, but I do think everybody is sort of waiting. There is a certain degree of uncertainty with the new administration because it's a little bit hard to tell where things are going to go. There's going to be a lot of noise and smoke and then, later on, you just have to figure out where the actual fire is.

I'm going to answer any questions that you might have.

**Motion to receive made by Todd Smith Investments – Annual Review seconded by Mayor Brown.
PASSED UNANIMOUSLY**

III. Financial Reports

- a. Financial Statement – December 31, 2024**
- b. Q2 Budget to Actual**
- c. Investment Report – January 31, 2025**

Amanda Shrum – If you can go to Tab 3 in your book. We are going to go through the Statement of Revenue and Expenses as of December 31st.

As of December 31st, net earned premium was reported at \$39.6 million - up \$2.6 million from last year and Total Revenues are reported at \$43.4 million – up \$1 million from this time last year. We did realize \$2.5 million in losses in the investment income and that's going to be reflected in that \$3.6 million that's shown.

If you go down to the Total Loss and Loss Adjustment expense, which is basically our claims expense of \$34.5 million, it showed an increase of \$4.5 million from last year. Policy acquisition costs of \$5.4 million increased \$767,000 from last year. General and Administrative expense of \$5.9 million increased \$515,000 and Total Expenses as of December 31st were \$45.9 million, which was an increase of \$5.8 million from last year.

Operating Loss is reported at \$2.5 million and with the decrease in Fair Values on Investments of \$795K, that leaves us with a Change in Net Position of \$3.3 million. Leaving an Ending Net Position of \$124.9 million, which is up from this time last year from the \$122.2.

Do we have any questions on the revenue and expenses? If not, we can turn to the statement of net position as of December 31st. I'm not going to go through all of this, as normal, but just a few things to mention. Our combined cash and market values of investments were up \$11.1 million from last year. The Total Assets and Deferred Outflows were up \$3.8, while our Total Liabilities and Deferred Inflows were up \$1.1 million from last year.

Amanda Shrum – So, are there any questions on the financials?

**Motion to Accept made by Todd Smith to approve Financial Reports seconded by Victor Lay.
PASSED UNANIMOUSLY**

Amanda Shrum – The next page you'll see the G & A expenses – the budget to actual.

As of December 31st, the G&A expenses totaled \$5.9 million, which were approximately \$885,000 less than our budgeted amount of \$6.8 million. And this will just give you a recap by department. If you have any questions about that we will answer.

Motion to adopt made by Victor Lay to approve Q2 Budget to Actual seconded by Todd Smith.

PASSED UNANIMOUSLY

Amanda Shrum – Turn to the next page you'll see the Investment Portfolio Analysis. Which is just kind of a recap, you do have a full investment report as of January 31st behind that if you want to see specifics.

As of January 31st, you will see that we have Unrealized Losses of \$53.7 million. Which were about even to where we were for June 30.th The average coupon was at 4.2% and the average yield was right under 5% and based on our current portfolio our yearly interest income is calculated to be around \$12.7 million.

We have spoken previously about our intention to strategically swap out some investments for lower yielding to higher-yielding investments. Which is kind of why you've seen the increase in the interest income that we've had since June. In the second half of this year, we're going to continue that program of swapping out investments with those lower yields. We are really trying to put a focus on our duration now. The higher duration, I know Bill has mentioned in the past that the interest rate risk that goes along with longer durations causes a lot of volatility when there are changes in the market and so we're really trying to put a focus on getting our durations down. Just for example, over the past couple weeks we have traded out \$11 million of lower yielding instruments and reinvested those. We have been able to increase our yields, but we've also been swapping, everything that we've swapped out has had a 10 year or more duration and we've swapping those for 4-6 year durations. So, we're hoping that that's going to help us offset some of that volatility. And also, get us into some of those higher yielding coupons that we're seeing now.

As of yesterday, we were down to \$45 million in unrealized losses. So just from January we've seen an \$8.8 million dollar increase in our investment values. Not all of that is from the swaps, which of course we know the rates have come down quite significantly over the last couple of weeks, but we are seeing an increase in this area.

Chairman Randy Brundige – Sounds good. Any questions? Do I have a motion to adopt the financial statements for September 30, 2024.

Motion made by Todd Smith to adopt Investment Report – January 31, 2025 seconded by Mayor Preece. PASSED UNANIMOUSLY

IV. Rates and Coverages – FY 2026

Michael Fann – Yes, Mr. Chair, as is our practice in February, we've been going through a process, really since December. Looking at our policy documents and so forth, we have one clarification on coverages that Halie will present and then we'll talk about rates. Halie, you want to jump in?

Halie Gallik - In December we went through an extensive list of areas that the Underwriting Department had been evaluating in our policy documents to make sure that we were clarifying anything that needed to be clarified, but also listening to feedback from you all as a board of directors, about any changes you want to see in coverages. After that December review and presentation, there was not any additional areas that came up for review outside of the class action endorsement and so the recommended class action endorsement modification is to specify that all claims arising out of class action including any claims arising from interrelated occurrences are to be considered as one claim. As a result, any claim which qualifies for coverage under the class action endorsement shall be automatically excluded from coverage under any other coverage part of the liability policy. This clarification establishes that any class action suit and any claims arising from interrelated occurrences shall be subject to the limit of liability and annual aggregate set forth in the class action endorsement only and will remove PE Partners exposure to unlimited defense costs for non-class claims arising from interrelated occurrences. So, this clarification keeps the wording in line with what was proposed with a class action endorsement that was originally put forward in front of this board. It truly is a clarification, but we did have a specific instance where the exposure for a defense cost was really outside of what the intention of this board was and so we feel very comfortable that this will address that.

Motion made by Todd Smith for coverages – FY 2026 seconded by Mayor Stover. PASSED UNANIMOUSLY

Michael Fann – Yes, Mr. Chair, again as is our practice, our executive team and leadership team have been examining and talking with our actuaries since December looking at their analysis. We’ve gone through each line of coverage and I’ll ask Halie if you would to kind of walk through what we are recommending to the board for July 1, 2025 rate changes.

Halie Gallik – The recommended base rate change for July 1, 2025 are a 10% reduction in workers compensation base rates, a 6% increase in property base rates, no change to general liability or errors and omissions, 4% increase in law enforcement liability, 5% increase in auto liability, and a 10% increase in auto physical damage. The combined liability for all of the lines of coverage together is 3.9% for liability and for all lines it would represent a 2% increase. Also, of note is the inflation guard that applies to the statement of values for each member. For the past 3 years we have used a 4% inflation guard and are lowered that back to 2.5%, which is where it had been before we saw all of the fluctuation in construction costs over the last couple of years.

Todd Smith – Just real quick, I think this page goes back to the conversation we were having about competition and about value to our citizens across the state and if the state legislature can see the rates that don’t change year to year too much, and that is the real value that Public Entity Partners has is rates aren't all over the board, next year they’re not going to be all over the board. So, this is a good page for our state legislators to maybe look at.

Russ Farrar – And the dividends.

Todd Smith - Yes, yes very much so, and the training, and the personal visits, and the, and the, and the...

Motion to adopt made by Victor Lay for rates – FY 2026 seconded by Mayor Stover. PASSED UNANIMOUSLY

V. Dividend Declaration

Michael Fann –I have to give Amanda and Halie tremendous kudos in helping us work through all of our actuarial studies that we did this past fall. Obviously, rate is first and foremost in terms of the overall expense each of our members has as it relates to their risk management costs, but the dividend as you know last year this board approved a \$4 million dividend after examining our capital adequacy study as well as working through our rate discussion that we just finished. The leadership team is recommending to the board for the fiscal year 25-26 a \$5 million dividend. That again will be heavy on the workers' comp side and then put about a million toward liability. So, our recommendation is \$5 million for the coming fiscal year.

Mayor Brown – I have just one comment. I appreciate you saying the \$4 million because for short timers like me, not having a frame of reference for what the rate increases have typically been and then what the dividends have typically been, it would just be helpful to see that for comparison. So, you either feel good about it or not so good.

Michael Fann – Well we feel good about it and this I think in the history of our dividend program which is now 27 or 28 years we've had a dividend program, something like that, takes us over \$140 million dollars we've given back to local government taxpayers. So, we feel very good about the \$5 million dollars.

Motion made by Victor Lay for \$5 Million Dividend Declaration as recommended, seconded by Commissioner Sam Tharpe. PASSED UNANIMOUSLY

VI. Contract – Arthur J. Gallagher

Michael Fann – Yes, Mr. Chair, under Tab 6 we have our agreement for our Gallagher consulting services that we talked about back in December. For the first time in many years, this past fall we did a full RFQ where we had four different brokerage houses respond, including the incumbent. You'll remember in December we recommended that we stay with the incumbent Arthur J. Gallagher. We have been in negotiation with them on this contract since then. Legal has completely looked at it and approved it, and so we would recommend the authority to sign a new 3-year contract with Arthur J Gallagher for our reinsurance placement.

Motion made by Mayor Preece for a three-year contract with Arthur J. Gallagher seconded by Todd Smith. PASSED UNANIMOUSLY

VII. Contract - Microsoft

Michael Fann – Yes, Mr. Chair. Under Tab 7 is the annual subscription service contract for our Microsoft Office 365 and then our license for CRM Dynamics. Under the first page there you'll see a brief description of these that is renewed annually and includes a true-up for actual use of these licenses for our entire team. This contract has been reviewed by our legal folks, and the contract value for Office 365 is estimated at less than \$40,000 a year. CRM Dynamics licenses at about \$45,000 per year. And then again, the contract term of 3 years has been reviewed, and we would request the ability to sign this contract.

Victor Lay – Do we have any alternatives to Microsoft Office 365?

Michael Fann – Allen, do we have really...there's a couple of hamsters in wheels...

Mayor Brian Stover – I'll tell you from a town standpoint, we just switched over from google to Microsoft, and while I have my issues with Microsoft, it's the best thing we did, but there is no one else out there who can do it. Probably some 13-year-old working on one right now, but we haven't seen it yet.

Motion made by Mayor Holden for Microsoft contract seconded by Mayor Brown. PASSED
UNANIMOUSLY

VIII. By-Law Update

Michael Fann – Yes, Mr. Chair. Under tab 8 you have the bylaws assuming approval today. As you'll remember, we discussed a couple of things back in December about bylaws changes. One dealt with, I don't know if anyone was confused but me, but what we would call our membership, whether we could call them members or not, we thought we would look into that and try to figure out if we should change our bylaws. After our internal and our general counsel folks looked through the law, we determined we need to leave that alone because there are many legal implications of calling someone members, partners, and all this stuff. And so we obviously casually we call you members, but in terms of the legal status of our members as it relates to nonprofit corporations and those sorts of things we decided to leave that alone. So, we do not have a recommendation there. The one recommendation we did work through and after conversation with our friends at the League you'll remember in '21 we put in a section of our bylaws trying to give some separation in terms of boards of directors. After looking at it and the fact that for the last couple of years we have not had a member of this board represent us at the league board, we do have a change that we're recommending I think I mentioned this in December but we are recommending approval as amended that would allow the Chair, or the Chairs designee to serve on the league board. So that's the proposal before us. And it has been reviewed again by general counsel.

Mayor Holden – I'm assuming TML is aware of this?

[Anthony Haynes acknowledged the item from his seat]

Motion made by Victor Lay for By-Law Update seconded by Mayor Stover. PASSED
UNANIMOUSLY

IX. Citizen Comment Policy

Michael Fann – Under Tab 9 you'll see a one-page policy pursuant to TCA 8-44-112. Since that passed, we have had as a part of our agenda a citizen comment section and we have talked about creating an actual policy that addresses that. We had never had a citizen comment, so it wasn't that pressing, but we felt like we should go ahead and have the board officially approve this. It requires 48 hours of notice if someone is going to be, obviously you can read it yourself, but if someone would like to address this board, it allows for 3 minutes for each speaker to speak and then up to 20 minutes in total time at our meetings.

If they need interpretation services and accessibility accommodations, it requires 48-hour notice. It requires it to be related to the agenda items. So, that's just generally a simple policy that Elisha drafted, our general counsel's office also has gone through it, and we would ask you to adopt this policy for all future citizen comment items for our agenda.

Todd Smith – Just a note, and Russ probably knows more about this. I think there's a bill in the legislature that would require local governments to allow for public comment for any public discussion, not necessarily agenda specifics. So, it may require a change in the future.

Michael Fann – A change in the future, right.

Chairman Brundige – We'll be back in covid days when we're talking about everything in the world besides business.

Mayor Stover - So the update I got on that was, we talked to both of our state reps, which we have issues with that because the problem becomes if it's not germane to the agenda, everybody will come talk about things that are not on it. It's hard enough to control a meeting. I set up enough time – Once a month you can come to my town hall, I'm sitting on the porch, you can come talk to me about whatever you want. Board meeting's not the place to do that because a lot of the time it's not germane to that. What they're talking about is more about school boards and that's where the whole issue came about apparently. So, I think my understanding is they're going to try to carve that out maybe for just school boards if they can, but we're watching that a little closely as well because we have some thoughts on that.

Chairman Brundige – Have some real thoughts on it.

Victor Lay – Just another quick question. So, maybe we'll have a policy here that citizens nonemployees, non-board members, what mechanism is going to be in place so that citizens know that if they want to come, especially since we've got a 48-hour notice.

Michael Fann – They'll have to ask.

Mayor Brown – What's the catalyst?

Victor Lay – That's where I'm going...Is it placed on the website? Is this the...

Michael Fann – Yeah, it'll go on the website. And it'll require contact, in the policy we give them the place to communicate.

**Motion made by Mayor Brown to adopt the Citizen Comment Policy, seconded by Todd Smith.
PASSED UNANIMOUSLY**

- l. Date of Next Meeting – Tab 6
(Suggested: Wednesday, June 18, 2025)**

Michael Fann reviewed upcoming events. Discussion of conflicts with the next proposed board meeting and potential dates was had. Wednesday, June 18 at 1pm was agreed upon.

Michael Fann – You also have, semi-annually we present our departments do a six-month update, so, their activity and productivity through December 31st in the written reports and then of course in September we will again do oral reports from each of our department heads, but you have that as a matter of information.

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

Randy Brundige, Chairman

Halie Gallik, Secretary