

**PUBLIC ENTITY PARTNERS
BOARD OF DIRECTORS MEETING
MINUTES OF REGULAR MEETING
DATE OF MEETING: SEPTEMBER 17, 2020
IN PERSON AND BY ELECTRONIC MEANS PURSUANT TO GOVERNOR LEE'S EXECUTIVE ORDER 60**

The Board of Directors of Public Entity Partners ("PE Partners" or "PEP") met at 10:12 a.m. on September 17, 2020 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, Mayor Lois Preece, Commissioner Sam Tharpe.

Board members present via Zoom: Vice Chair Randy Brundige, Mayor John Holden, Mr. Victor Lay, Dr. Christa Martin, Mr. Todd Smith.

Board Members absent: Mayor Mike Werner

PE Partners staff present: Michael Fann, President/CEO, Halie Gallik, Board Secretary, Amanda Shrum, CFO, Jon Calvin, Vice President of Underwriting and Internal Services, George Dalton, Director of Loss Control.

Also present: Margaret Mahaery, Executive Director, TML; Jim Morrison, Public Risk Services; Ross Smith, Associate General Counsel, Farrar & Bates; Kristin Berexa, Associate General Counsel, Farrar & Bates; Brenden Nugent, Jefferson Health Plan; Mark Morgan, Belva Hale, Terri Evans with Employer Advisory Service (EAS); James Armistead, TCRS (via phone).

Call to Order

I. APPROVAL OF MINUTES

Mayor Preece made a motion to approve the minutes of the Board of Directors meetings from June 26, 2020, July 30, 2020, and August 14, 2020, seconded by Commissioner Tharpe. Roll Call Vote was taken. MOTION PASSED UNANIMOUSLY.

II. RECOGNITION OF CHARLES DEMORE RETIREMENT

III. TN HEALTHWORKS OVERVIEW

Brenden Nugent, Jefferson Health Plan along with Mark Morgan, Belva Hale, Terri Evans with Employer Advisory Service (EAS) presented an overview of TN HealthWorks.

Chairman Hayes explained the goal when TN HealthWorks was formed was for it to look like the risk management pool so we would have lower premiums for health insurance. There are currently two entities that participate in TN HealthWorks, McMinnville Electric and the City of Martin.

Mayor Brundige spoke about the City of Martin's experience in the program over the past three years.

IV. TCRS ACTUARIAL STUDY

Michael Fann shared the Board petitioned TCRS in November or December through a resolution to do an actuarial study of what it would cost to do a buy-back to the beginning of the employer contribution time frame for three employees that initially, when the TML Risk Management Pool went to the TCRS program, there were three that were grandfathered in and chose not to participate. For a number of reasons, the board petitioned the study, and the results of that study are in. Our representative from TCRS is available.

James Armistead from TCRS was added via phone to the meeting.

Michael Fann explained that the decision for the Board was to either accept or decline the liability. The total dollar figure is \$2,063,195 as of June 30, 2020. The organization would be liable for the figure, whether any of the folks involved in the study accepted or not. This has a number of implications some of which are difficult, but that is the question before this board. It obviously affects the three people whose retirement dollars are a part of the actuarial study. It obviously impacts one of them very specifically.

Chairman Hayes wants to remind the Board exactly where we were at. Our former CEO requested to look into the Tennessee Consolidated Retirement System. When this happened, it opened the door for other employees and we can see what the cost would be for PEP to do that. If the Board chooses not to do that, then we are out zero dollars. If we choose to entertain, then there is a price tag. There are some questions as to whether there was an invitation for some to be a part of the Tennessee Consolidated Retirement System and there has been a complaint filed with Russ Farrar's associate Ms. Berexa, given the fact she is acting as HR Director while we are in the process of hiring one. There is a complaint out there that TCRS was not offered. I have been working on this with Charles DeMore, Michael Fann, Russ Farrar, Kristin Berexa, and James Armistead.

Chairman Hayes asked James Armistead to confirm that TCRS does not individually ask employees to sign up for TCRS, that it would be a company wide effort.

James Armistead shared that when PE Partners came into TCRS everyone was given optional membership at that point and part of the language in the Resolution that the board signed when PE Partners joined TCRS that if employees wanted to join later, they were more than welcome to. That was clearly laid out in the resolution when you came into TCRS.

Chairman Hayes asked for questions.

Mayor Holden asked for clarification that employees could join TCRS at any time.

James Armistead shared that there is language in the Resolution that an employee can join TCRS at any time, it happens all the time.

Chairman Hayes said that there was a Resolution for everyone to join and some did and some didn't, for whatever reason, but they would not offer TCRS individually to employees, it would be to employees as a whole. That was in 1991.

Mayor Holden asked if the three employees in question were here in 1991. Chairman Hayes responded yes. Mayor Holden followed with the question if we were legally obligated to do this.

Chairman Hayes requested Executive Session to continue the discussion and speak with the attorneys.

THE BOARD OF DIRECTORS ENTERED EXECUTIVE SESSION AT 11:07am.

THE BOARD OF DIRECTORS ADJOURNED FROM EXECUTIVE SESSION, AND CHAIRMAN HAYES CALLED THE MEETING BACK TO ORDER TO RESUME IN PUBLIC METING AT 11:46AM.

Commissioner Tharpe made a motion that no action was taken on the TCRS Actuarial Study, seconded by Mayor Preece. Roll call vote was taken. PASSED UNANIMOUSLY.

V. FINANCIAL REPORTS

A. Amanda Shrum, CFO, presented financial statements for the year ended June 30, 2020

In reviewing the Statement of Revenues, Expenses and Changes in Net Position for period ending June 30, 2020, total revenues totaled \$82.5 million, up from \$73.4 million last year, an increase in approximately \$9.1 million. Net Earned Premiums increased \$2.3 million from last year. Investment Income was up over \$5 million to \$14.4 million which we will discuss more under the Investment Report. Realized Gains for period ending June 30, 2020 totaled \$6.1 million. Also included in revenues, we had the \$1.7 Million gain on the sale of the building which was not budgeted for last year.

For the period ending June 30, 2020, Total Expenses totaled \$68.8 million, up from \$50.1M last year, an increase of \$18.7 million. \$14 million of this came from an increase in Losses & Loss Adjustment expenses over last year.

Where we see the biggest differences, on June 30, 2020, we had reserves on the books of \$5.5 million just from the hail/windstorms that occurred in late Spring. We also saw an increase of \$6.5 million in Liability Claims from last year, mostly in the Errors & Omissions and Law Enforcement Liability lines. Also, what we found out from our actuarial study, due to the COVID pandemic, court cases were stalled at June 30, 2020 and are probably still stalled in the courts, so some of our claims that may have in the past been settled and closed by year end, we still have open with reserves waiting on the courts to open back up so it seems we are seeing delays with settlements.

The G & A expenses were up \$3.2 million for the year. Our change in Net Position for the year totaled \$17.1 million with \$3.4 million of that coming from our Change in Fair Value of Investments.

During Fiscal Year 2019/2020, Dividends of \$21 million were declared to be returned to our members. That includes the \$14 million regular Member Dividend and the additional \$7 million for the Emergency Relief Dividend, leaving our Net Position at June 30, 2020 at \$145 million.

Moving over to our Statements of Net Position, at June 30, 2020, Total Assets were \$323.9 million, up from \$304.6 million last year, an increase of \$19.3 million. The two main factors in this increase were, 1.) investments were up \$13 million to \$286.3 million and 2.) capital assets were up \$3 million to \$9.4 million due to the construction and completion of the new office building.

Total Liabilities were \$179.6 million, up from \$156.6 million last year, an increase of \$23 million. The main factors in the increase were, 1.) Increase in our Net Reserve for Losses and Loss Adjustment of approximately \$9.7 million and 2.) Increase in our Dividends Payable from \$6.5 million last year to \$21 million at June 30, 2020 (\$14 million Dividend Credit and \$7 million in Emergency Relief Dividend).

At June 30, 2020, our Total Net Position sits at \$145 million, down from \$149.1 million last year.

B. YEAR-END BUDGET REPORT FYE 6/30/2020

The year-end budget report is included in your packets.

As you can see in the Revenues, as far as Earned Premium, we hit budget totals pretty closely. Our big differences in Revenue are with the Investment Income and Other Income accounts. As we have already discussed, our investment earnings were over budget this year due to the volatility in the markets and we have just been put in a position to take advantage of some substantial gains.

Also, in our Other Income, we have included in that the \$1.7 million gain on the sale of the building which was not budgeted last year.

We have already mentioned the G&A expenses but under the expenses section, you will see the breakout of actual to budget by department.

C. INVESTMENT REPORT – AUGUST 2020

We are continuing into the first two months of the year to see a lot of activity in our investments. Harry is still really working to find those securities where we can take advantage of some of these gains to position us to offset some losses we may end up having to take later, but we are looking very good right now.

As of August 31st, we have realized gains of \$3.7 million, up from approx. \$400,000 at this time last year.

We are holding 95 securities with a book value of \$261.5 million and Fair Market Value of \$266.3 million, unrealized gains of \$4.7 million.

D. PROFORMA STATEMENT OF REVENUES/EXPENSES FY 2021

The last item we will look at is the Proforma Schedule of Revenue and Expenses. During the last board meeting, the G&A expenses were presented. This is organizational wide what we expect the revenue and expenses to look like. The G&A is only one line item down at the bottom. Our revenues are projected from our base rate and if we are projecting to add any new members. We have kept that consistent.

For year 2019/2020, our net earned premium came to around \$63 million. That took into account a slight reduction for the base rates changes for the current year but also includes the increase in

reinsurance premiums paid for the current year. We are keeping investment income very conservative because the market is so volatile, so we are projecting \$7.3 million.

Commissioner Tharpe made a motion to approve, seconded by Vice Chair Randy Brundige. Roll call vote was taken. Mayor John Holden was no longer present via Zoom. **PASSED UNANIMOUSLY.**

VI. APPOINTMENT OF VICE PRESIDENT

Michael Fann shared that Vice President of Risk Services, which is responsible for supervising Communications & Research, Loss Control, and Member Services Departments is now vacant. The Executive Team discussed this at length and is in agreement to recommend George Dalton, our current Director of Loss Control.

Mr. Victor Lay made a motion to take the CEO's recommendation to name Mr. George Dalton Vice President of Risk Services, seconded by Dr. Christa Martin. Roll call vote was taken. **PASSED UNANIMOUSLY.**

VII. STRATEGIC INITIATIVE

Michael Fann gave an overview of the strategic efforts over the last few weeks to ensure we are looking at how we make sure how our members know what they are getting when partnering with PEP. We looked at external and internal strategies. Internal strategies involve our daily contacts with our members from every department, specifically our field personnel, but it also includes everything we do as a communication standpoint from our newsletter and website. As the Chairman mentioned earlier, we want to look at how we address those through service. This will culminate in our strategic planning process.

We put together a series of strategies and most specifically from an underwriting standpoint we are looking at price. Underwriting is the lead on this with our three support services to that effort being Member Services, Communications & Research, and Loss Control.

One of the things that has already been mentioned is our 'Top 5 Reasons You Should Partner with Us' for your insurance and risk management needs. That already came out in this month's newsletter. This will also be available to distribute to elected officials, city managers, and other city officials.

Part of this has also been preliminary work with a facilitator, Judy King, to tweak our vision, mission, and foundational strategies. We have identified a number of areas we want to discuss during the strategic planning effort in October.

We are, as a team, very excited about having a cohesive strategic planning effort as well as strategic initiatives both as internal and external focuses. Our current effort that Halie Gallik has spearheaded in working with the League for the joint webinar series is part of how we provide information with our strategic stakeholders as we provide service to our members. We are excited for the future with this framework we are building.

VIII. 8) OTHER BUSINESS

a. STATUS- DIRECTOR OF HUMAN RESOURCES

Michael Fann shared an overview of the selection process that is underway for the Director of Human Resources and shared a Human Resources Director should be selected in the coming weeks.

b. ACKNOWLEDGEMENT OF ACTUARY'S PROFESSIONAL QUALIFICATIONS

Amanda Shrum, CFO, shared it is now best practice in the Actuary profession to submit to clients a biography of credentials. This is in the board packet under Tab 8.

The Board of Directors received the "Biographical Information and Description of Qualifications As Appointed Actuary" for Christine E. Radau with PricewaterhouseCoopers, LLP.

c. APPROVAL OF ORIGAMI RISK, INC. ADDITIONAL SERVICES

Jon Calvin shared the Origami project was set up with an estimated number of hours, but the final cost is based on actual hours. The project became much more complicated than we thought it would. A copy of the statement of work from Origami is under Tab 8. We are looking at 275 additional hours to finish out the project's second phase of implementation at a cost of \$115,625. We think it is prudent to move forward on this for a couple of reasons. Origami has accepted responsibility for half of the overages, for various reasons on their side. Their rate is \$185 per hour and they have agreed to freeze that rate, even though they are about to increase their rate to \$225 per hour. There is no expiration on the use of those hours.

We are projecting additional need based on the numbers of reports we need designed and the stress this has put on our staff asking them to design these reports. We are also reanalyzing everything to try to reduce the additional hours we need. Jon Calvin feels confident we will not use these 275 hours right away. They will be preserved at the lower rate and we will always need support hours for the Origami project, so we feel it is prudent to go forward now and get the lower rate locked in.

Mr. Todd Smith made a motion to accept this plan that Mr. Calvin has introduced, seconded by Commissioner Sam Tharpe. Roll Call Vote was taken. **MOTION PASSED UNANIMOUSLY.**

IX. BOARD/MANAGEMENT TEAM STRATEGIC PLANNING RETREAT

Michael Fann shared that the Board of Directors has a October 14-16 joint strategic planning retreat with the Leadership Team. The strategic planning retreat will begin at lunch on Wednesday, October 14 and go through Friday just before lunch.

In addition to Judy King who will be facilitating, Jeff Thompson, Executive Director, Texas Municipal League Intergovernmental Risk Pool, will be giving a presentation about pool leadership and pool governance.

X. 10) DATE OF NEXT MEETING

The date of the next meeting was suggested as Wednesday, December 16, 2020 at 9:00 A.M.

Commissioner Sam Tharpe made a motion to adjourn, seconded by Mayor Preece. **MOTION PASSED UNANIMOUSLY.**

William Curtis Hayes, Chairman

Halie Gallik, Secretary