

**PUBLIC ENTITY PARTNERS
BOARD OF DIRECTORS
MINUTES OF REGULAR MEETING
DATE OF MEETING: JUNE 22, 2019
MEMPHIS, TENNESSEE**

The Board of Directors of Public Entity Partners (“PE Partners”) met at 8:30 a.m. on June 22, 2019 in the Knoxville Room of the Sheraton Memphis Downtown Hotel in Memphis, Tennessee in its regular meeting.

Board Members present included: Chairman Curtis Hayes, Vice-Chairman Randy Brundige, John Holden, Victor Lay, Dr. Christa Martin, Todd Smith, Sam Tharpe, and Wallace Cartwright.

Board Members absent were: Lois Preece

PE Partners staff present were: Dawn R. Crawford, President/CEO and Charles DeMore, Executive Vice President & CFO & Director of Human Resources.

Also present were Russ Farrar, General Counsel; and Margaret Mahery, Executive Director, TML.

1. APPROVAL OF MINUTES

Chairman Hayes called for a motion to approve the minutes of the February 22, 2018 Board meeting. Motion was made by Holden; seconded by Cartwright. Chairman Hayes asked if there was any discussion. There was none. **PASSED UNANIMOUSLY.**

2. PROCEDURAL VOTE FROM FEBRUARY MEETING

Chairman Hayes explained to Board members that at the last meeting on February 22, 2019 a motion was made by Tharpe and seconded by Brundige to approve the execution of a contract to sell the existing office building as had been presented to Board members. However, the vote on the motion was not taken at that time due to an oversight. Therefore, he is now asking Board members to vote on that motion. Chairman Hayes mentioned that the Board had a lengthy discussion about it at the last meeting but asked again if there were any questions. Cartwright asked about the purchaser and Crawford replied that the contractor who is building our new office space is buying the current building. There was no further discussion. Chairman Hayes called for a vote. **PASSED UNANIMOUSLY.**

3. FINANCIAL REPORTS

A. DeMore presented the Statement of Revenues, Expenses and Changes in Net Position for the nine months ended March 31, 2019. DeMore stated that gross earned premium was \$54,978,978, which is \$911,512 or 1.69% more than last year. Reinsurance premiums ceded of \$7,203,541 was \$187,529 or 2.54% less than last year. Net earned premium was \$47,775,437, which is \$1,099,041 or 2.35% more than the prior year. Investment income totaled \$6,735,808, which was \$873,081 or 11.47% less than last year. Budgeted investment income is \$915,808 or 15.74% more than last year. Total revenues of \$54,665,840 were \$219,837 or 0.40% more than last year’s revenues.

In the expense category, DeMore stated that total loss and loss adjustment expenses incurred of \$40,638,798 were \$253,342 or 0.63% more than last year. Policy acquisition costs of \$5,332,533 were \$745,412 or 16.25% more than last year. Total General and Administrative Expenses of \$6,187,234 were \$204,959 or 3.43% more than last year. However, compared to this year's budget, general and administrative expenses are \$591,900 or 8.73% less than projected. Chairman Hayes asked why the category is under-budgeted to which DeMore replied some safety grants that had been applied for and earmarked to members still remain unrequested/unused by the members as well as some personnel positions that did not get filled until late in the fiscal year. Total expenses were \$52,158,565 which is \$1,203,714 or 2.36% more than last year.

The Pool's operating income at March 31, 2019 was \$2,507,276. Operating income combined with the change in unrealized investment gains of \$8,531,401 resulted in an increase of \$11,038,676 in net position for the nine months ended March 31, 2019.

DeMore reviewed the Statement of Net Position as of March 31, 2019, which presented cash and cash equivalents of \$25,472,945 and investments of \$264,394,707. Premiums receivable were \$2,387,033. Accrued interest was \$2,412,127 and prepaid reinsurance was \$2,827,980. The majority of reinsurance recoverable on paid losses of \$1,548,763 represents mostly property reinsurance claims. Net fixed assets were \$4,533,886, which increased due to the cost of the new office building land and construction. Total assets were \$304,046,204, which is 6.20% more than last year.

Deferred outflows of resources of \$1,082,780 related to the Pool's net pension liability will be actuarially adjusted at the end of this fiscal year. Total assets and deferred outflows of resources were \$305,128,984 at March 31, 2019.

Chairman Hayes asked about the accounts receivable balance variation in this and last year. DeMore replied premiums are billed as the policies renew throughout the year and that sometimes members experience cash flow problems and may be slow to pay. For members who need or request relief with their premium payments, PE Partners offers a quarterly payment plan with a finance charge assessed on the unpaid balance. Crawford added that the accounts receivable balance is also impacted by the timing of when policy applications are received from members in that we cannot send a premium invoice until the applications have been approved. Chairman Hayes asked if members were aware of the ability to pay on a quarterly basis to which Crawford said yes and added that there is a financing fee associated with the quarterly plan.

Liabilities included net reserves for losses of \$146,890,568, which is a 5.20% decrease from the prior year. Unearned premiums were \$25,162,374; accounts payable and accrued expenses were \$2,075,410; and dividends payable were \$7,102,677 which includes the \$6,500,000 dividend declared by the Board for the upcoming fiscal year. Total current liabilities were \$181,231,028.

The Pool's net pension liability of \$1,194,542 will be actuarially adjusted at the end of this fiscal year. Total liabilities and deferred inflows of resources was \$182,425,570. When beginning net position of \$111,658,998 is combined with this period's increase in net position of \$11,038,676 net position at March 31, 2019 was \$122,697,674. DeMore commented that this balance is within the risk level adopted by the Board at its last meeting based on the capital reserve study performed by PricewaterhouseCoopers.

B. DeMore presented the internally-managed fixed income portfolio as of May 31, 2019 as classified by type and maturity. Chairman Hayes asked DeMore to explain the investment report for the benefit of newer Board members. DeMore provided a brief overview of the company's investment policy and

practices with fixed income securities and an explanation of the categories of information presented on the investment report. Chairman Hayes asked if there were any questions. Tharpe asked Crawford if she or DeMore was overseeing this to which she replied she handles it. Chairman Hayes asked if there were any more questions. Tharpe asked Crawford if she was training anyone to do what she does. She replied not at present but she has some options for the future. He added that it would be good have somebody in case she were to leave because it would leave a hole to which Crawford commented that she is not planning on leaving unless the Board did not want her. She said she did have a backup plan.

DeMore explained that PE Partners uses the State of Tennessee Local Government Investment Pool to park monies received from securities sold or called, which at the end of May had a balance of \$8,749,082 and an interest rate of 2.40% annually. The Pool's portfolio at May 31, 2019 consisted of 58 municipal bonds, 39 agency bonds and one Treasury bond. The portfolio book value was \$274,594,346 and had a market value of \$276,201,176, representing a net unrealized gain on investments totaling \$1,606,830 at May 31, 2019 which had changed to approximately \$2.8 million yesterday. He stated that the average coupon rate for municipal bonds alone was 3.705% but the lower average coupon rate of government agency securities dropped the overall average coupon rate to 3.445%. DeMore noted that the portfolio had an average maturity life of 14.8 years and an average call life of 10.1 years.

Chairman Hayes asked if there were any questions. Lay asked about the annual interest column on the investment report and whether the interest amount presented is driven by the current yield and is the amount that actually comes back to PE Partners. DeMore replied the amount of annual interest shown is a calculated amount based on the security par value and stated coupon rate. Crawford added that the only deviation would be if a security had been purchased at a premium and was being amortized in which case the net interest would be less. Lay asked if the annual interest was re-invested, and Crawford replied that we basically pay PE Partners' overhead with the interest income.

Chairman Hayes asked if there were any more questions. There were none so he called for a motion to approve the financial reports are presented. Motion was made by Smith; seconded by Brundige. Cartwright asked to clarify that the financial reports had not yet been audited to which Chairman Hayes said no. Cartwright asked whether it was more correct for the motion to read as "receive" the financial reports rather than to "approve" them since they had not yet been audited. Chairman Hayes replied that the motion was to approve the financial reports as presented and later at the appropriate time the Board would approve the audit report. Crawford added that the difference was PE Partners is not a local government but is a corporation and operates in that fashion.

Chairman Hayes asked if there was any more discussion. There was none. Chairman Hayes called for a vote. **PASSED UNANIMOUSLY.**

4. CONSIDERATION OF FISCAL YEAR 2020 GENERAL AND ADMINISTRATIVE BUDGET

DeMore presented management's recommendation to the Board for a budget for General and Administrative Expenses for fiscal year ending June 30, 2020. He stated the proposed budget of \$10,245,144 represents an increase of 7.61% or \$724,192 over last year's budget and that more than 60% of the budget consisted of personnel costs for wages and employee benefits.

Salaries and Benefits represent a combined increase of 4.59% or \$289,757. He noted we are experiencing increases in health insurance and TCRS contribution rates for 33 employees. He also stated the budget also includes funding for a new position of Human Resources Coordinator hopefully to be hired mid-year to assume many of the human resources responsibilities he is currently doing.

Chairman Hayes asked about the change in employee salaries to which DeMore stated employees will receive a 2.5% cost of living increase in addition to seven employees who will also receive merit increases of 2.4%. Chairman Hayes asked to clarify that everyone will get a raise but some employees will also get a merit increase. DeMore replied yes, and Crawford added we are giving a cost of living increase of 2.5% and merit increases for some newer employees who have proven themselves.

Travel-Related Expenses decreased in total by \$12,652 or 3.21%. He noted Conferences, Conventions & Seminars include the Risk and Insurance Symposium and the reception provided at the TML conference. The Travel category has been reviewed closely by Crawford so that out-of-state conference airfare, hotels and meals have been cut back to what is considered necessary rather than what has always been done. Board Expenses includes increases for the cost of possible Board orientation and planning retreats.

Member-Related Expenses represent an overall increase of 3.97% or \$36,838 which include the cost of web-based training through Local Govt U for the benefit of our members. DeMore noted Safety Grant Program includes \$25,000 for a new program through UT for law enforcement. Crawford said that had been changed to a safety grant for workers compensation. DeMore explained law enforcement management program represents law enforcement consultant program through MTAS for Rex Barton and David Moore. Tarpe asked about the Advertising and Legal Hotline categories to which Crawford said Advertising includes funding for calendars provided to members and that Legal Hotline represents legal retainers with three law firms across the State. She noted that neither of these categories had changed because usage had not gone up.

Administrative Expenses represent an overall increase of 36.05% or \$422,080, primarily related to the new building since we will be occupying two floors of approximately 16,000 sq. ft. instead of 9,500 sq. ft. Because all the equipment and furnishings will be new, Depreciation will increase. Office and Equipment Supplies include funding for two additional copy machines for the additional floor. DeMore noted that Insurance decreased and, like last year, includes the cost of directors and officers liability insurance for TN HealthWorks. Utilities are also expected to increase for the additional office space as well as Building Operations for the cost of office cleaning. Data Systems increased due to the Origami claims system project as approved by the Board in the last meeting as well as communication and technology expansion to two floors of office space. Smith asked whether Origami is a one-time expense to which DeMore said it is a three-year contract and the Data Systems category includes the next payment. Crawford also noted there is a change in the structure with the new claims system in that traditionally we have had software that resided on an in-house network which would be capitalized and depreciated whereas now systems are migrating to a cloud-based subscription service which is expensed to operations. For this reason, the amount in Data Systems for the subscription fee will be an ongoing number. Smith said he was asking if there any upfront costs to which DeMore said yes, an implementation fee to convert and setup our data has been paid in this year's 2019 budget.

Professional Expenses for Auditing, Accounting and Actuarial Services decreased 4.26% or \$10,000. DeMore explained how a premium invoicing project has now been completed which will allow for more efficient and timely processing of invoices. He said the Consultants and Professional Services category also decreased slightly 0.39% or \$1,831.

DeMore said the total General and Administrative Expenses for FY 2020 being requested are \$10,245,144 which is 7.61% more than last year's budget. Chairman Hayes if there were any questions. Dr. Martin told Crawford she appreciated the orientation earlier in the week but did not know what each of the 33 staff does for the Organization or what the requested HR Coordinator position would do and asked if that is something Board members could see. Crawford noted that the organizational chart

shows some of the positions by department but that she would certainly be glad to provide more breakdown of information. DeMore stated we determine the duties desired for a position and then hire a person to fit that job description. Crawford said she would provide the job descriptions to Dr. Martin and to all the other Board members as well. Chairman Hayes asked if Crawford would include staff compensation with the job descriptions which Crawford said yes she would.

Lay asked about Professional Expenses and if that was the category Farrar's firm was paid from. Chairman Hayes said the Board will touch on that later. Lay said he would delay the question; Chairman Hayes asked him to please ask the question again if it did not get addressed.

Dr. Martin said she loved that a 2.5% increase was being proposed for the raises and that modifications were being made for people who improved themselves.

Smith asked if the Organization was self-funded for its health insurance to which Crawford replied not yet. She said we have a fully-insured PPO policy with BlueCross BlueShield. She said if TN HealthWorks can establish a cohort consisting of a group of entities with less than 100 employees and get 400-500 employees in it, then we would like to do that as a self-funded program.

Chairman Hayes asked if there were any other questions and noted the good discussion. Chairman Hayes asked for a motion to approve the General and Administrative Expense budget for FY 2020 as presented. Motion was made by Lay; seconded by Smith. Chairman Hayes asked if there was any more discussion. There was none. Chairman Hayes called for a vote. **PASSED UNANIMOUSLY.**

4. RE-APPOINTMENT OF BOARD MEMBERS

Chairman Hayes noted that he and Holden are up for re-appointment. He called on Crawford to go over the terms of Board positions after the vote. He said the Board member orientation session at the recent NLC Trustees Conference was very informative about what Board members should be doing for pools across the country. He said he is trying to get a general understanding of the business of PE Partners and the role of its trustees.

Chairman Hayes said the re-appointments are as follows:

- Curtis Hayes – Term 3, Year 1
- John Holden – Term 2, Year 1

Chairman Hayes asked for a motion to approve these individuals for re-appointment to PE Partners' Board of Directors for the terms as presented. Motion made by Lay; seconded by Brundige. Chairman Hayes asked if there was any discussion. There was none. Chairman Hayes called for a vote. **PASSED UNANIMOUSLY.**

Crawford reviewed the PE Partners' bylaw sections that pertain to selection, composition and eligibility of the Board of Directors, including terms of office. She also explained that after the vote is done by PE Partners for new Board members, the vote is taken to the TML Board of Directors for them to ratify the PE Partners Board's vote.

Chairman Hayes asked what happens after a Board member serves three terms or nine years. Crawford said it is recommended by legal counsel that a Board member remains off the Board for at least one full year before being nominated back on the Board.

Chairman Hayes and Dr. Martin expressed their appreciation for the opportunity to attend the orientation session at the NLC Trustees Conference and how the information presented was very beneficial to them as Board members.

5. DATE OF NEXT MEETING

The suggested date of the next Board meeting is Friday, September 13, 2019 at 10:00 a.m. at the office in Brentwood, Tennessee. Chairman Hayes asked Board members if this date was good for everyone.

Farrar told Board members about his firm's annual Christmas party at the Richland Country Club in Brentwood, TN on Wednesday, December 11, 2019 at 11:00 a.m. and invited all Board members to attend. Chairman Hayes asked Crawford about the Board meeting following the September meeting and then asked Mahery if dates had already been set for TML's district meetings. Mahery said not yet. Chairman Hayes asked Mahery if it would be possible for TML not to hold a district meeting on that date to which she replied yes. Chairman Hayes asked Crawford if we could hold the next PE Partners Board meeting on December 11th to which Crawford replied yes.

Tharpe made a motion to have a PE Partners Board meeting on December 11, 2019; seconded by Smith. Chairman Hayes asked if there was any discussion. There was none. Chairman Hayes called for a vote. **PASSED UNANIMOUSLY.**

Chairman Hayes asked for a motion to have the next Board meeting on Friday, September 13, 2019. Motion was made by Brundige; seconded by Dr. Martin. Chairman Hayes asked if there was any discussion. There was none. Chairman Hayes called for a vote. **PASSED UNANIMOUSLY.**

7. OTHER BUSINESS

A. Crawford provided an update about construction progress of the new office building and directed Board members' attention to pictures included in the board book. She noted that the general contractor has to vacate their leased office space by February 1st so that serves as an incentive for them to complete our new building before they can occupy our current office building. Dr. Martin asked the address which Crawford provided as 562 Franklin Road, Franklin, TN.

Tharpe asked Crawford is there was going to be a ribbon-cutting ceremony. Crawford replied yes. There was discussion as to a possible date for the ceremony. Chairman Hayes stated that the ribbon-cutting ceremony could be held on December 11th to which there was a consensus of agreement.

Smith asked if a tenant for the first floor had been identified. Crawford said not yet and invited suggestions and then noted that the available space will be around 7,500 sq. ft. but can be parceled into two different options. Tharpe asked about the lease amount which Crawford replied fair market value ranges between \$28 and \$32 per square foot right now.

Chairman Hayes asked Crawford to inform the Board for the benefit of newer members how and why we got started in searching for a new office building. She presented information about the current space utilization and limitations in relation to the Organization's growth and how the new property site was identified. Chairman Hayes asked Crawford the sales price of the existing building to which Crawford replied the building has been sold for \$2.3 million which was the appraised value. Crawford said it was purchased for \$1.5 million in 1990.

B. Chairman Hayes said he asked Crawford to include a Board retreat on the agenda based on what he learned at the NLC Trustees Conference. He asked Board members to consider the benefit of having a strategic planning retreat and when he had mentioned it to Crawford, she also brought up a succession plan. Crawford said the Organization used to have annual departmental reports presented to the Board and would like to initiate them again to help Board members understand what each department is doing, perhaps allowing each department director to speak ten minutes and then give Board members the opportunity to ask questions. Then the session could break and later go into the Board meeting. This has been scheduled for September.

Chairman Hayes asked Board members if there was any interest in a retreat and then asked Crawford if this had been done in the past. Crawford said yes, years ago when Lee Holland was president Board members held a retreat. She said afterwards Holland would ask but Board members were not interested. After she became president she, too, had offered and the offer is still there.

Chairman Hayes stated that a board retreat was strongly recommended at the NLC conference for strategic planning as to the direction Board members wish the Organization to go and to have some Board sessions with and without Crawford to discuss business of PE Partners. Chairman Hayes noted that pools across the country seem to be under a lot of attack by the private sector.

He asked Crawford where the last Board retreat was held to which she replied in Florida. After much discussion by Board members Chairman Hayes suggested he and Crawford work on a plan and report back to the Board in September. He asked for a vote of confidence of being able to research the idea of holding a Board retreat and related cost. Motion was made by Dr. Martin; seconded by Holden. Chairman Hayes asked if there was any discussion. Dr. Martin commented on the benefit of having retreats. Lay added that he prefers to stay within Tennessee. Crawford noted that she is very cautious about spending public money. Chairman Hayes asked if there was any more discussion. There was none. He called for a vote. PASSED UNANIMOUSLY.

8. ADJOURNMENT

Chairman Hayes said that at this time the Board would adjourn from regular session and go into executive session to discuss some proprietary things. Holden requested a 5-10 minute break. Chairman Hayes announced adjournment of the Board's regular meeting at 9:52 a.m. and called the Board into Executive Session thereafter.

William Curtis Hayes, Chairman

Charles DeMore, Secretary