

**PUBLIC ENTITY PARTNERS
BOARD OF DIRECTORS
MINUTES OF MEETING
DATE OF MEETING: February 24th, 2023
10:00am**

The Board of Directors of Public Entity Partners (“PE Partners”) met at 10:00am on February 24th, 2023, at PE Partners’ offices in Franklin, Tennessee.

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

Board Members Absent: Mayor Bobby King.

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

Also Present: Russ Farrar, Farrar & Bates; Wade Morrell, Tennessee Municipal Bond Fund; Bill Kelso and Mark Blackburn, LBMC; Bill Emmett, Callan & Associates

Chairman Hayes called the meeting to order.

Roll Call was taken. All members were present except Mayor Bobby King.

I. Approval of Board Minutes

Motion made by Victor Lay to approve the board minutes from the meeting of December 2nd, 2022, seconded by Todd Smith. **PASSED UNANIMOUSLY.**

II. Annual Audit

Chairman Hayes – We’re going to have Mr. Mark Blackburn and Bill Kelso.

Bill Kelso - Thank you all. Thank you for having me here today. Two documents should be in front of you. We’ll start with the one on top, it’s our required Communications to the Board. So, we’ll run through those real quick. I’ll pick up on page 4 and just tell you a couple of things. So, we were the auditor of the 2022-2023 Financial Statements and certain supplemental information. Just a reminder, Ms. Amanda was responsible for those financial statements and preparation, and we issued an unmodified opinion. I always tell people that’s what you’re looking for. So, everything was good there. Flipping the page, from looking over significant areas in the audit – Managing Responsible Selection Use of Appropriate Accounting Policies. There were really no changes in the current year. There was a new lease standard in the government auditing standards world, but your leases are small enough such that there is an exception to not adopt and report those. So, we’ll talk about those in the footnotes. So, otherwise, your policies were

consistently applied similar to prior years. Accounting estimates is where there is opportunity for more judgement in preparation of the numbers and as you know, a lot of the information requires estimates we're getting information from your actuaries, from the state of Tennessee, and the like. So even then, there is limited estimation but things we looked at, actuarial assumptions related to your pension plan, assets and reinsurance and loss adjustments, we included in our audit those were reasonably and fairly stated. Glad to report at the bottom of the page that any adjustments we had were all corrected and nothing was significant so the financial statements you see should be consistent with what you would have seen in previous board meetings.

Flipping the page, this is what I call the big "no" page. No significant difficulties, no disagreements with management, you have signed representation by upper management dated for our report and to our knowledge there were no complications with other accounts looking for treatment on anything of these financial statements. We are not aware of anything in our relationships with the entity that would impair our judgment, objectivity, or independence. Internal control related matters, I will tell you that we don't perform an audit of internal controls but with the governmental auditing centers we're required to report on your internal controls and as you'll see in the letter here in a little bit there was no material weaknesses or inefficiencies identified. So, that'll be like a last page ... we'll review here in a second.

Mark Blackburn – I was going to say, I know y'all review these financials quarterly so maybe we'll just take questions if you're already on the communication letter and the financial statements. I don't know that it serves your all's time well for us to go back through financials, we'd be glad to but...

Chairman Hayes – Any questions? No questions for Mr. Kelso?

Amanda Shrum - Unless y'all have questions about the actual audit that's in front of you that they can answer that we haven't been able to review.... You know feel free to ask them anything that you have questions about on the audit that are not. They are....

Chairman Hayes - Ok, is there any questions? Everybody's had the opportunity to ask. If there are no questions, I'll entertain a motion to accept this Annual Audit Report.

Motion made by Mayor Preece to approve the Annual Audit Report, seconded by Commissioner Tharpe. Roll Call Vote. PASSED UNANIMOUSLY.

III. Investments – Annual Review

Chairman Hayes – We have with us Mr. Bill Emmett from Callan and Associates.

Bill Emmett – Thanks very much. We conduct a review or Performance Review of the assets on an annual basis, this report is the executive summary. We have a longer report that we only subject people to if they really want to do that. I could talk a lot about what happened last year. I think a lot of people forget what happens when you look at the results on page 3, and look at the comparison verses some of the indexes there's probably a big question in mind

why there's quite a big difference between these assets and the underlying benchmarks. We could talk about that, but I guess before I start any questions? Specific things that jumped out? Anything on markets at all? If not, I think 2022, the big story was just what happened to everything. It was a rare year, fixed income markets overall, it was the worst year we'd had fixed income returns ever, in the history of the indices, by leaps and bounds, by probably three times what we had in a prior year and a year like last year is also pretty rare, it's only happened three times including last year, 1931, 1969, last year. And it's all driven by the Fed, the Fed, Jay Powell made a point that inflation's a problem and we're going to stick our boot on the neck of this economy until we get this to not be a problem and he did not lie. Raised rates about seven times last year, they plan to raise another couple this year. Probably another couple after that. The inflation print today was not good news. It looks like inflation is continuing to be a little more stout than expected and the market is reacting accordingly. So, what does that mean for you all? There are two components of how you think about a fixed income return. One is for the underlying movement of the yield curve of the treasury rate and then there's the spread component on top. There's not a whole lot that anybody can do about the yield component, that's really just the Market for treasuries and anything the Fed does. The spread component is really the risk piece of taking additional risk and Municipal Bonds, corporates, mortgages and things like that. And that's the piece that reacts to the economy being better or worse or default rates being higher or less, things like that. So really if you look at the returns last year, it's almost all that treasury component. The yields didn't really move around a whole lot. Generally speaking, the health of the economy was there. The revenues from municipal entities was up almost 17% in fiscal 21 and almost 15% in fiscal 22. It's projected to be down a little bit this year. And so, a lot of the dynamics on why municipals did worse in some other places had to do with things that were outside of what you really consider being the reason why you would invest in municipals, right? It was a lot of overseas investments and municipal bonds were down because the dollar was so strong. And then those rate changes that the Fed moved earlier on the year. The other component that makes your pool a little bit different than some of these underlying indexes is an extremely important part of the discussion is duration. So, duration is a measure of the sensitivity of a bond's price to improving yield. What that means is, if you got a duration of ten, bond yields go up by 1%, the price of that bond is going to fall by 10%. So, the longer your duration is, the more sensitive it is to those yield changes. Last year we had huge moves in yields and the duration of this pool is quite a bit longer than that of the underlying benchmarks. If you look at the duration of the AA- muni it's about eight years, if you look at the agency benchmark that's included here it's about 3.4 years.

Chairman Hayes – What page are you on?

Bill Emmett – I'm working out of my brain right now. (Group laughs). But still looking at the results on page three and really just focusing on that difference in returns that you're seeing for the PE Partners Pool versus everything else. If you look at a lot of the prior years in fact, on page four you can see right there that this portfolio outyielded the others underlying indices from many of those prior years, when the fixed income market is relatively healthy, this pool tends to do significantly better. That duration component just creates a little more octane in this asset portfolio - that means the good gets better and the worse gets worse.

So, where are we now? You know, the municipal bond market has been, as I said, relatively healthy. We actually even saw improvements in ratings for Chicago in Illinois which almost

never happens. But the issuance is way down, down by 56% year over year. Spreads are a little bit higher than corporates, that's a good thing for yields, but the yield on the muni AA minus for right now, or as of the end of the year was 5.25%. If nothing else in the world happens, this portfolio would probably yield better than 5% for the whole year which is a solid return fixed income. At the beginning of 2022 when we were forecasting fixed income returns, we were showing for a 10-year period about 1.75% annualized over ten years. Which is just staggeringly low. When we got to May, we had seen from a capital markets perspective 10 years' worth of interest rate moves that happened in 5 months, so we had to reset our capital market expectations of today just for a very high quality, much lower duration portfolio than this. The expected return over the next 10 years is over 4%. So, fixed-income markets are overall quite healthy, as I mentioned, the stocks piece of it and what other risk assets have done has really been a reaction to the Feds. The discount rate component to how stocks work is a big driver of that. The economy is again, continuing to be relatively healthy. The consumer going into 2022 had about 1.8 trillion dollars' worth of savings. That's certainly being drawn down, but consumers overall are doing well, even with these headline numbers of layoffs and things like that. Consumers are doing well, the mortgage market is functioning relatively well, even though home sales are down quite a bit. So, there's not a lot to be overly concerned about at this point. I think the big exogenous questions that could happen, when there's a guy that when nuclear weapons tends to want to test them while our president is not that many countries away, that's a problem. So, the Ukrainian situation could certainly get far worse. The Fed could do something horrible; the economy could absolutely tank, but a lot of could happens but I think from a likely standpoint it looks like this year is going to be slowing. The Feds probably going to continue to raise rates. My personal guess is a little bit beyond what people have expected. I think the stickiness of this inflation is being underestimated at this point. So, that's the review on the portfolio. There's I think the story on why the results differ so significantly from the benchmark is explainable, it's really that duration question more than anything else. I don't think that the return last year of this portfolio or frankly any fixed-income security is an indication of a degree of unhealth of the market. It really was just a function of what the Fed chose to do last year, which was unprecedented. Most of the time, at least most of us have been around fixed-income markets. So, barring the likelihood of them doing that again, which I don't think they can or would - the other portfolio I think is in a spot where municipal issuance is good, health of municipal issuers is good. The dollar weakening a little bit will be a good thing. It'll create a little bit more demand overseas for municipal securities which is a positive. So, happy to answer any questions.

Chairman Hayes – Anybody have any questions?

Victor Lay – So fundamentally our investment strategy is sound?

Bill Emmett - You know, from a long-term perspective, I think so. You know, your intention is to have a portfolio that's going to sort of out earn what you might have on the shorter end of the curve. If you'd stayed historically with a lower duration portfolio, the returns would be significantly less. You wouldn't have had a year like this year, but your returns on every annual period coming up to it would have been not as good. I'm not as familiar with exactly what the earnings requirements are on an annual basis as to what's required there or not but, I don't think that there's anything much that you could necessarily change.

Chairman Hayes – Any questions? Anyone?

Motion to accept the report by Todd Smith, seconded by Victor Lay. MOTION PASSED UNANIMOUSLY.

IV. Financial Reports

a. Financial Statements – December 31, 2022

Amanda Shrum – Yeah, I think the way we have it listed, we're going to look at the financials first, so if you'll move past that investment portfolio analysis and then we'll come back to it. So, we're going to start with the statement of revenues, expenses, and changes in Net Position - As of December 31, Net earned premium is up \$1.6 Million or 4.6% from last year. With decreased investment income of \$1.4 Million, total revenues are up \$170,000 or .4% from this time last year.

Total Losses and Loss Adjustment Expense is up 4.81% or \$1.3 Million. Although the paid claims are down, due to the actuarial study, as of 6/30/23, we looked at the average loss trends over the past several years and we have increased our loss estimates of IBNR to be more in line with our 3 and 5-year loss ratios for the liability line, which has increased the IBNR estimates that we have on our books.

Total Policy Acquisition Cost has fallen slightly due to decreases in agent commission expense and the reduction of the TML contribution.

Our General and Administrative expense increased by \$581,000 from last year but remains under budget by \$1 Million and we'll see that when we look at the budget to actual G&A expenses that's included.

Operating Income comes to \$2.0 Million, as compared to an Operating Income of \$3.6 Million at this point last year.

With the change in market values of \$22.5 Million since the year-end, we see a decrease to our Net Position of \$20.5 Million, leaving an Ending Net Position on December 31st of \$89 Million.

Does anyone have any questions on the Statement of Revenue? You'll flip over to the statement of Net Position.

As of December 31, Total Assets & Deferred Outflows of \$273.0 Million are down from \$341.4 Million last year, a decrease of \$68.4 Million. The biggest contributing factor was the loss in our investments, with a decrease of \$64.0 Million and a decrease in cash of \$5.3 Million.

Net Reserve for Losses has increased \$1.6 Million primarily due to an increase for the ULAE (Unallocated Loss Adjust Expense) and that was the actuarial study they've increased that estimate to \$9.5 Million so that's going to stay steady throughout the year until we come to the actuarial study again.

Reinsurance Recoverable has increased by \$1.5 Million which offsets our Loss Liability. Unearned Premium has increased \$1.6 Million which is consistent with seeing an increase in our Net Earned Premium. So, our overall, Total Liabilities have increased \$1.9 Million from last year to \$182.2 Million.

The Net Position fell \$20.5 Million from this time last year to \$89 Million but actually, that is up from our September which was \$87.5 Million.

As of December 31, Total Liabilities, Deferred Inflows and Net Position are reported at \$273 Million.

Do we have any questions on that?

Motion made by Randy Brundige to accept the Financial Statements, December 31, 2022, seconded by Todd Smith. Roll Call Vote was taken. PASSED UNANIMOUSLY.

b. Q2 Budget to Actual

Amanda Shrum – Turn over to next page to G & A expenses - Budget to Actual for December 31st. Just in summary, our G&A expenses overall were \$5.4 Million, approximately \$1.0 Million under the budget of \$6.4 Million.

So, all the departments are operating within their budget. We are in good shape with the budget but if you have any questions about any of that, would be happy to answer those.

John Holden made a motion to accept the Q2 Budget to Actual, seconded by Mayor Preece. Roll Call Vote was taken. PASSED UNANIMOUSLY

c. Investment Report – January 31,2023

Amanda Shrum – You’ve got the January 31st Reports.

We are going to look at this a bit differently and this will be a good follow-up from the Investment Review. So, you’ve got the report if you want to look at detailed where we are January 31st. If you will look back at the investment portfolio analysis that we put together. It should be the first table under Tab 4.

Instead of looking at just January 31st, we wanted to take a look and recap where we’ve been with our investments over the last year and a half.

If you look back, we started on the far right with June 2021, and if you can see the Unrealized Gains or losses at that point - June of 2021 we still showed Unrealized Gains of \$4.6 million.

Now, if you remember, that was not to the extent of what we saw in 2020, we don’t have that listed but if you remember we were taking some substantial gains from selling some of the investments and that year we were actually able to do an additional dividend on top of our normal, we had a total of \$21 million dollars in dividends that went out that year because our

investments were valued so well - and we were able to take advantage of that. June 2021 that started dwindling down a little bit and so between June 2021 and June 2022, we went from having a \$4.6 million Unrealized Gain – to an unrealized loss of 46 million. So, within one year we lost basically 50.6 Million dollars of value on our investment portfolio.

If you look at September, what was reported on at the last board meeting we took another \$20.6 million reduction in our investment values which basically goes straight to our net position. And then by December, another \$2 Million dollars.

So, that's the bad news. You know, that's what we've been experiencing, that's what we've been harping on for the last year, but we wanted to show you what we have been able to do during that time. Even though our values have decreased.

If you look at January 2023, of course we don't report on January we report on December, but just within that one month we were able to see an increase in those values of \$14.2 Million, just within that one month.

So, I think that kind of speaks to how volatile we still are right now.

But, from the chart, during this time we have been able to increase our interest income from \$8.8 million to now, we are showing yearly estimated interest income of \$10.6 million. So, we have been able to take advantage of buying some of those higher-yielding securities, being able to increase our yearly income to get us in a position long-term to start bringing additional income in. Our yield, as of December the current year was right at 4.6%. I don't think we've ever had a time, speaking, as long as we've had the advisory review, we've never had a yield that high of our portfolio. We just wanted to put it all in summary and let you see. We give you this information every board meeting, but I think kind of bringing it in and summarizing it so that you can see exactly where we are.

So, if you have any questions, we'll be happy to answer them.

Chairman Hayes – Well that was a good report. Does anybody have any questions?

Victor Lay made a motion to approve the Investment Report – January 31, 2023, seconded by Mayor Brundige. Roll Call Vote was taken. PASSED UNANIMOUSLY

V. Strategic Plan 2023 - 2025

Michael Fann – Thank you Mr. Chairman. This body was engaged on December 1st to examine our previous strategic plan, adjusted that, and worked with the leadership team. And then in our December 2nd Board Meeting of which George and I were instructed to go to Paris and update Commissioner Tharpe on that Strategic Plan work session. We did that on January 19th went over to Paris. We went through the updated strategic plan with Mr. Tharpe and at that

point we are ready to present this as discussion and official acceptance from this board of our Strategic Plan for 2023. But I'll let George do a quick walkthrough.

George Dalton - Okay, if you will in Tab 5 we're going to be on Page 4. But as you recall, on December 1st of 2022 the board and leadership team met with Judy King to review and update the organization's strategic plan. During this process, the board reaffirmed our mission and mission statements, but we also updated the plan to reflect our organizational priorities. In my opinion, these priorities reflect who we are, what we're about, what we value, and what we're seeking to accomplish as an organization. These priorities address the following five areas that we worked together collectively to what we deem important. First and foremost, Organizational Culture and Development we want to build on an already great culture by continuing to build on our Cultural Vision, support our implementation plan. We will develop, review, and revise policies practices and procedures that reflect our cultural vision. We will use this vision to develop talent and engage in succession planning for our organization. As such, by making hires that fit culturally but also bring a unique knowledge skills and abilities to the workplace and ultimately, those who can contribute to our culture as an organization. We want them to bring their full selves to the workplace so that they can contribute. This is about valuing our employees and preparing for the future. When we do this, the organization and our members benefit. As Celeste Taylor always says and reminds us – Leave the organization better than we found it. Organizational culture and development as a priority helps us to accomplish that.

Secondly, on page five, Stakeholder relations, we want to have intentional programmatic risk-based, loss driven engagements with our stakeholders, as well as create relationship-based initiatives to improve our relations with the stakeholders. This is about adding value to those stakeholder engagements. In other words, making a difference and ensuring that they're better off after the engagement in and of itself. We will continue to work on statewide collaborations and educational programs that benefit both PEP and our stakeholders. Programs such as TACP, TCMA, TN PRIMA, working with agents, members, these are all things that we want to do to add value, make a difference and again, improve relations.

Item number three on page 6, Planning and Project Management – We will roll out our new project management plan internally. It's not just limited to technology this time, but it extends beyond technology, to include all major projects. It will be educational for all PE departments, and it will make our project management process more collaborative, inclusive, and productive. We will focus on communicating results to the board and staff, and equally important it will seek to show how other projects are aligned with business objectives and our strategic plan. So again, planning and project management is very important to us.

Item number four on page 6, Communications – We will work to provide the board and staff with member analysis with the emphasis on member types, including new business goals. We will also work to communicate to our members and our staff our story – Why we were created, and for whom. Competitive advantages, benefits of pooling over the private sector, and our products and services which assists members and their ability to manage their risk. Finally, our Leadership Team will clearly identify what should be shared with our staff and provide a high level of business overviews during our staff meetings. For instance, during our

first staff meeting in January our leadership team presented this program to our staff of our strategic plan, it's vitally important that our staff understands ultimately who we are, what our priorities are, and what direction we're going. We are a team, we need to operate as such. It's important that everybody is moving in the same direction and on the same page.

Alignment is key, further still, it's vitally important for us to share what roles and responsibilities they play in helping us accomplish our mission for our organization, and more importantly to better serve our membership out there. Because that's what it's about and why we were created. In addition to that, at our next quarterly meeting, which will be in April, we'll talk about telling our story, making sure that all of the new employees that we brought in and also to reaffirm employees who've been here for a while, what our story is, why we were created, why it is important for us to know this. Also, to talk about each department, what roles and responsibility each department plays and how we work together to help us meet our mission to serve our members in the grand scheme of things. So again, communication is essential to get everyone on the same page and get us moving together as an organization. Also, if you look at the next item, number 5 which is the last priority, service to members – As always, the relationships we have with our members are paramount. The products and services PEP provides are tailored to the needs of the membership, from public entity specific coverages to offering public entity specific training. These are things that we want to offer to make a difference. We will assess our members, member types, their needs and their financial impact to make recommendations for new business. We are a risk sharing pool and unfortunately not all public entity operations are a proper fit. Therefore, we have to make well thought out decisions as to what public entities that we want to take on to make sure that they fit within our framework. Sometimes, they have unique operations that are not easily shared across the membership that could have adverse financial impact and we have to take that into consideration as we make decisions about who we cover for insurance. We will work to emphasize fairness, equity and consistency as the number one priority for our membership, and because of that, we want to ensure that we all understand that there is a timeline for whenever we need to implement changes. In terms of premium, pricing, and policy. We want to make certain that we do what is right, for the right reasons, for all involved. We will also have a formal departmental list of issues that need to be addressed to better assist our members, questions or concerns. In other words, ensuring that our staff is knowledgeable on the issues and we're in alignment with those responses to member questions and concerns. Once the strategic plan was completed, the board directed us to do two things before polling to adopt as a board. Michael outlined the first one, meet with Councilman Sam Tharpe who was unable to join us and to go over the strategic plan and receive feedback from him, which we did.

But secondly, you also directed us to seek member feedback on our updated Strategic Plan which was provided in the February 9th member newsletter with feedback directed to our new Communications and Research Manager, Carly Thomas. As of this date, we have received no member comments on that. I know I went over a lot of material, in a short time but I'd like to pause and ask if there are any questions at this point in time. I'm hearing none. If not, it is at this point that we are seeking board approval for the adoption of our updated Strategic Plan and I will turn it over to Michael and Chairman Hayes.

Chairman Hayes – Questions?

Victor Lay – So the question is, now that we've gone through the plan, everybody's had a chance to look at it, is there anything from a staff's perspective in looking at it that you go, "Man, we should have tweaked this one thing one little bit more"?

George Dalton – I'm glad you asked that question, and like anything else I think what we have is a solid plan. I think we're moving in the right direction in the grand scheme of things, and the good thing about our organization, especially under the current leadership is that we are responsive, and if we have to pivot from time to time then we're prepared to do that, but ultimately, to meet the overall objectives and the mission of our organization, we think right now, with where we are, is spot on. And as Michael has articulated and as you may recall from when Judy King was here that these plans are updated every two to three years and we're at a current point today as far as snapshot of where we are as an organization and the environment that we work in and so to meet our challenge and course, I think we're in a good place. That being said, this time next year or 2 to 3 years down the line, things may change, and we just have to be flexible and prepared to pivot should the environment dictate that.

Very good question. Thank you, sir.

Michael Fann - If I could, Mr. Chairman, just a quick comment. The processes that we have gone through since December 2020, this being the second major working effort in tweaking our plan, and I give our leadership team so much credit for this, to make sure that we have an action plan and that this organization moves strategically, not just responding to whatever factors, moving in that direction strategically. Now, I really do want to thank some people specifically George as our steerer of this effort, it's just a great process.

Celeste Taylor - If I could add, it's daily Victor. It's a living breathing document that we look at daily. It's never been on the shelf since we've done it.

Victor Lay – Very good.

Chairman Hayes – Very good. Any other questions or comments?

John Holden made a motion to approve the Strategic Plan –2023-2025, seconded by DaVena Hardison. Roll Call Vote was taken. PASSED UNANIMOUSLY

VI. Rates and Coverages – FY 2024

Michael Fann – I'll kick it off and Halie is going to do the heavy lifting. As we have been talking the last 6 months, we have engaged our actuaries of this past Fall, for all three of our major actuarial studies. Our annual reserve study every year. Our rate study we do every 2-3 years, although, we did it two years in a row. This is the uncertain piece of the pandemic era if you will, impacts of financial markets, so we did that again for the second year. Every 3-5 years we do what we call our capital adequacy study, that's to make sure that we have in reserves enough to respond to catastrophes. So, Amanda and her team have supported that and

engaged with our actuaries, as has, Vice President and Director of our Underwriting. But these next 3 elements of your agenda go to those studies. So, with that, I'm going to let Halie cover this section on coverages and rates.

Halie Gallik – In our last board meeting we discussed the shift in the way that we addressed coverage changes to try to move that up to our December Board Meeting to make sure that we had the ability to implement any internal system changes and coordinate with our IT Department. At the December Board Meeting we did discuss that the goal for our July 1 Fund Year was not to implement new areas of coverage but to simply look at the coverage document itself and in keeping with the strategic plan, evaluate different member types and make sure that the package that we put together for our membership is in keeping with their needs. Whether that is cities and towns, or schools or utilities to make sure that the products we offer really are tailored to those specific members. So with that, in today's meeting, we're not asking for any material coverage changes to the policy documents for liability, property, or workers' compensation. And so, traditionally we have had a motion for accepting that there are or are not coverage changes. Do you want me to do rates before we get to that part? Or do you want to talk more about coverage?

Michael Fann – No, I think we can address it either way.

Halie Gallik – So then, with that, we focused on long-term financial stability and making sure we're taking a close look at how we are evaluating our exposures in underwriting and how we are making sure that we're consistent across the territories. So, you'll see on the second page of Tab 6, the recommended base rate changes that stemmed from the Price Waterhouse Cooper Actuarial Review of our rates. So, where workers' compensation for 2023-2024 this would impact renewals effective July 1, 2023. We are not recommending a change in workers' compensation base rates. For property, we are recommending an 8% base rate increase. And for our property program, we've been talking about this for about a year, but we continue to see significant fluctuations in valuations for member facilities. We've seen incredible increases for water and wastewater. And I think that probably many of you that have water and wastewater facilities, if you've gone out to bid for any of those projects you've also seen those changes. Everything in the marketplace right now is not just impacting the financial reports and the investment market, it's also impacting construction costs. So, this has been something that we've been talking about for about a year, but it continues to be a challenge for the property insurance industry in general, but also, for cities and towns. So, the property base rate recommended change is 8%. We also include an inflation guard from year to year for member properties. For a number of years, that inflation guard was at 2.5%. Last year, the inflation guard, in seeing the changes in the marketplace, went to 4% and we are also recommending that 4% this year. So, the way that works is, members have the property appraisals once every 4 years, so the inflation guard is intended to get members from through that 4-year process. For liability base rate changes, general liability is recommended at no change. For errors and emissions - an increase of 6.5%, law enforcement liability which has been a challenging area for many years - an increase of 14.5%. Auto liability 12% and auto physical damage 14.5%. I think if you've tried to buy a vehicle in the past year, whether it's a police car or a sanitation truck, or a fire truck, you've seen some of the increases in vehicles, you've also seen some of the shortages and ability to get vehicles. That impacts everything. It

also impacts when we have car crashes and end up paying out claims for the cost of that vehicle. So, the combined change for liability is an increase of 9.4% and for all lines, it's an increase of 5.8%.

Michael Fann – In talking with a number of you, this week, the only good news that I find here is when you look at that 5.8% across our three major pools we are at least are coming in under the rate of inflation. Because I was expecting it almost to be more, considering some of the things that Halie just covered. Especially, on the property insurance side of things and the auto. But overall increase on average of 5.8%.

Chairman Hayes – Questions?

Todd Smith – Thinking through this, is there an industry average that we can benchmark our increases to? I'm just curious what's the industry doing?

Halie Gallik – There are industry averages but they're more for the commercial market. One of the biggest differences between us and the commercial market is that when costs go up, we don't cancel members because of your loss ratio being too high, there could be an extreme example. So it's very difficult to compare to the industry because we were created to serve cities and towns, and so we're not just going to leave the marketplace when it doesn't become as financially profitable. But in looking at those, what we're seeing from – we get reports from our reinsurance broker and so they share this information about that. This is in keeping with what the industry seeing.

Michael Fann – And our actuaries look at those things as well, with the understanding that we're in kind of a niche.

Halie Gallik - The property market, in particular, is probably the most difficult arena and underwriters in all industries are really taking a focus on valuations. Which is one of the reasons we've been talking about it so much over the last year. It's going to continue to be an issue in the property reinsurance market, but in the property market itself as well. For liability, law enforcement liability is just a challenging time. I mean, it's jury awards, it's all the components, legal costs that go into it. And so, we have seen year-over-year increases in law enforcement liability that bears out in our claims, and it bears out in the base rates. So that's, harder to compare I think to the industry because law enforcement liability is so specialized for cities and towns. Auto liability and auto physical damage, there's not a whole lot of competition in the marketplace, because nobody wants to be in that arena because you will have car crashes. And so, the cost that our auto liability and auto physical damage rates have been lower than is reasonable. We get comments from some of our agent of record partners constantly that our auto physical damage and liability rates are officially low. And so, when we've looked over our actuarial rate review, that's something to take a close look at. It also ends up impacting some of the transit operations. We've had bad loss experience in some of our transit operations.

And if our rates aren't capturing the loss exposure that's a problem. When we looked through the rate review, we looked very closely at each subline of coverage to make sure that we are charging adequate rates to make sure that we're covering those losses, because ultimately, that's for the long-term stability of the pool. I know that if there's a rate increase that's not wanted. It's also similar to a tax increase at home. There was a lot of heartburn that goes into

looking at each of these rates but, long-term we want to make sure that whether the investment market changes and how that impacts the organization that we are cautiously recommending a conservative approach for the long-term stability of the organization.

Chairman Hayes - Halie, I guess I've got a question. Have we been a little too aggressive on the dividends that we have given back? Don't get me wrong, every partner that we have appreciates the dividend but at the end of the day, had we not given some of those dividends back, would that be enough funds not to have an increase here?

Halie Gallik – It's a judgement call on behalf of the board. I think that there's no crystal ball for economics. And if you talk to two economists, they'll all tell you a different story. So if there was no way to project Covid, a lot of the property value changes that we see right now I think are directly related to Covid, they're directly related to Ukraine and Russia, they're directly related to supply chain shortages, so it would be a judgement call on your all's part if you felt that way, I don't necessarily feel that way I think that.

Chairman Hayes – Well it's just a question, I'm not saying that anybody feels that way. I'm just asking a question.

I could just see how someone could someone say that, and I could also see on our side too, that the increase could possibly be that the dividends that you got back could be a wash at the end of the day. You know, we have been very, PEP has been very, very good about giving dividends. So, to see of this increase, I mean nobody Make no mistake and I think that if you count dividends that were given back over 27 years, it is going to supersede what you spend. The next time we talk about giving dividends (inaudible).

Michael Fann - But you also have to, you're looking at short-term annual rate adjusting we have been conservative in doing. You're also comparing capital and overall net position with regards to the dividend, which is incredible and then with that, even last year, in February of last year we had

We have to look at, it's one thing to make decisions, which we have to mid-term, but we're also making decisions for the next 20 years with municipalities.... And so, hindsight being 20/20, do I wish we'd have had another 20 million, yeah. But, we don't.

Todd Smith – Well if you look at the last three or four years, the dividends we've offered, we're also not changing our rates really, we're not increasing our rates as we're giving the dividend out. If we were increasing rates and giving out big dividends I would have the same concern, but we weren't. I think that's just a reflection of the health of the organization. We've got the capital capacity now to give dividends to our members and I think it was a good idea but it's different years, different market. We have to, like you said, look at the long-term viability of PEP and sometimes that means rate structures.

Sam Tharpe – And I personally think we were looking at the long-term viability of PEP based on decisions that we made. It's just the way the market has gone and there's no way to predict that. We've learned that more than once in our meeting today, but the thing about it is - we made the right decisions for PEP at the time, and I believe that that is well respected as of now. We were making the right decisions to identify the needs of PEP. So, that's where we

are and that's my commonsense way of thinking but it's reality of what we're up against and that's just where the balls roll right now.

Lois Preece – I think giving the dividends helps the municipalities when someone else comes to approach them to sell them insurance. That's one thing that we have that they don't have and it would be another reason to stay with PEP, rather than to change.

Sam Tharpe – I'll make a motion to accept.

Commissioner Sam Tharpe made a motion to approve the Rates and Coverages – FY 2024, seconded by Mayor Preece. Roll Call Vote was taken. **PASSED UNANIMOUSLY**

VII. Dividend Declaration

Michael Fann – Under Tab 7, I've talked with most of you about this this week. Obviously, we just talked about our actuarial study. We have intentionally drawn down our net position over the last 4-5 years. We were talking before we got started that over the last 5 years, we've given back roughly 41 million dollars to intentionally draw down a surplus. Do we wish we hadn't So far, not really. I mean we did that intentionally. But we are where we are now. We have times of book value losses within the market that we've had. We met numerous times; we met with our actuaries and went over their study as it relates to our surplus. We just couldn't find a place to declare a dividend this year, so, that's our recommendation. Obviously, that's the Board's decision but our recommendation for, I think, only the second time in the last 26 years is to not declare a dividend.

Victor Lay – I was just going to say, I completely agree with the decision. I think that looking at what the market has done, we've lost 50 million dollars, on paper. We've lost 50 million dollars in the last year. I think the optics of us trying to do anything else, I think everything we've done up until this point is greatly defensive, and we've done it in the best interest of the members and the strategic goals. So, our members like it when that dividend check comes but we've got to be responsible, and I agree with the decision.

Sam Tharpe made a motion to not declare a Dividend, seconded by Todd Smith. Roll Call Vote was taken. **PASSED UNANIMOUSLY**

VIII. Capital Adequacy Policy

Michael Fann – The last capital adequacy study that was done in 2018. Actuaries were the same, Price Waterhouse Coopers. They proposed and recommended a risk range in terms of our net position and surplus between a lower level of a 1 in 200-year event and then an upper level of two times that 1 in 200-year event. So that creates a risk range for us to stay within. We are continuing to be within that range. Obviously, our goal when we started this process two or three years ago was to draw down surplus in kind of the middle of that range. The market has sent us a little below the middle, still within our range, but that is one of the defensible reasons that we're not recommending a dividend is because we really want to get

back to the middle of that range. So, we're just asking the Board, in the context of this most recent study, the 2022 studies - Price Waterhouse Coopers again recommended that same risk range for us and we are just asking the Board to reaffirm that that's where you want us to stay with regard to our surplus.

Victor Lay made a motion to approve the Capital Adequacy Policy, seconded by Mayor Holden. Roll Call Vote was taken. PASSED UNANIMOUSLY

IX. Review of Board of Directors' Terms

Michael Fann - Under Tab 9, I think in our last Board meeting there was a question about the resetting of terms that we did last September as a result of last February's bylaw changes. So, I thought we would just take a minute to go into that further and see if there are additional questions. You've got under Tab 9 the listing of our Board Members, most specifically, the eight that are subject to our term limits. I've also drafted just a little visual that might be of some assistance as well that I'd like to talk from. The most immediate eligibility issues is what I think came up at the December meeting and if you will, when you get this diagram, you'll see who I've put in our second tier there. Victor Lay and Sam Tharpe, technically under the resetting of last September their first term will end in the coming August but they are both eligible for reappointment under our bylaws, I hope I'm saying that correctly. And so, I've asked both of them if they are willing to continue to serve and they both said yes. But our bylaws do call for a required open nomination process. And so, we will engage that before our June meeting and then this Board in June, will select to either to reappoint these two gentlemen or select one from the other. That's essentially how our bylaws are worded now, as of last February. Then, just to continue with that description, a year from now, Miss Hardison's completing the term that Dr. Martin was initially assigned, along with Mayor Holden, you would be subject to the same thing. Everyone, all six of you that are coming up would be eligible for reappointment to a new three-year term when your term is about to end. Our suggestion as we talked about it at Leadership meetings is to do that in June, such that the bylaws call for the start of a term to be September 1st so that you would be seated in that position for our September meeting. So I hope that's a little clearer maybe than we made it in December but essentially in June of '24, Ms. Hardison and Mayor Holden would be up for reappointment. We would also do an open nomination process, and then in June of '25 Mayor Preece and Todd Smith their first term would end but would be eligible for reappointment. I will look to the rest of the leadership team - is there anything else I need to say about that, is that clear? Again, as we do our open nominations process, we will let them know that the two that are ending their first term will be eligible for reappointment but we still under our bylaws will ask for an open nomination process.

Curtis Hayes - And Mike, we talked about in every packet we're just going to have this...

Michael Fann - We'll leave that in there. Yeah, I just wanted to give you an extra little diagram just to show you the staggered nature over the next six years of how these

nomination processes and appointment processes will occur. Currently, it is still a board decision on confirmation. Any questions at all? I hope I've made it a little clearer

X. Symposium Contract

Michael Fann - Under Tab 10 you've got the summary of what we're looking at and then the numbers from the Marriott. As you know, over the last few years, I think since 2017 we have held our annual members' Risk and Insurance Symposium at the Marriott here in Cool Springs. Halie and others have been engaged with them. We are already booked there for this coming August, this is the contract for the 24-25 years so we are asking for authority. You'll see roughly the contract value is more than \$50,000, so we're just asking you to authorize us to engage the Marriott again for the years 24 and 25 for our annual Risk Symposium that we have been holding in August.

Randy Brundige – Any other hotels you contacted?

Halie Gallik - We did. We looked at about five hotels across Nashville. We engaged in hotels in Franklin, we engaged in hotels in Murfreesboro, and also downtown Nashville. For the program's space needs, the Marriott is only hotel in the Franklin area that can accommodate the size. But in comparing hotels in Murfreesboro, Embassy Suites, that as well as some downtown, the Marriott continued to be the best in terms of pricing but also we have also been satisfied with the level of service for the last few years.

George Dalton - The bathroom issue is fixed.

Halie Gallik – That is true. They worked on an upgrade. Their restrooms were under construction last year, that was unfortunate.

Randy Brundige - The bedrooms weren't very comfortable either.

Victor Lay made a motion to approve the Symposium Contract, seconded by Todd Smith. Roll Call Vote was taken. **PASSED UNANIMOUSLY**

XI. Date of Next Meeting

Curtis Hayes – The next meeting is scheduled for June 23, 2023. That's not the TML Conference?

Michael Fann - No, no. Looking at your calendar events under Tab 11 we have that suggested date on June 23rd. TML Conference is going to be July 22-25. So, if you wanted to jot that down on your calendar of events, July 22-25. But this will be a meeting here in our office.


The other thing that's missing from your calendar of events is the TML Legislative Conference, which is here in a couple of weeks, March 13th - 14th.

Chairman Hayes – Okay, is there any other business?

Michael Fann – Chairman, if I could point out, I think it's labeled under Tab/Appendix A. You have the departmental risk reports, under each of the departments as has become our practice over the last three years. We have our departments give you kind of a semi-annual examination of their productivity and their activity, and so you've got a series of written reports and of course in September we generally do an oral report.

Chairman Hayes – Thank you.

Randy Brundige made a motion to adjourn, seconded by Sam Tharpe. Roll Call Vote was taken.
PASSED UNANIMOUSLY



William Curtis Hayes, Chairman



Halie Gallik, Secretary