PUBLIC ENTITY PARTNERS
BOARD OF DIRECTORS
MINUTES OF REGULAR MEETING
DATE OF MEETING: FEBRUARY 21, 2020
FRANKLIN, TENNESSEE

The Board of Directors of Public Entity Partners ("PE Partners") met at 10:00 a.m. on February 21, 2020 in the Williamson Room of the Embassy Suites Hilton in Franklin, Tennessee in its regular meeting.

Board Members present: Chairman William Curtis Hayes, Jill Holland, Victor Lay, Dr. Christa Martin, Lois Preece, Todd Smith, and Sam Tharpe.

Board Members absent: Vice-Chairman Randy Brundige; John Holden

PE Partners staff present: Charles DeMore, Executive Vice President & CFO; and Jon Calvin, Director of Underwriting.

Also present: Russ Farrar, General Counsel; Ross Smith, Associate General Counsel; Margaret Mahery, Executive Director, Tennessee Municipal League; Wade Morrell, President, Tennessee Municipal Bond Fund; Jim Morrison, President, Public Risk Services, Inc.; William (Bill) Emmett, Callan & Associates, Inc.; and, Sarah Linder, Elite Reporting Services.

Chairman Hayes called the meeting to order.

1. APPROVAL OF MINUTES

Chairman Hayes called for a motion to approve the minutes of the Board of Directors meetings on December 11, 2019 and January 17, 2020. Motion was made by Lay; seconded by Preece. Chairman Hayes asked if there was any discussion. There was none. Chairman Hayes called for a vote. PASSED UNANIMOUSLY.

2. INVESTMENT ANALYSIS REPORT - 2019

DeMore introduced Bill Emmett with Callan & Associates to present a report about PE Partners' investment portfolio's performance for calendar year 2019. Emmett said he was presenting in place of the PE Partners' account representative, Cody Chapman due to a death in Chapman's family. Emmett discussed the overall investment market's activity during 2019 and the impact on PE Partner's investments.

Emmett directed the Board's attention to a report entitled *Investment Measurement Service: Annual Review* which presents an executive summary of PE Partners' investment performance for the year ended December 31, 2019. At year-end, PE Partners' portfolio of $282 million was comprised of 92% fixed-income securities and 8% cash and cash equivalents. He noted that the Callan domestic fixed income benchmark for the last five years averaged 3.59% while PE Partners' rate of return was 4.94%. He noted that PE Partner's portfolio had a slight amount of risk in comparison with the benchmark for other fixed income securities but not much. He noted the portfolio was allocated to 70% tax-exempt US municipal securities with the remainder in government-related securities. Emmett said the portfolio's quality had a weighted average of AA+ compared with AAA for the agency index and commented that it was lower just a hair. About 60% of PE Partner's portfolio was rated at AAA quality securities and 37% at AA.

Lay asked Emmett about the long-term impact of China's economy on us this year, and Emmett's reply generated additional questions and general discussion about the economy among Board members. Smith asked Emmett what is Callan's day-to-day relationship with PEP and how much are they advising PEP to buy or don't buy in our investment decisions. Emmett replied that it is his understanding Callan & Associates doesn't have a day-to-day responsibility of what is bought and sold as that is being done at the staff level at PE Partners. DeMore explained that PEP provides historical data of investment activity to Callan & Associates each quarter which Callan uses to prepare its independent and objective review of PEP's investment performance each year. Emmett agreed that was his understanding.

Chairman Hayes asked if there were any more questions. After some discussion, Chairman Hayes asked for a motion to approve the 2019 investment analysis report. Motion was made by Lay; seconded by Dr. Martin. Chairman Hayes asked if there was any discussion. There was none. 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 six months ended December 31, 2019. DeMore stated that gross earned premiums were approximately 4.0% more than this time last year, and net earned premiums were trending similarly at $33 million this year compared with $32 million last year, which is 3.7% more. Investment income was also up approximately $1.3 million since July 1st due to gains realized on securities sold or swapped. He noted that due to these gains, actual investment income was $2 million more than budgeted for this time period. Total revenues of $38.8 million for this period were $2.6 million more than this time last year, due primarily to the additional net earned premium and investment gains. In the expense category, DeMore said total loss and loss adjustment expenses incurred were fairly flat at an increase of only 0.7% over the prior year. Policy acquisition costs of $4 million were also comparable to the prior year and not out of the ordinary. Total General and Administrative Expenses were $197,000 or 5.0% more than this time last year, due to additional budgeted programs costs. Total expenses were $35.2 million compared to $34.8 million this time last year, which is about $366,000 or 1.0% more.

DeMore said PEP's operating income at December 31, 2019 was $3.6 million and that combined with the change in unrealized investment loss of $2 million for the six-month period resulted in an increase of $1.6 million in net position for the six months ended December 31, 2019.

DeMore reviewed the Statement of Net Position as of December 31, 2019; total assets and deferred outflows were $329 million compared to $303 million the prior year, which is $25 million more. The building construction accounted for $6 million of the increase, $14 million in additional investments and $5 million in additional cash. The reserve for losses and loss adjustment expenses was down slightly because of the decline in the reserve for IBNR and ULAE from $75 million to $62 million, resulting in net reserve for losses of $137 million compared to $144 million the prior year. He noted accounts payable included $600,000 for payments for the Origami claims system, half of which will be paid this year and the other half next year. Dividends payable represent $1.5 million remaining of what was declared for FY 2020. Total liabilities were down slightly from last year at $178 million or approximately 2.0%. The beginning net position balance of $149 million combined with the six months of change in net position of $1.6 million results in net position of $150 million at December 31, 2019. DeMore noted this is a very healthy position.

Holland asked DeMore to explain the Origami claims system. DeMore said Origami is the name of a next-generation, subscription-based cloud version claims system that we've been looking at last year and presented to the Board for approval. He said the contract for the system is payable over a three-year period. We paid $500,000 the first year, which included $150,000 for one-time implementation costs. The second and third payments of $360,000 each are payable in March this year and again next year. The claims system will provide us with much more capacity and capability for claims processing as it accepts more inputs from different databases and has more robust reporting on the outgoing end. He said the incoming part is what will enable us to dovetail this system with some of our other existing systems. He said while we have been using stand-alone programs for bill-back of nonstandard deductibles and SIR deductibles, the new system will also accomplish this internally. The system will also give us an inherent CRM "customer relational database" that will hold data for all PEP departments to access, making the system not merely a claims system but an organization-wide system.

Holland asked how the Origami system compares with the old system as far as cost. DeMore replied we have a perpetual license for the old system, and it resides on our own servers. We pay maintenance fees of approximately $40,000 each quarter but there are a lot of indirect costs because our IT personnel are constantly having to maintain it. Each time a patch or software update comes out for new legislative action for Medicare or Medicaid we, including PRS personnel, must spend considerable time testing the update before and after to ensure the integrity of our 40 years of claim data is preserved. He said functionality with the new subscription-bases system will increase a whole lot as well as versatility of what we can do for the future.

B. DeMore presented a mid-year department budget summary as of December 31, 2019. He said as mentioned in the previous report premium and investment income had increased. He noted that general and administrative expenses were under budget by approximately $1 million. This is due primarily to items associated with completing and occupying the new building, such as maintenance agreements, depreciation, etc. Since the office opening has been delayed, those costs which were budgeted have not yet been incurred. DeMore said all departments were within their budgets at December 31, 2019.

C. DeMore presented the internally-managed fixed income portfolio as of January 31, 2020 as classified by type and maturity. DeMore explained we have 92 securities, 68% of which are invested in municipal bonds and the remainder in

government agencies. The portfolio had a book value of $278 million and a market value of $285 million, meaning we had an unrealized or "paper" gain of $6.8 million. He mentioned that at the close of business last night, the unrealized gain was $6.6 million. The average coupon rate was 3.2% but the coupon rate for municipal bonds was higher at 3.49%. The total portfolio had an average maturity of 16.3 years but an average call life of 6.7 years. He said the LGIP balance at this date was $16.9 million earning interest at an annual rate of 1.69%.

D. DeMore presented a $14 million dividend recommended to be declared and reminded Board members that in prior FY 2019, PEP had a net change in position or "net income" of $37 million of which $15 million was due to unrealized or "paper" gains on investments and the remaining $22 million from reductions in our claim reserves based on our annual actuarial study. The actuarial report pointed out positive development in our claim losses which allowed us to reserve less money for the anticipated future settlement of claims. He noted that dividends are based on past performance and represent a return of capital. He said PEP doesn't write checks for the dividends declared but instead applies the dividends as credits against premiums invoiced for policies beginning July 1st each year. He said for the upcoming FY 2021, PEP management is recommending a dividend to be declared totaling $14 million, which is the second highest dividend declared. He said over the past five years dividend declarations have averaged $5 million each year.

DeMore reminded the Board that based on the risk-based analysis of our capital reserves that was recently performed by PricewaterhouseCoopers, the Board approved a risk appetite or level for PEP of a 1-in-200 year level and a two times 1-in-200 year level. He said that means based on the numbers, the recommended level of capital reserves to maintain is between $92 million and $183 million. Therefore, a $14 million dividend would leave us right in the middle of the range for capital reserves. He said that level is an acceptable level of risk based on the risk-based analysis.

DeMore noted that a $14 million dividend would be allocated among the lines of coverage as: $7,600,000 million for workers compensation; $5,550,000 for liability; and, $850,000 for property. Chairman Hayes commented that based on DeMore's report that still leaves us in a very comfortable position for giving that large of a dividend. DeMore replied yes.

Holland asked what happens with the economy and whether loss trends are expected to hold or increase over the next few years. DeMore said the question will be addressed in the discussion about premium base rates but there is a proposed bill in the legislature about PTSD that could impact future worker compensation from this point forward. However, right now the trend in workers compensation seems to be positive.

Smith said based on his experience with local political pressures and commercial competition, anytime PEP's rates can come down when members have to go to market makes PEP that much more viable. Chairman Hayes agreed and said he experienced that as well.

Calvin commented that PEP is extremely competitive rate wise with reasonable markets. Chairman Hayes said he hopes in the future PEP is out with our members for business retention and expanding membership as well. He said he thinks PEP has fallen to the wayside just a little bit as far as business retention. DeMore added that PEP has 40 years of local government experience on the ground and a legal team and claims expertise that can anticipate not just how to save money but how to prevent losses – whether it's on the front-end with our loss control or with claims adjudication and our legal team, we have a good team of folks onboard and who have continuity. We don't see ourselves as a commodity insurance company but really as a risk partner – it's pervasive to our organization and the people who work here. Smith agreed and said he thinks people in the know get that, they understand that. However, it's some of the newly-elected officials.

Chairman Hayes asked for a motion to accept the financial reports as presented, including the dividend recommendation. Motion made by Lay; seconded by Tharpe. Chairman Hayes asked if there was any discussion. There were none so he called for a vote. PASSED UNANIMOUSLY.

4. COVERAGES AND RATES – FY 2021

A. Chairman Hayes called on Jon Calvin, Director of Underwriting, who presented management's recommendations to the Board for proposed changes in policy coverages to become effective on July 1, 2020 as follows:

<u>Workers Compensation Coverage</u>

- **No changes**

Liability Coverage

- **Molestation**
  - **PE Partners' liability form covers occurrences that are after our retro-active date, but interrelated occurrences are pulled together for limit purposes so one limit applies to a series of interrelated occurrences.**
  - **In molestation cases, courts are more prone to call each child, or each contact a separate occurrence which acts to stack limits.**
  - **We and our reinsurers recognize the potential for catastrophic claims and are in the process of addressing the issue with a reasonable solution that protects our members and organization.**
- **Airport Liability**

Property Coverage

- **No Changes**

Calvin explained that the molestation language isn't so much a new coverage as it is a clarification of our coverage and will probably be a separate endorsement. He said he doesn't think the net result is any increase or decrease to coverage to our members.

Calvin added that he has been researching airport coverage and our broker is working on it. He said he believes it will probably be some kind of pass-through program where another company would actually write the coverage and we would be involved to the degree we can as far as claims and everything, but we would rely on their expertise with aircrafts to provide members with a good quality product.

Chairman Hayes asked where are we now with coverage on existing municipal airports. Calvin said we currently have an exclusion for anything arising out of airports. He said generally when a city owns an airport or runs it, this program would replace that so if a member has a fixed-base operator running the airport, the city would buy an airport liability policy. Calvin explained a new program would replace that so if a city has a fixed-base operator running the airport, the fixed-base operator would get the aircraft liability policy and PEP would endorse the policy to reduce the exclusion so that it covers some of the maintenance and ownership of the property on behalf of the city. He said part of this project is to try to resolve some gaps in coverage. Chairman Hayes asked when Calvin might be ready to present to which Calvin replied he'd like to have it in place by July 1st but could not guarantee this. Hayes asked if he would be able to present in June and Calvin replied yes.

B. Calvin also presented proposed changes in premium base rates to become effective on July 1, 2020 as follows:

Workers Compensation Coverage

- **Base rate reduction: 6.7%**

Property Coverage

- **Base rate increase: 15%**

Liability Coverage

- **General Liability: Base rate reduction: 20.0%**
- **Law Enforcement: Base rate increase: 8.5%**
- **Errors and Omissions Liability: Base rate increase: 5.0%**
- **Automobile Liability: Base rate increase: 6.0%**
- **Automobile Physical Damage: Base rate reduction: 6.0%**

Calvin said we did a recent actuarial review of our premium base rates and then explained our methodology with rates in general. He noted the pending PTSD legislation and some increases in the medical fee schedules that may impact us but are not in the actuarial study. Chairman Hayes said he is in favor of a reduction as long as we are comfortable giving a reduction and then next year not coming back and it goes up. He asked Calvin if it is doable without getting in our reserves. Calvin replied yes.

Calvin said that our property line has been plagued with floods and bad weather events. He said while we have a real solid reinsurance program, the reinsurance industry is going nuts in property with the industry doing 20% to 30% increases on property amounts. He said while our actuaries are recommending a 22.7% increase, we are recommending a 15% increase.

Calvin reviewed recommended base rates changes in liability lines of coverage by subline. He noted that law enforcement coverage is a troubled line and we are still trying to recover from some of the stuff that has gone on in the country. He said when we have a problem line like law enforcement, we target that line with loss control efforts and things to reintroduce new training programs, such as a hands-on experiential training program we're coordinating with UT.

Tharpe made a motion to accept the recommended policy changes and premium base rate changes. Smith seconded the motion. Chairman Hayes asked if there was any discussion. There was none. Chairman Hayes called for a vote. PASSED UNANIMOUSLY

5. DIRECTOR OF HUMAN RESOURCES JOB DESCRIPTION

Chairman Hayes presented a job description for a Director of Human Resources and commended DeMore for the good job putting it together. DeMore said that Farrar and R. Smith wrote 99% of the job description. DeMore noted that one last minute item did not get included in this draft of the job description which R. Smith would present. Chairman Hayes noted that he thought it was important to include "orientation of board members" in the document. R. Smith said the new item "Board of Directors' orientation" would be inserted under "employee orientation, development, and training".

Chairman Hayes said we are trying to be more transparent and for all Board members to know what is going on. He said if there are contracts that are about to expire or contracts that are ready to be renewed, each Board member will have a copy.

T. Smith said he thinks the President is going to have to be pretty involved in the orientation as well just because the President is going to know the details of the contracts and the relationships and what is going on. Chairman Hayes pointed out that the HR person would work in conjunction with the President.

R. Smith noted that it is also important that the Director of Human Resources report directly to the Board rather than reporting to the President. He noted a lot of the job duties are in coordination with the President so certainly they would work together but as far as direct report and supervision, the Board of Directors, as this job description is written, would have that supervision.

T. Smith asked if the Board wants to be that directly involved in the HR position as a Board. Chairman Hayes said he thinks the consensus of the Board at the time (and people may change their minds) was given the fact of some things that happened here in the last twelve months, the Board wanted a Director of HR to feel comfortable doing his/her job, even if there was a complaint filed against his/her boss. He said the only thing he was requesting was in the event of termination that the President/CEO along with the Board would have to approve the termination of the Director of HR. He said as far as being involved in the day-to-day operations, he doesn't think that is a spot for Board members.

T. Smith said he completely understands given the history here and the need for independence but the concern or question he has is the scenario where the President and Director of HR may not be on the same page and the Director of HR tells the President he/she works for the Board and doesn't work for the President.

Chairman Hayes said he doesn't think that is the case as that is not what he is saying. He said the boss of the Director of HR will be the President/CEO and the President/CEO cannot fire the Director of HR without Board consent. T. Smith said that makes sense. Farrar pointed out that the job description needs to be changed where it says, "reports to" it needs to read as "President/CEO".

Holland said she believes that Board of Directors' training and orientation needs to be done in a timely manner. Chairman Hayes agreed. DeMore commented that Chairman Hayes had recommended a Board orientation packet be developed to assist new Board members in understanding of PEP's business.

T. Smith made a motion to accept the job description of Director of Human Resources as revised. Dr. Martin seconded the motion. Chairman Hayes asked if there was any discussion. There was none. Chairman Hayes called for a vote. PASSED UNANIMOUSLY

6. CORPORATE BY-LAWS

Chairman Hayes called upon Farrar to present changes proposed to the corporate by-laws. Farrar presented both a clean copy of the by-laws with proposed changes already inserted and a copy marked-up to compare the original by-laws with proposed changes in a different color of font. Farrar asked Chairman Hayes if he wanted Farrar to go through every proposed change.

Chairman Hayes said no and said Tharpe had contacted him wanting to pull out language about non-TML PEP members that Tharpe had recommended in a previous Board meeting. Chairman Hayes referenced Article IV, Section 2, c. that began as "…one appointed director representing PEP insurance members who are ineligible for TML membership…" as the section Tharpe wished to remove. Tharpe confirmed it was and said we're not ready for it. Tharpe made a motion to withdraw that portion of the by-laws. T. Smith seconded the motion.

Holland asked if there could be discussion before the motion is seconded because she wanted to know if that was in there because we've expanded offering PEP to other entities and that they would have a voice. Tharpe said yes; a third of our membership is from outside (such as human resource agencies, community action agencies, development districts, utility districts, school boards, etc.). Farrar said there's not a real plan as how to pick somebody as a representative without everybody else wanting spots on the Board so what we want to do is pull that out. Holland said okay.

Chairman Hayes asked if there was any more discussion. R. Smith called attention to the fact that that one section is also referenced in several other sections so the motion would be to take all references to that section out just to make it clear. Chairman Hayes said alright and then asked if there was any more discussion. There was none. Chairman Hayes called for a vote. PASSED UNANIMOUSLY

Farrar advised Chairman Hayes and the other Board members to vote to approve the entire by-laws after having voting on Tharpe's motion to withdraw that section. Several Board members asked to be recognized at the same time. Chairman Hayes called on Tharpe.

Tharpe said he knows the Board voted to recommend Board members to receive a $400 stipend for any meetings attended, but he now believes the amount is too much so he's now looking at a stipend of $150. T. Smith noted that the mileage expenses do get reimbursed to members of the Board separately from that. Holland said she knows Chairman Hayes has put hours and hours into this and asked if there is a way the Chairman could be compensated more than Board members. Preece said that is a wonderful idea. Farrar said you can do that; there wouldn't be anything improper with that. Chairman Hayes said he really appreciates that. He said he wants to feel as equal to every Board member as far as the stipend's concerned, and the Chairman position can get a little bit more. He said whether it is him or anyone else, that would be fair for the Chair.

T. Smith said related to that, he and Lay may be in a little unique position that they are getting paid essentially to be here as their cities are paying them to participate on the PEP Board. For this reason, he asked if his city can get his compensation. Chairman Hayes said absolutely. T. Smith asked DeMore if PEP could issue a check to a city without going through the individual for tax purposes. DeMore said we may have to get a statement from you to refuse the payment and have the payment made to the city, but he would research the question about 1099 tax reporting. Chairman Hayes said we can do the mechanics of getting a check to them, but it's just a matter of the tax reporting.

R. Smith commented the by-laws could authorize the Board to set a stipend not to exceed an amount and then, by resolution authorize a stipend that expires every year so that you wouldn't have to write it into the by-laws. Farrar said that you could have flexibility that way. R. Smith said as positions change or individuals change, that may be more palatable to some directors.

Holland said she has always been confused as to exactly what conferences PEP pays for and wondered if that could be written into the by-laws. Chairman Hayes commented Board orientation, too. Farrar questioned whether to put those in the by-laws. Chairman Hayes said he doesn't think it needs to be but to be put into the Board orientation packet.

DeMore said he thinks that historically PEP has reimbursed directors for attending NLC-RISC Trustees Conferences and the National League of Cities Governance Conference. He said Dawn Crawford usually handled the conferences, but he would find out. Tharpe said he believes PEP also covered the Legislative Conference and the TML Annual Conference, which total four conferences.

Chairman Hayes asked if there was any discussion on the by-laws. Holland asked if directors are chosen by a nominating committee of two. Chairman Hayes said they are recommended to TML and then TML ratifies it or votes

for it, but they can certainly vote no on any of the trustees that come forward. Holland asked if the directors are recommended to this Board from a nominating committee of two that are chosen by this Board. Chairman Hayes said he did not know of a nominating committee here. R. Smith noted that that is a new provision here. Chairman Hayes said something we have discussed in the last meeting is putting together a nominating committee to nominate someone to the nominating committee at TML. He said he thinks that is what T. Smith asked - exactly how did he get on this Board. T. Smith said yes that is.

Holland said Section 12 sounded like there was a nominating committee from this Board that nominates directors to this Board to be approved and then recommended to TML to be approved. Farrar said you don't even have to do this as it says you may by resolution do it with two or more. He said so if the whole Board does not want to nominate a nominating committee, you don't have to. Holland asked if it's just an option. Farrar said it's just an option. Holland asked to clarify that it's there just in case. Chairman Hayes said we can take it out. He said he thinks the way it's been is that maybe the President/CEO had a good relationship with a city as he doesn't know the qualifications. He said we know the TML President automatically comes on the PEP Board and the rest are just usually recommendations from the current Board.

Farrar said the current Board could either decide whether they wanted to approve, and it says two or more, so it's not limited to two people. Holland said yes, it's just there as an option. She said she's not for or against either way but only wanted to clarify. She said one of the things she didn't see was if the directors equally represent each of the grand divisions. R. Smith said that is currently not in here and noted that this transcription hasn't been accepted yet. He said it's just from your thoughts in discussion last time what we've tried to piecemeal together, so this is in no way a recommendation of saying this is final. Chairman Hayes said in the past, and it's not in writing, the goal was to have two from middle, two each from east and west and a city administrator or a city manager.

There was discussion about which directors represent which of the grand divisions of the State of Tennessee. Tharpe noted that there are currently more from West Tennessee because Holland represents TML as its President who rotates off every year.

Tharpe noted that the terms are what the Board of Directors did change. Holland said she noticed that it's four years, but it didn't sound like directors could be reappointed after that - they just stay on until an appointment is made. R. Smith called attention to Section 2, A and B, and that subsection C is being stricken. He said the next paragraph which starts with directors as described in 2(a) and 2 (b) is where it says they may be appointed, designated or elected in successive terms.

Holland said Section 4 addresses the removal of directors if they miss three meetings. She asked in what time span – over the four years or is it three successive meetings. Chairman Hayes said he thought it said successive. R. Smith said they didn't touch that paragraph so that's whatever existed previously. Chairman Hayes said there was nothing in there previously.

Chairman Hayes said just so everyone knows, there are no more conference calls and having discussion about business. He said we got a ruling on that there are no more phone call votes so in the event someone is not coming to the meetings, the decision has got to be made by that Board member or something's got to be in the by-laws. He said in a perfect world you just meet four times a year so if you're missing three out of the four, that raises the question if you really want to be on the Board.

Farrar noted that the way it reads, it is a "may" thing so it's one thing if somebody just doesn't want to fool with coming and it's another thing if they're laying up in a hospital bed so that's why they put the flexibility in there; the Board would not unreasonably remove somebody nor let a director not come and be unreasonably allowed to stay on.

Chairman Hayes said he thinks missing three out of the four meetings would warrant someone having a conversation with that Board member. He said if you miss three out of four meetings, then you're not going to be on the Board. Chairman Hayes clarified he would say three meetings in one calendar year. Farrar agreed. Lay said let's say three consecutive meetings because if I just miss two of the last two of one calendar year and the first two of the next calendar year, I've been gone an entire year's worth.

Farrar said a problem with that is you have somebody that misses two meetings and comes to one and then they miss two more and come to one. Chairman Hayes said when everything is running smoothly, we're only going to be meeting four times a year. Lay said if you miss two meetings a year, there're only four; you're not here enough time. Tharpe said he hoped as Board members we would show up and attend the meetings; and the Board will know what and how to address that if we have people that are not attending regularly so let's just leave it as is and let's move on. Chairman

Hayes asked what that means. Tharpe said based on what you all recommended. Chairman Hayes said okay, three. Lay said he thinks there needs to be a time period. Preece agreed.

Tharpe said let it be based on what was recommended. He said to Chairman Hayes that since it was brought up about your work and the time you spend maybe you should get $400 and the Board should get $200 stipend. Farrar said he can't even start to comprehend how much time Hayes and he spent on the phone in the last month and how's he done his job with Livingston. Chairman Hayes said he works on Saturdays and Sundays.

Tharpe made a recommendation that we would take the stipend of $200 and the Chairman would take $400. R. Smith said it was $150 so now it's $200? Tharpe said $200 and $400 for the Chairman – that's the motion. T. Smith seconded the motion. Chairman Hayes called on T. Smith who asked if there needed to be language in there about circumstances where we would like the stipend to go to our respective cities. Chairman Hayes said or give it back. Farrar said let's hold off until DeMore can check out the 1099 stuff. He said if we don't need to change it, fine; but if we do, it's not that big of a deal to change it. T. Smith said okay.

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

Chairman Hayes asked if there were any more questions on the by-laws. Holland said she didn't understand about vacancy in Section 6 that if such director is an appointed director only by the person appointing such director or if such director is a designated director by the Board of Directors; she asked what is the difference between the appointed director and a designated director and if it's the Board appointing the director, where does this person come in that's appointing the directors. R. Smith explained that on the fifth page it says the Board members are appointed for a term by the Board of Directors of TML so those would be your appointed directors because theoretically TML is appointing you to this Board. Farrar added that by virtue of your office as President of TML, you are automatically designated as a Board member.

Holland asked if we have had the executive committee before and do we now have an executive committee. Chairman Hayes said no. Tharpe said it's never been a function but it's in the by-laws. Holland asked to clarify that it's another option if you want to have an executive committee. She said when she was looking at the fidelity bond and salaries, it reminded her that as elected officials Board members have a certain amount of immunity but if there's a disgruntled employee and they decide to sue the Board, where does that place us? Chairman Hayes said the way he read it, he thought it said the Board is covered. R. Smith said he and Farrar talked about the fidelity bonds and salaries and asked Farrar to confirm but he didn't believe the Board ever required one. Farrar said he doesn't recall the Board ever requiring a fidelity bond, but you have the option to do it if you want it. He added that the Board could vote on the bonds to be paid for by PEP.

Chairman Hayes said he might have misread it because he was understanding if someone sues PEP and then sues us as Board of Directors, are we bonded and covered currently for that right now. Holland said that is her question.

Farrar said in his opinion the Board is not bonded but you are going to be covered if you are a party with PEP. He said where you run into danger down the road is if you breach your fiduciary duty to PEP, such as you don't come to meetings, you don't know what's going on, yet you are a director, then the action would be against you – it wouldn't be against PEP and you. He said but with the last lawsuit they went through 11 or 12 years ago, he knows all the directors were covered by your E&O carrier. DeMore noted that PEP has E&O liability coverage and D&O liability coverage as well. Holland said okay.

Farrar said if you didn't do your due diligence as a director, then you could have your E&O coverage declined; but as long as you are sued just because you are a director, you would be covered in the event that happened because PEP would be the real party in interest. Chairman Hayes asked Farrar if it was his recommendation that the Board get bonded, too, or if he thought the Board was safe. Farrar said he thought the Board was safe. R. Smith said it would really be a question of your insurance policy and covering you. Farrar said he knows for a fact the you're covered unless you've changed your coverage from the lawsuit 10 or 12 years ago. DeMore said it's the same coverage. Calvin said the Board should not need a bond. Chairman Hayes said okay.

Calvin said DeMore has a fiduciary responsibility and might need a bond because he's handling money. Farrar said if you're requiring him to get a bond, it's okay if you require it for PEP to pay for the bond. DeMore said we do have fiduciary coverage for him because he insisted on that since he was going to be the plan administrator for our benefit plans, health insurance plan, pension plan and 403(b) plan because a fiduciary takes on a whole lot more liability personally. He said we do have fiduciary coverage, but it's only in relation to him as plan administrator. Holland said okay.

R. Smith told Holland that in response to her question, he agrees with DeMore that the bond is really for the employee level individuals. He noted the same paragraph also authorizes the Board to set salaries for things, Crawford's employment contract, for instance; those are all really directed at the Board's authority to engage in staff-level coverage. Farrar added for decision-making. Holland said it reminded her as a Board member how we are covered in case someone sues us individually. R. Smith said that would be through insurance that PEP has. DeMore said he can summarize what our policy has and let Farrar and R. Smith look at that and send it out to Board members. Chairman Hayes said DeMore can send it out, but the Board will have more discussion because when you start getting into legal questions on insurance, it probably needs to be explained.

Chairman Hayes asked if there were any more questions on the by-laws. There were none. Chairman Hayes asked for a motion to accept the by-laws and the changes that have been made today. Preece made a motion. Holland seconded the motion. Chairman Hayes asked if there was any discussion. There was none. Chairman Hayes called for a vote. PASSED UNANIMOUSLY

R. Smith said in going back one step to the Director of Human Resources, the by-laws say that the Board of Directors shall have the authority to hire the Director of Human Resources. He asked if the Board wanted that changed to the President may hire but only the Board, only a majority, or the President may only be terminated by a majority vote of the Board of Directors? He said he apologizes for doing that after your vote, but you made it known by vote and he wanted to make sure this is consistent with the decisions you made earlier. Chairman Hayes said he thinks the consensus of the Board was that the Director of HR clearly works for the President/CEO and the only time the Board would get involved is to terminate the Director of HR; the Board has to approve.

Chairman Hayes said he thought that was what the Board had voted on but to be safe, he asked for a motion to approve the change. T. Smith made a motion. Lay seconded the motion. Chairman Hayes asked if there was any discussion. There was none. Chairman Hayes called for a vote. PASSED UNANIMOUSLY

7. DATE OF NEXT REGULAR MEETING

Suggested as April 17, 2020 – 10:00 a.m. at PEP's office (to be followed by a ribbon-cutting event to commemorate PEP's new office building)

Chairman Hayes asked DeMore when Board members needed to let him know who is going to the NLC-RISC Trustee Conference. DeMore said Heather Hughes will contact each Board member before March 15th to confirm attendance. The conference is in Portland, Oregon and begins on Wednesday, May 6th and ends Friday, May 8th. The conference hotel secured a room block that extends more time at the end of the conference than at the beginning so the conference hotel rate will only be honored if you choose to stay over but not if you wish to arrive before May 6th. He said a conference agenda and more information is in the Board packet.

Chairman Hayes said while we're on the calendars, let's move the September 11th to a different date. After some discussion, the consensus of the Board was to hold the fall quarterly Board meeting on Thursday, September 17th at 10:00 a.m. at the PEP office.

8. OTHER BUSINESS

a. TCRS Buyback Cost Study Update – DeMore reminded the Board of the resolution passed in December to authorize TCRS to do an actuarial study to determine the cost to buy back prior service credit based on a prior conversation between Chairman Hayes and Dawn Crawford. TCRS had originally told PEP that two other employees who had not ever joined TCRS through the company would not be involved in the study, but later TCRS confirmed those two other employees would be allowed to be in the study. However, the day after the Board passed the resolution TCRS contacted DeMore via email stating that the two other employees could not be part of the study because they had never participated in TCRS.

DeMore said then in late January he received a letter from TCRS acknowledging receipt of the Board's resolution to do the study and in that same letter TCRS stated they were giving the two other employees a one-time opportunity to be able to be included in the cost study in order for them to be eligible to buy back service credit - with the condition that the employees had to join TCRS right now and forego having any future employer contributions made to their 403(b) accounts.

DeMore said PEP has two plans. One is a 403(b) pension plan that has existed before PEP joined TCRS in which the company put employer contributions into that plan. Then when PEP joined TCRS in 1991, employees were allowed to come into TCRS, or they were given a one-shot deal to stay out and remain with the 403(b) plan. He said there are two employees right now who never did join TCRS but stayed with the 403(b) plan. He said Crawford initially stayed out and then nine years later joined TCRS.

He said based on the TCRS letter he received in late January stating the two other employees were given the opportunity to be part of the cost study, in order to do so the two other employees have joined TCRS and, consequently, have been included in the cost study. DeMore explained that the TCRS actuarial cost study that originally was going to be for Crawford alone now includes all three people. He said the study has been kicked off and is underway, and TCRS estimates it will take three to six months.

He said the Board will receive a report telling the Board how much it would cost PEP to fund the buyback of service time for these three individuals. He said if the Board decided to accept the liability for funding the buyback and wanted to move forward with it, the company would have to pay the whole cost upfront to fund the buyback. Then whenever the employees choose to do the buyback, the employees would have to give up their rights to and possession of monies in their 403(b) employer accounts which would go to TCRS who would keep and use the monies to offset the buyback cost.

Chairman Hayes asked DeMore how much we're talking about. DeMore said it's actuarially determined and he doesn't pretend to be an actuary but just throwing some numbers out there, it could be over $2 million and maybe up to $3 million.

Chairman Hayes made a motion to terminate the buyback study with TCRS. He said he never dreamed that it would come back costing $2-$3 million. Preece asked if we can do it. DeMore said he didn't know what the mechanism is since the study is already in place. He said he's not an actuary and was just doing some down and dirty estimations for that. He said since the Board has already paid TCRS $500 for the cost study to be done, if the Board wanted to wait and get the study and then make a determination, they would have the actual numbers. Chairman Hayes withdrew his motion. He said he's not for giving $2 or $3 million. He asked if there were any questions for DeMore; there were none.

b. NLC RISC Trustees Conference – Chairman Hayes reminded Board members that Heather Hughes would be contacting them by March 15th for registration information. He said they may make their own travel arrangements and PEP will reimburse them. He directed Board members to the information in the Board packet.

c. Board Strategic Planning Retreat – Chairman Hayes said DeMore had checked on opportunities besides Evans Mill in Smithville as a retreat option and had two additional venues to offer. One is Opryland Hotel and the other is The Harpeth Hotel in downtown Franklin. There was discussion among Board members about both the merits and disadvantages of these hotels and locations.

c. Building Update – DeMore said we had received the temporary certificate of occupancy and are scheduled to move this coming Tuesday, February 25th. He said the first floor is unfinished so we can build to suit for a prospective tenant. DeMore said we'd like that space to be used as professional office space, and he has resumed discussions with Dr. Nassar with Savant Learning Systems who is interested in the possibility. Savant Learning Systems produces online training platforms for national companies, including the FBI, and would require a professional recording studio – which it so happens that our contractor has experience in building.

d. Sale of Maryland Way Office Building – DeMore told Board members our current building sold for the appraised value of $2.3 million. The new owners are eager to take possession and begin their rehab, so we've been working on a mutual closing date. Several organizations, including TML, the City of Martin, PRS, and some others have asked for certain pieces of furniture and equipment which they will pick up prior to our closing. DeMore said the sales agreement requires a designated person to represent the seller at closing to verify and authenticate the information that has been provided. For this reason, DeMore said he is requesting the Board to authorize someone to be that person at closing to sign all the closing documents.

Chairman Hayes made a motion to allow DeMore to sign the closing papers when the sale closes. Motion was seconded by Lay. Chairman Hayes asked if there was any discussion. There was none. Chairman Hayes called for a vote. PASSED UNANIMOUSLY

9. ADJOURNMENT TO EXECUTIVE SESSION

The Board of Directors entered into executive session at 12:52 p.m. Individuals who were not Board members or General Counsel left the room.

10. RECONVENE TO PUBLIC METTING

The Board of Directors adjourned from executive session, and Chairman Hayes called the meeting back to order to resume in public meeting at 1:37 p.m.

Individuals present in the reconvened meeting were: Board members: Chairman Hayes, Holland, Lay, Dr. Martin, Preece, Smith, and Tharpe. PE Partners staff were: DeMore. Guests were: Farrar, R. Smith, Morrison, and, Linder.

Chairman Hayes asked if there was any action for the agreement and release of Dawn Crawford. Holland made a motion that Dawn Crawford be released and that she be given the buyout. Chairman Hayes asked, "and to accept the agreement?" to which Holland replied, yes, and accept the agreement. Dr. Martin added "and you sign it". Chairman Hayes asked to clarify "and authorizing me and Farrar to sign it". Holland said yes.

Chairman Hayes said there is a motion to accept the agreement and release of Dawn Crawford and to authorize him as Chairman and Farrar to sign the agreement once it passes. Tharpe seconded the motion. Chairman Hayes asked if there was any discussion. There was none. Chairman Hayes called for a vote and asked all for the motion to let it be known by saying "aye". Board members saying "aye" were Dr. Martin, Tharpe, Lay, Holland, and Preece. Chairman Hayes asked all opposed to the motion to let it be known by like sign. Board members saying "nay" were T. Smith. Chairman Hayes declared the motion as passed.

Chairman Hayes said the next item was to hire Charles DeMore as President/CEO. A motion was made by Lay; seconded by Holland. Farrar commented that DeMore be allowed to be signatory on any and all documents that needed to be executed on behalf of PEP. Chairman Hayes asked Lay if he would include that in his motion. Lay said he would. Chairman Hayes said the motion to hire Charles DeMore as President/CEO and to give him authority to sign all documents related to PEP had a motion and a second. He asked if there was any discussion. There was none. Chairman Hayes called for a vote. PASSED UNANIMOUSLY

DeMore thanked the Board for their confidence and their trust.

9. ADJOURNMENT

Chairman Hayes asked if there was any action for the Board. A motion to adjourn was made by Tharpe and seconded by Holland. Chairman Hayes called for a vote. PASSED UNANIMOUSLY.

Chairman Hayes declared the meeting adjourned at 1:40 p.m.

William Curtis Hayes, Chairman

Charles DeMore, Secretary