PUBLIC ENTITY PARTNERS
BOARD OF DIRECTORS
MINUTES OF MEETING
DATE OF MEETING: February 23th, 2024
10:00am

The Board of Directors of Public Entity Partners ("PE Partners") met at 10:00am on February 23th, 2024, at PE Partners' offices in Franklin, Tennessee.

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

PE Partners Staff Present: Michael Fann, President/CEO; Amanda Shrum, CFO; Halie Gallik, Board Secretary; George Dalton, Executive Vice President; Celeste Taylor, Director of Human Resources; Callie Westerfield, Director of Member Services; Carly Salah, Communications and Research Manager, Allen Dean, IT Manager, Jason Dodson, Assistant IT Manager, and Janine Helton, Assistant Director of Underwriting.

Also Present: Kristin Berexa, Farrar & Bates, Russ Farrar, Farrar & Bates, Bill Emmett, Callan, Wade Morrell, TMBF

Chairman Curtis Hayes called the meeting to order.

Roll call was taken. All members were present except for Mayor Preece, Mayor Williams, and Councilmember Hardison.

Chairman Curtis Hayes – Any citizen's comments? None today.

I. Approval of Board Minutes

Motion made by Victor Lay to approve the board minutes from the meeting of December 13th, 2023, seconded by Mayor Holden. PASSED UNANIMOUSLY.

II. Investments – Annual Review

Chairman Curtis Hayes – Mr. Bill Emmett is here with us from Callan & Associates.

Mr. Bill Emmett – Provided an overall market update and analysis of PE Partners Investment portfolio to the board of directors.

Chairman Curtis Hayes – Before we get into any questions, we need a motion to receive.

Motion to receive made by Todd Smith, seconded by Victor Lay. PASSED UNANIMOUSLY

III. Financial Reports

Chairman Curtis Hayes – Mr. Fann and Ms. Shrum – Financial Statements as of December 31, 2023. Ms. Shrum.

Amanda Shrum –We will look behind tab number 3. We're going to start with the Statement of Revenue, Expenses and Changes in Net Position. As of December 31st, Net earned premium is reported at $37 million, which is up $1.6 million from last year. Our Total Revenues were reported at $42.3 million, which is up $3 million from last year which also includes a 1.4 million dollar increase in our investment income. As you look down at the Total Loss and Loss Adjustment expense increased by $2.3 million from last year. Our policy acquisition increased $406,000 and our G&A expenses increased slightly to $33,000 from this time last year. Our Total Expenses as of December 31st were at $40.1 million, increased from $37.4 million this time last year. Our Operating Income comes to $2.2 million and if you add that to our Increase in Fair Values on Investments of $3 million we are left with a Change in Net Position of $5.3 million, leaving an Ending Net Position of $122.2 million as of December 31st. So, as you can see we're in a much better position than we were last year and we are very happy about these reports. Of course, some of that comes from the improvement in our market values, some of it comes from trending in our actuarial report from last year, as far as our losses and our claims, but we are overall very excited about this. If you'll turn next to the Statement of Net Position. I'm not going to go all the way through it, but I do want to mention that our cash and cash equivalents and our Market Values of our investments, if you take those three, we are up about $20 million dollars from last year in our assets. If you add the increase in Prepaid Reinsurance and the Reinsurance Recoverable then our total assets and Deferred Outflows are up $31.4 million from where we were last year. So, as you can see, most of that comes from our assets, our liabilities did not change significantly from one year to the next.

Victor Lay – Quick question. Actually on the prior, claims were up about $3,000,000

Amanda Shrum - 27.7 to the 30

Victor Lay – Yeah, is that because of the tornadoes that came through?

Amanda Shrum - So our claims paid and our property actually moved up I want to say 5 million. A lot of that is from our property claims and you can see that through our financials because even though we did some of our ultimate losses in our actuarial report came down, property side of it has kind-of taken us back. We are seeing some pretty significant property expenses. Jim, do you have anything to add to that? Would you agree to that?

Sam Tharpe - Is it any deductible process going through these claims?

Amanda Shrum – If there's been a property claim after October 1st, our retention of that actually went up also. So, whereas we were on the hook for $500,000 for those property claims, if it's happened before October, we are now on the hook for a million of that. And that was discussed when Brandon was here at the last meeting talking about our property reinsurance premiums and our retentions both went up this year. That is why, because on the property side we had just been hit hard. And it's not just us.

Sam Tharpe - How much did it go up? Deductible wise.

Amanda Shrum - $500,000 per occurrence

Michael Fann – The deductible basically doubled…a little more than doubled going forward. And to kind of clarify that, we have kind of been wanting to do that for a while and it just didn't make financial sense, we were really not getting the benefit of higher deductibles from our reinsurers. And so, we have been managing our way toward that anyway and it still is a little shaky when you go from three and $500,000 deductibles up to a million, but financially we needed to do that anyway. Now we pretty much had to, or our reinsurance premiums would have absolutely skyrocketed, and it was already high enough. We've been managing our way toward that million-dollar deductible anyway and this year it happened.

Sam Tharpe - Just curious. Thank you.

Amanda Shrum – So, any other questions on the financials?

Curtis Hayes – Hearing no other questions I'll entertain a motion to receive the financial statements.

Motion made by Mayor Randy Brundige to approve December 31, 2023 Financial Statements, seconded by Todd Smith. PASSED UNANIMOUSLY.

B. Q2 Budget to Actual

Amanda Shrum – Yes, and behind the financials you have the kind of overview of the G&A expenses by department and just quickly, we are $1.2 million under our budget as of December actual G&A expenses 5.4 million. We mentioned at the last board meeting, the communications and research overages you see there it's because of the Symposium. We do incur all those expenses early in the year. So as the year goes on that will kind of level out. But other than that, everyone is under their budget and within our guidelines. Any questions on that?

Chairman Hayes - Any questions?

Motion made by John Holden to receive Q2 Budget to Actual, seconded by Victor Lay. PASSED UNANIMOUSLY.

C. Investment Report - January 31, 2024

Amanda Shrum - And we will turn to the investment portfolio analysis. We do have the complete investment report as of January 31st behind there that lists each security ratings, but just kind of as an overview, as you look at the portfolio analysis, you'll see that since June 2023, we have seen a change in our market values actually increase. We are actually up 2.5 million, which puts it at a total unrealized loss as of January 31st at 56.2 million. I know it's very odd that we get excited about a $56.2 million loss, but if we are in so much better shape than we were and we did get up close to $82 million at one point late in the year, so this is good news. We are moving in the right direction. At the end of January the average coupon was 3.79%. The average yield is 4.565. We have kind of been making strategic moves to try to increase some of those yields and Michael's going to speak more to that. We're just trying to pick the right time and it feels that the market is so volatile. So like knowing exactly what knows times are right to take your losses and get out, it's just been difficult because things do not always go as you expect them to go and so you just hate to make the wrong move at the wrong time.

But based on the portfolio at the end of January, we project our yearly interest income at this point to be $11.1 million and as you can see that has gone up from June 2023 we were at $10.2 million for our annual interest income and we're up to $11 million, so about $1 million. We changed around some of our instruments and increased it by around $1 million since June of 2023. So, if anybody has any questions on that.

Michael Fann - Mr. Chairman, if I could just add to what Amanda is saying, the repositioning that we have been working on with our broker for a number of months when it made financial sense has performed well, it really performed well during the last quarter, but what she's alluding to is she has been in conversation with him about maybe now that we we're kind of financially in a great position to do it. It just didn't make sense before now, but we are looking at probably taking some realized losses, on some of the low yield investments that we that he feels like he can sell and we're going to reposition, looking at yield and duration, those sorts of things we're just in a position through that where we haven't been literally for almost 2 years other than some of the minor reinvesting. So, I'd like to give Amanda and her team a tremendous amount of kudos and what we've done lately, but most specifically in riding out the stress of the last 20 to 24 months and they did all of that, did all the heavy lifting at the same time that two of her staff were studying and getting their CPAs. And so the department has shined and I want to congratulate Amanda on that and just want all of you to know that they've paid the price and they've done the work and it's coming to fruition.

Chairman Hayes - Motion made by Todd Smith to approve Investment Report from January 31st, 2024, seconded by Sam Tharpe. PASSED UNANIMOUSLY

IV. Rates and Coverages – FY2025

A. Coverages

Halie Gallik - You have a listing in your boardbook of four coverage items under liability along with one item related to the deductibles. The first item under the liability policy is a clarification for catastrophic medical. It is one word, and it's changing the word liability to limits. It's not changing the intent of the coverage, but it's simply more precise language. That clarification will also be on the application itself. It is not a change in the way that the coverage operates. We had a

recommendation from our coverage council. So it is, it's a very minor change. Again, it does not change the intent of the coverage. Kristen, do you have anything to add to that?

Kristen Berexa – I don't.

Halie Gallik - The next change is a clarification on the additional name insured endorsement or the wording that we call "as respects". So, when we add an interlocal agreement to the additional name insured endorsement or if we add a board or a commission that a member may have an employee that serves on, we use limiting language that we call internally as respects at the bottom of the endorsement there's language that explains that. The language that explains it doesn't use commonly referenced policy terms that are defined in the policy booklet itself and so we are rewording that wording not to change the intent of how it's currently applied, and it actually doesn't change anything from how the underwriting department functions with that language. It's to reword it to have common policy terms, which is almost a housekeeping issue. But because it was something that we studied for a long time, we felt that it was important to bring it. But it's not a change in the actual coverage or intent, it's just a change in the wording.

Exclusion 27 and the definition of covered contracts. This also relates to the discussions that we've been having for about a year related to interlocal agreements. So, Exclusion 27 relates to damages that a member is obligated to pay by reason of assumption of liability in a contract or agreement. And there's a specific exception to this exclusion for covered contracts, covered contracts that definition only applies and only occurs in exclusion 27. And so after working with our legal team over probably about it's not quite been a year, but it's been a time, we are asking for a clarification to that just to make sure that the way that interlocal agreements are structured that they can be considered a covered contract and not fall under this exclusion 27. There's still a requirement in the policy that interlocal agreements be listed on the additional named insurance endorsement and that's not changing. We still have that check and balance to make sure that we know what we're covering. But, we're looking to change the definition of covered contracts, so that it kind of clears up this issue.

The next one is Exclusion 34. It's a clarification of the intent to exclude actual or alleged claims involving impact fees. This also goes back to coverage council giving us some advice that there was some ambiguity in the way that this exclusion was written. This particular exclusion was last modified in 2014 when there was specific wording added to exclude actual or alleged claims related to impact fees. The wording has not changed since that time and we had an opinion from coverage Council that it could be more clear. So, we're looking to just clarify that again, most of these are not changing the intent of the coverage, it's just trying to make sure that we're as clear as possible and that we have very precise language.

And then the last one is the removal of a $50 and $100 comprehensive and collision deductible for auto physical damage. We've talked a lot about the cost of vehicle claims, the cost of auto physical damage losses, one of the areas in the policy and I will say that traditionally we haven't brought these, we haven't removed deductibles options from any of our coverages. But we weren't entirely sure if this was something that you all would want to see as removing a deductible from the liability policy or not. The lowest deductible that we offer for auto physical damage is $50 and $100. But because of the upward pressure on our auto physical damage rates, along with losses and members having some skin in the game in terms of paying for a vehicle that's wrecked. We wanted to share

with you that we were intending to remove the $50 and $100 comprehensive and collision deductibles for auto physical damage. Those are the areas for liability. Do you have any questions about liability before we go to property or work comp?

Chairman Hayes - Any questions board members? Carry on.

Halie Gallik - The property policy - The only recommended change is the removal of a $250 per occurrence deductible option for building and personal property. This also is in the same keeping of auto physical damage. When you look at the upward pressure on our reinsurance rates, the increases in our deductible that we have for property claims along with the value of the schedules that our members have. I don't know what your home deductible is for your personal property coverage, but likely it's more than $250. We still have a handful of members, we did look at who would be impacted by this because anytime we make a decision, we want to make sure that we understand what the ramifications are. We have a very small handful of members that are still on a $250 per occurrence deductible for properties. We feel pretty strongly that removing the $250 option and having the minimum be $500 for building and property building and personal property is the right message for our members. The $250 per occurrence deductible would still be in effect for electronic data processing equipment and mobile equipment. So that option would still there. So that is the only recommended change to the property policy. And there are no recommended changes to the workers compensation policy.

Chairman Hayes - Great report Ms. Halie.

Motion made by Victor Lay to approve Coverages seconded by Todd Smith. PASSED UNANIMOUSLY

B. Rates

Halie Gallik - for the 24-25 fund year we did do a rate study with Price Waterhouse Cooper. Part of that review they look at our actual losses and they take that data, they look at all our base rates and make recommendations that the leadership team and the executive team can use to then make recommendations to you for how rates should potentially change. You have in your board book the recommended rate changes for the 7/1/24 renewal year and as you go through that, there's no recommended rate change for workers compensation. There's an 8% recommended rate change for property, no change for general liability or errors in admissions, a 6% recommended rate increase for law enforcement liability, no change for auto liability and 8% for auto physical damage. So, when you look at those individual rate areas, there's a lot that goes into that. Amanda talked about the property losses for property for the rate change, it's losses, It's also reinsurance costs that are driving that. We've spent a lot of time in the underwriting department trying to encourage members to take higher deductibles to have some more skin in the game so that it can lower their premium. It's a premium management tool. But given the overall cost for the program, the property program, it's quite expensive to administer. For law enforcement liability, it is coming down to losses and I don't think that's a shock to anyone, but it is absolutely an expensive area. The frequency of the claims has also gone up. So, it's the number of law enforcement liability claims along with the cost to defend those. And then auto physical damage is claims, it is the cost of auto physical damage losses. If you've purchased a new vehicle locally, you know that the cost for those cars has gone up and it's taking longer to get them as well. And so that's reflected in the base rates that the actuaries looked at and made recommendations.

Chairman Hayes - All right, questions.

Todd Smith – I'm going to ask a question. Is there matrix or a model that that you use in weighing rate changes and I've kind of skipped ahead a little bit, but in dividend, if we're going to consider a $4 million dividend here in a couple minutes, if we didn't do a dividend, would that, I assume that would impact the rate change or not to? But is there a matrix you kind of weigh both the dividend and the rate change.

Halie Gallik - So they're intended to be separate. I think that's a great question and I think it's a great thing to discuss. So, what the actuaries look at is the losses that we've had and they look at the projection of the exposures as well for what we're insuring. So they should be independent measures. There's a lot more that goes into the ability to declare a dividend that's also dependent on the investments, which is completely separate from the rates. We want to make sure that when we determine our base rates that we can cover, on their own, the losses. So traditionally, the way we've described, Michael or Amanda jump in....

Michael Fann – You're exactly right.

Amanda Shrum - Yeah but rates are more forward moving too sometimes, whereas the dividend is based on past. So because of our losses last year like I told you, our actuarial study came in favorable in some lines, that we kind of look at dividend based on where we are in the past and rates are forward-looking what's to come, what expenses do we have coming up, what reinsurance for this current year is. So, it's two different....

Randy Brundige - We didn't declare a dividend last year at all, did we?

Michael Fann – We did not.

Amanda Shrum – Correct.

Randy Brundige - And the rates went up?

Amanda Shrum - And investments were not in good shape last year and so our net position was at a completely different point than where we were at the end of this year.

Todd Smith - OK, thank you.

Chairman Hayes - Any other questions, great question. Alright, we have a motion on the floor, any more discussion.

Motion made by Todd Smith to approve Rates – FY2025 seconded by John Holden. PASSED UNANIMOUSLY

V. Dividend Declaration

Michael Fann - Yeah, I'll let Halie also do the heavy lifting. But as we just discussed, our dividend question is based on our history and of all three lines of coverage and as Amanda said, what goes into that also is just our overall position as it relates to investments. So with that I'll kind of turn it over. You know they but just keep in mind we have tried to really with a fine tooth comb deal with all of these questions over the last three years and a little more frequency than we historically have done because we our capital adequacy study generally, which goes to net position, generally we only do every three to five years, well we've done it three years in a row. Rate study, is typically every two to three years we've done it now I think three years in a row. So anyway, we're looking at those things and we're really trying to make sure we are where we need to be both in terms of covering future exposures and declaring a dividend if possible, based on our overall history and our overall history of membership to make sure that we stay where we need to be financially. So with that Halie, I'll turn it over to you.

Halie Gallik - The recommendation for this year is a $4 million dividend with $3 million of that being allocated to workers compensation and $1 million of that being allocated to liability, and no dividend for property. We feel confident in this number and Amanda is probably in a better position to talk about that than I am, but we do feel confident in this number. We feel that the dividend program is an important benefit for membership in the pool and with the recovery of our financial position, we think that it's prudent to recommend a dividend, but ultimately it's your all's decision whether or not you want to declare it, but with the stability in the workers compensation, if you wanted to look at it with rates, which I know we just encourage you to consider separately, but we've had tremendous stability in our workers compensation program over the last decade. In 10 years of rates for workers compensation have seen five years of significant rate decreases and five years of no change to workers compensation rates. So, I think from a pricing stability standpoint for the membership, work comp is incredibly stable and realistically liability is fairly stable as well, even though last year for physical damage and auto liability, we did have some rate increases and law enforcement liability I think also kind of stands on its own for what's going on with law enforcement liability. But the overall recommendation for dividend this year is 4 million dollars.

Chairman Hayes - I'll entertain a motion to take this dividend declaration.

Motion made by Todd Smith to approve Dividend Declaration seconded by Sam Tharpe. PASSED UNANIMOUSLY

Sam Tharpe - How many points generated from the previous year? Did we have any points left over or. And I'm speaking of the points that carry over one year to the next from our investments and that's what got our last Director in trouble you know what I'm talking about?

Michael Fann - We don't do that at all. It just goes right straight…it all…whatever points that used to go out they stay with our investments.

Amanda Shrum – We don't do that.

Sam Tharpe -That's what I wanted to get clarified. Those points are going right straight into back into our investments. Thank you so much.

Chairman Hayes - I think we've got and…I just want to give a round of applause for our members of the city. Great team here and They're not able to do that this year or last year, but was able to do that this year. This is one of the things that separates Public Entity Partners from the rest. And I've said that, and I've said that bullet point, why do we choose Public Entity Partners over the other risk management companies, insurance companies dividends that would be everybody enjoys. So good job team.

Michael Fann - And I think Mr. Chairman, this will be the 25th 24-25 year will be the 25th year out of 27 of the dividend program we've been able to declare a dividend.

Amanda Shrum - I would like to if any of you want to know the history of those dividends and what we went ahead and did a preliminary calculation based on the beginning of this year if it were approved for each of you for your respective cities. If you want to take that and look at it, it's got the whole history.

Chairman Hayes – That would be great. Well members, well, we put that down in the newsletter that if any member needs to call in and find the history. I just, you know,…most of us and I'm sure everybody around the table get all of these emails from companies willing to take business wanting our business. Tennessee City's business would be away from PEP. I just think that our city managers, our Councilman, mayors need to have the ammunition when someone walks in City Hall of wanting business because that's what they're wanting. This is how it happens. A new mayor comes in, a new manager comes in, a new City Council comes in…they've got a buddy that is in the insurance field and off the races we go. And so I just want to make sure that we are always how our members equipped with some good bullet points. I've talked to Michael about this several times, I know we put some of this stuff out newsletter, but to have them equipped on why we are a member. So, I guess going back to the question, so can the members individually call in?

Halie Gallik - They also don't have to call in because communications and research, Carly, she's sends out a informational letter to each member.

Carly Salah - Most of them have a dividend letter that shared exactly what they're getting back. This is the first year I've done it because I wasn't here last year. Does it cover what they've received overall?

Halie Gallik - It does, it gives you the overall dividend by member.

Chairman Hayes - Good, good, good. Thank you. Great. That's great. All right, great job team.

VI. Resolution honoring Jon Calvin.

Michael Fann - Thank you, Mr. Chairman. This comes as a recommendation, unanimous recommendation from our leadership team. We haven't done this very often officially as a resolution but upon completion of our downstairs, which structure wise is done, we're waiting on some furniture. But the new training room on our first floor that furniture did arrive this week and thanks to our team for getting that put together. If you didn't get a chance to stick your head in, I'll encourage you to do so, but we got to thinking about this and we have all literally for the last three years almost exactly 3 years.
What would be a good way to honor our late friend John Calvin? So if you'll indulge me. I'm going to try to make it through this. Our leadership team unanimously recommends a resolution to honor the dedication and contribution of Jon Calvin to the city's, towns, local service agencies and taxpayers in the state of Tennessee through his service with Public Entity Partners.

Whereas, Jon Calvin invested more than 40 years to the risk and insurance management discipline; and

Whereas, Jon Calvin dedicated the last 11 years of his life to the membership of Public Entity Partners - specifically the cities, towns, local service agencies, and taxpayers of Tennessee; and

Whereas, Jon used his talents in underwriting and information technology to develop and maintain the underwriting system at Public Entity Partners; and

Whereas, Jon had a vision that will forever be woven into the culture and service of PEP; and

Whereas, Jon was the epitome of someone dedicated to the corporate values at PEP of Service, Integrity, Quality, Stewardship and Inclusiveness; and

Whereas Jon set a standard of excellence in our industry and in the public sector for kindness, fairness, integrity, respect and humor; and

Whereas Jon not only wanted his coworkers to succeed, he did what he could to help you succeed; and

Whereas, Jon delighted in sharing his gift of music with his family, friends and clients; and

Whereas, Jon was a pun-master without fear; and

Whereas, Jon is missed by family, friends, coworkers and all who knew him; and

Whereas, we find it appropriate to pause in our board deliberations to acknowledge and remember Jon Calvin for his dedication to the membership of Public Entity Partners and the state of Tennessee.

Now, therefore, be it resolved by the Board of Directors Public Entity Partners as follows:

We hereby honor the memory of and commend Jon Calvin for his exemplary service and further designate the Public Entity Partners Training Facility at 562 Franklin Rd. Franklin, TN the "Jon Calvin Risk Management Education Center."

Motion made by Randy Brundige to approve the Resolution naming the Jon Calvin Risk Management Education Center seconded by Sam Tharpe. PASSED UNANIMOUSLY

Chairman Hayes - Russ can you give us a legislative update

General Counsel Russ Farrar provided an overview of the legislative session. Several questions were asked.

Chairman Hayes - Our next scheduled meeting is Friday, June 21st and I hope you've had an opportunity to look at the department heads reviews, their reports. Our department heads did an outstanding job.

VII. Date of Next Meeting

Michael Fann - Just a matter of calendars. In addition to the June meeting, you've got a list of four other things we know that you've got on your calendar, obviously a little over a week.

Chairman Hayes - Thank you. Any other business?

Motion made by Victor Lay to adjourn seconded by Sam Tharpe. PASSED UNANIMOUSLY

William Curtis Hayes, Chairman

Halie Gallik, Secretary