



**Kentucky League of Cities/Kentucky School Boards Insurance Trust
Administrative Agreement
December 8, 2009**

Q: How did this negotiation get started?

The Kentucky School Boards Insurance Trust (KSBIT) approached KLC about the possibility of an administrative arrangement to run their pool. The Kentucky Department of Insurance was aware of the negotiations.

Q: What are the terms of this contract?

KLC will serve as the administrator for the KSBIT pool just as it does for the KLCIS pool. KLC has the capacity and infrastructure to perform these services.

Q: Will KLCIS infuse money into the KSBIT pool to pay future claims?

KLCIS will infuse money into KSBIT to eliminate the negative fund balance and meet the DOI surplus requirements for self-insured funds.

Q: What happens when KLC becomes the pool administrator for KSBIT?

Like KLCIS, KSBIT is an insurance pool. Its members will continue to own the pool and its Board of Trustees will remain responsible to that membership.

KLC will manage all policy issuance, claims, loss control, underwriting and investments. This will include management of KSBIT's workers' compensation, property and liability programs. KSBIT will continue to manage its unemployment insurance pool with a separate board.

The goal of the agreement is to provide KSBIT with a viable alternative for its future as well as to strengthen both organizations' member-owned pools in the marketplace.

Q: Why did KSBIT come to KLC?

While KSBIT has not experienced cash flow problems in meeting current liabilities, the workers' compensation fund has reported a negative fund balance for several years and has been operating under a corrective action plan, monitored by DOI.

Earlier this year, after extensive study of a variety of options, KSBIT approached KLC about a partnership due to KLC's expertise in administering and managing the day-to-day operations of the KLCIS pool. KLCIS has a 22-year track record of success. Currently, KLCIS has \$43 million in premiums, \$22 million in surplus and manages \$101 million in total assets.

According to KSBIT, they approached KLC based on:

- KLC's experience in providing local governments with workers' comp, property and liability services

- KLC's relationship to its local government members and the people in them
- KLC's outstanding array of loss control and risk management services

Q: Why is this good for KSBIT and its members?

With self-insured pools members assume the liability as well as reap the rewards. The current actuarial projection of a long-term potential deficit carried the probability of a Kentucky Department of Insurance-ordered "assessment" of its members: the state's public school districts. In the case of KSBIT, an assessment would require any school board that had ever been a member of the pool to pay out of pocket to meet past, current and even future claims. By partnering with KLC, KSBIT members lower the risk of being assessed because KLCIS will infuse enough funds to rebuild the surplus to pay KSBIT members' claims.

Q: Why is this good for KLCIS and its members?

The new relationship is good for both pools and their respective members. It will create new synergies as both pools bring proven programs and services to the table.

Based on our pro forma analysis, KLCIS could achieve dramatic cost savings of up to half a million dollars initially through joint contracts and economies of scale. Because this pool is completely separate, KLCIS members will bear no liability or risk associated with the KSBIT pool.

This contract is one of a number of positive steps to move KLC and KLCIS successfully into 2010.

Q: How will the KSBIT pool turn around?

KLC will streamline processes, dramatically reduce KSBIT's overhead and provide proven investment strategies. But KSBIT's future solvency depends in large part on the continued and increased participation in KSBIT by Kentucky's school districts.

Over the coming weeks and months KSBA and KLC will be having discussions with school leaders about the benefits of this agreement and the vital necessity of their continued participation in the pool. The KLCIS pool has a high level of participation and is very successful.

Q: Will this contract stretch the staffing and other resources of KLC?

KLC has already evaluated the impact on staff and has a plan to adapt accordingly. The contract will be beneficial to both pools by providing economies of scale.

Q: How will KLC restructure KSBIT?

The KSBIT Board will maintain majority control of its board with 10 KSBIT appointed school board members and nine KLC appointed members on the board. This new board will be fully engaged in the operations of the KSBIT pool.

KLC will manage all policy issuance, claims, loss control, underwriting and investments.

Q: KLC has been in the news a lot lately. Is this a good time for a big step like this?

KLC has been the subject of media this year, particularly in the Lexington print media market, much of which has been focused on very specific issues that have no effect on delivery of services. The reality is that KLC has provided cities with quality services like advocacy, training and education, legal and research assistance since 1927. Members value and appreciate KLC's services, staff and innovations. Like the Kentucky School Boards Association, the Kentucky League of Cities is a membership association, not a government entity.

KLC finance and insurance enterprise programs are businesses. The KLCIS pool, a separate business from KLC, was formed in 1987 when cities in Kentucky could not find or afford insurance.

KLC has learned good lessons this year about transparency and accountability to members and has updated policies and established board-member task forces to provide additional oversight on all areas of our operation, particularly travel and spending.

Continuous quality improvement and measurement have and will continue to be part of the KLC culture.