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## MEMORANDUM

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**To: Kentucky school board members and superintendents**

**From: Delmar Mahan, President, KSBA; Chairman, KSBIT** *Delmar D. Mahan*

**William G. Scott, Executive Director** *William G. Scott*

**Date: Dec. 8, 2009**

**Issue: Insurance management agreement with Kentucky League of Cities**

We are writing to tell you that the Kentucky Department of Insurance (KDOI) has approved a management agreement between our Kentucky School Boards Insurance Trust (KSBIT) and the Kentucky League of Cities Insurance Service (KLCIS). Effective Jan. 1, KSBIT fleet, liability, property and workers' compensation pools and loss prevention services will be operated in concert with KLCIS. (KSBIT's unemployment insurance pool is unaffected.)

As the KSBIT/KLCIS team works for a seamless transition, we want to begin this relationship with some background information as well as provide a positive look ahead.

For the past five years, your KSBIT management team has had one mission: maintaining quality, self-insured coverage and risk management services while strengthening the financial viability of our insurance pools. As we've shared earlier, two main factors have been at play:

- KSBIT's actuaries changed their outlook from one of the trust having ample reserves to pay workers' compensation and fleet/liability/property claims in the long run to a more conservative position that there could be insufficient funds to pay those long-term claims. (Current claims payments are unaffected.)
- An extended "soft" insurance market, characterized by lower returns on investments, increased the competition by out-of-state, for-profit, private-sector insurance firms intent on driving out KSBIT as a non-profit, public-sector insurance option for schools.

Despite cutting costs – including more than one round of painful layoffs – an improvement in our premium underwriting capacity and an enhancement of our loss-prevention capabilities, we have not been able to eliminate the projected, long-term deficits for the workers' compensation and fleet/liability/property pools.

Over those past five years, KSBIT worked with the Department of Insurance to meet the state's mandate to eliminate the possible deficit. It's safe to say that the exploration of multiple options have consumed KSBIT's management team in that time, second only to our commitment to preserving a quality, non-profit insurance service for Kentucky's public schools.

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This fall, KDOI gave KSBIT an ultimatum to resolve the projected deficit by Dec. 31. Two options existed: erase the projected deficit (and add a required reserve) by “assessing,” or charging, current and past customers an additional premium on prior claims or enter into an insurance partnership that would include funds to cover the deficit and required reserve – an estimated \$8 million.

When KSBIT began in 1978, participating districts agreed to share the benefits and risks of self-insurance: access to required coverages at reasonable rates and collective responsibility for claims against the pools. As the projected deficit is due to claims over many years, this means that virtually all current and past KSBIT participants would be assessed – for some, a few thousand dollars, for others, hundreds of thousands of dollars.

From the beginning, your KSBIT Board of Trustees (school board members, a superintendent and a district finance officer) as well as your KSBA Board of Directors have **been** adamant on one point: an assessment was the very last option to be considered. The **current** fiscal challenges facing Kentucky’s public schools further underscored their resolve to do whatever possible to avoid this **alternative**.

Thus our efforts have focused on finding the right insurance partner. After months of discussions with many parties and weeks of negotiations, we found the right fit for KSBIT – and, we strongly believe, for Kentucky schools – in KLCIS.

Like KSBIT, KLCIS is a non-profit program serving local governments. Like KSBIT, it has a track record of quality loss prevention services to its members. Like KSBIT, KLCIS has a history of solid management, directed by trustees who are also its members.

But KLCIS is a much larger program than KSBIT with greater resources: \$100 million in assets and a \$20 million surplus compared with KSBIT’s \$28 million in assets and a projected deficit. KLCIS has a state of the art infrastructure that will eliminate duplication of operational services. It also has a statewide network of independent local agents able to meet school districts’ needs. In the coming months, KSBIT and KLCIS teams will be visiting your district to share more details of the **partnership**.

While we hope we’ve given you solid information on what the KSBIT/KLCIS partnership means for Kentucky schools, we also have to share two things it does *not* do:

- Provide just a short-term fix to a long-term problem, or
- Eliminate forever the possibility of an assessment on Kentucky schools.

KSBIT and KLCIS are entering into this partnership with everyone’s attention on that goal we noted early in this letter: maintaining quality, non-profit, self-insured coverage for Kentucky schools while strengthening the finances of our insurance pools through an infusion of funds from KLCIS.

It is the intent of KSBIT management that the KLC funds be repaid as soon as is feasible while leaving the pools in a surplus position. An **expanded** KSBIT Board of Trustees (10 school leaders and nine city officials) will be charged with keeping that goal in focus over the coming months and years.

**There remains one variable to ensuring future availability of a comprehensive, non-profit insurance option for Kentucky schools, avoiding consideration of assessments against districts and returning fiscal viability and independence to KSBIT. That is in the insurance purchasing decisions that you – the school board members and superintendents of our state – make in 2010 and beyond.**

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**Page Three**

KSBIT/KLCIS will continue to offer the quality, competitive insurance coverage and risk management services your districts have received over the past 30 years from KSBIT. We see this partnership as enhancing those services.

But a strong self-insurance pool gains more strength, more capacity to serve responsively and responsibly when it grows its membership. As we put our financial difficulties behind us, we know that we cannot expect your participation in KSBIT/KLCIS based solely on past performance. We must be competitive. We must provide value. We must remain school-focused.

All we ask of you in the coming months and years is a fair comparison between the insurance services of KSBIT/KLCIS and our competitors, and a continued opportunity to serve your school systems on behalf of you, your staff and your students.

Here is the news release being issued today by KSBA and KLC:

**Kentucky School Boards Insurance Trust Signs Administrative Contract with Kentucky League of Cities**

LEXINGTON, KY -- The Kentucky School Boards Insurance Trust (KSBIT) and the Kentucky League of Cities (KLC) today announced a new administrative relationship that will keep the school boards' insurance trust intact.

The Kentucky Department of Insurance (DOI) approved the **contract on Dec. 8**. The agreement will go into effect on Jan. 1, 2010.

The agreement is for KLC to take over the **administration and management** of the KSBIT pool, which has a similar scope and mission to the Kentucky League of Cities Insurance Services (KLCIS). KLC will manage all policy issuance, claims, loss control, underwriting and investments. KLC currently contracts with KLCIS for administrative services and will do the same for KSBIT.

**The contract** is not a merger between KLC and the Kentucky School Boards Association (KSBA) nor is it a merger between the two insurance pools.

"This agreement accomplishes the goals we have been working toward for several years: preserving the nonprofit insurance pool for public schools and restoring long-term financial viability to KSBIT without having to go back to participating districts for additional funding," said Delmar Mahan, chairman of the KSBIT Board of Trustees, KSBA president and a member of the Whitley County Board of Education.

While many organizations are **struggling during** the current economic climate, the Kentucky League of Cities insurance pool is financially sound. **KLCIS has** \$22 million in surplus and \$43 million in premiums and manages \$101 million in assets. As a means for stabilizing its insurance funds, KSBIT first approached Kentucky League of Cities Insurance Services during the summer about assuming the management of its workers' compensation, liability and property funds.

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**Page Four**

“After an exhaustive review by our staff and outside experts and many discussions by our trustees, we believe the stability and management expertise of KLC and its similarity in mission will serve Kentucky schools well,” said KSBA Executive Director Bill Scott.

“This is a win-win for everyone,” said Bill Hamilton, KLC executive pool administrator/chief insurance officer. “The school trust can continue to serve its own members with financial and operational stability and KLCIS is able to step up and partner with our schools.”

The KSBIT Board of Trustees will remain separate from the KLCIS Board of Trustees, with school members representing its board majority. KSBIT will also continue to have full management of its unemployment insurance pool.

Mayfield Mayor and KLCIS Board of Trustees Chair Arthur Byrn noted that most Kentucky school systems are under heavy financial pressure due in part to the recession and lower tax receipts. “The school systems simply have too much on their financial plates,” he said. “We are very glad to work with them on this.”

Byrn said KLCIS customers and services would not be affected by the management contract with KSBIT. “Our (KLCIS) premiums, our currently strong financial standing and our individual services will not be affected in any negative way,” Byrn said.

“We are hopeful that this agreement will be a positive one for both entities. The agreement avoids an immediate assessment of KSBIT members while protecting the injured workers who rely on the fund. Those individuals have been our primary concern since the discussions began,” said Kentucky Insurance Commissioner Sharon P. Clark.

“We have the financial depth and expertise to do this,” said Neil Hackworth, KLC deputy executive director/COO. “Our KLC and KLCIS boards see this as an opportunity to partner with an association that represents another important institution in our communities, our schools.”

In 1987 cities came to the Kentucky League of Cities because they could not afford or find insurance. The result was the establishment of KLCIS, a member-owned insurance pool that insures more Kentucky municipalities than all other insurance carriers combined. KLCIS is the state’s largest municipal insurer and offers a full range of insurance coverages as well as employee benefits, loss control and risk management services.

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