

Pool Consolidation Information Session #1

APEI & AMLJIA, MARCH 14, 2024

Welcome to the first of what we expect will be several information sessions about the potential consolidation of Alaska's two risk pools, AMLJIA and APEI.

My name is Lynn McNamara and I've had the pleasure of working with the Consolidation Committee and the project team since last fall, using my own background in risk pooling and local government to facilitate their discussions.

How to participate

- Raise “hand”
- Put question in chat
- Remain muted until time to talk

We need and want your participation today.

If you have a comment or question, please use the “raise hand” feature at the bottom of your screen, or type it in the chat.

There are a lot of us in the session, so we ask that you keep your microphone muted until you’re called on to speak.

Agenda

Introductions

Why consolidate?

Where we are now

- Activities so far
- Initial decisions

What will consolidation mean for coverage and services?

The process of consolidation

Q and A

We're going to try to cover a lot in this hour, starting with meeting the members of the Consolidation Committee who are driving this process.

We'll talk about how and why this process got started, and move on to what's happened so far and the initial decisions that have been made.

We'll also talk about what consolidation may mean for services and coverage, and review the statutory process that must be followed to consolidate.

And, of course take time for Q & A.

The Consolidation Committee

The eight-member Consolidation Committee is made up of Board members from APEI and AMLJIA, supported by the executive directors and deputy directors of the two pools.

Representing AMLJIA

Brandi Harbaugh, Kenai Peninsula Borough
Joe Evans, Kotzebue
Nils Andreassen, Alaska Municipal League
Tammy White, business manager/consultant

Staff:

Kevin Smith, Executive Director
Brennan Hickok, Deputy Director

Representing APEI

Brad Thompson, at-large board member
Lon Garrison, Association of Alaska School Boards
Mark Vink, Bering Strait School District
Melissa Haley, City and Borough of Sitka

Staff:

Barbara Thurston, Executive Director
Carleen Mitchell, Deputy Director

The Consolidation Committee is made up of 8 members, 4 from the APEI board and 4 from AMLJIA's board

As I say their names, they can say hello and share their role.

[Comments from Lon]

How we got here:



December 2022:
AMLJIA and APEI boards decide to investigate the idea of consolidation.



Early 2023:
Legal review to determine consolidation process and ensure there were no antitrust issues associated with consolidation.



Summer 2023:
APEI and AMLJIA boards each appoint four of their members to serve on a Consolidation Committee.



August 2023 – present:
Consolidation Committee has met monthly in Anchorage or Juneau to discuss issues associated with consolidation.

The idea of consolidation has been around for a while, but it wasn't until December 2022 that the two boards decided to explore that idea.

They started with a legal review to understand the process, and made sure there were no anti-trust issues before they went ahead.

Last summer, the two boards appointed the Committee members you just met, and since then, they have met at least monthly to discuss the various issues associated with consolidation.

Why Consolidate?

The AMLJIA and APEI boards identified several reasons why consolidation could be advantageous for both pools' members:

- Economies of scale could allow for savings in costs to the pool and lower premiums for members.
- Combined staffing could provide enhanced member services.
- Internally, consolidation could provide greater staffing depth for positions requiring specific expertise, including claims, loss control, and underwriting.

So why consolidate? These are two pools who are doing well on their own.

But the thought is that consolidation could create real advantages for all members if it meant economies of scale, enhanced member services, greater depth and expertise among staff, especially in the more technical positions..

Consolidation Math

$$1 + 1 = < 2$$

Funding needed for one combined pool vs. two separate pools

$$1 + 1 = > 2$$

Services that can be provided by combining staff expertise and existing programs

And the math makes sense.

In addition to operational costs that are no longer duplicated, the reinsurance brokers that both pools work with have said that the cost of operating one pool is likely to be less than the cost for two.

And, it's clear that when you combine the staff expertise and existing programs at AMLJIA and APEI, the value to members is greater than it would be if each pool continued to operate alone.

Committee Principles

- The new pool will be *member-oriented*: governed by and focused on the needs of its member entities.
- The new pool will be *structured to manage members' cost of risk, maintain adequate reserves, and strive to provide price stability over time*.
- *Transparency* will remain an important part of the new pool's policies, finances, and interactions with members.
- Through its design of coverage, services, and operations, the new pool will *offer broader value to its members than either AMLJIA or APEI could provide alone*.
- A focus of the new pool will be *targeted risk management*, helping members identify risks and prevent losses both large and small.
- The Consolidation Committee will carefully weigh the *impact on members and work toward equitable outcomes in its decision-making*.

Early on, the Committee adopted several principles to guide their work, as you'll see:

- It wants a pool that's member-oriented and governed;
- A pool that is structured for solid financial results and price stability over time;
- Transparency and broader value for members is important, as is
- Targeted risk management;
- And, decisions that work toward equitable outcomes and that take members into account.



A new pool needs a name, and they've chosen one: the Alaska Public Risk Alliance – APRA for short.

Alliance refers not only to the two pools coming together, but the alliance of all of the members that come together to share risk, and the rewards that come from collaboration.

In answer to one of the questions we received, APRA doesn't have a mission statement yet, but it's coming soon.

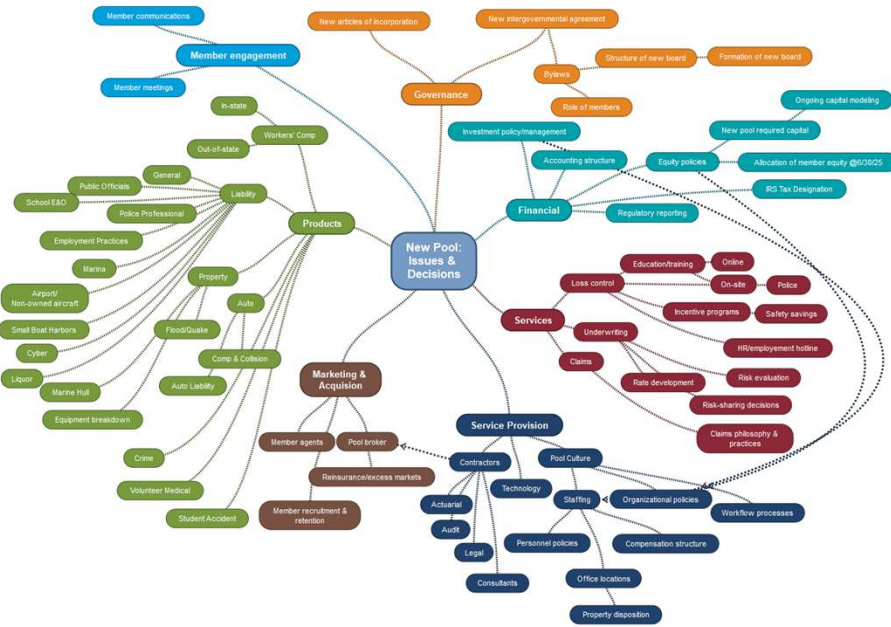
Comments from the Committee or project team before we go on?

Where we are now: activities and initial decisions



This is a process that's far from over, but let's talk about where we are right now.

Many issues to tackle



Many issues to tackle is an understatement.

I made up this chart as we were getting started, to get my head around the many, many issues around consolidation that would have to be considered and decided, and the implementation activities that would follow.

And for each bubble on this chart, there are a bunch of sub-bubbles that don't show up yet.

But the Committee has tackled them one by one over the past several months, and we can share with you some of the key decisions so far.

Financial



- Hired national firm Select Actuarial Services to review both pools' financial conditions and evaluate whether it was reasonable to bring them together.
- Findings:
 - Both pools are on solid financial ground and have enough capital to appropriately fund a new pool.
 - Consolidation is reasonable.
- Numbers will be updated after 6/30/24 to make sure everything is still on track.

The first set of issues were financial.

Consolidation may make sense from a coverage and service perspective, but does it also make sense financially?

The committee hired an actuarial firm to figure that out, and as you see, their findings were positive.

The actuaries will be revisiting the numbers after the end of this fiscal year in June, and will make sure that both APEI and AMLJIA are still on track for a successful consolidation if that decision is ultimately made..

Governance



- There will be a **transitional board** whose members will be drawn from the Consolidation Committee.
- The **permanent board will have 12 voting members:**
 - 8 representing participants – 4 from municipalities, 4 from school districts, recognizing that may not always be achievable
 - 2 at-large members who need not represent a participant
 - The executive directors of AML and AASB.
- All except the executive directors will be **elected by the membership.**
- **Geographic diversity** on the board preferred.

The next big topic was governance.

Because the Committee members have been so deeply involved in this process, it was agreed that a transitional board for APRA should be drawn from the Committee.

However, they also agreed that the permanent board should be elected, and should be made up of an equal number of municipal and school district representatives, to the extent possible, a couple of at-large members who can add value to the group, and the executive directors of AASB and AML, both of whom serve on their pool boards now.

Geographic diversity is also preferred, understanding that there may not be candidates from a particular region in any given year.

Staffing



- The Committee would like **APEI and AMLJIA staff to continue serving members** through APRA.
- There is a **role for current staff members** in the consolidated pool.
 - Kevin Smith has announced his intention to retire in July 2025.
- Both the **Anchorage and Juneau offices** will be maintained.

The staff is the heart of any pool's operations, and the Committee recognized that early on.

They know – as you know – how valuable the AMLJIA and APEI staff are, and when we looked at combining the two staffs, it was amazing how well they lined up, with virtually no duplication.

So the Committee has committed to retaining all of the current staff, and to keep both the Anchorage and Juneau offices so as not to disrupt anyone's life.

That said, Kevin Smith, the ED of AMLJIA, has indicated that he intends to retire at the time of consolidation. [Kevin to comment.]

Brokers and APRA

- Members are **strongly encouraged, but not required**, to use the services of a broker.
- Committee will be discussing how to reflect the services provided by brokers in the contributions charged to members.
- Members that do not choose to engage a broker can obtain some services that a broker would provide via an APRA staff function.

The role of brokers in the new pool took a lot of discussion.

As you may know, APEI requires its members to have a broker, while AMLJIA does not. Understanding the value that brokers can bring to members, but also recognizing that there may not be brokers available for the smallest members, the Committee decided to encourage, but not require members to use the services of a broker.

Like AMLJIA does now, APRA staff would provide limited services to those that don't have a broker, such as helping them update their schedules.

The Committee will discuss **how to recognize the services that are provided by brokers in the contributions charged by APRA.**

Committee/staff comments?

APRA Coverage and Services



The next logical question – which a number of you asked – is about the coverage and services that APRA will provide.

What coverage will APRA provide?

- Committee has hired a broker to assist in bringing the two pools' coverage documents into one.
- Much is the same, but there are a few significant differences.
- Process is just beginning and will take several months.

Coverage is the most difficult, because each pool has very detailed coverage documents, and while much is the same between them, many of you know that there are at least a few significant differences.

The Committee decided to hire a broker familiar with the Alaska pools – and that currently serves APEI – to work with the Committee to help make those decisions.

Clearly this will take some time, and is likely to continue for the next several months.



It's fair to say that a lot of the decisions will be guided by finding the right balance between coverage and cost, using the current coverage documents as the starting point.

We all know that what we would like to have, and what we are able to pay for, are often two different things;

Finding the sweet spot between them is the goal.

What services will APRA offer?

- Opportunity to take advantage of each pool's strengths for the benefit of ALL members:
 - Both pools currently provide broad risk management services to members
 - AMLJIA has a more robust police/public safety program
 - APEI has a more robust SAM program for schools
 - Can combine different features of employment risk management.
- Potential to add new services requested by members.

While coverage is going to be a complex question, services to be provided by APRA are less so.

Both pools now have very broad risk management programs, but AMLJIA is more robust in the area of police and public safety, and APEI has a more robust Sexual assault & molestation (SAM) program for schools.

Offering both programs through APRA will bring value to all members.

Employment risk management is another area where both pools have services, but they're a bit different.

Again, bringing them together will mean a more comprehensive program and greater value for members.

There also will be the potential to add new services – one that came up in the member survey we did last fall was cyber risk services.

Comments from staff/committee?

The consolidation process



Let's talk now about the process of consolidating., starting with the requirements under Alaska law.

We tend to use “consolidation” and “merger” interchangeably, but the state uses “consolidation” to describe what this would be
– a marriage of equals – vs. a merger, in which one entity would take over the other.



1. RECOMMENDATION

Consolidation Committee recommends to the APEI & AMLJIA Boards that the pools consolidate, and provides a recommended plan for the consolidation.

If the Consolidation Committee reaches the conclusion that consolidation is the right way to go, it has to make a recommendation to the APEI and AMLJIA boards, and provide a plan for the consolidation.



2. PLAN APPROVAL

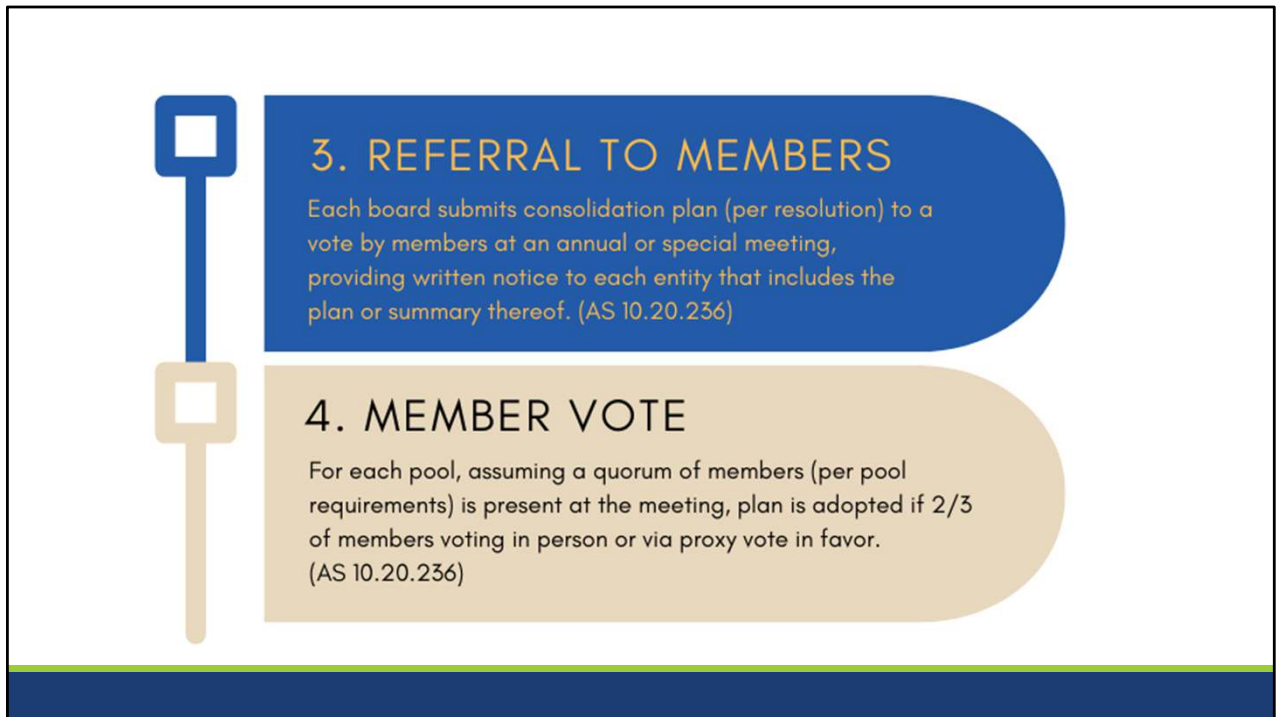
Each board approves the plan by resolution.* (AS 10.20.231)

*Resolution must include:

- Names of consolidating corporations
- Name of new corporation
- Terms and conditions of the consolidation
- Required statements for new articles of incorporation
- Other/desirable provisions of the consolidation

(AS 10.20.231)

If the boards agree with the recommendation, each has to pass a resolution that must include certain information that you see here.



The recommendation then goes to each pool’s members, who will vote on the consolidation plan at an annual or special meeting of the pool. As you see, there are specific requirements for participation and approval by the membership.

The expectation is that the member meeting at which a vote is taken will be virtual, and that both APEI and AMLJIA will have their meetings on the same day. Each member will be asked by its pool to designate one person to be the member’s representative for voting purposes.

Since each member entity has only one vote, that will avoid the issue of having multiple people from an entity voting.



If the members of both AMLJIA and APEI approve, the plan goes to the state for approval. At the point of approval, the former entities cease to exist and the new one takes over.



7. NEW POOL BEGINS SERVICE

New Bylaws are adopted; new Board of Directors formed; organizational meeting held; new Cooperative Participation Agreements signed by each member.

And at that point, the new pool gets off the ground.

Committee Timeline



March – July 2024:
Study coverage options, develop underwriting approach.



July – August 2024:
Updated actuarial review of each pool's financial status, development of needed capital for APRA; initial development of consolidation plan.



September 2024:
Committee decision on its consolidation recommendation and referral to APEI and AMLJIA boards. Boards meet to act on recommendation.



October – November 2024:
If recommendation to consolidate is made and approved by the Boards, information provided to members in advance of member vote (tentatively November 15).

Picking up where we are today, here's the timeline:

The next few months are focused on coverage, followed by determining how APRA will approach allocating costs among members.

As mentioned earlier, the actuaries will be back after June 30 to look at each pool's financial status, and help develop the amount of capital needed to fund APRA.

If things are looking positive, we'll start work on the development of a consolidation plan, with the idea that the Committee will act in September, and if they adopt a recommendation to consolidate, it will be referred to the APEI and AMLJIA boards

And again if the two boards agree to move forward, information will be provided to members, with a vote tentatively scheduled for Nov. 15.

If consolidation is approved by members...



December 2024:
Implementation activities begin.



January – March 2025:
Finalize staff structure and service offerings, develop actuarial estimates of claims for 2025-26 fiscal year. Continued implementation activities.



April 2025:
Development of operating budget and member rates for 2025-26, with final approval in May.
Continued implementation activities.



May – June 2025:
Members asked to sign new participation agreements for APRA. Final implementation activities, including completing process for state approval of consolidation.



July 1, 2025:
APRA begins operations. APRA takes over the liabilities of AMLJIA and APEI, which will no longer exist.

And if members approved, the work to actually consolidate the two organizations into APRA begins.

In addition to bringing the programs together operationally, budgets and rates for 2025-26 will have to be developed.

Members will be asked to sign a new participation agreement for APRA, which would formally begin operations on July 1.

Legally, APRA would take over the liabilities of AMLJIA and APEI, and those two organizations would cease to exist, even as their staffs and legacy remains.

Committee/staff – comments?



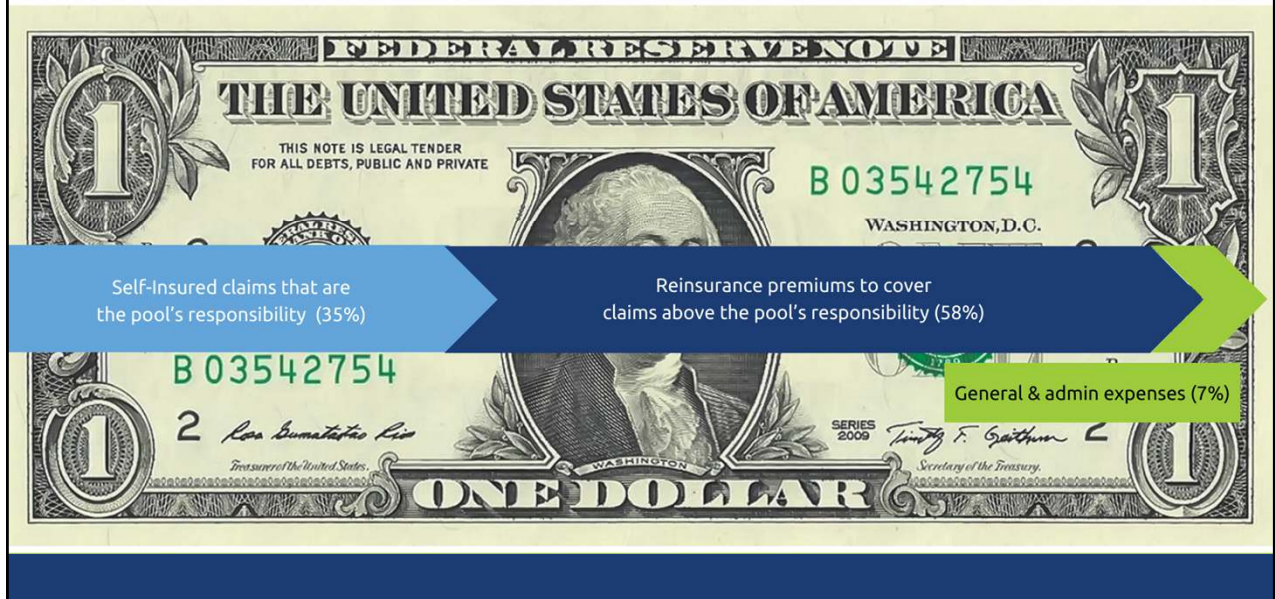
How can we
keep costs
from
ballooning out
of control?



This is one of the questions posed to us. It's a hard one to answer, simply because a lot of costs are driven by forces outside of Alaska and outside of any of our control.

But one thing that every member can do is to take advantage of risk management services offered by the pool and any offered by your broker to reduce the number and cost of your entity's claims..

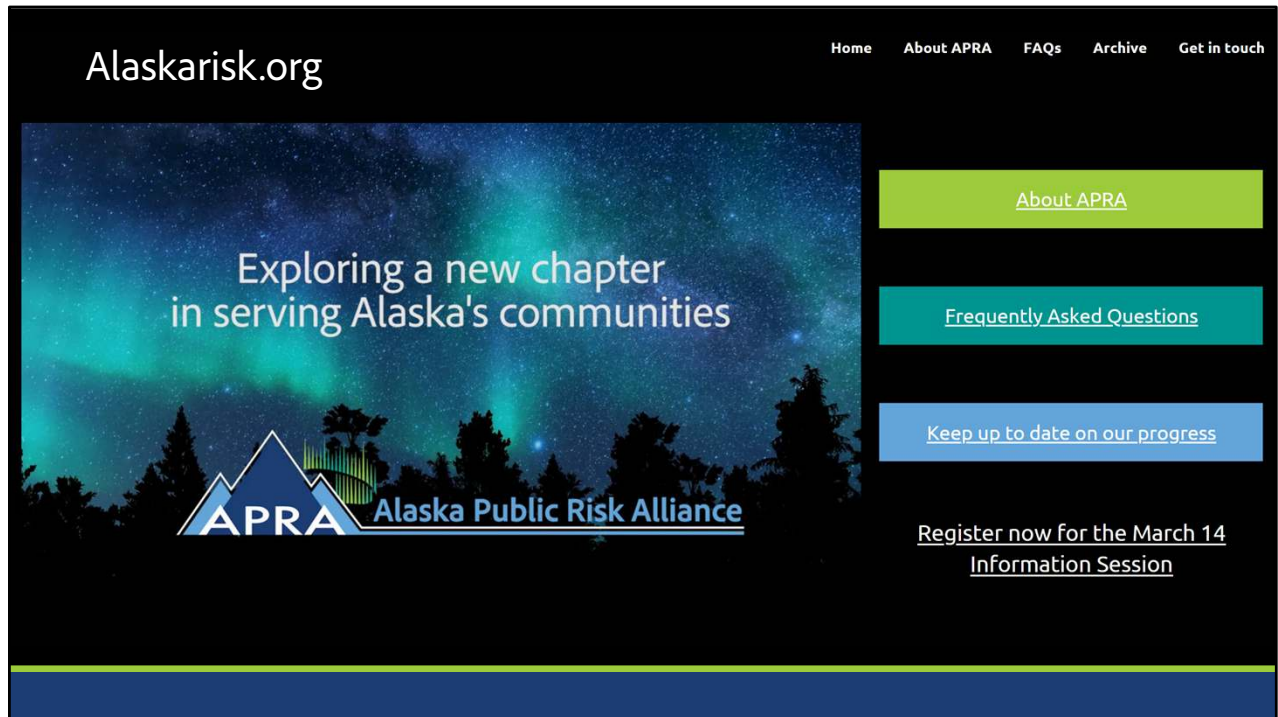
Approximately 93 cents of every pool dollar is related to claims.



This is an example from APEI, but I can say from experience that it's generally true of all pools. As you can see, the self-insured claims that the pool covers accounts for about 35% of the cost, but the biggest cost by far is to purchase additional insurance to pay the highest cost claims. Between them, they account for 93 cents of every dollar. The operating costs are the smallest piece.

Costs in a pool are driven primarily by claims, and while not all claims can be prevented, a number of them can. That's why both APEI and AMLJIA currently offer programs to manage the risk associated with operating a municipality or a school district. We may not be able to control the weather, but we can take steps to make workplaces safer, and to follow best practices to prevent claims associated with sexual molestation, or police activities, or a complaint of wrongful termination.

That's going to be true whether or not APRA comes into being. The best claim is always going to be the one that never happens.



As more decisions are made, we expect to have more of these meetings. In the meantime, we encourage you to check out the website for APRA, alaskarisk.org.

You'll find some frequently asked questions, and you can sign up to be notified when new information is posted. You can also use the site to ask a question or make a comment.

Thank you for your time and participation today.