

# Pool Consolidation Information Session #2

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AMLJIA & APEI, JUNE 5, 2024

Thank you for joining us today for the second update on the potential consolidation of APEI and AMLJIA into a new pool, the Alaska Public Risk Alliance. I'm Lynn McNamara, a consultant to public entity pools, and I've been working with the Consolidation Committee for the past nine months,

Today's session is being recorded, and will be posted online after the meeting, along with the slides and commentary.

## How to participate

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- 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

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Welcome and introductions

Recap of consolidation activities

Where we are now:

- APRA's mission statement
- Recent discussions

Consolidation timeline

Q and A

After we've introduced the Consolidation Committee, we'll quickly recap the consolidation activities that we discussed in March, and then dive into what's happened since we were last together. We'll also talk about the activities planned for the summer and fall before opening it up to your questions.

Before we go further, let me turn the floor over to the Consolidation Committee chair, Lon Garrison, to welcome you.

# The Consolidation Committee

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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,

**Bryant Hammond, Nome**

### 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

Since we met in March, one member of the Consolidation Committee has changed: Bryant Hammond, project manager in Nome and chair of the AMLJIA board, has joined the Committee, replacing Tammy White. He joins the other Committee members, who will say hello.



Let's recap where we are and how we got here for those who aren't familiar



We'll be talking today about APRA – the Alaska Public Risk Alliance – which is the name the Committee has given the new pool.

## How we got here:

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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.

While much of the activity has taken place since last summer, the idea of consolidation dates back to 2022, when the two boards decided to investigate what consolidation might look like, and continued with a legal review and appointment of the consolidation committee.

## 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.

The work that the Consolidation Committee has been doing so far supports the reasons for consolidation: economies of scale, enhanced member services, and greater depth of staffing.

## Consolidation Math

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$$1 + 1 = < 2$$

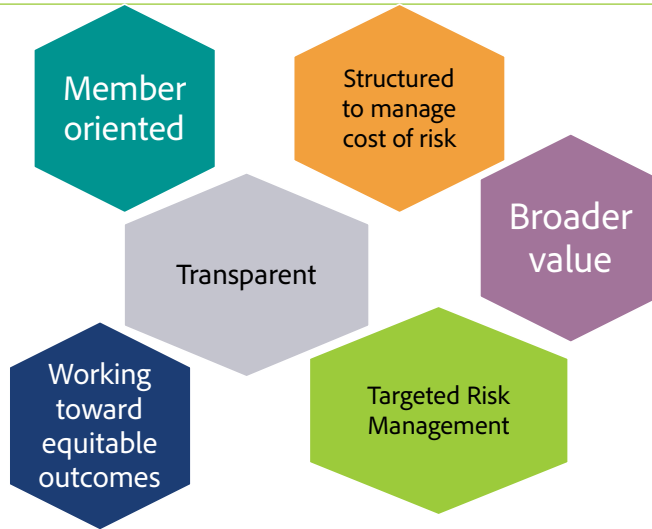
Funding needed for one combined pool vs. two separate pools

$$1 + 1 = > 2$$

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

And, as we're finding out, the math makes sense. A combined pool is likely to need less funding than two separate pools, and can provide more services.

## Committee Principles



Early on, the Committee adopted several principles to guide their work, and they continue to be relevant as the Committee members discuss issues and make decisions.

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

## 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 Committee hired a national actuarial firm to review both pools and their financial conditions. That firm found that both APEI and AMLJIA are financially sound and could appropriately fund a consolidated pool. The actuarial firm will be back after the close of this fiscal year to ensure that their findings still are valid.

## 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 Committee is recommending a 12-member board for APRA, 8 of whom will represent members, with 2 at large, and the two executive directors of AASB and AML. Ideally, those representing participants will be divided equally between municipalities and school districts, and have geographic diversity, but of course that will depend on who runs for board seats.

## 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 Committee supports retaining all staff of both pools in APRA, and there's clearly a role for each individual in the combined pool. They also have decided to maintain both the Anchorage and Juneau offices to support current staff.

## Brokers and APRA

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- 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.

Finally, the Committee decided that they would strongly encourage members to use the services of a broker, because of the value that brokers can provide to members individually and the pool as a whole, but not require members hire a broker. We'll talk more about this topic in a few minutes.

Where we are now:  
what's happened  
since we last met



## APRA Mission Statement:

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The Alaska Public Risk Alliance (APRA) empowers member communities by pooling resources and expertise to meet their unique risk management and coverage needs, ensuring long-term sustainability and value.

The Committee adopted a mission statement for APRA:

## What it means:

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- Like APEI and AMLJIA, APRA exists to serve its members.
- Pooled resources make possible the coverage and services that municipalities and school districts need.
- Long-term sustainability means long-term value.

... and value means more than just price. The coming together of the two pools' staff means new resources for all members.



## Under discussion: Coverage

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- Engaged broker to assist Committee in evaluating coverage options for APRA.
- Committee has focused on “big rocks”: high-impact coverage provisions that APEI and AMLJIA handle differently.
- Beyond the “big rocks”, goal is to provide comprehensive coverage, while ensuring choices are sustainable.

The question of what and how APRA is going to cover the many exposures that members have is a huge one.

To help make those determinations, the Committee hired EPIC, an insurance brokerage firm that has worked with APEI for several years, to evaluate the coverage options. Over the past couple of months, EPIC has analyzed the coverage that each pool provides, looking at coverage from both the member perspective and how the different provisions will be viewed by reinsurers.

To date, the Committee has focused on the “big rocks” – high impact provisions that APEI and AMLJIA currently handle differently. We’ll talk about a couple of those in a minute. But beyond the big rocks, the overall goal is to have APRA provide coverage that is both comprehensive and sustainable over time.

An example:



Let's look at a couple of examples of the considerations for the Committee as they work through coverage decisions, starting with sexual abuse & molestation.

## Sexual abuse & molestation:

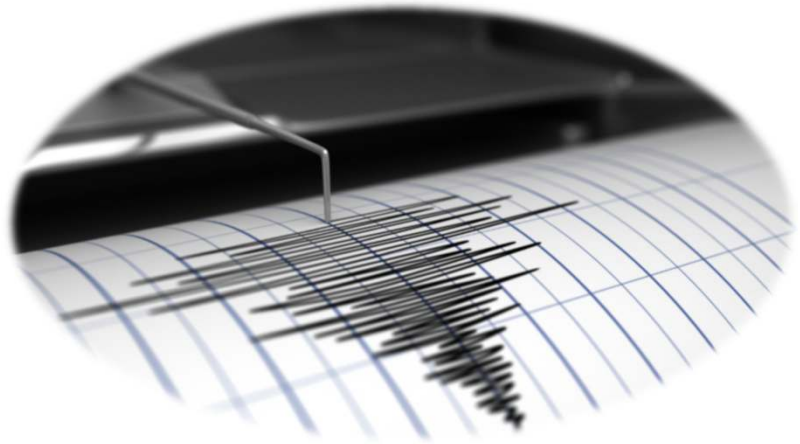
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- APEI coverage = \$1m limit for each victim, \$5m each perpetrator
- AMLJIA coverage = \$15.5m pool-wide aggregate, law enforcement exclusion
  - Coverage could be exhausted by one member, with nothing for subsequent claims

You can see here the difference in how AMLJIA and APEI cover sexual abuse and molestation. APEI has adopted specific limits for each victim and perpetrator, while AMLJIA has a pool-wide aggregate amount for this kind of claim.

On the surface, it looks like AMLJIA's coverage is more broad, but it also has a limit. Once the claims in the pool reach \$15.5 million in any given year, there is no more coverage available. So, if one member has a SAM claim that tops \$15 million, there's no coverage for other members. Or if three members have \$5 million claims, the fourth claim won't be covered. To date, that hasn't been a problem. But you can see how it could become one.

Another  
example:



Earthquake coverage is another example.

## Property/Earthquake:

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- APEI coverage = \$200m program limit, \$75m earthquake annual aggregate. Same deductible for all property losses.
- AMLJIA coverage = \$250m program limit, \$100m earthquake annual aggregate. Deductible = 2%, min. \$100,000.
- Modeling shows combined pools' expected maximum probable loss should be less than the sum of the two pools individually.

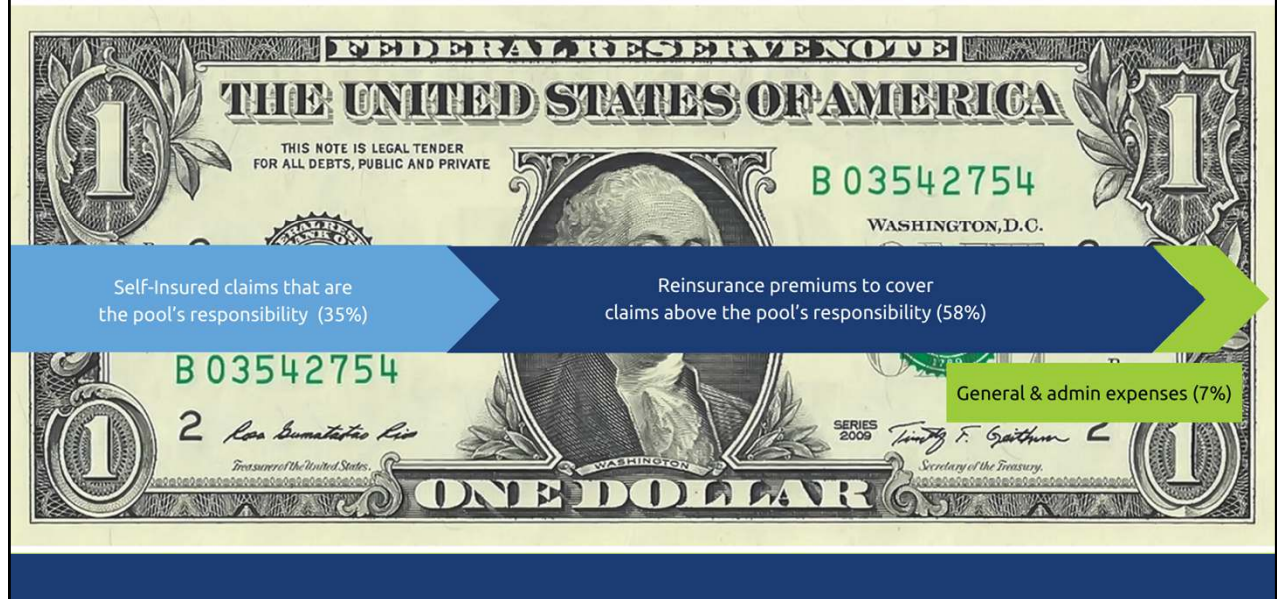
The two pools have different coverage limits for property losses, with lower limits for earthquake events.

Although nothing has been decided, it may be reasonable to choose the higher limits, because this is a case where  $1 + 1$  appears to be less than 2.

EPIC has modeled the potential for earthquake loss for each pool individually, and then for the two together. The model shows that the maximum probable loss in an earthquake for the combined pools would likely be less than if you added together the maximum probable loss for APEI and AMLJIA individually.

While the deductible model used by APEI is generally more favorable to the members, the AMLJIA model is much more typical in the market. How this issue is handled for APRA will depend on a combination of price and availability, and will likely be decided by the APRA board next spring after a review of the options provided by the market.

## Reinsurance is an important factor in coverage decisions



As these decisions are made, the Committee is mindful of impact that they will have on reinsurance costs. You may remember this example from last time, which shows that, reinsurance premiums are almost 60% of each dollar spent by the pool. To be sustainable, the coverage choices have to be supported by reinsurers, and at prices that won't break the bank.



That balance between coverage and cost is something the Committee has been mindful of throughout this process.

Once decisions about coverage have been made by the Committee, they will need to be turned into policy language. To that end, we've engaged a coverage attorney to work with the team in developing a coverage document for APRA. That process is likely to take a couple of more months.

We were asked whether the proposed coverage document will be provided to members for review and comment before it's finalized. The Committee hasn't made a decision on that, but the project team will recommend that we do give members a chance to review and comment on it before it's finalized.

## Under discussion: Underwriting

- Continue to offer credit for loss control activities.
- Evaluate 3-year agreements as they exist today and look at other options to provide stability and reward member longevity.
- Use member claim experience in rating across all lines of coverage.
- Try to provide final contribution amounts prior to member budget adoption.

Although no formal votes have been taken, here are some underwriting issues that the Committee has been considering. Offering credits for loss control activities undertaken by members is something everyone has supported, although the specific activities and amounts haven't been decided.

In a consolidated pool, the 3-year agreements as they exist today may not be the best way to provide stability and reward member longevity, and the Committee will continue to look at ways to incentivize members to help achieve those goals.

They do agree that member claim experience will be a factor in allocating costs across all lines of coverage. And they agree that, if at all possible, APRA would provide final contribution amounts prior to member budget adoption deadlines.

## Financial



- Consolidation still appears to be on a firm financial footing.
- Select Actuarial will review 6/30/24 claims and financial status for both pools.
- Recommendations/decisions will be made about capital to be contributed by AMLJIA and APEI to APRA, and how any remaining capital in each pool will be handled.

Here are some updates on topics we looked at earlier:

As we said, the actuarial firm will be back to review claims and financial status for AMLJIA and APEI after the close of the fiscal year on June 30. In addition to giving their opinions on claim reserves and capital, they also will make recommendations on the amount of capital needed to fund APRA, and how much capital each pool will need to contribute. The Committee will ultimately decide on those amounts, while decisions about any remaining capital will be made by the AMLJIA and APEI boards, in compliance with their cooperative participation agreements.

## Governance



- 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.
- **Transitional board** will be drawn from Committee; currently includes 2 at-large members, the AML & AASB executive directors, 3 municipal representatives, and 1 school district representative.
- Additional members will be elected if consolidation approved.

We talked earlier about the governance structure, and the Committee is continuing to think about implementation if consolidation goes forward. The core of the transitional board – moving from AMLJIA and APEI into APRA – will come from the Committee, and you can see how the Committee members fit into the ideal structure for the permanent board. There are eight committee members, so four additional members will have to be elected if consolidation is approved.

## Staffing



The Committee will seek an executive director for APRA if consolidation is approved:

- Search to begin after 1/1/25
  - Alaska connection strongly preferred

As we noted earlier, all of the APEI and AMLJIA staff will be part of APRA. The Committee also has agreed to seek an executive director for APRA, looking for a candidate who not only has the desired qualifications but a connection to Alaska as well.

## Brokers and APRA

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- Members that use a broker will receive a credit on contributions, recognizing value of broker services to the pool.
- No decision reached on credit amount.

We talked earlier about brokers, and the Committee has agreed that members that choose to use a broker will receive a credit on contributions. It's recognized that brokers not only provide value to the members; they provide value to the pool as well, performing services that the pool would have to undertake if the member doesn't have a broker. No decision has been made about the credit amount.

# Consolidation Timeline



Let's talk now about the timeline from here, building to a potential vote on consolidation.

# Committee Timeline

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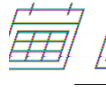
June – July 2024:  
Finalize coverage options, underwriting approaches.



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



September 2024:  
Committee decision (9/19) on its consolidation recommendation and referral to APEI and AMLJIA boards. Boards meet (9/27) 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 learning the results of the updated actuarial work and developing capital contributions from each pool.

Assuming things are looking positive, the Committee will develop a consolidation plan, with the idea that the Committee will act on September 19, and if they adopt a recommendation to consolidate, it will be referred to the APEI and AMLJIA boards at the end of the month.

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



Let's talk a bit about the consolidation vote itself.

The infographic consists of two vertical steps. The first step, '3. REFERRAL TO MEMBERS', is highlighted in a blue rounded rectangle and is preceded by a blue key icon. The second step, '4. MEMBER VOTE', is highlighted in a tan rounded rectangle and is preceded by a tan key icon. The keys are positioned to the left of the text boxes, with their shafts extending downwards.

### 3. REFERRAL TO MEMBERS

Each board submits consolidation plan (per resolution) to a vote by members at an annual or special meeting, providing written notice to each entity that includes the plan or summary thereof. (AS 10.20.236)

### 4. MEMBER VOTE

For each pool, assuming a quorum of members (per pool requirements) is present at the meeting, plan is adopted if 2/3 of members voting in person or via proxy vote in favor. (AS 10.20.236)

Here are the state statutes governing consolidation that we looked at last time. Once the AMLJIA and APEI boards approve a consolidation plan, they refer it to the members at an annual or special meeting. Each member entity has to receive a written notice of the consolidation plan.

Then, as you see, 2/3 of the members voting, either in person or by proxy, must approve the plan.

## Who votes?

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AMLJIA and APEI bylaws both provide that *each participating member entity has one vote*.

- AMLJIA:  
Voter is the “permanent representative” (chief executive officer or his/her designee).
- APEI:  
Voter is the “permanent representative” designated by each public entity.

So who actually votes?

APEI and AMLJIA’s bylaws both provide for each participating member entity to have one vote. One member, one vote. Each pool also provides for one person from the entity to be defined as the “permanent representative” who acts on behalf of the entity. For AMLJIA, it’s the chief executive officer or someone that they designate. For APEI, it’s the person designated by the public entity. APEI has asked members to submit the name of their representative as part of the renewal process.

## 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. Executive Director search begins. Continued implementation activities.



April 2025:  
Development of operating budget and member rates for 2025-26, with final approval in early 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 approve, the work to actually consolidate the two organizations into APRA begins. As much work the Committee has done or will do in the months ahead, bringing the two pools together will be an equally hard job. The executive director search will begin in earnest after the first of the year if consolidation goes ahead.

All current members of AMLJIA and APEI will be invited to participate in APRA. Those who wish to join 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.

What happens if  
the consolidation  
vote fails?



And if members vote consolidation down? Aside from messing up Kevin's retirement plans, the pool leaders have some thoughts. [Barbara and Kevin comment.]



## Question:

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Will the new organization be implementing a formal notification procedure for changes in coverage forms going forward?

This isn't something that's been discussed by the Committee so far, but is something to consider. Both pools have informal processes now to notify members and their brokers of changes in coverage.

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[Miss the March 14 information session?  
Catch up here](#)

As noted earlier, today's session has been recorded and will be posted on the APRA website, 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. We'll see you again soon.