

Kentucky's leaders express their opinions

'KLC IS HIGHLY SUCCESSFUL, BUT THAT DOESN'T MEAN WE CAN'T DO BETTER'

CEO Sylvia Lovely discusses recent newspaper articles about the operation and fiscal policies of the Kentucky League of Cities

BY ED LANE

Editor's Note: Sylvia Lovely writes an opinion column for The Lane Report. Normally, our staff would not interview Lovely because of her existing relationship with the publication. Because of recently published newspaper articles regarding Lovely's management of the Kentucky League of Cities, The Lane Report's editorial board decided to ask Lovely to be the subject of this month's One-on-One interview.

ters in Lexington because of a historical, but informal, relationship with the University of Kentucky. In the late '80s, KLC formed its insurance pool. Today we have 80 employees.

EL: What types of services does the league now offer to Kentucky cities?

SL: It has been my job and passion over the years to work with local officials in

I want to remind your readers that KLC is a trade association with voluntary membership. No city has to be a member or buy KLC's insurance. KLC has to compete in a competitive environment for business. KLC doesn't provide any products or services directly to citizens and doesn't receive any direct federal, state or local tax appropriations.

EL: What are some of the reasons the insurance program has been so successful?

SL: Kentucky has many small cities. I would say two-thirds of the cities are under 5,000 in population. KLC serves 435 cities, of which 382 are members. Many of the smaller cities rely on our voluntary association business for assistance and advice in insurance, finance, legal, safety, best practices, training, education, etc.

Kentucky is a small state, but KLC is one of the largest city leagues in the nation. One service KLC offers that is not unique to other leagues is the insurance pool, which is integrated into our association business.

If you think about it, all business and government entities have to manage risk. The future of the world is managing risk. KLC's insurance pool program has \$100 million in assets and \$40 million in annual revenues. Administration fees from the insurance programs allow KLC to provide legal, lobbying, research and other support services for cities that could not be provided with just dues. Dues paid by cities are less than 4 percent of KLC's annual budget.

Our bond pools are particularly successful. KLC doesn't charge commissions as many associations often do. Instead KLC charges a service fee to administer the bond pool programs.

EL: Does KLC have a contingent liability if a city defaults on its loan from a bond pool?

SL: In 1994, a Kentucky constitutional amendment passed that allowed all local governments to issue general obligation debt. When a city engages in a GO bond, it is obligated to pay the bond holder out of the city's general tax revenues. With this collateral (the tax revenues) and bank letters of credit, cities receive lower interest rates and the risk to the bond holder is minimal. KLC serves as the administrator of the bond pool and has no contingent liabilities.



Sylvia Lovely

Sylvia Lovely is executive director of the Kentucky League of Cities, a membership organization that consists of more than 380 cities across the commonwealth. In addition to her work with KLC, Lovely is also president of the NewCities Institute, a national nonprofit organization that encourages cities to get involved in their respective communities. Lovely is a regular contributor to newspapers and publications – including *The Lane Report* – and has also authored two books about civic engagement. A native of Kentucky and a graduate of Morehead State University and the University of Kentucky College of Law, Lovely has been named one of Kentucky's Top Women of Influence and Appalachian Woman of the Year and in 2006 was awarded one of the commonwealth's highest honors for public service, the Vic Hellard Award. Lovely serves on numerous boards and commissions, including the Institute for Workplace Innovation and the Foundation for a Healthy Kentucky.

Ed Lane: How long have you worked for the Kentucky League of Cities?

Sylvia Lovely: I started with KLC in January 1988 as a lobbyist and a staff attorney. Initially I worked on federal legislation and lobbied for KLC. Two years later in the fall of 1990, my predecessor left and I was promoted to executive director/CEO.

EL: What was the scope of the league's services when you were first employed?

SL: KLC was a small organization. Our staff of eight or nine people was located in a house in Lexington. KLC headquar-

ters in Lexington. It's been very important for KLC to look around and determine the cities' needs. For instance – the insurance pool programs.

In the late '80s, our cities could not obtain insurance at any price, anywhere. KLC insurance pools were formed out of necessity. This service has grown because of the quality and cost effective services KLC has provided. I'm very proud of this program; KLC now has 520 insured members in its insurance pools. The success of the insurance program motivated KLC to create the bonding program.

EL: KLC is a non-profit; what does KLC do with surplus revenues when they are available?

SL: KLC's surplus revenues all go back into providing additional services for its members. None of the executives, managers or board members own any equity in KLC.

EL: Why are KLC Insurance Services and KLC Funding Trust Program organized as non-profit affiliate companies with boards of trustees that are different from the board members of KLC?

SL: Insurance pools, for example, are required by statute to have a board of trustees. Another advantage of a separate board is that trustees bring insurance expertise to the companies. KLC's trustees are all unpaid volunteers.

EL: What is the budgeted FY '09 annual revenue of all KLC affiliated organizations?

SL: KLC and its affiliated organizations have budgeted revenue of about \$54.2 million (after adjustments for intercompany revenue/expense); \$400,000 is annual dues from member cities.

KLC Annual Revenue

KLC ENTITIES	FY 08-09 BUDGET
KLC	\$12,034,300
KLC Premium Finance Co.	186,500
KLC Insurance Agency	2,700,000
KLC Insurance Services ¹	27,934,300
KLC Workers' Comp Trust	18,100,267
KLC Unemployment	1,240,152
NewCities Institute	1,904,846
Intercompany Revenue/Expenses	(9,890,346)
Total Revenue²	\$54,210,019

¹ Liability and Property Pools

² Net of intercompany

Source: KLC FY 08-09 Budget

EL: The stock market has declined in the last 10 months. How has that impacted KLC's and its members' investments?

SL: Market conditions have impacted investments. I think all state and local government agencies are suffering from a declining stock market – particularly in pension funds. KLC and cities are very restricted in how they may invest surplus and trust funds. The insurance pool also has a stringent set of investment guidelines. KLC invests in safe investments, but has still suffered some declines in market value.

EL: Do you have any concerns about KLC's financial capabilities?

SL: I feel perfectly confident; KLC has not done anything risky. The association is in great financial shape. The world changed last fall. In its budgets, for instance, KLC has been fiscally responsible by reducing overhead and endeavoring to increase cash flows.

EL: What types of people work for KLC?

SL: KLC has professionals with designations out the wazoo after their name. They are well-educated, high-end people. Those are the kind of jobs that economists say Kentucky needs.

Many of KLC's employees are highly skilled professionals; they are known the country over for their expertise and level of service. Our clients can reach us anytime. I get nothing but accolades for KLC's responsiveness and professionalism.

EL: Do you consider KLC to be a government entity?

SL: KLC is a unique animal. KLC is not a city, it is a voluntary association with voluntary membership. KLC is a competitive business in insurance and financial services. It competes, just as everybody else does, in a free market economy. KLC wins some; it loses some.

KLC tries to win on the basis of price and service. We try to win on the fact a mayor can call and get the CEO with just a phone call. KLC offers a variety of programs through its insurance division.

I'm most proud of the Agility Recovery Solution Program, which we adopted recently as a free service to KLC members. This service came in handy during the ice storm, when we were able to bring generators to cities without power. KLC engaged a firm to station these services in very strategic locations. The service costs for this program are paid by KLC.

EL: Does KLC offer safety grants to cities?

SL: Yes, KLC has a safety program where our loss control agents visit cities and help them reduce insurance risks. Mayor Mary Pate of Beaver Dam was saying the other day that her city pays \$800 in KLC dues every year and received a \$3,000 check for a KLC safety grant to buy tasers, police and car video equipment, and reflective vests. The grant comes out of the insurance program. To date, \$2.5 million has been awarded to KLC members.

EL: A series of newspaper articles about KLC indicated your compensation

increased 25 percent since 2006. How are decisions to make pay increases made and what was the justification for increasing your salary to \$317,000?

SL: One of the thorniest issues in all entities is salary and compensation. Over the last six or seven years, KLC has tried to make its process as scientific and objective as possible. Each year our employees fill out a questionnaire to match up with their job descriptions and job duties. KLC endeavors to fairly compensate each employee for the work they do.

Like every other organization, KLC is a changing environment. KLC has very loyal employees and little turnover. But we do have some turnover and retirements. In the last year or two, KLC has tried to do what other businesses and governments are doing and that is to combine job responsibilities that make sense and increase efficiency.

If a person's job changes, they may need an incremental pay increase to what we call the "mid-point" of a competitive pay range for that position and job responsibilities. This method replaces merit raises and is more objective.

With executive management, about every third or fourth year KLC purchases an independent market study to look at a variety of competitive entities, (insurance services and other non-profits) and tries to match compensation with job responsibilities.

EL: How does KLC recruit top professionals to manage its operations and advise its member cities?

SL: Recruiting relates to compensation. Some of KLC's recruitment has to be national. We work with the Lockton Study, which does a study of the marketplace for executive management and helps KLC set competitive compensation to recruit and retain employees.

Our employees help KLC build long term relationships with its clients; KLC is able to help cities get competitive rates and pricing because of relationships and the confidence that KLC employees have developed with vendors and financial institutions over the years.

EL: Lexington Mayor Jim Newberry stated he felt the salaries of KLC employees should be re-evaluated to be more comparable to Kentucky municipal salaries. Is this a reasonable request from your perspective?

SL: As a board member, Mayor Newberry has every right to voice his opin-

ion and to participate in what I consider a very healthy review exercise that KLC is about to undergo. KLC is a very successful business and it didn't get here by not paying attention and not evaluating its business practices periodically.

Mayor Connie Lawson of Richmond, who is the KLC president this year, called for a retreat last fall. She was adamant about that, she wanted to do that, and KLC will be reviewing its policies soon. KLC has some unique challenges. There is a 40 percent turnover of elected city officials in each election cycle; many mayors are volunteers and others are virtually unpaid or under-compensated in their jobs.

Everything is on the table. Jim Newberry will be very good in his participation. I look forward to that. The retreat is an opportunity to really take an A-Z, soup-to-nuts evaluation. KLC is highly successful, but that doesn't mean our organization can't be better.

EL: KLC announced it would not be taking, at the league's expense, the spouses of its employees to meetings and conventions around the country. Why did KLC initially establish a policy to pay for spouses' travel?

SL: The policy was in effect when I was hired 20 years ago. It's a common practice in our industry and in some other businesses. Over the years, KLC managers and spouses have developed friends in business and philanthropy. Relationship building is what our business is all about. Bernie (Sylvia's husband) and I have made dear friends through long-term league relationships.

For example, a couple is coming to Kentucky soon and Bernie and I will probably go to dinner with them. They have given KLC's NewCities Foundation \$100,000 to promote and display art around the state. But if spousal travel is a distraction, I'm very pleased to have taken this issue off the table for the time being. This is one of the issues that the board will discuss as we evaluate KLC's policies.

EL: KLC spent \$457,000 for travel last year. Can you comment on the need to spend this much in travel?

SL: That amount includes in-state travel for all employees. Ten of those employees' primary job is traveling across the state working with cities on everything from OSHA regulations to law enforcement policies. These 'road warriors' play a huge part in delivering valuable services to our members. Higher gas prices have increased the travel budget.



Sylvia Lovely facilitates a charette – a problem-solving session – with residents in Madisonville in September 2007.

That figure also includes board travel to meetings, insurance sales and claims adjustor's travel, training and safety programs, and seminars for league members and newly elected government officials. Also, many of KLC's employees are required to do continuing education and recurrent training to maintain their professional designations.

The executive staff does a lot of important travel. In fact, a lot of my travel is reimbursed when I do speaking engagements around the country; that is in part to rev up our NewCities Institute and bring back ideas for Kentucky. I just recently spoke to the city clerk's association in Chicago and I received a \$2,000 honorarium and all expenses paid. All speaking engagements fees I earn come back to the league as revenue because it's league resources that send me there.

There's a lot of travel and it's important to raise the profile of the state and be an ambassador for Kentucky. Kentucky has some image issues with recent TV reports on CNN and 20/20.

I was really proud that KLC, through its national contacts, was able to bring four conventions to Louisville this year. The groups looked at Lexington and Louisville and they chose four in Louisville. I'm proud that KLC had a significant part in developing that convention business.

EL: You also received criticism for driving a BMW SUV. In hindsight, do you feel driving a BMW SUV was inappropriate?

SL: Vehicle policy will be under review. It is in one of (State Auditor) Crit Lewallen's 28 recommendations, which, by the way, are excellent. Some are applicable to an organization like KLC and others must be modified. One of the recommendations is to move to a car allowance. That may be a very good idea.

EL: Another criticism was hosting KLC clients, members and employees at AZUR Restaurant, in which your husband is an investor. At any time did you believe eating at AZUR was a conflict of interest?

SL: Bernie owns a 20 percent interest in AZUR. No, I really didn't perceive it to be a conflict because everybody knew about Bernie's involvement. The basis of a good conflict of interest policy is full disclosure. From the podium, I have told jokes about Bernie's involvement in AZUR to perhaps thousands of people. I'm not bothered by not taking KLC clients and board members to AZUR; it never occurred to me in any way it was a conflict.

KLC must host dinner events somewhere. It doesn't save the league anything from one restaurant to another. But if there's a perception issue, we can eat somewhere else. I don't want my board members to get beaten up over this type of issue.

EL: After being recognized and acclaimed as one of Kentucky's top women in business, how does it feel to be criticized in the newspaper for "frivolous excess"?

SL: I wouldn't be human if I said it didn't hurt, but the newspapers have also been kind to me. They have often acknowledged my good work and I'm humbled by my life that has given me a dream job. Nobody likes to receive criticism along the way, but criticism often helps people learn and do more.

The only request I ask is that the whole story be told about KLC, which is

an enormously successful organization. I didn't do it by myself. I don't deserve all that credit. I have great executive management and a great staff below them. I will continue doing my work because that's my passion. That's why I have taken some "hot button" issues off the table. I don't want criticism of me to hurt my work or KLC.

EL: Do you feel the coverage of these issues has been fair and balanced from your perspective?

SL: I believe in a vigilant press. Criticism from time to time is their business and right. A free press has helped make America a great country.

EL: What's the best thing you have learned from having to go through this experience?

SL: That's a good question. I'm a thoughtful person. I'm a thinker. I'm self-analytical. I want my board members to feel pride in me. I work for KLC 24/7. I even get emotional when I talk about this, and I don't mean to. Over the course of any career, there are challenges to face and judgments to make. It's not like I never made any mistakes. I have. I take great pride in KLC. The board has seen KLC's success. I have talent on my staff that can compete anywhere.

I get paid the big bucks and the buck stops here. I want to make sure at the end of KLC's review process, that all board members have complete faith in our processes. That is my goal, because our members are too busy to sit around and worry about what KLC is up to. I'm a driven woman and I want to make KLC phenomenally successful.

EL: What advice would you give to CEOs of other non-profit boards and associations?

SL: I would love to speak on handling these kinds of issues and how to make sure there is a healthy staff/board relationship. After we have completed our policy review, KLC's experience could help other organizations. I also consider myself a mentor. At this point, I have a lot of young people at KLC who are just starting their careers. I tell them this is a great moment in your life because you are watching all of this unfold and you should just be soaking it up and taking notes.

They will also benefit for having lived through the 2008 election and this recession. I am always trying to focus on the positives. One big initia-

tive that will come out of this experience will be a league non-profit board training program.

I don't know how many people have told me, "I'm dropping off that board because I don't have time to do this or that" or "I didn't realize the responsibility service carries." KLC will expand board member training because we don't want to lose civic capital. A NewCities Initiative is to get more people involved in local government and



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civic associations. Helping build great communities is precisely why KLC exists. ■



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