

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the KRS Board of Trustees

FROM: Bobby D. Henson, Chair
Retiree Health Plan Committee

DATE: May 30, 2013

SUBJECT: Retiree Health Plan Committee Report

The Committee held a special meeting on Thursday, April 25, 2013 to discuss and approve the Humana Formulary for plan year 2014. This Formulary is used to provide the prescription drug coverage for the Medicare eligible plans.

A review of the proposed Formulary changes was presented to the Committee by Humana and KRS staff. This review included moving drugs to higher and lower tiers on the formulary as well as adding Quantity Limits, Step Therapy and Prior Authorizations to a number of drugs that currently do not have these utilization management and safety edits in place.

The proposed Humana Formulary changes were accepted and approved by the Committee.

RECOMMENDATION: It is recommended that the KRS Board of Trustees ratify the decision of the Retiree Health Plan Committee.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board
FROM: William A. Thielen, Esq.
Executive Director
DATE: May 30, 2013
SUBJECT: Quarterly Reports of the Audit Committee

The Audit Committee held its quarterly meeting on May 2, 2013. The purpose of the meeting was to review and discuss, among other miscellaneous audit related items, the following:

- *Review of Death Audit Utilizing the Quarterly PBI Death Report*

FINDINGS

KRS runs PBI outbound file according to the monthly computer schedule and batch log schedule. The file containing SSNs, Name, and Date of Birth (DOB) of 105,158 retirees, beneficiaries, or health insurance dependents currently drawing monthly benefits, or have insurance benefits. As of January 3, 2013, KRS uploaded PBI inbound file containing the Name, SSN, DOB, and Date of Death (DOD) of 180 retirees, beneficiaries, or health insurance dependents death statuses which were unmatched between KRS' data base and PBI's data base.

Occasionally, KRS does not receive any death information of retirees or beneficiaries from relatives; KRS does not receive accurate data, or evidence of deceased retirees/beneficiaries; or, KRS could not reach a retiree or beneficiary by mail or phone. Sometimes, the PBI death report has invalid data or errors, but KRS obtains evidence that retiree/beneficiary is alive. Sometimes, the SSN is keyed incorrectly on KRS (START) System. As a result, there were 180 discrepancies reported by the quarterly PBI death report.

Internal Audit verified the 180 records with discrepancies on the START System by pulling each retiree's file after the PBI Interface was run on December 28, 2013, in START-LOB. Of the 180

records in the PBI report, 78 of the death records were uploaded in KRS database. Since KRS staff is loading deaths on a weekly basis by utilizing the free trial period of PBI's new Platinum Audit Service, no death statuses were noted to be updated in the System and no overpayments were noted to be recovered. KRS staff is in the process of analyzing the cost benefits of PBI's new Platinum Audit Service. This PBI Platinum Audit Service gives weekly online report of deaths.

The remaining 102 records with discrepancies were verified through the extended procedures and found not to be deceased. The results of further investigating those cases are as follows:

Table A

	<u>No. of records in PBI Report</u>
a) SSNs do not match	10
b) Erroneous information	4
c) Previous beneficiaries' data	16
d) Errors in SSNs of Health Insurance Dependents on Health Insurance Enrollment Detail screen	24
e) Pending SSNs in System	27
f) KRS has accurate SSNs issued in last few years	21
	<hr/> 102 <hr/>

In reference to Table A - Section (d), it was noted that errors in SSNs of health insurance dependents are mostly due to the SSNs keyed incorrectly on Health Insurance Enrollment Detail screen. Also, errors in SSNs are due to inaccurate SSNs on Health Insurance Enrollment Application, which was completed by the retiree at the time of enrollment.

In reference to Table A - Section (e), sometimes errors in SSNs are a result of the SSNs have been unissued by the Social Security Administration for the health insurance dependents, for example, for newborns, pending case, and international student. On January 7, 2013, Internal Audit forwarded 51 records (Reference to Table A-(d) and (e)) of inaccurate/invalid SSNs of dependents to the Division of Retiree Health Care to correct or update the SSNs of health

insurance dependents on Health Insurance Enrollment Detail screen from where Information Technology pulls SSNs for PBI outbound file.

RECOMMENDATIONS

The errors in 51 SSNs of health insurance dependents should be corrected, or updated on the Health Insurance Enrollment Detail screen. Errors in SSNs, or unrevised SSNs of health insurance dependents in the KRS database could cause the dependents to be incorrectly listed in the quarterly PBI Death report as deceased, or as invalid SSN, and listed in Exception Interface report in START-LOB. Unrevised SSNs in the KRS database could be the reason of lengthy START-PBI Death Exception report. Unrevised SSNs in the KRS database could increase the workload of divisions to review the same records repetitively in the PBI Death report and START-PBI Exception Interface report in each quarter. See Table A - Sections (d) and (e) in report for reference.

Note: Retiree Health Care staff is in process to correct these SSNs in System.

MANAGEMENT'S COMMENTS

(Ms. Abby Southerland, Retirement Program Manager)

Retiree Health Care (RHC) staff members have sent out requests for security cards for verification of correct Social Security Numbers for these 51 health insurance dependents. To date, RHC staff has corrected all SSNs for which they have received verification. Discussions have begun between staff from employer reporting, IT, payroll, benefits, and RHC to find a resolution to the issue of insurance dependents having Social Security Numbers which match another member in the START line of business system. A solution is being designed to handle those scenarios. (Health insurance dependents that fit this scenario cannot be corrected until implementation of the solution.) The Retirement Programs Manager will ensure that this issue is resolved in a timely manner.

➤ Review of Recurring Payroll

CONCLUSION

The procedures for Recurring Payroll in START are properly established and documented. Based upon the examination and review of Recurring Payroll, all examined payrolls and deductions for the

month of December, 2012, were noted to be relevant, valid, and accurate; all reports related to Recurring Payroll were noted to be balanced; and, the controls over the Recurring Payroll in the START System were noted to be adequate. No exceptions were noted.

MANAGEMENT'S RESPONSE

(Ms. Lela Hatter, Director of Retiree Services (Payroll))

I concur with the audit report draft.

- *Review of Quarterly Financial Statements – 03/31/2013*
- *Review of Internal Audit Budget 03/31/2013*
- *Review of Anonymous Reporting*
- *Review of Investment Compliance Report*
- *Annual Audit Plan for Fiscal Years 2014, 2015, and 2016*
- *County Employees Retirement System Board Election Memoranda*
- *Special County Employees Retirement System Board Election Memoranda*
 - *Dean, Dorton, Allen, & Ford, PLLC, Agreement for CERS Election Ballot Count*
- *Kentucky Employees Retirement System Board Election Memoranda*
- *Staff Certification – Certified Government Auditing Professional*
- *Auditor of Public Accounts (APA) FY 2013 Audit*

RECOMMENDATION: The Audit Committee requests that the Board ratify the actions taken by the Audit Committee.



KENTUCKY RETIREMENT SYSTEMS INVESTMENTS



TO: Kentucky Retirement System Board of Trustees

FROM: T.J. Carlson, Chief Investment Officer

DATE: May 30, 2013

SUBJECT: Investment Committee Quarterly Report

The Investment Committee held its regularly scheduled meeting on May 7, 2013. The purpose of the meeting was to evaluate investment activities, program structure, management, controls, and performance results of the Pension and Insurance Funds, for the quarter ending March 31, 2013, along with various other subjects.

The meeting began with approval of the minutes for the previous Investment Committee meeting held on February 5th, 2013.

Ann Case presented the Quarterly Compliance report. The Management Update was given by the CIO which included a review of the standard quarterly reports. These reports include the: Monthly Portfolio Plan Allocations report; Monthly Performance Update; Investment Division Expense Report; Meeting and Related Expense Report; Net of Fees Report; Internally Managed Portfolio Asset Report; Internally Managed Portfolio Transactions Report; Partnership Investments Report; Domestic Equity Commissions Report; Global Equity Commissions Report; Trading Cost Analysis Report (semi-annual); Securities Lending Report; and Securities Litigation Report.

A \$15,000 budget reallocation was reviewed and approved by the Investment Committee.

Updates to the Approved Broker Dealer List were reviewed, updated, and approved by the Investment Committee.

Recommendations to modify the accounting treatment of PPW were reviewed and approved by the Investment Committee.

An overview of the Standard Quarterly Topics list, the Potential Future Topics list and the supplied articles of interest were also provided. Questions were encouraged and addressed throughout the reports.

Updates to the Statement of Investment Policy were reviewed, updated, and approved by the Investment Committee.

A Real Return exposure commitment of 45 basis points, or approximately \$50 million, to Red Kite Mine Finance Fund I was reviewed, discussed and approved by the Investment Committee.

A Real Return exposure commitment of 50 basis points, or approximately \$73 million, to Magnetar MTP Energy Fund was reviewed, discussed and approved by the Investment Committee.

A Real Estate exposure commitment of 25 basis points, or approximately \$37 million, to the H/2 Core Lending Fund was reviewed, discussed and approved by the Investment Committee.

A Real Estate commitment of \$30 million to Rubenstein Properties Fund II was reviewed, discussed and approved by the Investment Committee.

A Private Equity commitment of Euro 50 million to CVC Capital Partners CVC Fund IV was reviewed, discussed and approved by the Investment Committee.

A Private Equity exposure commitment of 150 basis points, for an approximate rolling commitment of \$40 million per year, to the KRS Private Equity Emerging Manager program through Bay Hills Emerging Partners III L.P. was reviewed, discussed and approved by the Investment Committee.

A review of the RV Kuhns report titled "Non-US Equity Structure Review" and the Annual Public Equity Manager Review were presented for informational purposes by Bo Cracraft (Staff) and Tony Johnson (RV Kuhns).

Please see the next page for a summary of the Pension and Insurance performance information ending March 31, 2013.

Pension Funds Performance Overview Rates of Return (%) as of March 31, 2013								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	11.23	10.91	8.09	8.64	3.83	3.24	8.93	8.98
Fixed Income	7.98	4.72	7.93	6.23	6.04	5.52	5.51	5.36
Private Equity	14.17	21.05	13.19	11.36	3.87	7.98	12.02	9.28
Real Estate	11.67	10.78	13.93	12.38	N/A		N/A	
Absolute Return	8.05	4.20	N/A		N/A		N/A	
Real Return	7.60	4.51	N/A		N/A		N/A	
Cash Equivalents	0.32	0.08	0.47	0.09	0.89	0.31	2.21	1.66
Total Fund	10.03	9.50	8.29	8.13	4.69	4.95	7.68	7.85

Insurance Funds Performance Overview Rates of Return (%) as of March 31, 2013								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	11.23	11.07	7.58	8.48	3.26	2.90	8.65	8.37
Fixed Income	7.92	4.72	8.19	7.09	5.79	5.02	6.33	5.88
Private Equity	14.04	21.05	13.45	11.43	6.21	6.72	10.35	8.95
Real Estate	9.59	7.89	19.04	11.40	N/A		N/A	
Absolute Return	8.19	4.20	N/A		N/A		N/A	
Real Return	7.26	4.51	N/A		N/A		N/A	
Cash Equivalents	0.49	0.08	0.33	0.09	0.51	0.31	2.14	1.66
Total Fund	9.52	9.10	7.51	8.44	3.41	3.76	8.10	8.29

RECOMMENDATION: The Board is requested to ratify the actions of the Investment Committee.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board
FROM: William A. Thielen
Executive Director
DATE: May 30, 2013
SUBJECT: Participation of Additional Agencies and Hazardous Positions

PARTICIPATION—NONHAZARDOUS

There is one (1) new agency electing to participate with the County Employees Retirement System under non-hazardous coverage. Copies of minutes, resolution to participate and agency budget will be available at the meeting for review. Contract for Health Insurance has been received for the agency electing to participate in CERS.

RECOMMENDATION: The Executive Director recommends that the Board approve the participation of the City of Science Hill.

THE FOLLOWING AGENCIES ARE ASKING FOR HAZARDOUS DUTY COVERAGE ON POSITIONS FOR EMPLOYEES WHO HAVE A PARTICIPATION DATE PRIOR TO SEPTEMBER 1, 2008.

The City of Dayton has requested hazardous duty coverage for the following position with an effective date of June 1, 2013:

Captain

There are no employees to be covered under hazardous duty at this time. Attached is a copy of the Position Questionnaire and Job Description.

The City of Williamstown has requested hazardous duty coverage for the following positions with an effective date of June 1, 2013:

Police Corporal

Police Lieutenant

There are no employees to be covered under hazardous duty at this time. Attached is a copy of the Position Questionnaire and Job Description.

The Hardin County Fiscal has requested hazardous duty coverage for the following positions with an effective date of June 1, 2013:

Deputy Jailer Corporal/Field Training Officer
Deputy Jailer Corporal/Shift Leader
Deputy Jailer/Field Training Officer
Deputy Jailer Information Technology/Director
Deputy Jailer Information Technology Level 1
Deputy Jailer/Shift Leader

There are no employees to be covered under hazardous duty at this time. Attached are copies of the Position Questionnaires and Job Descriptions.

Warren County Sheriff has requested hazardous duty coverage for the following position with a **retroactive** date of **January 1, 2009**:

Deputy Sheriff/Detective

There are three (3) employees to be covered under hazardous duty at this time. Attached is a copy of the Position Questionnaire and Job Description.

HAZARDOUS POSITIONS (FOR EMPLOYEES HIRED 9/1/08 OR AFTER)

The City of Dayton has requested hazardous duty coverage for the following position with a **retroactive** date of **March 1, 2012**:

Sergeant
Corporal

Captain

There is one (1) employee to be covered under hazardous duty at this time. Attached is a copy of the Position Questionnaire and the Job Description.

The City of Middlesboro has requested hazardous duty coverage for the following positions with an effective date of June 1, 2013:

POLICE

**Investigator
Patrol Officer
Sergeant
Lieutenant
Police Chief**

FIRE

**Firefighter
Lieutenant
Fire Captain
Fire Chief**

There are twelve (12) employees to be covered under hazardous duty at this time. Attached are copies of the Position Questionnaires and Job Descriptions.

The City of Radcliff has requested hazardous duty coverage for the following positions with an effective date of **June 1, 2013:**

POLICE

**Lieutenant (Patrol/Detective)
Captain (Patrol Division)
Captain (Administrative Division)
Deputy Chief
Chief**

FIRE

**Chief
Chief/Emergency Manager/Safety
Director
Lieutenant (Firefighter)
Firefighter (Part-time)**

There are no employees to be covered under hazardous duty at this time. Attached are copies of the Position Questionnaires and the Job Descriptions.

The City of Villa Hills has requested hazardous duty coverage for the following position with an effective date of June 1, 2013:

Police Officer

There is one (1) employee to be covered under hazardous duty at this time. Attached is a copy of the Position Questionnaire and the Job Description.

The City of Williamstown has requested hazardous duty coverage for the following position with an effective date of June 1, 2013:

Police Corporal

There are no employees to be covered under hazardous duty at this time. Attached is a copy of the Position Questionnaire and the Job Description.

The Hardin County Fiscal has requested hazardous duty coverage for the following positions with an effective date of June 1, 2013:

Deputy Jailer Corporal/Field Training Officer
Deputy Jailer Corporal/Shift Leader
Deputy Jailer/Field Training Officer
Deputy Jailer Information Technology/Director
Deputy Jailer Information Technology Level 1
Deputy Jailer/Shift Leader

There are no employees to be covered under hazardous duty at this time. Attached are copies of the Position Questionnaires and Job Descriptions.

The Simpson County Fiscal Court has requested hazardous duty coverage for the following position with an effective date of July 1, 2013:

Firefighter

There are no employees to be covered under hazardous duty at this time. Attached is a copy of the Position Questionnaire and the Job Description.

HAZARDOUS POSITIONS FOR KERS AGENCIES:

The Commonwealth Office of Technology has requested hazardous duty coverage for the following positions with an effective date of June 1, 2013:

Network Analyst I

Network Analyst II

There are twenty-two (22) employees to be covered under hazardous duty at this time. Attached are copies of the Class Specifications and Position Questionnaires.

*****based on the information submitted by COT, these positions don't appear to fall under the statutory authority for hazardous duty coverage******

RECOMMENDATION: The positions for which hazardous duty has been requested are presented for discussion.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the KRS Board of Trustees

FROM: William A. Thielen
Executive Director

DATE: May 30, 2013

SUBJECT: Proposal to Remodel KRS Board Room

With the enactment of Senate Bill 2 during the recently completed legislative session, membership on the KRS Board of Trustees will increase from 9 to 13 members. The current KRS board room is barely adequate to accommodate 9 board members, KRS staff and members of the public who routinely attend KRS board meetings. Consequently, we have developed a preliminary proposal to remodel and expand the KRS board room. Accompanying this memorandum, you will find cost estimates and schematic drawings of the remodeling proposal. The following is a summary of the cost estimates:

Estimated capital construction cost (PPW budget):	\$95,716
Estimated cost of three additional tables with glass (KRS budget):	\$ 4,000
Estimated cost of 24 leather covered chairs (KRS budget):	<u>\$30,524</u>
	\$130,240

If the board approves a remodeling plan, it will also need to be approved by the Board of Directors of KRS Perimeter Park West, Inc. (PPW), since the capital costs of the project will be paid from the PPW budget. For information purposes, a copy of the proposed 2013-2014 PPW budget, excluding the capital cost of this renovation, has been attached.

The estimated cost set forth above does not include the cost of audio and video improvements which will be planned for the near future. This proposal will be discussed in greater detail at the board meeting

RECOMMENDATION: The Executive Director recommends that the KRS Board consider whether to approve a plan to remodel and expand the KRS board room based on the attached cost estimates and drawings.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the KRS Board of Trustees

FROM: William A. Thielen
Executive Director

DATE: May 30, 2013

SUBJECT: Emergency and Ordinary Amendment to 105 KAR 1:140
Employer Administrative Duties

In order to implement the pension spiking provisions of Senate Bill 2 (Section 10), Kentucky Retirement Systems must file an emergency and ordinary amendment to 105 KAR 1:140. Section 10, the pension spiking provision, provides that a member's last employer will have to pay the additional actuarial cost of annual increases in creditable compensation over 10% during the last five (5) years of the member's employment unless those increases are due to a bona fide promotion or career advancement. The employer may ask KRS for a determination if a proposed change in position or hiring is a bona fide promotion or career advancement and the employer has the right to request an administrative hearing regarding the determination. The employers can make the requests for determinations beginning July 1, 2013. Beginning with retirees with an effective retirement date of January 1, 2014, the employer will be required to pay the additional actuarial cost of any spiking, but the employer will again have an opportunity to present information to establish that the spiking was due to a bona fide promotion or career advancement. Staff is still in the process of determining the details of the procedure for making a request, the necessary information and documentation for KRS to make a determination, and the billing procedure for spiking and administrative appeals. An emergency amendment to 105 KAR 1:140 is necessary to provide the procedure for making a request for a determination by KRS of a proposed change in position or hiring beginning July 1, 2013. The procedures for billing and administrative appeals of spiking determinations after a member's retirement must be in place by January 1, 2014, therefore they must be in this amendment also.

Additionally, staff has determined that an amendment needs to be made to this regulation to provide the definition of "erroneous contributions" and the procedure for returning them to the employer. Erroneous contributions would be defined to include incomplete contributions that the employer fails to complete after a period of time, causing the member not to be eligible for service credit. The procedure would be to return the erroneous contribution and bill the employer and employee for omitted contributions, which would allow for the complete contribution to be made and the employee to obtain

service credit. This normally occurs after an employee has terminated employment and the employer has no ability to obtain contributions for the employee to complete the contribution. The error usually is that the employer failed to withhold and remit the 1% health insurance contribution although other situations do occur.

Staff has also identified another amendment that needs to be made to this regulation to stop employers from repeatedly changing an employee's position status to avoid having to report the employee and pay contributions. Employees who are employed in a "regular full-time position" are required to participate in KERS and CERS. KRS 61.510(21) and KRS 78.510(21). However, there are exceptions for seasonal, emergency, temporary, part-time, interim, and probationary employees. The problem identified by staff is that an employer will classify an employee as seasonal for 9 months, then classify him as temporary for 9 months, then classifying him as seasonal again in order to prevent the employee from being eligible to participate in KERS or CERS even though the employee is working the requisite number of hours. The employers will also "terminate" an employee from a temporary position and immediately rehire them as a seasonal. This is against the intent of the statute. This amendment will specifically provide the parameters of the use of the exceptions in KRS 61.510(21) and KRS 78.510(21) and the procedures for billing for omitted contributions upon discovery of a misclassification.

RECOMMENDATION: The Executive Director recommends the board authorize staff to file the emergency and ordinary amendments to 105 KAR 1:140 as described in this memo on July 1, 2013.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the KRS Board of Trustees

FROM: William A. Thielen
Executive Director

DATE: May 30, 2013

SUBJECT: Milliman Contract Extension – CMS Part D Data Validation Audit

The Centers for Medicare and Medicaid Services (CMS) requires a Part D Data Validation Audit for the Direct Contract EGWP that KRS had in place for Calendar Year 2012. KRS is required to contract with an approved auditor to perform this Audit. An RFP was conducted in 2011 and Milliman was awarded the contract to conduct the audit for the 2011 plan year. The contract had a termination date of June 2012 and a renewal provision allowing up to three successive one-year renewal periods by mutual written agreement of parties. Milliman provided KRS with a signed agreement in April 2013 for the renewal.

RECOMMENDATION: The Executive Director recommends that the KRS Board approve the renewal of the Milliman contract in order to allow Milliman to perform the audit for the 2012 plan year as required by CMS.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the KRS Board of Trustees

FROM: William A. Thielen
Executive Director

DATE: May 30, 2013

SUBJECT: IPC Contract Renewal

KRS has a direct contract with Centers for Medicare and Medicaid Services (CMS) to provide an EGWP (Employer Group Waiver Plan) or PDP (Prescription Drug Plan). An RFP was issued in 2008 for the purpose of acquiring the services of a Consultant to assist the Systems in offering this PDP under the EGWP option as identified in the Medicare Modernization Act for Medicare eligible retirees. The Consultant was to assist the Board of Trustees in understanding the market for such benefit plans and to analyze various drug plan design options. The RFP was awarded to IPC (Independent Pharmaceutical Consultants, Inc.). The contract was signed in 2008 and again in May of 2011 with a term date of June 30, 2013.

The consultant will support the administration of the EGWP PDP and oversee compliance with CMS contract by providing the following services:

- Formulary review, review of website formulary tools, formulary submission file management, timely submission of formulary to CMS
- CMS reporting
- Annual PBM contract review for compliance with future CMS requirements
- PDE management - Data integration and tracking
- PDE management - Response processing
- PDE management - Reject resolution
- PDE management - Discrepancy resolution

RECOMMENDATION: The Executive Director recommends that the KRS Board approve the renewal of the contract with IPC for continued support of the Direct Contract EGWP with CMS.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: May 30, 2013

SUBJECT: RFP for Local Counsel in the bankruptcy case:
IN RE: SEVEN COUNTIES SERVICES, INC.,
Case No. 13-31442,

Kentucky Retirement Systems issued an RFP for Local Counsel in the above referenced case. A copy of the RFP is attached to this memo. Local counsel is necessary because the lead counsel, Hon. Daniel Swetnam of Ice Miller, is not licensed to practice law in the Commonwealth of Kentucky, which is required to be admitted to the U. S. Bankruptcy Court, Western District of Kentucky.

Kentucky Retirement Systems received only one proposal in response to its RFP from the Louisville law firm Lloyd & McDaniel, PLC. A copy of the firm's Proposal is attached to this memo. The firm specializes in representing creditors, which is how Kentucky Retirement Systems has been described by Seven Counties to the Court. The attorneys proposed by the firm to be designated local counsel are Michael V. Brodarick and Andrew D. Stosberg. Both Mr. Brodarick and Mr. Stosberg are certified as specialists in Business Bankruptcy Law by the American Board of Certification. David Cantor, Counsel for Seven Counties, and the Judge assigned to the case, Judge Lloyd, are also certified as specialists in business bankruptcy. The proposed hourly rate for Mr. Brodarick is \$325 per hour and for Mr. Stosberg is \$250 per hour. Mr. Stosberg will provide primary representation on this case.

One of the senior partners in the firm, James M. Lloyd, is the brother of Judge Joan A. Lloyd, the Judge assigned to the Seven Counties case. On p. 4 of the firm's proposal, the firm notes that this will cause Judge Lloyd to recuse herself from part or all of the case but this has not caused any detriment to the firm's clients.

RECOMMENDATION: Staff recommends that the board approve entering into a contract with Lloyd and McDaniel as local counsel for KRS in IN RE: SEVEN COUNTIES SERVICES, INC., Case No. 13-31442 under the terms as provided above.