

MINUTES OF THE House COMMITTEE ON Insurance

The meeting was called to order by Representative Turnquist at  
Chairperson

3:30 ~~xxxx~~ a.m./p.m. on Monday, March 30, 1992 in room 531 N of the Capitol.

All members were present except:

Representative Sebelius - Excused

Representative Sprague - Excused

Representative Helgerson - Excused

Committee staff present:

Mr. Fred Corman, Revisor

Mr. Chris Courtwright, Research

Mrs. Nikki Feuerborn, Secretary

Conferees appearing before the committee:

Mr. Warren Corman, Board of Regents

Mr. David DeBusman, State Architect

Mr. Larry Magill, IIAK

Mr. Ray Rathert, Insurance Department

**Hearing on HB 3194 - Creation of an insurance mechanism for state-owned buildings**

Mr. Chris Courtwright of Research gave the staff review for the bill. This bill requires that the Committee on Surety Bonds and Insurance purchase fire and extended coverage insurance for most state-owned buildings, subject to a few exceptions. Buildings covered under the new state policy would be insured to at least 90 percent of replacement cost. The policy would be required to have a deductible-per-occurrence of not less than \$500,000 and would be subject to a maximum annual state exposure for all deductibles (also in an amount of not less than \$500,000). The Department of Administration would provide all data and establish values for all property involved, coordinate activities of the new program including settling losses, and submit an annual report to the Legislature.

Mr. Warren Corman, Board of Regents, appeared before the Committee as a proponent of the bill. They have been collecting data and working with the Joint Committee for Building Construction and the State Architect to establish an inventory of space and the value of this space. (See Attachment 1).

Mr. David DeBusman, Director of the Division of Architectural Services, appeared in support of the bill. He stated that approximately 20% of all state property (excluding Regents' facilities) is currently insured. He included a list of major facilities owned by the state whose total value is more than one billion dollars. Due to the little damage which has been sustained by state-owned buildings in the past, the proposed insurance premium would be lower than anticipated. (See Attachment 2).

Mr. Larry Magill, Independent Insurance Agents of Kansas, appeared as a proponent of the bill. Language changes were suggested. (See Attachment 3).

Mr. Ray Rathert of the Insurance Department indicated support of the bill and suggested that contents be added to the requested insurance coverage. The Committee's indicated preference was to get the building insurance in place first and perhaps later add contents insurance. The Legislature would be responsible for making decisions on annual funding. Buildings currently insured may be interested in coming under the proposed insurance plan as they would be eligible for a less expensive rate.

Representative Neufeld moved to amend the bill on Line 24 of Page 1 by striking "a \$2,000,000" and adding "not less than a \$500,000 annual aggregate." The motion was seconded by Representative Wells. Motion carried.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Insurance,  
room 531 N, Statehouse, at 3:30 ~~a.m.~~ p.m. on Monday, March 30, 1992

Representative Weiland moved to add "not less than" before "a" on Line 23 of Page 1. Representative Welshimer seconded the motion. Motion carried.

Representative Cozine moved to amend the bill by adding "to at least" after "insured" on Line 25, Page 1. Representative Gilbert seconded the motion. Motion carried.

Representative Campbell moved the bill be passed as amended. Representative Weiland seconded the motion. Motion carried.

Representative Neufeld moved that the minutes of March 26, 1992, be approved with the correction of the spelling of Tom Bell's name. Representative Flower seconded the motion. Motion carried.

Meeting adjourned at 4:45 p.m.



Testimony Concerning H.B. 3194  
to  
House Committee on Insurance  
by  
Warren Corman, Director of Facilities  
Kansas Board of Regents  
3:30 p.m., March 30, 1992

Representative Larry Turnquist, Chairman  
House Committee on Insurance

The Board of Regents supports the concept of providing insurance for state buildings. This was brought to our attention very abruptly last June when Hoch Auditorium was destroyed by a natural disaster - a bolt of lightning and the resultant fire. Since that fire, we have been collecting data and working with your Committee, the Joint Committee for Building Construction and the State Architect to establish an inventory of space and the value of this space. That information has been provided to your Committee and we stand ready to help and we look forward to working with you in amending the current law in order to allow the purchase of insurance for all state buildings.

We support House Bill 3194.

*House Insurance*  
*3-30-92*  
*Attachment 1*

STATE OF KANSAS



DEPARTMENT OF ADMINISTRATION

Division of Architectural Services

JOAN FINNEY,  
Governor

J. DAVID DeBUSMAN,  
Director

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March 30, 1992

TESTIMONY TO THE INSURANCE COMMISSION

Topic: STATE BUILDING INSURANCE

J. David DeBusman, Director  
Division of Architectural Services

In summary, major buildings in the State (excluding the Regents' facilities) are valued at just over one billion dollars.

This figure does not include furnishings that would be estimated at \$250,000,000. It is assumed the present insurance would be retained on a separate item for computers.

The following agencies are included in the facility count:

- Corrections (7 sites)
- Social and Rehabilitation Services (196 major buildings, 13 sites)
- School for the Deaf - Olathe (7 buildings)
- Human Resources (21 sites)
- Soldiers' Home (Ft. Dodge)
- Armories (60 sites)
- School for the Blind (7 buildings)
- State Fair - Hutchinson (22 major buildings)
- Museums - Shawnee Mission, etc. (6 buildings)
- Capitol Complex (12 buildings)
- Wildlife and Parks (5 buildings)

Not included are structures associated with the Kansas Turnpike and the various State parks.

*House Insurance*  
*3-30-92*  
*Attachment 2*

Following is a summary of the number of facilities in each cost category:

Up to \$500,000	344 buildings
\$500,000 - \$1,000,000	133 buildings
\$1,000,000 - \$5,000,000	130 buildings
\$5,000,000 - \$10,000,000	16 buildings
\$10,000,000 - \$20,000,000	2 buildings
over \$20,000,000	4 buildings

Some facilities are already insured at this time (they are included in the above figures).

Printing Plant  
Kansas Museum of History  
K.B.I. Headquarters  
Insurance Building  
Ellsworth Correctional Facility  
El Dorado Correctional Facility  
Larned Correctional Mental Health Facility  
Adjutant General's Department  
Human Resources  
Kansas Turnpike Authority

Buildings currently insured amount to approximately 20% of the total inventory (Regents excluded).

There has been very little damage to State buildings that would have represented an insurance claim. Corrections has had two fires in recent years at Lansing:

Paint Shop - fire - \$750,000 loss (rebuilt);  
Chapel - fire, riot - never replaced.

*Page 2 of 2*

Testimony on HB 3194  
Before the House Insurance Committee  
March 30, 1992  
By: Larry W. Magill, Jr. for the  
Independent Insurance Agents of Kansas and the  
Professional Insurance Agents of Kansas

Thank you, Mr. Chairman, and members of the committee, for the opportunity to appear today in support of HB 3194 which provides a more structured approach to the state's risk management of its property exposures. However, we would like to suggest some amendments.

In the past, the state has been largely uninsured and not self-insured for damage to most property owned by Kansas. HB 3194 attempts to establish a true self-insurance program with a large self-insured retention (SIR) and excess property insurance. This is a far better way to budget for the cost of replacing damaged buildings for the state of Kansas. As was pointed out by other conferees, the Hoch Auditorium fire provides a vivid example of why the present non insurance program is not adequate. To complete your self-insurance program, you may want to look at a dedicated self-insurance fund for the SIR up to the aggregate amount to guarantee to state agencies that the state has the funds to replace the property.

We are concerned about the meaning on page 1, lines 25-26 of the phrase, "Buildings covered by such policies shall be insured at 90% of the replacement cost thereof." This language seems to limit the insurance the state can purchase to only 90% of the actual replacement cost of the property. We suggest that the state insure the properties for 100% of replacement cost. If that is the case, the committee needs to amend the bill to make it clearer.

*Waver Insurance*  
*3-30-92*  
*Attachment 3*

Secondly, we suggest deleting the language in new section 4 on line 40, page 1, that allows present insurance programs to be incorporated in this single, statewide property program. We ask that you delete the language "be required to" following "shall not" on line 40. We would also suggest deleting the language beginning with "unless" on line 42 of page 1 and the same language beginning with "unless" on line 4 of page 2. This would allow the present insurance programs to remain in place while the state experiments with a single property program for buildings that are presently uninsured.

We think it would be wise for the state to "walk before they run" and not disturb present insurance programs and risk management plans developed by various entities that now purchase property insurance. It would be wise to see the cost and coverage provided by the marketplace on the vast amount of remaining property owned by the state.

We would also like to point out that state universities may like their present \$1,000 deductible for the difference in rate and the certainty that the SIR is affordable in their budget. They have no guarantee under this bill that the state will have \$500,000 to contribute towards reconstructing their properties that are presently insured.

Insurers may be very nervous about insuring the state's prison system because of the potential for arson losses or certain state buildings because of their type of construction, occupancy or use such as storage of flammable liquids and lack of adequate fire protection. Under the proposal, everyone would pay for these higher exposures in the average rate.

We do not feel that the state needs to include the values of buildings presently insured to have a large enough schedule of buildings



and values to obtain the lowest possible rate for the other uninsured property. For all of these reasons, we urge the committee to amend new section 4 to leave the present insurance programs in place.

We do support the general concepts embodied in HB 3194 and urge the committee to move cautiously by amending the bill. Thank you for the opportunity to appear today.