

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Senator August "Gus" Bogina, Chairperson, at 3:20 p.m. on May 1, 1992 in Room 123-S of the Capitol.

All members were present except:

Senator Brady

Conferees appearing before the committee:

Representative Larry Turnquist

Ted Ayres, Legal Counsel for the Board of Regents

Larry Magill, Independent Insurance Agents of Kansas

Richard Brock, Department of Insurance and Committee on Surety Bonds and Insurance

Robert Molander, Department of Human Resources

HB 3194 - Insurance policy on all state buildings not now insured.

Ted Ayres, General Counsel for the Board of Regents, appeared in support of HB 3194 and reviewed Attachment 1. He outlined the procedures of the bill which were detailed in the supplemental note. In answer to a question, Mr. Ayres stated that this proposal would include all state owned buildings and is subject to appropriations. There was some concern that the bill might be premature without a complete estimate or inventory of buildings. Mr. Ayres said that the total replacement value of the regents buildings is \$2.4 billion and approximately \$734 million (or 30%) of that is insured.

Representative Turnquist appeared before the Committee in support of HB 3194 and noted that the House Insurance Committee which he chairs had studied the feasibility of establishing a state insurance program. He stated that the Committee had made provisions in the bill to provide for flexibility and had obtained cost estimates for catastrophic losses from reinsurance companies.

There was discussion about whether a sinking fund would be more advantageous to the state. It was stated that it would take a long time to set up a sinking fund, especially in difficult financial times.

Larry Magill, representing the Independent Insurance Agents of Kansas, appeared before the Committee in support of HB 3194. He reviewed Attachment 2.

Mr. Richard Brock stated that the Committee on Surety Bonds and Insurance supports HB 3194. In answer to Senator Rock, he stated that there would be no reason to continue existing policies if the state elects to pass HB 3194.

Mr. J. David DeBusman, Director of the Division of Architectural Services, testified in support of HB 3194 reviewed Attachment 3. In answer to a question, it was stated that earthquake coverage would not be included.

It was moved by Senator Feleciano and seconded by Senator Harder that HB 3194 be recommended favorable for passage. Senator Winter was assured that no monies would be diverted from other projects to pay the premiums. The motion carried on a roll call vote.

SB 795 - Secretary of human resources authorized to sell certain property in Kansas City.

Mr. Robert Molander, Department of Human Resources, told the Committee that the department does not have a buyer for the building at the present time but would like this legislation enacted in case a buyer is located. In answer to a question, the revisor stated that the building would be appraised unless exemption provisions were made.

It was moved by Senator Feleciano and seconded by Senator Harder that SB 795 be amended by making the sale subject to review by the Joint Committee on State Building Construction. The motion carried.

Senator Feleciano moved, Senator Hayden seconded, that SB 795 as amended be recommended favorable for passage. Senator Winter, a member of the Human Resources subcommittee, stated that the agency had no plans and that he would not agree to something over which the Legislature has no control. The motion carried on a roll call vote.

Having voted on the prevailing side, Senator Rock moved, Senator Moran seconded, that the Committee reconsider its action on HB 2096. The motion carried on a voice vote.

It was moved by Senator Rock and seconded by Senator Salisbury that HB 2096 be amended by changing the definition of an eligible KPERS employer to include any nonprofit community facility for the mentally retarded, any nonprofit independent living agency, any area agency on aging, any nonprofit community mental health center and private not-for-profit organizations that employ individuals to operate youth residential or youth shelter facilities that request affiliation with KPERS. The motion carried on a voice vote.

Senator Salisbury stated that the Governor had concerns about automatic COLA adjustments for retirants that would take precedence over state employees. It was moved by Senator Winter and seconded by Senator Salisbury that the subcommittee report on KPERS be amended by deleting reference in all sections to the automatic post-retirement benefit increase equal to one-half of the U.S. Consumer Price Index for all urban consumers. The motion carried on a show of hands.

Senator Rock moved, Senator Feleciano seconded, that the subcommittee report be amended by deleting the recommendation to transfer securities investigators of the Office of Securities Commissioner from regular KPERS to KP&F. The motion carried on a show of hands.

It was moved by Senator Winter and seconded by Senator Moran that the subcommittee report be adopted. The motion carried on a voice vote.

Senator Feleciano moved, Senator Moran seconded, that HB 2096 as amended be recommended favorable for passage. The motion carried on a roll call vote.

It was moved by Senator Kerr and seconded by Senator Moran that SB 797 be reported adversely. The motion carried on a roll call vote.

The Chairman adjourned the meeting at 4:25 p.m.

The Testimony of

Ted D. Ayres
General Counsel
Kansas Board of Regents

before
SENATE COMMITTEE ON WAYS & MEANS
1992 Legislative Session

in re
House Bill 3194

3:00 p.m.
May 1, 1992
Room 123-S
Kansas Statehouse

SWAM
May 1, 1992
Attachment 1

Chairperson Bogina and Members of the Committee:

My name is Ted D. Ayres and I am General Counsel to the Kansas Board of Regents. I appreciate this opportunity to provide information to the Senate Committee on Ways & Means.

The Board of Regents supports the concept of providing insurance for state buildings. The need for such insurance 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 the House Committee on Insurance, the Joint Committee for Building Construction and the State Architect to establish an inventory of space and the value of this space. That information was provided to the House Committee.

For information purposes, I have attached to my testimony various documents which have been prepared by Warren Corman, Director of Facilities for the Board of Regents. Attachment One indicates the destruction, and resulting loss, which would occur if a "typical" tornado were to strike Wichita State University. Attachment Two provides a 25 year history of major fire and casualty losses suffered by Regents Institutions. Attachment Three provides a summary for illustration purposes, of the types of construction for buildings in the Regents system which have a replacement value of \$10 million or more.

Historically, the Kansas Legislature has always assumed that state owned buildings are "self-insured." This means that no premiums are paid and no policy is in force with a private insurance company. This is still in effect except for certain changes in law enacted since 1957. "Self-insurance" was perhaps a good idea 40 years ago

when buildings rarely cost more than \$1,000,000. The cost of buildings today would seem to dictate other approaches.

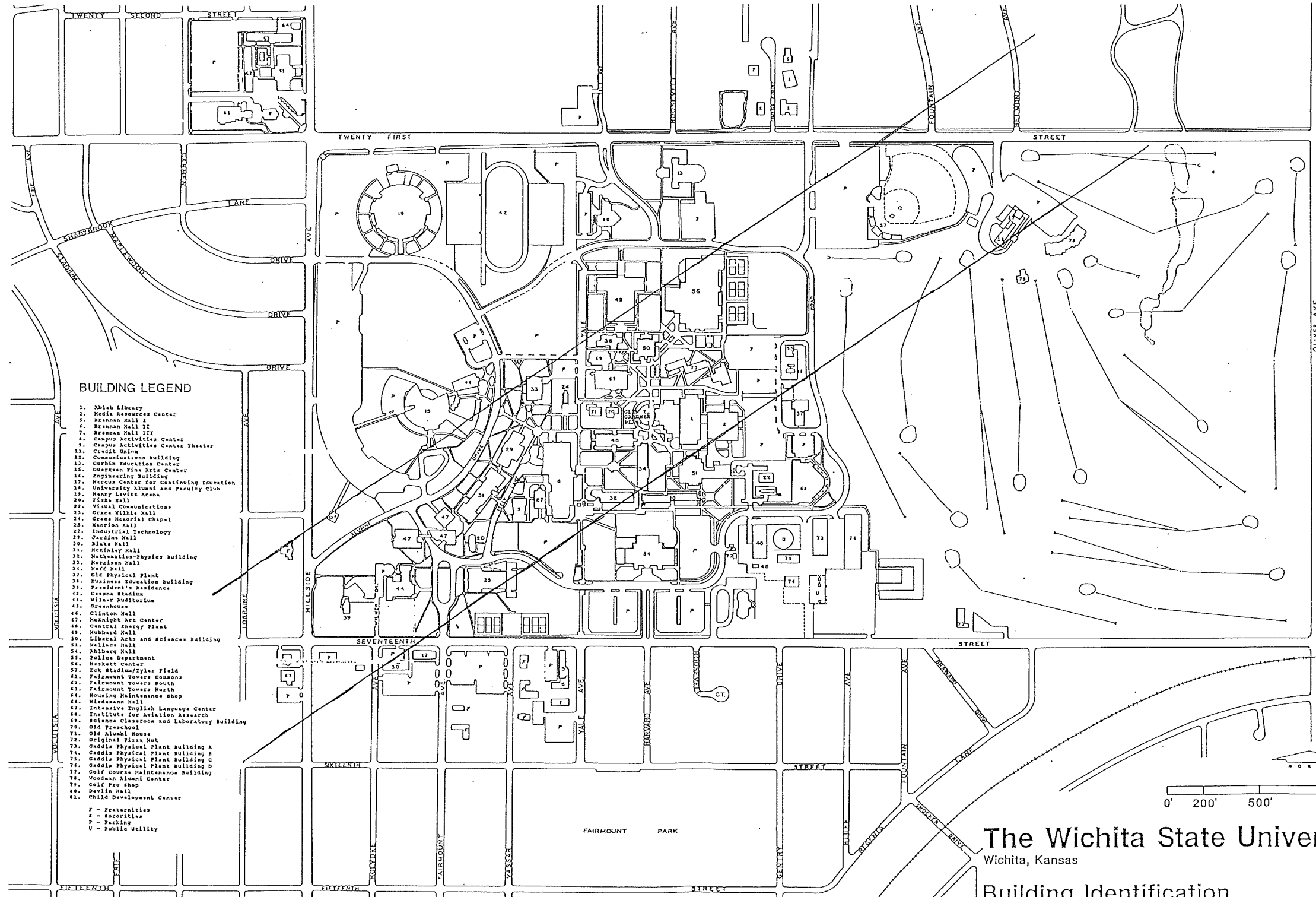
I speak in favor of House Bill 3194. It would appear to provide a reasonable mechanism for the state to protect its investment in state buildings against catastrophic loss.

Thank you for your consideration and I will stand for questions.

24 buildings destroyed at a replacement cost of \$175 million (not including contents).

BUILDING LEGEND

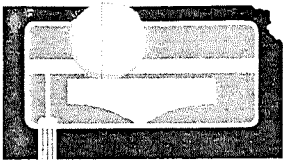
1. Abloh Library
 2. Media Resources Center
 3. Brennan Hall I
 4. Brennan Hall II
 5. Brennan Hall III
 6. Campus Activities Center
 7. Campus Activities Center Theater
 11. Credit Union
 12. Communications Building
 13. Corbin Education Center
 15. Duerksen Fine Arts Center
 14. Engineering Building
 17. Marcus Center for Continuing Education
 18. University Alumni and Faculty Club
 19. Henry Levitt Arena
 20. Fisk Hall
 22. Visual Communications
 23. Grace Wilks Hall
 24. Grace Memorial Chapel
 25. Marion Hall
 27. Industrial Technology
 28. Jardine Hall
 30. Blake Hall
 31. McKinley Hall
 32. Mathematics-Physics Building
 33. Horizon Hall
 34. Vercell Hall
 37. Old Physical Plant
 38. Business Education Building
 39. President's Residence
 42. Cassa Stadium
 43. Wilmer Auditorium
 45. Greenhouse
 46. Clinton Hall
 47. McKnight Art Center
 48. Central Energy Plant
 49. Hubbard Hall
 50. Liberal Arts and Sciences Building
 51. Helms Hall
 54. Ahlberg Hall
 55. Police Department
 56. Heister Center
 57. Eck Stadium/Tyler Field
 58. Fairmount Towers Commons
 62. Fairmount Towers South
 63. Fairmount Towers North
 64. Housing Maintenance Shop
 65. Wideman Hall
 67. Intensive English Language Center
 68. Institute for Aviation Research
 69. Science Classroom and Laboratory Building
 70. Old Preschool
 72. Old Alumni House
 72. Original Vixen Hut
 73. Gaddis Physical Plant building A
 74. Gaddis Physical Plant building B
 75. Gaddis Physical Plant building C
 76. Gaddis Physical Plant building D
 77. Golf Course Maintenance Building
 78. Woodman Alumni Center
 79. Golf Pro Shop
 80. Devlin Hall
 81. Child Development Center
- F - Fraternities
 A - Activities
 P - Parking
 U - Public Utility



The Wichita State University
 Wichita, Kansas
 Building Identification

1991

Attachment One
 1-4

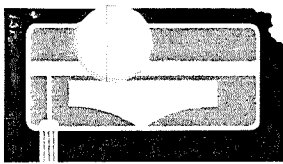


March 2, 1992

25 Year History of Major Fire and Casualty
Losses that were not Insured
1966 - 1991

<u>Decade</u>	<u>Institution</u>	<u>Project</u>	<u>Inventory Replacement Value</u>
1966-1970	FHSU	Old wooden art building burned, replaced with metal building in Physical Plant Compound	\$ 200,000
1966-1970	KSU	Old auditorium burned, replaced by McCain Auditorium (ARSON)	5,000,000
1966-1970	KSU	Nichols Gym burned, space and programs replaced with additions to McCain Auditorium and to Ahearn (ARSON)	2,482,000
1980-1990	KSU	Nichols Gym rebuilt for computer science, theatre and library storage	6,594,000
1966-1970	KSU	Tornado damage to Garden City Experiment Station, damage restored	150,000
1966-1970	KSU	Tornado damage to Manhattan Experiment Station, damage rebuilt	200,000
1970-1980	KSU	Fire damage to hay barns, restored	40,000
1980-1990	WSU	Lightning damage to Morrison Hall clock tower, repaired	50,000
1991	KUMC	Fire damage to Battenfeld Auditorium	200,000
1991	KU	Hoch Auditorium destroyed by fire from lightning strike	<u>13,000,000</u>
			\$27,916,000

Attachment Two



March 19, 1992

**TYPES OF CONSTRUCTION FOR BUILDINGS HAVING REPLACEMENT
VALUE OF \$10 MILLION OR MORE**

Uniform Building Code

- | | |
|--------------|--|
| Types I & II | Structure of steel, concrete or masonry
Exterior bearing walls - 4 hour fire-resistive
Walls and permanent partitions - noncombustible
Structural frame - 2 hour fire-resistive
Floors - 2 hour fire-resistive |
| Type III | Exterior bearing walls - 4 hour fire-resistive
Structural frame - heavy timber or 1 hour fire-resistive
Permanent partitions - 1 hour fire-resistive
Structural elements may be combustible
Floors - 1 hour fire resistive |
| Type IV | Structural elements - noncombustible
Exterior bearing walls - 1 hour fire-resistive
Floors - 1 hour fire-resistive
Permanent partitions - 1 hour fire-resistive |
| Type V | Materials of construction may be combustible
Exterior bearing walls - 1 hour fire-resistive
Permanent partitions - 1 hour fire-resistive
Floors - 1 hour fire-resistive |

Attachment Three

Institution	Building Name	Bldg. No.	Replacement Cost (X 1,000)	Gross Area Square Feet	Type of Construction
KU	Allen Field House	59	\$ 23,915	200,968	IV
	Art and Design	151	13,892	151,000	I
	Dole Human Development	180	12,129	131,840	I
	Ellsworth	89	12,460	163,952	I
	Fraser	97	11,024	119,823	I
	Haworth	104	33,155	273,792	I
	Jayhawk Towers	164	21,416	334,628	I
	Kansas Union	2	22,644	228,732	I
	Learned	88	24,009	223,393	I
	Malott	58	42,730	336,458	I
	Memorial Stadium	50	16,737	179,420	I
	Murphy	76	13,141	142,833	I
	McCollum	93	16,926	222,707	I
	Oliver	95	14,013	184,378	I
	Robinson	94	19,793	219,926	IV
	Stouffer Apartments	84	11,235	175,554	III
	Strong	37	16,351	177,731	I
	Watson Library	22	17,441	189,574	I
Wescoe	132	16,526	179,634	I	
	TOTAL		\$359,537	3,836,343	
KUMC	"G" Building	16	\$ 10,709	55,403	I
	Bell Hospital	55	115,943	850,216	I
	Delp "D"	9	22,833	118,177	I
	Delp "F"	15	21,988	117,223	I
	Orr Major	54	14,672	110,815	I
	Wahl Hall East	20	20,650	133,681	I
	Wahl Hall West	12	10,660	69,014	I
	Wescoe "B"	3	10,034	78,050	I
	TOTAL		\$227,489	1,532,579	
KSU	Ackert	136	\$ 16,399	132,000	I
	Bluemont	158	10,652	122,700	I
	Bramlage	164	17,868	176,073	IV
	Cardwell	91	18,554	149,346	I
	Chem./Biochemistry	165	11,100	89,350	I
	Durland	153	20,548	165,398	I
	Farrell Library	31	26,018	207,927	I
	Ford	129	10,493	125,132	I
	Goodnow	78	10,471	124,872	I
	Haymaker	130	10,493	125,132	I
	Jardine Apartments	40-70	15,953	374,113	III
	Justin	41	18,482	148,768	I
	K-State Union	101	24,576	263,194	I
	Marlatt	76	10,471	124,872	I
	McCain	133	10,404	112,639	I
	Moore	123	10,493	125,132	I
	Power Plant	93	26,202	49,858	IV
	Seaton	102	29,104	234,266	III
	Throckmorton	161	24,813	234,026	I
Waters	120	18,275	147,102	III	
Weber	4	16,543	133,161	IV	
Willard	116	13,599	109,459	III	
	TOTAL		\$371,511	3,474,520	

Institution	Building Name	Bldg. No.	Replacement Cost (X 1,000)	Gross Area Square Feet	Type of Construction
KSUVMC	Trotter	151	\$ 12,995	104,601	I
	Clinical Science	154	33,871	272,640	I
	Medical Science	147	<u>13,173</u>	<u>106,030</u>	I
	TOTAL		\$ 60,039	483,271	
WSU	Ablah Library	1	\$ 28,793	192,973	I
	Ahlberg	54	13,288	112,505	I
	CAC (Union)	8	25,892	177,069	I
	Central Energy Plant	48	11,586	21,475	IV
	Cessna Stadium	42	12,483	39,661	IV
	Duerksen	15	11,515	97,494	I
	Levitt Arena	19	19,337	132,241	IV
	Heskett	56	17,656	165,239	IV
	Hubbard	49	14,291	121,000	I
	McKinley	31	13,540	92,594	I
	Wallace	51	<u>10,116</u>	<u>78,204</u>	I
TOTAL		\$178,497	1,230,455		
ESU	Union	16	\$ 15,619	168,653	I
	Physical Education	2	11,996	131,721	IV
	Plumb	12	12,383	112,733	I
	Science	22	15,196	119,984	I
	Twin Towers	44	10,378	122,768	I
	White Library	18	<u>11,369</u>	<u>122,768</u>	I
TOTAL		\$ 76,941	778,627		
PSU	Weed Physical Education	310	\$ 11,518	133,933	IV
FHSU	Cunningham/Gross	138	\$ 24,203	279,806	I
	Sheridan	102	<u>11,030</u>	<u>67,485</u>	I
	TOTAL		\$ 35,233	347,291	
	GRAND TOTAL - ALL INSTITUTIONS		\$1,320,765	11,817,019	

March 18, 1992

SUMMARY OF BUILDING REPLACEMENT COSTS

Institution	GROUP 1		GROUP 2		GROUP 3		GROUP 4		GROUP 5		TOTAL	
	No. of Bldgs.	Total Replacement Cost	No. of Bldgs.	Total Replacement Cost	No. of Bldgs.	Total Replacement Cost	No. of Bldgs.	Total Replacement Cost	No. of Bldgs.	Total Replacement Cost	No. of Bldgs.	Total Replacement Cost
KU	41	\$ 16,425	27	\$ 65,222	19	\$154,304	14	\$204,489	6	\$167,869	107	\$608,309
KUMC	6	1,129	11	34,856	9	66,153	4	46,075	5	209,086	35	357,299
KSU	25	7,181	27	88,852	18	109,893	16	220,250	6	151,261	92	577,437
WSU	16	6,858	18	47,559	9	67,384	9	123,812	2	54,685	54	300,298
ESU	56	7,848	13	39,788	3	20,863	6	76,941	-	-	78	145,440
PSU	21	4,820	20	60,484	7	49,831	1	11,518	-	-	49	126,653
FHSU	20	5,585	12	34,726	6	47,305	1	11,030	1	24,203	40	122,849
KSU-Salina	10	5,665	9	21,283	-	-	-	-	-	-	19	26,948
TOTAL	195	\$ 55,511	137	\$392,770	71	\$515,733	51	\$694,115	20	\$607,104	474	\$2,265,233

NOTE: Multiply all cost figures by 1,000

GROUP 1 = \$0 to \$ 1,000,000
 GROUP 2 = \$ 1,000,001 to \$ 5,000,000
 GROUP 3 = \$ 5,000,001 to \$10,000,000
 GROUP 4 = \$10,000,001 to \$20,000,000
 GROUP 5 = over \$20,000,000

b-1

Testimony on HB 3194
Before the Senate Ways and Means Committee
May 1, 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.

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 42. We would also suggest deleting the language beginning with "unless" on line 1 of page 2 and the same language beginning with "unless" on line 6 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 deductibles for the difference in rate and the certainty that the SIR is affordable in their budget. They have not 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 don't feel that the state needs to include the values of buildings presently insured to have a large enough schedule of buildings and value 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.

STATE OF KANSAS



DEPARTMENT OF ADMINISTRATION
Division of Architectural Services

JOAN FINNEY,
Governor
J. DAVID DeBUSMAN,
Director

625 Polk
Topeka, Kansas 66603-3288
(913) 233-9367
(913) 233-9398 FAX

May 1, 1992

Topic: STATE BUILDING INSURANCE - H.B. 3194

J. David DeBusman, Director
Division of Architectural Services

The Division of Architectural Services supports the concept of providing insurance for state buildings. As the Director of Architectural Services, a division of the Department of Administration, I give my support in administrating the Act. This would consist of collecting the necessary data, establishing the insured value of the property, helping to adopt rules and regulations and developing and submitting an annual report to the Legislature. We would be able to perform these duties with our existing staff.

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)

SWAM
May 1, 1992
Attachment 3

State Building Insurance - H.B. 3194
May 1, 1992
Page Two

Not included are structures associated with the Kansas Turnpike and the various State parks. 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 (excluding Regent facilities) 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.