

Approved: 3-16-95
Date

MINUTES OF THE HOUSE COMMITTEE ON EDUCATION.

The meeting was called to order by Chairman Rochelle Chronister at 3:30 p.m. on March 8, 1995 in Room 519-S of the Capitol.

All members were present.

Committee staff present: Ben Barrett, Legislative Research Department
Avis Swartzman, Revisor of Statutes
Lois Thompson, Committee Secretary

Conferees appearing before the committee: Ted D. Ayres, Kansas Board of Regents
Larry W. Magill, Kansas Association of Insurance Agents

Others attending: See attached list

Hearings opened on SB 6 concerning state educational institutions; authorizing acquisition of insurance through certain programs.

Ted D. Ayres, General Counsel and Director of Governmental Relations to the Kansas Board of Regents spoke in support of **SB 6**. Midwestern Higher Education Commission (MHEC) has put together a significant Risk Management Program. The financial features of the MHEC program include a "15/5/15" Plan. This means immediate "upfront" savings of 15% off current rates per institution; the possibility of individual institutional profit sharing/dividends of 5% of premiums, subject to loss experience; and the possibility of individual institutional profit sharing/dividends of 15% of premiums, subject to loss experience. In view of the mandate of K.S. 7404702, it is the Board of Regents' opinion that they are currently limited/restricted in their ability/authority to participate in the MHEC program. With 605 buildings in the system (not including Agricultural Experiment Stations) that have a total replacement of \$2,600,000,000, they feel participation in the MHEC program should be considered. (Attachment 1)

Larry W. Magill, Jr., Executive Vice President, Kansas Association of Insurance Agents, appeared in support of **SB 6** as amended. He stated the state of Kansas has been generally uninsured -- not self-insured -- for property loss to its buildings and contents. The only Regents properties that have been insured have been buildings where there was bonded indebtedness or gifted buildings which bear that stipulation. Kansas has made no provision to pay for uninsured property losses. They support the authority granted in **SB 6** for Board of Regents institutions to establish a property risk management program appropriate for their values and budget. (Attachment 2)

No opponents of **SB 6** appeared.

This concluded hearings on **SB 6**.

The committee discussed possible action on **SB 6**

Representative Morrison moved and Representative Horst seconded motion to pass **SB 6** favorably. Motion carried.

The committee discussed possible action on **SB 1**.

Representative Reardon moved and Representative Shore seconded an amendment to change the maximum duration of a short-term suspension to five days. Motion carried on a 13 to 6 vote. (The Senate amendment to **SB 1** recommended lengthening the maximum duration of a short-term suspension to ten days.)

Representative Pettey moved and Representative Morrison seconded motion to pass **SB 1** favorably as amended. Motion carried.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON EDUCATION, Room 519-S Statehouse, at 3:30 p.m.
on March 8, 1995.

Meeting adjourned at 4:30 p.m.

The next meeting is scheduled for March 9, 1995.

The Testimony of

Ted D. Ayres
General Counsel and
Director of Governmental Relations
Kansas Board of Regents

before
HOUSE EDUCATION COMMITTEE
1995 Legislative Session

in re
Senate Bill 6

3:30 p.m.
March 8, 1995
Room 519-S
Kansas Statehouse

*House Education
Attachment 1
3-8-95*

Chairperson Chronister and Members of the House Education Committee:

My name is Ted D. Ayres and I am General Counsel and Director of Governmental Relations to the Kansas Board of Regents. I am here this afternoon representing the Board of Regents.

My initial purpose is to share with you a bit of information about the Midwestern Higher Education Commission (MHEC) and its property insurance/risk management program initiative. As you may recall, Kansas was the first state in the Midwest to join the Commission, see K.S.A. 72-60b01. Illinois, Michigan, Minnesota, Missouri, Nebraska, Ohio and Wisconsin have also joined. One of the responsibilities of the Commission is to:

. . . study the needs for higher education programs and services in the compacting states and the resources for meeting such needs.

As a follow-up to this objective, one of the primary current initiatives of the Commission relates to the area of risk management and possible cost savings relative to the acquisition of property insurance.

Working with representatives from each state, MHEC has put together a significant Risk Management Program. I have attached hereto a progress report from the most recent MHEC meeting in Cleveland, Ohio.

Briefly, the financial features of the MHEC program include a "15/5/15" Plan. This means immediate "upfront" savings of 15% off current rates per institution; the possibility of individual institutional profit sharing/dividends of 5% of premiums, subject to loss experience; and the possibility of sharing in group profit sharing/dividends of 15% of premiums, subject to loss experience.

I would next like to provide you with some basic information about current statutory authorities in Kansas vis-a-vis property insurance and the acquisition thereof. I believe the appropriate starting place is K.S.A. 74-4702 which provides that:

No state agency shall purchase insurance on any property owned by the state agency or the state except as otherwise expressly and specifically authorized by law. See also K.S.A. 75-4101 and K.S.A. 1993 Supp. 75-4109.

Following this basic premise, the statutes then set forth various circumstances (exceptions to the rule) where the acquisition of insurance is authorized, i.e. see K.S.A 74-4703.

In 1992, the Legislature passed K.S.A. 74-4717 (L. 1992, ch. 276), partially in response and reaction to the unfortunate fire at Hoch Auditorium at the University of Kansas. This was a significant shift from the state's historical policy that state owned buildings were "self-insured." Prior to 1992, there were no premiums paid and no policy in force. However, Hoch Auditorium demonstrated that "self-insured" meant "no insurance" with a reliance on the assumption that the Legislature could/would appropriate any funds required to restore or rebuild the facility on an "as needed" basis.

It is my understanding that the policy acquired pursuant to K.S.A. 74-4717 covers all buildings of the state valued at more than \$500,000. There is a \$2,000,000 deductible. The policy has a \$25,000,000 limit for the year (policy year I assume). The most recent contract was apparently purchased for slightly less than the \$250,000 appropriated for such purposes. The original purchase was for a three-year term (renewable each year) and, unless cancelled, goes through July 31, 1996.

In view of the language/mandate of K.S.A. 74-4702, it is my opinion that the Regents Institutions are currently limited/restricted in their ability/authority to participate in the MHEC program. With 605 buildings in our system (not including Agricultural Experiment Stations) that

have a total replacement value of \$2,600,000,000, I would suggest to the members of the Senate Education Committee that the option of participation in the MHEC program should be considered as a viable one. This is the intent of Senate Bill No. 6, as considered and introduced by the Legislative Educational Planning Committee (LEPC).

I want to advise you that the bill was amended by the Senate Committee of the Whole. The amendments were made at the behest of the Kansas Association of Insurance Agents and are designed to assure that MHEC programs are not "favored" and that any insurance acquired pursuant to this added flexibility must be done competitively. I consider these amendments to be acceptable.

Thank you for your attention to and consideration of my testimony. I would now stand for questions.

PROGRESS REPORT

Risk Management Program

Since the Omaha meeting in May, the Risk Management Committee has worked diligently to assure the success of the Master Property Initiative and has taken steps to develop additional programs to meet the needs of higher education.

Activities

Property Enrollment: During our meeting in Omaha the application and enrollment process had just begun (April 1). Now that the first major renewal cycle has concluded, the results are impressive. One hundred eight (108) institutions have made application since April. Of those, 74 provided information that was complete enough for Allendale/MHEC to provide proposals. To date, 41 institutions with combined property values in excess of 13.2 billion dollars have enrolled in the MHEC program. These ratios are very favorable for a new risk management program, which is a testimonial to the credibility of MHEC. In those cases where the MHEC Program was not selected, it was due principally to agents' lack of cooperation or institutions' reluctance to join the first year. In spite of these obstacles, a number of prominent colleges, universities, systems and groups enrolled:

Alma College	Missouri Western State	Stephens College
Central Methodist College	College	University of Minnesota
Central Missouri State	Northeast Missouri State	System
University	University	University of Missouri
Chadron State College	Northwestern University	System
Columbia College	Peru State College	University of Nebraska
Drury College	Rockhurst College	System
Harris-Stowe State College	St. Louis College of	Washington University
Lincoln University	Pharmacy	Wayne State College
Logan College of	St. Louis University	Webster University
Chiropractic	Southeast Missouri State	Westminster College
Maryville University	University	William Jewell College
Missouri Southern State	Southwest Missouri State	William Woods College
College	University	

Cost Savings Benefits: In addition to expanded coverage and service benefits, cost savings is an important advantage of participation in the MHEC program. In this inaugural year, the 41 enrolled institutions achieved combined cost savings totaling \$443,000. Furthermore, the remaining non-enrolling applicants used the proposal they

received from MHEC to leverage price reductions with their current carriers totaling \$722,200. Thus, the MHEC program effectively produced \$1,165,200 in cost savings benefits for higher education in 1994.

State	Applica- tions Received	Proposals Submitted	Enrolling Institutions	Leveraged Savings in First Year*		
				Enrollees	Non-Enrollees	Combined
Illinois	30	28	1	\$49,000	\$349,100	\$398,100
Kansas	2	2	0		5,700	5,700
Michigan	5	3	1	9,000	204,000**	213,000
Minnesota	6	6	4	100,000	17,400	117,400
Missouri	31	31	28	200,000	32,000	232,000
Nebraska	11	11	7	70,000	14,000	84,000
Ohio	21	7	1	15,000	100,000	115,000
Wisconsin	-	-	-	-	-	-
	106	88	42	\$443,000	\$722,200	\$1,165,200

*based on expiring premiums adjusted for property value changes and industry price
 **includes MUSIC carrier adjustment

Committee Membership: The Risk Management Committee felt that the emerging success of the property program and the need for the development of additional coverage programs necessitated a new operating structure. Accordingly, a property oversight subcommittee, a MHEC symposium subcommittee, and two new initiatives subcommittees were formed. Additionally, four new committee members were added:

Greg Wagner	Technical College System, Wisconsin
Bill Park	Northwestern University, Illinois
Scott Wightman	St. Louis University, Missouri
Rollie Boeding	State of Wisconsin

Liability Initiative: One of the new subcommittees headed by David Hale (Illinois) is charged with the responsibility of defining the scope of coverage for a liability initiative as a companion program to the property initiative. It is fully expected that this program will be available in the second quarter of 1995.

Other Initiatives: A separate subcommittee led by Ryan Johnson (Minnesota) is examining the feasibility of other program options for 1996 and beyond. The alternatives include:

- 1) Owner controlled insurance programs (OCIP)
- 2) Risk Management Information Systems (RMIS)
- 3) Student accident, and
- 4) Student health.

We expect to be in a position to report both subcommittees' findings at the next Commission meeting.

Other Activities: A very successful higher education risk management forum was conducted in Missouri under the auspices for MHEC. This format will be replicated in other states and repeated in Missouri in response to requests by participating institutions. MHEC's first Risk Management Research Bulletin was released in the spring and the second edition examining the issue of arson is in the process of being released. Very favorable feedback has been received relative to the first publication.

A MHEC presentation was made by Bill Payton (Missouri) in San Diego at the National URMLA Conference. Great interest in the program was displayed by attending university representatives.

The Risk Management Committee and Johnson & Higgins have outlined specific steps in a number of areas for your review by providing the enclosed "action plan".

Committee Members

Carl Finn, Chair

David Hale, Illinois
William Park, Illinois
Ted Ayres, Kansas
Ed Blews, Michigan
Ryan Johnson, Minnesota
Scott Wightman, Missouri
William Payton, Missouri
Carl Finn, Nebraska

Gloria Moosman, Ohio
Tom Repp, Ohio
Greg Wagner, Wisconsin
David Murphy, Ex-Officio
Jeff Dykehouse, MHEC, Ex Officio
Todd Graham, MHEC, Ex Officio
Phillip Sirotkin, MHEC Sr. Advisor

Testimony on SB 6
Before the House Education Committee
By: Larry W. Magill, Jr., Executive Vice President
Kansas Association of Insurance Agents
March 8, 1995

Thank you, Madam Chair, and members of the committee, for the opportunity to appear today in support of SB 6 as amended. Our association worked closely with the Board of Regents on the proposed legislation in the Senate and feel comfortable with the bill as amended.

The state of Kansas has been generally uninsured - not self-insured - for property loss to its buildings and contents. The only Regents properties that have been insured have been buildings where there was bonded indebtedness. A self-insurance program would include some kind of sinking fund to help pay for losses. Kansas has made no provision to pay for uninsured property losses.

Largely as a result of the uninsured Hoch Auditorium fire at the University of Kansas, the legislature passed in 1992 a bill that allowed the state to purchase a comprehensive property insurance policy, but only appropriated \$250,000. After several years and numerous competitive bids, the best offer the state could obtain was for a policy with a \$25 million limit and a \$2 million deductible that only covers buildings valued at over \$500,000.

More recently, the Anderson Hall administration building, one of the most historic and attractive buildings at Kansas State University, was struck by lightning and badly damaged. The loss was somewhere around \$1 million, but could have been much more severe. The state's new catastrophe property insurance program does not apply, since it is

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under the deductible.

In addition, the state of Kansas has three locations where they have more than \$300 million in property values exposed to a single catastrophe loss such as a tornado. A \$25 million limit would be seriously inadequate if a tornado struck Kansas State or the University of Kansas the way one did Washburn University in 1966.

For these reasons, we support the authority granted in SB 6 for Board of Regents institutions to establish a property risk management program appropriate for their values and budget.

We also support the fact that the process would be subject to the state's open, competitive bid process through the Surety Bonds and Insurance Committee under K.S.A. 75-4101 et seq.

For all of these reasons, we urge the committee to report SB 6 favorably for passage.