

MINUTES OF THE SENATE COMMITTEE ON EDUCATION.

The meeting was called to order by Chairperson Dave Kerr at 1:30 p.m. on January 26, 1995 in Room 123-S of the Capitol.

All members were present.

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

Conferees appearing before the committee: Ted D. Ayres, Kansas Board of Regents
Dan Messelt, Charlton & Wilson, Manhattan, Kansas
Larry McGill, IIAK
Rod Bieker, State Department of Education

Others attending: See attached list

SB 6 - State educational institutions, acquisition of insurance through Midwestern Higher Education Commission.

Testimony was given on **SB 6** by Ted Ayres, Kansas Board of Regents, in support of the bill. He feels all schools in Kansas can benefit from this program including private schools, community colleges, and Washburn University. He gave a specific example comparing a policy currently in effect for Kansas State University to one Midwestern Higher Education Commission (MHEC) could provide for less money with considerably better coverages. This is possible because MHEC has a larger risk pool among which to divide loss. He further stated that the MHEC program is designed to work with local insurance agents, not to be exclusionary. A school could possibly negotiate a better rate and coverage with an independent agent using MHEC rates as leverage. He concluded saying MHEC has saved money and provided better coverage for every state participating in the program. (See Attachment 1)

Dan Messelt, Charlton & Wilson, and Larry McGill, Independent Insurance Agents of Kansas, gave testimony in opposition to **SB 6**. They feel the bill eliminates competitive bidding by allowing the schools to negotiate agreements directly between each individual institution and MHEC, which bypasses the independent agent, and prevents them from participating in the process at all. They want to ensure that a fair and competitive bidding process continues. They further stated that they feel the regents are not providing enough coverage for all the buildings on all the campuses, and need to greatly increase the policy property coverage limits.

SB 4 - Kansas postsecondary review program, termination date, duties and powers of KPR board, termination of participation in student aid programs

Rod Bieker, General Counsel, State Department of Education, testified in support of **SB 4**. This bill brings our state law into compliance with federal laws and regulations governing the federally-mandated State Postsecondary Review Program. These changes add nothing which is not required by the federal laws and regulations. (See Attachment 2)

Senator Emert made a motion that **SB 4** be recommended favorably for passage. Senator Corbin seconded the motion, and the motion carried. Senator Oleen will carry the bill on the floor.

Senator Jones made a motion to approve the minutes of the January 25, 1995 meeting. Senator Lawrence seconded the motion, and the motion carried.

The meeting was adjourned at 2:30 p.m.

The next meeting is scheduled for January 30, 1995.

The Testimony of

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

before
SENATE EDUCATION COMMITTEE
1995 Legislative Session

in re
Senate Bill 6

1:30 p.m.
January 26, 1995
Room 123-S
Kansas Statehouse

Senate Education
1-26-95
Attachment 1

Chairman Kerr and Members of the Senate 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 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 to 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).

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

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 URMIA 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

Kansas State Board of Education

120 S.E. 10th Avenue, Topeka, Kansas 66612-1182

January 26, 1995

TO: Senate Education Committee
FROM: State Board of Education
SUBJECT: 1995 Senate Bill No. 4

My name is Rod Bieker, and I am General Counsel for the State Department of Education. It is a pleasure for me to appear before this Committee on behalf of the State Board regarding Senate Bill No. 4.

With the exception of the provisions extending the sunset of this bill as found in line 22 and editorial changes in Sec. 2, the provisions of this bill merely bring our state law into compliance with federal laws and regulations governing the federally-mandated State Postsecondary Review Program (SPRE.)

These changes are necessary because our law on SPRE was required to be enacted before federal regulations implementing the federal laws were adopted. Now that the final federal regulations are in place, we know what must be included in our state law. The changes made by 1995 Senate Bill No. 4 reflect those required modifications.

In closing, please be advised these changes add nothing which is not required by the federal laws and regulations. Our law, thus, will meet the federal requirements but will add no additional burden to Kansas institutions.

On behalf of the State Board, I request your favorable action on this bill.