

Approved: February 18, 1997  
Date

MINUTES OF THE Senate Committee on Financial Institutions and Insurance.

The meeting was called to order by Chairperson Don Steffes at 9:00 a.m. on February 10, 1997 in Room 529-S of the Capitol.

All members were present except: Jim Barone, Excused

Committee staff present: Dr. William Wolff, Legislative Research Department  
Fred Carman, Revisor of Statutes  
Nikki Feuerborn, Committee Secretary

Conferees appearing before the committee: David Sanchez, Secretary of State's Office  
Kathy Sachs, Secretary of State's Office  
Chuck Stones, Kansas Bankers Association  
Janet Chubb, Secretary of State's Office  
Representative Doug Mays  
Tom Wilder, Kansas Insurance Department

Others attending: See attached list

**Hearing on SB 185: Uniform commercial code**

David Sanchez, Deputy Secretary of State, appeared before the Committee and explained their agency was unable to fund projects approved by the legislature due to a reduction in revenues in the past few years (Attachment 1). An increase in the fee fund has not generated enough revenue to complete the optical image system for uniform commercial code as requested by customers. There are fewer filing of UCC now than in 1982. \$155,000 was sent to the state general fund in 1995 and \$174,000 was sent in 1996. A possible solution for generating enough funds to complete this approved project would be to stop paying 20% of all fees into the state general fund and use that money for completion of projects instead of approaching the legislature for an increase in funding.

Kathy Sachs, Secretary of State's Office, gave supporting testimony for granting the Secretary of State rule and regulatory authority of the operation of the uniform UCC (Attachment 2). This would enable the Department to be part of uniformity in policy and procedures throughout the United States.

Chuck Stones, Kansas Bankers Association, supported the request of the Secretary of State for regulatory powers and a method of funding the much needed optical disc image system (Attachment 3). Such a system would allow bankers on-line access to collateral records held at the Secretary of State's office. Kansas was the first state to implement electronic bank filing.

Committee concerns were the impact of the loss of 20% of fees generated by the UCC fees to the general fund. Would the other 1,932 fee agencies of Kansas request the same exception?

Janet Chubb, General Counsel of the Secretary of State's office, reported the Governor was aware of their request. They expect Budget and the Governor's Office to issue a statement soon approving the plan. The Secretary of State's office has researched their fee system and cannot charge more for services at this point. An optical imaging system is desperately needed by the office and if an additional 20% of their fee fund was retained by the Secretary of State, this would be affordable.

The hearing was continued.

**Overview and briefing on SCR 1601 - Creation of a task force to study insurance laws and regulations affecting competitiveness**

Representative Doug Mays, a member of the interim committee, informed the Committee of the summer meeting in which not only the need to study current insurance rules and regulations in Kansas was discussed but also the growth of the insurance industry. The interest began when a California company opted not to redomesticate to Kansas due to tax issues and annuities. So many different issues were discovered that a

## CONTINUATION SHEET

MINUTES OF THE Senate Committee on Financial Institutions & Insurance, Room 529-S Statehouse, on February 11, 1997.

committee was formed to review all aspects of the regulatory insurance agency of Kansas. The task force would hope to recommend changes which would make Kansas more inviting for insurance companies to domicile here, thus creating an increase in jobs and promote the insurance industry. This task force would probably need to meet for more than one year to explore this complex issue. A problem of the legislation regarding this task force not allowing reimbursement or payment to members of the task force was disclosed. The SCR needs a thrust element, payment plan, and a criteria for membership appointees.

Tom Wilder, Kansas Insurance Department, reported that he was asking the House Committee to have hearings on the bill next week which would reduce insurance company taxes by approximately \$6.2 million by repealing the privilege and annuity tax (Attachment 4). Mr. Wilder reviewed the rules and regulations introduced by the Department which would be considered user-friendly. They want to repeal 120 statutes from the existing insurance code and need the supporting requests of the insurance industry to change the regulations. The Committee agreed they wanted to contribute to the growth of the insurance industry in Kansas.

During discussion, the ideal makeup of the task force and their proposed charge were explored. Many people from the industry would need to be involved in order to examine tax laws, review the thrust of the Kansas Insurance Department, and overall improvements to entice insurance companies to domicile in Kansas.

Senator Becker moved for the approval of the minutes of February 3 and 4. Senator Feleciano seconded the motion. Motion carried.

The meeting adjourned at 10:02 a.m. The next meeting will be February 11, 1997.



Ron Thornburgh  
Secretary of State



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**STATE OF KANSAS**  
**TESTIMONY TO THE**  
**SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE**  
**BY THE OFFICE OF THE SECRETARY OF STATE ON SB 185,**  
**UNIFORM COMMERCIAL CODE FEE FUND**

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to discuss Senate Bill 185, concerning the uniform commercial code fee fund. Historically, this fund has absorbed increases in agency supplemental spending to cover reductions in state general fund appropriations, however, this fund has experienced a reduction in revenues the past few years. When state general funds are reduced from our budget, our agency has to make up this difference with fee fund monies. 20% of this fee fund supports the state general fund and still reductions of state general funds are made to our budget.

Because of these reductions to our budget, we are not able to fund projects that have been approved by the legislature. In 1990 our customers requested a fee increase to support the optical image system and electronic filings for uniform commercial code. Our customers unanimously supported these fee increases because we promised to provide faster and better service when electronic filings and the optical image system became a reality. Part of this promise has been fulfilled. We now have electronic filings which make it easier and more convenient for our customers to file their reports. However, the optical image system for uniform commercial code has been postponed because completion of this project would result in a seriously low balance in the fee fund.

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*Senate F.D.D*  
*Attachment 1*  
*2/10/97*

If 100% of these monies remain in the UCC fee fund, we would not have to approach the legislature for increased state general fund money to provide services for fee fund projects.

Revenue for uniform commercial code fee fund. 20% - State General Fund  
80% - UCC Fund

<b>FY 92 - ttl</b> 816,645	<b>FY 95 - ttl</b> 776,685
<b>UCC</b> 653,316	621,348
<b>SGF</b> 163,329	155,337
<b>FY 93 - ttl</b> 819,534	<b>FY 96 - ttl</b> 687,290
655,627	549,832
163,907	137,458
<b>FY 94 - ttl</b> 771,680	<b>FY 97 - ttl</b> 410,340
617,344	328,272
154,336	82,068

Ron Thornburgh  
Secretary of State



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## STATE OF KANSAS

### TESTIMONY TO THE SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE BY THE OFFICE OF THE SECRETARY OF STATE ON SB 185, RULE AND REGULATION AUTHORITY FOR UNIFORM COMMERCIAL CODE FILINGS

February 10, 1997

Good morning, Mister Chairman. I appreciate the opportunity to appear in favor of Senate Bill 185, concerning rule and regulation authority for Uniform Commercial Code (UCC) filings in Kansas. The administration of the Uniform Commercial Code has an important impact on the economy and upon the rights of the public, in this state and in the United States. The volume of international, interstate and multi state transactions pursuant to the UCC requires that the administration of the UCC be conducted in a manner that promotes both local and multi-jurisdictional commerce by striving for uniformity in policies and procedures among the various states.

The opinion of the Kansas secretary of state's office is that the interpretation and implementation of the filing office's duties and responsibilities should be expressed in a written set of administrative rules. Such rules will have the following purposes:

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*Senate FOI D  
Attachment 2 2/10/97*

- \* To simplify and improve the administration of the UCC by promoting uniform UCC filing procedures in this state and in the nation;
- \* To simplify the public's ability to discover and understand the UCC filing procedures of the various states by establishing a uniform framework for describing the procedures;
- \* To increase public access to information;
- \* To increase public participation in the formulation of administrative policy and procedures;
- \* To increase public accountability of the filing officer; and
- \* To prepare for the revision of article 9 by the uniform law commission anticipated by January of 1998.

Although Governor Graves does not support burdening the public with unnecessary regulations, he understands and supports the adoption of administrative regulations. We ask for your approval of SB 185.

Thank you. I will stand for questions.

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# Kansas Bankers Association

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2-10-97

TO: Senate Financial Institutions and Insurance Committee

FROM: Chuck Stones, Director of Research

RE: SB 185

Mr Chairman and Members of the Committee:

Thank you for the opportunity to appear today in support of New Section 2 of SB 185. That new section gives the Secretary of State rule and regulatory authority of the operation of the Uniform Commercial Code (U.C.C.).

The KBA has always been supportive of the Secretary of State's office in its development of new technology. Electronic access to UCC filings through the Information Network of Kansas has become a valuable service to the banking industry. We look forward to the day when an optical disc image system will be available to allow bankers on-line access to collateral records held at the Secretary of State.

The UCC is very important in the everyday business of banking. It establishes priority positions on collateral held in the lending process, and establishes legal rights to that collateral. Therefore the consistency and the responsiveness in the UCC are very important to the banking industry.

We believe that rule and reg authority would benefit the consistency in the broadening scope of the UCC. Ever changing new technology such as on-line filing and optical imaging make rule and reg authority more responsive to bankers needs. Finally, revisions in the UCC are expected in the next few years. We feel that rule and reg authority will benefit that implementation process.

Thank you for your attention in this matter and we urge your favorable action.

*Senate F.D.S.D.  
Attachment 3  
Feb. 10, 1997*



**Kathleen Sebelius**  
Commissioner of Insurance  
**Kansas Insurance Department**

**MEMORANDUM**

To: Senate Financial Institutions  
and Insurance Committee

From: Tom Wilder

Re: SCR 1601 (Insurance Regulation Task Force)

Date: February 10, 1997

Senate Concurrent Resolution No. 1601 sets up a task force to, "examine Kansas insurance laws and rules and regulations and in particular tax laws, to determine whether such laws place Kansas insurance companies at a competitive disadvantage . . . ." The Department does not have a position on whether such a task force is necessary - the Legislature can best decide what issues need study.

However, I would like to note for the Committee a number of actions which the Insurance Department has taken over the past two years to improve the business conditions for the insurance companies that do business in Kansas:

- Sponsored legislation (HB 2082) which will reduce insurance company taxes by approximately \$6.2 million by repealing the privilege and annuity tax. The legislation also gives companies a salary tax credit which will encourage insurers to move business operations to Kansas. The bill was a result of a year long study by the Department of our state premium tax laws.
- Sponsored legislation (HB 2081) that allows property and casualty companies to "file and use" insurance rates for certain lines of coverage - a change which the industry has been urging the Department to make for years.

*Senate FD&D  
Attachment 4*

*2/10/97*

- Approved the use of “territorial rating” for homeowners insurance in Kansas—a change which the industry has been asking the Department to allow for at least 20 years. Kansas was one of the last states to allow the use of territorial rating in homeowners insurance.
- Worked to improve the “response time” of the Department to agent and company license approvals. Prior to 1995 it took months to license a new agent in Kansas and now the turnaround time for applications is usually 48 hours. It also required companies months (and sometimes years) to get authority to do business in Kansas. This time has been cut to an average of 60 days. We are also working to speed up review and approval of insurance rate and form changes.
- Asked the 1997 Kansas Legislature to repeal 120 unnecessary statutes in the Kansas Insurance Code.
- Undertook an eight month internal review of the regulations which are imposed on insurance companies. The Department is in the process of drafting the necessary notice to repeal 30% of those regulations.
- Reviewed the “bulletins” which the Department has issued to companies and agents to clarify regulatory policy. As a result of our internal study of regulations, the Department plans to revoke over 100 bulletins.
- Formed an Economic Development Task Force to study ways to encourage the development of more insurance company operations in Kansas and especially additional domestic insurers. This group is made up of insurance company representatives, agents, business executives and educators.
- Sponsored legislation in 1996 and 1997 which makes it easier for companies to redomesticate their business to Kansas.
- Instituted changes in the administration of the “second injury fund” that have cut down the legal expenses in defending fund cases—costs that are passed on to the insurance industry and their insureds.

The primary purpose of the Insurance Department is to serve the interests of the Kansas consumers who spend \$6 billion each year on insurance. One way to help consumers is to encourage the development of a healthy and competitive insurance market

in this state. The Department is working to lessen the burden of unnecessary regulation of insurance companies and agents and will continue to look for ways to improve our operations.

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