

Approved: 4-23-98
Date

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS.

The meeting was called to order by Chairperson Phil Kline at 8:00 a.m. on March 31, 1998 in Room 514-S of the Capitol.

All members were present except:

Committee staff present: Bill Wolff, Alan Conroy, Shannon Nichols, Mark Burenheide, Russell Mills, Paul West, Legislative Research Department;
Jim Wilson, Mike Corrigan, Avis Swartzman, Revisor of Statutes Office;
Helen Abramson, Administrative Aide; Linda Swain, Appropriations Secretary

Conferees appearing before the committee:

Tom Wilder, Director, Government Relations, Kansas Insurance Department
John C. Peterson, Security Benefit Group
Eric Sexton, Wichita State University

Others attending: See attached list

Chair Kline announced the Hearing on **SB 545**, originally scheduled for the meeting was no longer necessary since the bill was included in **HB 2895** which passed out of committee on the previous day.

Hearing on SB 426 - Employees of the Department of Insurance: salaries

Tom Wilder, Director, Government Relations, Kansas Insurance Department, spoke in support of **SB 426**, noting this bill was one of two pieces of legislation recommended by the Insurance Task Force chaired by Senator Don Steffes (Attachment 1).

Director Wilder also spoke concerning a balloon proposed by Senator Steffes (Attachment 2) noting the language "but in no case shall any such annual salary exceed the salary of the commissioner of insurance as established by law, except that the annual salary of an actuary who is a Fellow, Society of Actuaries, (FSA) appointed by the commissioner may exceed the annual salary of the commissioner". He noted while the Insurance Department believes they should be able to apply their authority to all positions, not just actuaries, they can live with the bill if necessary. However, he suggested striking the language concerning the FSA actuary, which is just one professional designation for actuaries. Limiting the language in such a way would restrict hiring practices. A discussion followed.

Bill Wolff, Associate Director, Legislative Research Department, reported on results of the summer interim study. The insurance industry believes when the department is required to hire outside actuaries to evaluate their rate filings those dollars are billed back to the individual companies. Also billed are all the other premium taxes, the privilege taxes, fees and charges. The insurance companies feel they pay for the luxury of having their own rates approved by the Insurance Department and their concern was that if rates and rating were to be to the benefit of the citizens of the state, then the citizens of the state ought to share the cost. One way to accomplish this would be to allow the commissioner to employ certain kinds of people on staff, and thereby reduce the number of additional assessments made on private industry for services provided. A discussion followed.

Representatives Farmer and Edmonds requested additional information from staff on the different types of actuaries and the need in having someone designated or certified in a certain way.

The hearing was closed on **SB 426**.

Hearing on SB 494 - Insurance Department service regulation fund.

Director Tom Wilder also spoke in favor of **SB 494** (Attachment 3). A discussion followed.

Martin Kennedy, Comptroller, Kansas Insurance Department, was available to answer questions.

Associate Director, Bill Wolff gave additional information on **SB 494**. The industry believes it is double or triple taxed. They pay fees, premium tax and the second assessment to fund the budget. They were asking the task force to provide a mechanism where the budget of the department was funded by available revenues rather than by imposing these additional taxes on the industry. By removing those taxes it is believed the overall insurance climate for prospective new companies to move or develop in Kansas would be improved. The insurance companies would have preferred to get rid of the whole assessment. They have managed to get rid of about half the assessments because the Insurance Department will be able to keep the additional fees that are generated beyond \$4.8 million. This is a compromise for the industry and for the department. The

department will keep more of the fees, the industry will pay less of the third tax. Part of the third tax is an assessment and causes them some additional penalties in other jurisdictions. Every insurance company that does business in Kansas pays the assessment. To the extent that other states don't have that same assessment Kansas domestic companies pay a retaliatory tax in that same amount to all the other insurance jurisdictions. By reducing the assessment in half it will reduce the retaliatory tax as well. Last year in major tax reform for insurance companies we allowed them to offset the retaliatory tax against their premium tax and so reduce some of the penalty. While every one did not get exactly what they wanted as a result of the interim study it is believed the insurance environment in Kansas is improved by changing these parts of the tax structure on the industry. A discussion followed.

John C. Peterson, representing Security Benefit Group, spoke in support of **SB 494**. He noted the task force last summer was designated to look for ways to create incentives for companies to locate in Kansas. Current law is an economic disincentive for companies to participate. Security Benefit Group strongly supported the bill in its original form and still supports the bill in this, though a somewhat compromised version. There were no questions.

The hearing was concluded on **SB 494**.

Work on previously heard bills

Chair Kline advised the committee they would begin work on **SB 426**.

Representative Edmonds noted the situation is such that a contractor is being hired for \$50,000 per year, or \$100 an hour for about 500 hours of work and suggested we do not need a full time actuary very badly.

A motion was made by Representative Edmonds to table **SB 426**. The motion failed.

A motion was made by Representative Farmer, seconded by Representative Helgerson to amend **SB 426** as shown in the balloon amendment submitted by Senator Steffes. A discussion followed. The motion carried with 12 in favor.

A motion was made by Representative Farmer, seconded by Representative Landwehr to pass **SB 426** out favorably as amended. The motion carried with 11 in favor and 9 opposed. Representative Edmonds was recorded as voting no.

Chair Kline advised **SB 494** would be worked.

A motion was made by Representative Helgerson, seconded by Representative Packer to pass **SB 494** out favorably. The motion carried.

The meeting was recessed at 8:55 a.m. The meeting reconvened at 11:55 a.m.

Hearing on **HB 2748** - concerning community colleges; relating to subjects and courses

Eric Sexton, Wichita State University, spoke in support of **HB 2748** which allows for community colleges, when they work co-operatively with Regent's Universities (specifically with Wichita State) to have the ability to waive the county portion of out-of-district tuition. Wichita State and particularly Cowley County Community College have had a number of co-operative efforts. Current legislation will sunset at the end of the FY 98. **HB 2748** would remove the sunset and allow the community colleges to waive the out-of-district tuition.

Mr. Sexton distributed a letter from Cowley County Community College which is also in support of this bill (Attachment 4). A brief discussion followed.

The public hearing on **HB 2748** was closed.

Chair Kline indicated the committee would work on **HB 2748**.

A motion was made by Representative Reinhardt, seconded by Representative Minor to amend the bill by extending the Sunset for two more years, until 6/30/2000. A discussion followed. The motion carried.

A motion was made by Representative Reinhardt, seconded by Representative Farmer to pass the bill out as amended. The motion carried.

Chair Kline noted that he had intended to work **HB 2996** and **HB 2989**, but Representative Neufeld, who has been directly involved with these bills, was not available to work the bill.

The meeting adjourned at 12:15 p.m. Next meeting will be April 1, 1998, 15 minutes after House adjourns.



Kathleen Sebelius
Commissioner of Insurance
Kansas Insurance Department

MEMORANDUM

To: House Appropriations Committee

From: Tom Wilder

Re: Senate Bill 426 (Salary Cap)

Date: March 31, 1998

I am appearing today in support of S.B. 426 which amends K.S.A. 40-110 to remove the limits on salaries paid to employees of the Kansas Insurance Department. Current law provides that no employee can be paid more than the Insurance Commissioner. This provision limits the ability of the Department to hire and retain key personnel.

This legislation was one of the recommendations of the Insurance Task Force chaired by Senator Don Steffes. The task force, which was made up of legislators, economic development specialists and insurance industry representatives, believed the repeal of the salary cap provision would, "allow the Commissioner more flexibility within her allocated budget and FTE's to make staffing decisions which will best serve the Department's purpose." The Insurance Task Force asked that the cap be removed for all Department personnel.

The Department frequently has difficulty in hiring certain types of specialists, such as attorneys and actuaries, because of the salary limits. For example, Kansas is one of only 12 state insurance departments which does not have an actuary on staff. Actuaries can generally expect to be paid a starting salary of \$75,000 to \$90,000 which exceeds the current compensation (\$66,211) paid to Commissioner Sebelius. Salaries paid to senior staff at our agency are also below compensation provided for similar positions at other state agencies. I have attached information which outlines

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Attachment 1*

compensation at other Kansas executive departments and state insurance departments in our region.

The Commissioner is asking to be given the ability to manage personnel matters at the Insurance Department within the budget as authorized by the legislature.

Companies in the private sector are not subjected to arbitrary limits placed on their ability to employ senior management. There is no sound public policy reason why the salary cap should be applied to the Kansas Insurance Department. I ask that you approve Senate Bill 426 as amended.

KANSAS AGENCY HEAD COMPENSATION

| | |
|--------------------------------------|----------|
| Department of Administration | \$83,835 |
| Department of Commerce | \$86,842 |
| Department of Health and Environment | \$81,000 |
| Department of Human Resources | \$82,342 |
| Department of Wildlife | \$82,354 |

Source: Kansas Department of Human Resources

INSURANCE DEPARTMENT COMPENSATION

| <u>State</u> | <u>Actuaries</u> | <u>General Counsel</u> |
|--------------|------------------|------------------------|
| Colorado | \$74,616 | ----- |
| Iowa | \$97,177 | ----- |
| Missouri | \$91,992 | \$69,000 |
| Nebraska | \$48,093 | \$64,200 |
| Ohio | \$87,880 | \$66,300 |
| Oklahoma | \$74,200 | \$63,000 |

Source: National Association of Insurance Commissioners

Legal representation in Colorado and Iowa is provided by the state attorney general

SENATE BILL No. 426

By Committee on Financial Institutions and Insurance

1-13

10 AN ACT concerning employees of the department of insurance; salaries;
11 amending K.S.A. 40-110 and repealing the existing section.
12

13 *Be it enacted by the Legislature of the State of Kansas:*

14 Section 1. K.S.A. 40-110 is hereby amended to read as follows: 40-
15 110. The commissioner of insurance is hereby authorized to appoint an
16 assistant commissioner of insurance, [two] actuaries, two (2) special at-
17 torneys who shall have been regularly admitted to practice, an executive
18 secretary, policy examiners, two (2) field representatives, and a secretary
19 to the commissioner. Such appointees shall each receive an annual salary
20 to be determined by the commissioner of insurance, within the limits of
21 available appropriations; but in no case shall such annual salary exceed
22 the salary of the commissioner of insurance as established by law. ~~He~~
23 ~~The commissioner~~ is also authorized to appoint, within the provisions of
24 the civil service law, and available appropriations, such other employees
25 as shall be necessary to administer the provisions of this act. The field
26 representatives authorized by this section may be empowered to conduct
27 inquiries, investigations, or to receive complaints. ~~Provided, however,~~
28 ~~That such~~ Such field representatives shall not be empowered to make,
29 or direct to be made, an examination of the affairs and financial condition
30 of any insurance company in the process of organization, or applying for
31 admission or doing business in this state.

32 The appointees herein provided for authorized by this section shall take
33 the proper official oath and shall be in no way interested, except as pol-
34 icyholders, in any insurance company. In the absence of the commissioner
35 of insurance the assistant commissioner shall perform the duties of the
36 commissioner of insurance, but shall in all cases execute papers in the
37 name of the commissioner of insurance, by himself as assistant. The com-
38 missioner of insurance shall be responsible for all acts of an official nature
39 done and performed by his the commissioner's assistant or any person
40 employed in his such office. All the appointees authorized by this section
41 shall hold their office at the will and pleasure of the commissioner of
42 insurance.

43 Sec. 2. K.S.A. 40-110 is hereby repealed.

PROPOSED AMENDMENT

31 MAR 98

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ATTACHMENT 2

, but in no case shall any such annual salary exceed the salary of the commissioner of insurance as established by law, except that the annual salary of an actuary who is a Fellow, Society of Actuaries, (FSA) appointed by the commissioner may exceed the annual salary of the commissioner

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Attachment 2



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Kathleen Sebelius
Commissioner of Insurance
Kansas Insurance Department

MEMORANDUM

To: House Appropriations Committee

From: Tom Wilder

Re: Substitute Senate Bill 494 ("Second Assessment")

Date: March 31, 1998

Senate Bill 494 was introduced at the request of the Insurance Industry Task Force chaired by Senator Steffes. The makes changes to the "second assessment" paid by insurance carriers to fund the operations of our agency.

The current law provides that up to \$4.8 million of the budget of the Insurance Department will be paid by fees charged to insurance companies and agents and by premium taxes collected from the industry. Any additional amounts necessary to fund the department budget are provided through an additional assessment on the insurance companies which do business in this state. This is a "second tax" paid by carriers above the fees and premium taxes which are assessed.

The Task Force recommended an end to the second assessment because it is an administrative burden on carriers and on the Insurance Department. The Senate Ways and Means Committee amended the bill so that the \$4.8 million cap on the fees was removed. Under the legislation as amended, the budget of the Insurance Department would be paid first through the fees collected from the insurance carriers and agents. Any additional money needed to fund the Department would be raised through a second assessment.

The legislation does not change the fact that our budget is subject to the approval of the Kansas Legislature. All premium taxes collected by the Department will be paid directly into the state general fund. The bill will result in a lower second assessment as the amount of fees collected by the Department increases.

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Attachment 3*

Funding Sources

Kansas Insurance Department Regulation Fund

| | FY 1995 | FY 1996 | FY 1997 | FY 1998 | FY 1999 |
|-----------------------------------|--------------|--------------|--------------|--------------|----------------|
| Licensing and Other Fees | \$ 4,249,395 | \$ 4,184,853 | \$ 4,800,000 | \$ 6,228,000 | * \$ 4,800,000 |
| Premium Tax Receipts (SGF) | 469,422 | 194,962 | - | - | - |
| Fee Fund Assessment | 821,972 | 1,003,254 | 1,336,472 | - | 1,300,000 |

Funds available in excess of \$4.8 million statutory cap from fees. \$ 450,000

* In FY 1997, Fees unexpectedly exceeded the statutory cap of \$4.8 million. The excess was budgeted in FY 1998 to be expended and thereby eliminate the need for a fee fund assessment in the current year. The current law does not provide for the disposition of fee receipts in excess of \$4.8 million. We assume that if KSA 40-112 remains in effect, after FY 1998 fees in excess of \$4.8 million would be transferred to the State General Fund.

4



Cowley
Committed to Teaching Excellence
Office of the President

March 31, 1998

Mr. Phil Kline, Chair
 House Appropriations Committee
 Topeka, Kansas

Dear Mr. Kline:

I am writing in support of House Bill #2748 that states: "No out-district tuition charges shall be based upon credit hours in any subject or course all or the principal part of which is taught at Fort Hays State University or Wichita State University under an agreement for the teaching of such subject or course entered into by a community college and either such university." For the last 3 years Cowley has partnered with Wichita State University in a facility at Boeing. The success of the project has been well documented by on-site visits from House and Senate representatives. In fact the project has been recognized as a model cooperative partnership by the State Joint Advisory Committee and the Legislature.

Without House Bill #2748 a cooperative partnership with Wichita State University is impossible. House Bill #2748 fosters cooperation between Wichita State University and community colleges because it removes the out-district tuition cost to the county taxpayers that is a barrier to cooperation for Wichita State University. Also, the elimination of the sunset clause will allow both institutions to plan better for future cooperative program development.

The passing of House Bill #2748 encourages continued cooperation between Community Colleges and Wichita State University. The Kansas Legislature desires educational entities to work together for the betterment of Kansas Citizens. House Bill #2748 removes a significant barrier to continued cooperation by making it clear that the State Legislature supports these cooperative endeavors now and in the future.

Sincerely,

Patrick J. McAtee
 Patrick J. McAtee, Ph.D.
 President

PJM:lp

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Attachment 4

Quality Education Since 1922