

Approved: March 4, 1998  
Date

MINUTES OF THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS.

The meeting was called to order by Chairperson Ray Cox at 3:30 p.m. on February 19, 1998 in Room 527-S of the Capitol.

All members were present except:

Committee staff present: Bill Wolff, Legislative Research Department  
Bruce Kinzie, Revisor of Statutes  
Maggie Breen, Committee Secretary

Conferees appearing before the committee: Charlie Hostetler, Charlson & Wilson Insurance  
John Houlihan, State of Kansas, Division of Purchasing

Others attending: See attached list

The chairman opened the hearing on **HB 2904 - Contracts by regents institutions for use of debit cards.**

Proponents:

**Charles Hostetler**, Charlson & Wilson Insurance, Manhattan, Kansas appeared in favor of **HB 2904**. If the bill is passed, all Regents institutions will be required to bid credit cards/debit cards under the supervision of the Kansas Secretary of Administration. The advantage of having the card is that student, faculty, and staff can use the card to pay tuition and fees, pay for books in the book store, merchants will accept it, and if a student has a debit card they don't have to pay certain service charges and fees for using the ATM's. There's a real advantage to have your account with the institution who is favored with the debit card. The need for the bill stems from the way the bid process was handled for a debit card at Kansas State University a little over a year ago. Kansas State handled the bid process directly through an ad hoc committee made up of university faculty and staff who had little or no experience with such cards. It appeared that a financial institution was selected to handle the debit cards before bids were even submitted. Mr. Hostetler's family owns the First Savings Bank of Manhattan. When Kansas State announced they would consider bids for a debit card like several of the other regent institutions had, his bank went to a great deal of time and expense to submit a bid. Their bid wasn't even analyzed. They weren't given a fair shot. The existing statute created an opportunity for the university to take bids and negotiate this debit card without going through the Kansas Secretary of Administration's Office. **HB 2904** corrects that. (**Attachment 1**)

Mr. Hostetler was asked if there is a renewal period on the contract. He said it was a five year contract.

**John T. Houlihan**, Director of Purchasing, Department of Administration, appeared to testify on **HB 2904**. His office normally bids the debit cards under the procurement negotiating statute. At K-State, the student union did the bidding; as a nonprofit corporation, it does not have to follow the state purchasing statute. Some of the things they did were not in accordance with the state statute which his office follows. After the credit union got the contract in place, the university signed a support agreement with the credit union to provide these debit card services to the university. The university's concern was that if they went out separately, they would end up with a different financial institution, and a different debit card; then students would be required to carry two debit cards and maintain two debit card accounts. He has no problem with the bill, even though he doesn't think that what happened at K-State will ever happen there again. He did request an amendment to allow the use of K.S.A. 75-37,102 when purchasing debit card services. Rather than have sealed bids and awarding the contract to the lowest bidder, he gets a proposal in, sits down and looks at it, discusses it, and gets it tailored to meet specific needs. The contract doesn't necessarily go to the lowest bidder, but to the one which offers the best value for the state of Kansas. The procedure has been around for about 10 years now and it works well. They have used section 75-37,102 to award contracts for debit cards to Fort Hays State, Wichita State, KU, and Emporia State. They have a request for a proposal out on the

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS, Room 527-S  
Statehouse, at 3:30 p.m. on February 19, 1998.

street right now for Pittsburg State, and KU Med Center will be coming up soon. K-State is the only proposal that didn't come through his division. He has had no problems or complaints with the four contracts they have awarded so far. (**Attachment 2**)

Representative Campbell asked if the record of the contract selection is open to the public. Mr. Houlihan said the file is open under the public records act.

Bruce Kinsey said he had a balloon on the bill with the proposed amendment. (**Attachment 3**)

The chairman closed the hearing on **HB 2904**.

The chairman opened discussion on **HB 2860 - Creating the crime of giving a check drawn against a closed account; penalties; giving a worthless check**, asking the committee what their pleasure was. Representative Geringer made a motion to approve the bill. Representative Gregory seconded the motion. The motion carried.

The chairman opened discussion **HB 2904**. Bruce Kinzie handed out the balloon on the bill. Representative Grant moved to adopt the balloon into the bill. Representative Correll seconded the motion. The motion carried.

Representative Campbell moved to pass the bill as amended. Representative Cook seconded the motion. The Motion carried.

The chairman presented the minutes of the February 17, 1998 meeting. Representative Grant moved to approve the minutes as presented. Representative Campbell seconded the motion. The motion carried.

The meeting adjourned at 3:52 p. m.

The date of the next meeting will be determined later.



*Charlson and Wilson Insurance Agency, Inc.*

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February 19, 1998

MEMBERS OF THE KANSAS HOUSE OF REPRESENTATIVES FINANCIAL  
INSTITUTIONS COMMITTEE:

My name is Charles Hostetler. I am an independent insurance agent in Manhattan, a graduate of Kansas State University and the University of Kansas Law School. I am a former member of the Kansas Board of Regents. My family owns the First Savings Bank of Manhattan. We have three locations in Manhattan, and branches in Junction City and Lawrence.

The reason that I am appearing before your committee today in support of House Bill No. 2904 is that I strongly believe that it is in the Kansas taxpayers best interest that all bids for credit cards/debit cards to be used at Kansas Board of Regents institutions for the payment of fees, tuition and other charges be required by law to proceed through a bidding process under the supervision of the Kansas secretary of administration.

The advantage of requiring that this process be bid through the state of Kansas is to avoid any appearance of a conflict of interest, and to know that the procedure is done correctly and intelligently. First Savings Bank of Manhattan had a most unpleasant and unfair experience attempting to deal with Kansas State University in late 1996 and in 1997 in submitting a bid for the debit card that the university had declared was open to bids.

Quite briefly, the existing statute created a possibility for the university to take bids and negotiate this debit card without going through the Kansas secretary of administration's office. Other Regents institutions had bid their debit cards through the secretary of administration's office, but Kansas State University, for reasons known only to top administrators at the university, decided to bid directly through an ad hoc committee made up of university faculty and staff who had little or no experience with such cards.

The procedure was so flawed and poorly handled that First Savings Bank of Manhattan filed suit over the awarding of this card. It appeared that another financial institution had quite possibly been pre-selected before bids were even submitted. Then end result of this flawed process used by Kansas State University was a greater cost to the taxpayers of Kansas and to KSU students, staff and faculty.



Charles H. Hostetler, C.P.C.U.  
Daniel R. Messelt, C.P.C.U.  
Jeffrey J. Kruse, A.A.I.

*House Financial Institutions*  
2-19-98  
*Attachment 1*



# *Charlson and Wilson Insurance Agency, Inc.*

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The suit was thrown out of court by a district judge in Manhattan on a technicality. First Savings Bank did not appeal his decision. Hard feelings exist and the university has admitted to me, through two of its top administrators, that they handled the procedure improperly and they are, in fact, embarrassed by the manner in which the debit card provider was selected. They are so sensitive about the law suit and the unfavorable publicity in the Manhattan banking community that they turned down a subsequent offer of a \$300,000 gift to the Kansas State University Foundation by the successful bidder.

If House Bill No. 2904 is passed, all Regents institutions would be required to bid credit cards/debit cards under the supervision of the Kansas secretary of administration. This is what Kansas State University should have been required to have done. Had this procedure been in place at the time Kansas State University bid its debit card there would have been no question about the integrity of the bid and the other financial institutions in Manhattan would not have questioned the awarding of this contract.

Kansas State University and other Regents institutions should not be allowed to manipulate an important bid such as this. The taxpayers of Kansas, the students, faculty and staff of KSU deserve better than the manner in which Kansas State University handled this matter.



Charles H. Hostetter, C.P.C.U.  
Daniel R. Messelt, C.P.C.U.  
Jeffrey J. Kruse, A.A.I.





DEPARTMENT OF ADMINISTRATION  
Division of Purchases

**BILL GRAVES**  
*Governor*

**DAN STANLEY**  
*Secretary of Administration*

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**HOUSE FINANCIAL INSTITUTIONS COMMITTEE  
TESTIMONY  
HOUSE BILL NO. 2904  
FEBRUARY 19, 1998**

Presented by John T. Houlihan  
Director of Purchases

Mr. Chairman and members of the committee. I am John Houlihan, the Director of Purchases. Thank you for the opportunity to speak on behalf of the Department of Administration.

H.B. 2904 amends K.S.A. 75-37,100 by adding a requirement for regents institutions to obtain debit card services only on the basis of competitive bids in accordance with the provisions of K.S.A. 75-3738 to 75-3744, (competitive purchasing statutes) inclusive. As written, the bill does not allow use of the competitive procurement negotiating statute (75-37,102) to obtain these debit card services. The competitive purchasing statutes do not allow discussions of the offeror's bid prior to contract award. They also require the state to award to the low bidder even if another bid represents a better value to the state. Debit card services are too technical to purchase without conducting discussions to better understand all proposals. I recommend that H.B. 2904 be amended to also allow the use of K.S.A. 75-37,102 in purchasing debit card services.

This concludes my prepared testimony, are there any questions?

*House Financial Institutions*  
*2-19-98*  
*Attachment 2*

1 tion shall exceed 3% of the face value of the charge credit card tickets.  
 2 (c) The director of accounts and reports shall prescribe within the  
 3 central accounting system those procedures necessary to implement the  
 4 provisions of subsections (a) to (c) inclusive of this section.  
 5 (d) All contracts entered into or renewed by any institution under the  
 6 supervision and control of the state board of regents, with any person,  
 7 corporation, organization or public agency, for the use or acceptance of  
 8 debit cards by any such institution shall be entered into only on the basis  
 9 of ~~competitive~~ bids in accordance with the provisions of K.S.A. 75-3738  
 10 to 75-3744, inclusive, and amendments thereto. No contract entered into  
 11 in violation of the provisions of this subsection shall be valid or enforceable  
 12 in a court of law.  
 13 Sec. 2. K.S.A. 75-37,100 is hereby repealed.  
 14 Sec. 3. This act shall take effect and be in force from and after its  
 15 publication in the statute book.

or 75-37,102

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*Attachment 3*