

MINUTES OF THE SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

The meeting was called to order by Chairman Ruth Teichman at 9:30 A.M. on March 6, 2007 in Room 234-N of the Capitol.

All members were present.

Committee staff present:

Melissa Calderwood, Kansas Legislative Research Department
Terri Weber, Kansas Legislative Research Department
Ken Wilke, Office of Revisor of Statutes
Bev Beam, Committee Secretary

Conferees appearing before the committee:

John Meetz, KID; Sandy Praeger, Insurance Commissioner; Brad Smoot, Wheatlands Administrative Services; Susan NeuPoth Cadoret, Department of Commerce; Joan Wagnon, Department of Revenue; Christie Caldwell, Vice President, Chamber of Commerce

Others attending:

See attached list.

The Chair called the meeting to order.

Hearing on:

HB 2106- concerning insurance; pertaining to the preparation and filing of certain reports.

John Meetz, Government Affairs Liaison, Kansas Insurance Department, testified in support of HB 2106. He stated that this bill would amend four statutes pertaining to the payment of taxes and fees by insurance companies admitted in Kansas. It would strike inconsistent language among these statutes which provides for company tax and fee filings with the Insurance Commissioner "verified by affidavits," "verified by oath," and "under oath." The bill would require the filings to be generated by or at the direction of company officers under penalty of K.S.A. 21-3711. (Attachment 1)

Hearing on:

HB 2274 - relating to credits against premium taxes for investments in qualified business facilities.

Kansas Insurance Commissioner, Sandy Praeger, testified that the Insurance Department supports HB 2274 because it means jobs. Passage of HB 2274 will help Wheatlands, a Blue Cross and Blue Shield of Kansas subsidiary, secure a new federal contract for administration of Medicare in a four-state region. The competition for this contract involves other states and is very intense, she said. If Wheatland lands the new contract, hundreds of current jobs will be saved and hundreds of new jobs created in Kansas. If Wheatlands does not secure the new contract, all of those jobs will be lost to another state. (Attachment 2)

Brad Smoot testified on behalf of Wheatlands Administrative Services in favor of HB 2274. Wheatlands Administrative Services is a wholly owned subsidiary of Blue Cross and Blue Shield. It was formed in 2006 for the purpose of bidding on this Medicare business. As of January 1, 2007, all persons directly involved in Medicare administration became employees of Wheatlands, controlled by its own board of directors. Wheatlands submitted a bid on this contract in November, 2006. The impact of this bid on the economy of Topeka and Kansas would be significant. If the contract is awarded to Wheatlands, it would add about 280 jobs, but if it loses the contract, the current 340 jobs will go away. This bill, as all tax credit bills, is intended to enhance the economy of Kansas. This bill has the support of the Kansas Medical Society, the Kansas Hospital Association, the Kansas Medical Group Managers Association, the Metropolitan Medical Society of Kansas City, the Nebraska Medical Society, the Nebraska Hospital Association, the entire Kansas congressional delegation, the Kansas Insurance Commissioner, and the Governor. The Secretary of Revenue has also expressed her support, as has the Topeka Chamber of Commerce. (Attachment 3)

Susan NeuPoth Cadoret, business field representative for the Kansas Department of Commerce, testified in support of HB 2274. Ms. Cadoret provided information derived from a cost-benefit analysis run by the

CONTINUATION SHEET

MINUTES OF THE Senate Financial Institutions and Insurance Committee at 9:30 A.M. on March 6, 2007 in Room 234-N of the Capitol.

Kansas Department of Commerce to identify the economic impact and return of a project of this type. She said the cost-benefit model currently in use across the state to supply information mandated by the state's requirement for a cost-benefit analysis of each project that seeks tax abatement through the prescribed statutory abatement process was used for this exercise. (Attachment 4)

Joan Wagon, Secretary of the Department of Revenue, testified in support of HB 2274. She said Governor Sebelius asked her to convey her support for HB 2274 which would allow Blue Cross and Blue Shield of Kansas to transfer the credits available to them under current state law to Wheatlands Administrative Services as they bid on a new contract with the Centers for Medicare and Medicaid Services. She said while the administration does not generally support the ability of companies to transfer credits to their subsidiaries, in this limited instance, it seems appropriate if the end result is the ability to win a contract that increases substantially the number of new jobs in Kansas. (Attachment 5)

Christy Caldwell, Vice President Government Relations, Greater Topeka Chamber of Commerce, testified in support of HB 2274. She said the purpose of HB 2274 is to assure that Wheatlands Administrative Services, Inc., the Blue Cross and Blue Shield of Kansas subsidiary bidding on the administration of Medicare in a four-state region, is able to take full advantage of all economic incentives that exist today so that Wheatlands' bid is as competitive as possible. (Attachment 6)

Following Q & A, the Chair adjourned the meeting at 10:20 a.m.

FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE GUEST LIST

DATE: 3-6-07

NAME	REPRESENTING
Alex Kotovantz	P. I. A.
Brad Swoot	Wheatlands
5452 ⁿ New Poth Cadoret	Dept. of Commerce
Christy Caldwell	Topeka Chamber
Dan Murray	Federico Consulting
John Neek	KID
Sandy Praeger	Insurance Commissioner
Bill Sneed	State Farm
Nakulii Hecog	Security Benefit



K a n s a s I n s u r a n c e D e p a r t m e n t

Sandy Praeger COMMISSIONER OF INSURANCE

COMMENTS
ON
HB 2106—ELECTRONIC SIGNATURE
SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE
March 6, 2007

Madam Chair and Members of the Committee:

Thank you for the opportunity to visit with you regarding House Bill 2106. The bill would amend four statutes pertaining to the payment of taxes and fees by insurance companies admitted in Kansas. It would strike inconsistent language among these statutes which provides for company tax and fee filings with the Insurance Commissioner "verified by affidavits," "verified by oath," and "under oath." In each case, the bill would require the filings to be "generated by or at the direction of [company officers] under penalty of K.S.A. 21-3711," the current crime of making false information.

The amended language would simplify the current electronic filing process employed by the department under each statute. Currently companies are required to mail or upload a scanned facsimile of the oath or affidavits, in addition to certifying filed information by clicking submit online, as authorized by the electronic transactions act. With the new language, clicking submit online by a known user registered with the department would be the sole requirement for submission.

While exact savings to the department cannot be quantified, we can assume that the department will have a reduction in cost associated with the use of less paper materials, as well as a reduction of cost to insurance companies who do business in Kansas.

Thank you for your time and I will now stand for any questions you may have.

John Meetz
Government Affairs Liaison

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3-6-07
Attachment 1*



Kansas Insurance Department

Sandy Praeger

COMMISSIONER OF INSURANCE

Senate Financial Institutions and Insurance Committee

Testimony in Support of House Bill 2274

March 6, 2007

Madam chair and Members of the Committee:

My name is Sandy Praeger, I am the Kansas Commissioner of Insurance and I would like to speak to you today in support of HB 2274.

In Kansas, whenever insureds pay premiums, 2 cents of every dollar paid in premiums is sent by the insurance companies to the state as a tax. Over \$112 million dollars in premium taxes were collected by the Insurance Department last year, these premium tax dollars are deposited in the State General Fund. The current premium tax credits are designed to promote the growth of insurance industry jobs in Kansas.

The Insurance Department supports HB 2274 because it means jobs. Passage of House Bill 2274 will help a Blue Cross and Blue Shield of Kansas' subsidiary, Wheatlands, secure a new federal contract for administration of Medicare in a four-state region. The competition for this contract involves other states and is very intense. Currently over 300 Kansans are employed by Wheatlands in the administration of Medicare in Kansas. The new regional contract will replace the old state based system. If Wheatlands lands the new contract hundreds of current jobs will be saved and hundreds of new jobs created in Kansas. If Wheatlands does not secure the new contract, all of those jobs will be lost to another state.

The insurance industry is important to the overall economic health of Kansas. We are convinced that the positive economic impact of HB 2274 will outweigh any loss in premium tax revenue. We urge the Committee to act favorable on the bill.

*FI&I
3-6-07
Attachment 2*

BRAD SMOOT

ATTORNEY AT LAW

800 SW JACKSON, SUITE 808
TOPEKA, KANSAS 66612
(785) 233-0016
(785) 234-3687 (fax)
bsmoot@nomb.com

10200 STATE LINE ROAD
SUITE 230
LEAWOOD, KANSAS 66206

Statement of Brad Smoot
Legislative Counsel
Wheatlands Administrative Services
Senate Financial Institutions & Insurance Committee
Regarding 2007 HB 2274
March 6, 2007

Madame Chair and members of the committee,

Blue Cross and Blue Shield of Kansas is a mutual insurance company based in Topeka providing health insurance benefits to approximately 700,000 Kansans in 103 counties. I also represent Wheatlands Administrative Services, a wholly owned subsidiary. We are pleased to have the opportunity to comment in favor of House Bill 2274.

For forty years, Blue Cross and Blue Shield of Kansas has administered Medicare throughout Kansas under a cost-based, no-bid contract. In addition, for about 15 years, it has administered Medicare Part B (the physician side – Part A is the hospital side) in Nebraska and Northwest Missouri. It takes a staff of about 340 persons to administer this contract, most of whom are located in Topeka but with a satellite facility in Salina.

When Congress passed the Medicare Modernization Act in 2003, it required that these contracts to administer traditional Medicare programs (these are not Medicare managed care or prescription drug programs, but the government program as it has existed since 1966) must all be placed on a bid basis. In carrying out this mandate, the Centers for Medicare and Medicaid Services, or CMS, also ended its tradition of placing contracts on a state-by-state basis, establishing 15 multistate jurisdictions across the nation.

Under this approach, Kansas is in a four state jurisdiction that also includes Nebraska, Iowa and Missouri. The contract for this jurisdiction will be awarded July 1, 2007. As a part of this bid process, CMS made it clear that it strongly preferred not to contract directly with an insurer, but instead to contract with a subsidiary, and – largely out of concern about conflicts of interest – insisted on governance of such subsidiaries including board members not affiliated with the insurer.

To address those concerns, Blue Cross and Blue Shield of Kansas formed a wholly-owned subsidiary, Wheatlands, in 2006 for the purpose of bidding on this Medicare business. As of January 1, 2007, all persons directly involved in Medicare administration became employees of Wheatlands, controlled by its own board of directors. Wheatlands submitted a bid on this contract in November 2006. It anticipates that CMS will narrow the number of bidders and negotiate best and final offers sometime in March of 2007.

The impact of this bid on the economy of Topeka and Kansas would be significant, a potential swing of about 600 jobs – if the contract is awarded to Wheatlands, it would add

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3-6-07
Attachment 3

about 280 jobs, but if it loses the contract, the current 340 jobs will go away. The volume of work, and of health care providers served, more than doubles from the current numbers being served out of Topeka and Salina today.

If Blue Cross and Blue Shield of Kansas were bidding this directly, under current law, it would be able to take advantage of the tax credits currently available under state law, and would be able to enhance the competitiveness of its bid in that way. But in forming a subsidiary, only the subsidiary could obtain the tax credits under current law. We anticipate that several other entities will be bidding on this region, none of which are Kansas based. This will be an extremely competitive bidding process, so it is unlikely that Wheatlands would be able to use any available tax credits.

HB 2274 would allow for passing those credits up to a parent, but only if the company earning the credit receives in turn the full value of that credit either in payment or in reduced charges for inter-company services, so that the economic incentive actually flows only to the bidding party to enhance its competitiveness.

We propose an effective date of publication in the Kansas register. This is intended to provide some assurance that any such credits can be used by Wheatlands in negotiating with the government in March.

These contracts must be bid after five years by law. We have included a sunset provision in this bill that is intended to parallel that; because the primary staffing will actually begin in late 2007 or early 2008, we included the flexibility to use earned but unused credits after the sunset.

This bill, as all tax credit bills, is intended to enhance the economy of Kansas, in this case by making a Kansas company, Wheatlands, more competitive in competing for a significant contract with the federal government. Our effort to win this Medicare contract have received the support of the Kansas Medical Society, the Kansas Hospital Association, the Kansas Medical Group Managers Association, the Metropolitan Medical Society of Kansas City, the Nebraska Medical Society, the Nebraska Hospital Association, the entire Kansas congressional delegation, the Kansas Insurance Commissioner, and the Governor. The Secretary of Revenue has also expressed her support, as has the Topeka Chamber of Commerce. Copies of endorsements provided.

We encourage favorable action by the committee.

KANSAS

DEPARTMENT OF COMMERCE
HOWARD R. FRICKE, SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

Chairperson Teichman, members of the committee. I am Susan NeuPoth Cadoret and I serve as a business development field representative for the Kansas Department of Commerce. I am here today to provide information derived from a cost-benefit analysis run by the Kansas Department of Commerce to identify the economic impacts and returns of a project of this type. For this exercise we used the cost-benefit model currently in broad use across the state to supply information mandated by the state's requirement for a cost-benefit analysis of each project that seeks tax abatement through the prescribed statutory abatement process.

For the purposes of my overview I will highlight findings of the report that has been distributed to the committee. General information on the process and methodology is provided in the first several pages of the report. The summary of cost/benefit to the taxing entities impacted is found on page 5, which is followed by a calculation of project impact and then by a more detailed presentation of the costs and benefits for each taxing entity. I will now provide highlights that I believe should be of interest.

Total benefits the State of Kansas may expect over a ten year period from this project is \$11.5 million, with total costs for the project over the same ten year period being \$6.8

million. The Benefit To Cost Ratio for this project shows a favorable return rate of 1.39 to 1. This ratio shows that over a ten-year period the state should expect 139% benefit for their public costs. Generally, a benefit cost ratio of 1.30 to 1 is considered acceptable for a tax entity to offer financial incentives to a firm.

The expected payback period for the estimated \$4 million incentives offered by the state for this project is 7 years. The payback period is the number of years that it will take to recover the cost of the incentives from the net annual benefits the state will receive.

The second handout that was distributed shows the economic impact of the project upon the county. The results of this report prepared by Washburn University School of Business tract similar to the cost benefit analysis prepared by our agency. What both of these reports fail to recognize or relay, is the economic impact of the loss of 300 existing jobs should this project not be successful.



K A N S A S

JOAN WAGNON, SECRETARY

DEPARTMENT OF REVENUE
OFFICE OF THE SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

March 6, 2007

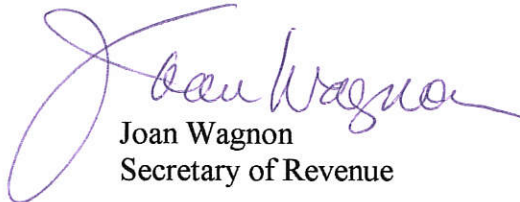
Testimony to Senate Financial Institutions and Insurance
H2274 Relating to Credits against Premium Taxes

Governor Sebelius asked me to convey her support for H2274 which would allow Blue Cross and Blue Shield of Kansas to transfer the credits available to them under current state law to Wheatlands Administrative Services as they bid on a new contract with the Centers for Medicare and Medicaid Services.

While this administration does not generally support the ability of companies to transfer credits to their subsidiaries, in this particular limited instance, it seems appropriate, especially if the end result is the ability to win a contract that increases substantially the number of new jobs in Kansas.

The HPIP and Business and Job Development credits have been important tools in business development that allow companies to reduce their tax liabilities while expanding in Kansas. Because of the structure of these two corporations, access to the HPIP and Jobs credits would not be allowed under current law. Expansion of this principle to all corporations would carry a hefty fiscal note, but H 2274 specifically limits this ability to the circumstances in which Wheatlands would be bidding on the CMS contract. There is also a sunset provision to ensure that authorization would not be on-going.

There is also a timing issue to consider, since the company will need to submit their "best and final" offer in the immediate future. We urge your favorable consideration of this legislation without amendment.


Joan Wagnon
Secretary of Revenue

Senate Financial & Insurance Committee
House Bill 2274
March 6, 2007

By: Christy Caldwell, Vice President Government Relations
Greater Topeka Chamber of Commerce
ccaldwell@topekachamber.org

Chairwoman Teichman and Members of the Committee:

I am here today to speak in support of the passage of HB 2274.

The purpose of HB 2274 is to assure that Wheatlands Administrative Services, Inc. – the Blue Cross and Blue Shield of Kansas subsidiary that is bidding on the administration of Medicare in a four-state region – is able to take full advantage of all economic incentives that exist today so that Wheatlands' bid is as competitive as possible and that this important business in our city remains vibrant.

Blue Cross and Blue Shield (BCBS) has administered Medicare in Kansas for forty years and components of it in Nebraska and NW Missouri for about 15 years. The rules have changed; they are now being required to bid on keeping this existing business and acquiring new business in a larger consolidated region, this will be done through a subsidiary of BCBS - Wheatlands.

Today, there are approximately 340 Wheatlands employees directly associated with the administration of Medicare. As I understand it, if they were to win this contract, it would add about 260 more employees. If they fail to win the contract, it will mean a loss of their existing jobs. The loss of these 340 jobs would have a major adverse impact on the on the service and retail industries, the housing market, and other businesses in our community as well as the devastating loss to our community when our neighbors and friends will no longer have jobs. Conversely, gaining the additional 260 jobs will significantly strengthen both our local and state economy.

We are not asking that Wheatlands be given a special tax break, but rather simply to maximize the full benefit of tax breaks that would otherwise be available to it.

The Topeka Chamber of Commerce fully supports assuring these jobs are secure for the future and we want the work force to continue to grow. Our economic development division – GO Topeka and the Topeka and Shawnee County Joint Economic Development Organization (the joint governing bodies of the city and county) unanimously voted in 2006 to provide financial support in order that Wheatlands gain this five-year contract. GO Topeka and JEDO have committed \$1 million over a five year period, in local funds, as an incentive to retain and grow the company. We believe the value of these jobs is significant to our state and our community and that it is imperative that additional support be gained through passage of HB 2274.

We urge your positive action on this bill.

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Attachment 6