

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 January 28, 2009, in Room 136-N of the Capitol.

All members were present.

Committee staff present:

Bruce Kinzie, Office of the Revisor of Statutes
Melissa Calderwood, Kansas Legislative Research Department
Terri Weber, Kansas Legislative Research Department
Beverly Beam, Committee Assistant

Conferees appearing before the committee:

Joan Wagon, Secretary, Department of Revenue (Attachment 1)
Wylie Kannarr, Kansas Securities Commission (Attachment 2)
Kevin Glendening, State Banking Commissioner's Office
Melissa Calderwood, Research Department
Senator Vratil (Attachment 3)
Tom Krebs, KASB (Attachment 4)
Bob Vancrum, Government Affairs Specialist, Blue Valley USD 229 (Attachment 5)
John Meetz, Kansas Insurance Department (Attachment 6)

Others attending:

See attached list.

Bill introductions

Joan Wagon, Secretary, Department of Revenue, presented an outline for the Rural Risk Bank Loan Guarantee program. Ms. Wagon said the problem which surfaced in discussions in the Kansas Innovation Consortium, even before the financial crisis emerged, is that banks are increasingly reluctant to loan funds for buildings in very rural areas. She said their costs of construction often exceed their value as collateral. Therefore, banks elevate their pricing to account for the fact that if the business doesn't survive, there may not be another use in the community for the building. She said thus, this rural risk has resulted in loan pricing being as much as 25% higher than a similar loan in a more populous market. She noted that often, the companies then turn to other banks for more competitive pricing, but often find they don't want to lend in rural markets. She said one proposed solution is for the Legislature to authorize a loan guarantee program to encourage lending in rural areas to entrepreneurial ventures so that local banks can be involved and innovative companies can locate in rural areas. She said this is nothing more than a loan guarantee. (Attachment 1)

Senator Brownlee moved introduction. Senator Steineger seconded. Motion passed.

Wylie Kannarr, Kansas Securities Commission, presented a proposed amendment to K.S.A. 2008 Supp. 40-5012a. He stated the technical changes proposed in this bill were originally submitted in 2008 as an amendment to **HB 2110**. He noted that representatives of both the insurance and viatical industries acknowledged the need for this change during last year's debate; however, the bill was caught up in procedural discussions and the proposed amendment was left out to facilitate passage of the bill on the House floor. He said this bill would clarify that the Office of the Securities Commissioner retains its jurisdiction over securities aspects of viatical settlements, bring greater uniformity to Kansas' viatical laws and keep wrongdoers from avoiding regulation. He said the amendment he is proposing is a preservation of the administrative authority of the Office of the Kansas Securities Commissioner. (Attachment 2)

Senator Brownlee moved introduction. Senator Steineger seconded. Motion passed.

Kevin Glendening, State Banking Commissioner's Office, introduced two bills. The first was amendments to the Uniform Consumer Credit Code. The second involves a transfer of the Kansas Loan Broker Act currently in the Securities Commissioner's Office to the office of the State Banking Commissioner. He said

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in discussions with the securities, it is confusing to the trade groups under which law they need to be licensed. Also in that bill would be amendments to the Kansas Credit Service Organization Act.

Senator Barnett moved introduction. Seconded by Senator Taddiken. Motion passed.

Hearing on:

SB 39 - School districts; direct investment moneys.

Melissa Calderwood gave an overview of the bill. She stated the Fiscal Note on **SB 39** is very thorough. She said under current law, the governing bodies of counties and municipalities have expanded investment authority to include investments in United States Government and agency securities, interest-bearing time deposits, and repurchase agreements with maximum maturities of four years. She said this expanded authority is allowed only if the municipality or county has a written investment policy that is approved annually by the Pooled Money Investment Board (PMIB). She noted that without this expanded authority, counties and municipalities may invest only in temporary notes or no-fund warrants, time deposits, open accounts, certificates of deposit, repurchase agreements and United States Treasury Bills or Notes with maximum maturities of two years. She said **SB 39** would allow the same expanded investment authority to school districts, with the same requirements of having written investment policies approved by the PMIB. She said **SB 39** could have an effect on the PMIB's future income and expenses. She said if school districts receive expanded investment authority, districts may choose to move investments from the MIP to their own investment portfolio. This would result in a loss of fee revenue to the PMIB.

Senator Vratil testified in support of **SB 39**. He stated that the language in **SB 39** would enable Kansas school districts to invest idle funds in securities issued by federal agencies. He said currently, Kansas cities and counties are authorized to invest their idle funds in securities issued by approved federal agencies. He noted that **SB 39** would add school districts to the list of entities so authorized and place the same constraints on school districts that exist for cities and counties. He said a school district would be able to invest idle funds in securities issued by federal agencies if and only if the school district has a written investment policy previously approved by the municipal pooled money investment board. In conclusion, he said the language in **SB 39** proposes to treat Kansas school districts in the same way that cities and counties are treated. If adopted, the language would enable school districts to maximize the investment potential of the districts' idle funds; therefore, reducing the burden placed on taxpayers to fund our schools.

Following questions of Senator Vratil by the Committee, Tom Krebs, Governmental Relations Specialist, Kansas Association of School Boards, testified in support of **SB 39**, stating that currently, K.S.A. 12-1677b does not include school districts when describing opportunities for governmental entities to invest idle funds. He said **SB 39** simply amends the statute to give school districts the same latitude. He noted that KASB supported this bill last year and is supportive of the bill this year. He said as part of their local school finance policies, members have adopted the stance that local boards be allowed to be the best stewards of the public's money by investing it in ways that maximize return yet always be secured and never invested in a speculative manner. He noted that this amendment allows school districts to better invest their idle funds as it gives them a wider array of possibilities from which to choose, including direct obligations of the federal government.

Robert Vancrum, Blue Valley USD 299, Government Affairs Specialist, testified in support of **SB 39**, stating that **SB 39** is a bill that would allow school districts the same monetary investment authority that is granted to cities and counties under existing law. He said the same or a similar bill passed this committee and the full Senate as **SB 425** last year but was sent to House Education and not worked last year because it was very late and because it became caught up in a logjam of education bills that didn't get worked there. He said the bill would still require the securities to be acquired pursuant to a written investment policy that must be approved by the pooled money investment board. He said the statutes currently bar mortgage backed securities from investment and that has not changed. He said adding notes and federal agency securities and US government sponsored enterprises to the list of permitted investments for USDs would allow them to receive higher returns on their short term investments.

The Chair kept the hearing open on **SB 39**.

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Hearing on

SB 50 - Risk-based capital requirements; establishing a trend test calculation.

John Meetz, Government Affairs Liaison, Kansas Insurance Department appeared in support of **SB 50**. He said this bill would add a trend test calculation to the risk-based capital requirements for property and casualty insurance companies doing business in the state of Kansas. He explained Risk Based Capital is a method developed by the NAIC to measure the minimum amount of capital that an insurance company needs to support its overall business operations. He said currently, the Insurance Department can only use the RBC ratio to determine a company's solvency. He said **SB 50** would add the use of a trend test that is calculated using a combination of the RBC and the losses, loss adjustment expenses and general expenses compared to premiums earned. He said this additional tool gives the Insurance Department a more accurate representation of a company's financial situation, thus allowing the Insurance Department to potentially take appropriate regulatory action. He said the Department believes that a trend test calculation is crucial to determining the financial solvency of the insurance companies that many Kansans rely on when faced with a disaster.

The Chair closed the hearing on **SB 50**.

Senator Barnett moved to pass SB 50 out to the full Senate. Senator Masterson seconded. Motion passed.

The next meeting is scheduled for January 29, 2009.

The meeting was adjourned at 10:20 a.m.