

March 24, 2016

The Honorable Scott Schwab, Chairperson
House Committee on Insurance and Financial Institutions
Statehouse, Room 151-S
Topeka, Kansas 66612

Dear Representative Schwab:

SUBJECT: Fiscal Note for HB 2726 by House Committee on Appropriations

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2726 is respectfully submitted to your committee.

HB 2726 would effectively implement Risk Management and Insurance–Recommendation #3 from the *Kansas Statewide Efficiency Review* by Alvarez & Marsal.

The bill would require the Department of Administration to oversee all insurance procurement for all state agencies to provide a coordinated and cost-effective insurance and risk management program for the state. The Department would be required to rebid all statewide insurance policies or contracts in effect on the effective date of the bill through a competitive request for proposal (RFP) process. Insurance policy or contract renewals must be done through a competitive bid process. The bill would take effect after its publication in the *Kansas Register*.

According to the *Kansas Statewide Efficiency Review*, rebidding statewide insurance policies could generate savings of approximately \$71,000 from all funds in FY 2016 and \$284,000 from all funds in FY 2017. The *Review* estimated that six-year savings would total about \$1,491,000 from all funds. This recommendation is tied to establishing an Office of Risk Management in the Department of Administration to centralize the state's insurance and risk management functions as described in the *Review's* Risk Management and Insurance–Recommendation #1. Alvarez & Marsal found that the state's annual expenditure for property and casualty insurance premiums is \$2,840,000 in FY 2016. The *Review* estimates savings equal to 10.0 percent of the annual premiums could be gained through a competitive marketing process.

The Department of Administration indicates that there are currently 18 insurance policies or contracts in effect for the state, all with different expiration dates. The Department is unable

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to determine the precise fiscal effect from cancelling policies prematurely if the bill is enacted before any policies expire and from rebidding policies through a RFP process. However, the Department strongly recommends that an Office of Risk Management and risk management program be established prior to rebidding current insurance policies. The agency notes that hiring Alvarez & Marsal to help stand up the Office of Risk Management would cost \$600,000 plus ongoing expenses such as salaries and wages.

Information from the Kansas Department of Health and Environment was not available at the time this fiscal note was written. Any fiscal effect associated with HB 2726 is not reflected in *The FY 2017 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Colleen Becker, Department of Administration
Aaron Dunkel, Health & Environment
Dawn Palmberg, Department of Labor