Local Government Mandate Statement
Kentucky Legislative Research Commission
2022 Regular Session

Part I: Measure Information

Bill Request #: 1464

Bill #: House Bill 307/GA

Document ID #: 5887

Bill Subject/Title: AN ACT relating to liability and workers' compensation self-insurance group investments.

Sponsor: Representative Bart Rowland

Unit of Government: **X** City **X** County **X** Urban-County **X** Charter County **X** Consolidated Local **X** Unified Local Government

Office(s) Impacted: Local governments participating in liability and/or workers' compensation self-insurance groups as defined by KRS 304.48-030 and subsections (22) and (29) of KRS 304.50-015. The current self-insurance groups for liability are the Kentucky Association of Counties, Kentucky League of Cities, and Louisville Area Governmental Self Insurance Trust and for workers' comp are the Kentucky Associated General Contractors, KACo, Kentucky Forest Industries Association, KLC, and Kentucky Retail Federation. Investment of funds for localities with their own individual liability and/or workers' compensation self-insurance programs are governed by KRS 66.480.

Requirement: **X** Mandatory **X** Optional

Effect on Powers & Duties: **X** Modifies Existing **X** Adds New ____ Eliminates Existing

Part II: Bill Provisions and the Estimated Fiscal Impact Relating to Local Government

House Bill 307 GA makes identical amendments, pertaining to investment of funds, to KRS 304.48-090 within Subtitle 48, liability self-insurance groups, and KRS 305.50-055 within Subtitle 50, workers' compensation self-insured groups, of the KRS Chapter 304 Insurance Code. The first change includes referencing any of the nine recognized statistical rating organizations, defined in the legislation as a credit rating agency approved by the United States Securities and Exchange Commission to provide assessments of the creditworthiness of financial instruments.

Under current law, the allowable self-insurance group investments include obligations backed by the U.S. government or its agencies; tax-exempt municipal obligations of Kentucky issuers with a minimum AA Standard and Poor's rating, investment share accounts in a Kentucky savings and loan association whose deposits are federally insured; certificates of deposit if issued by a duly chartered commercial bank; equity securities actively traded on registered national securities exchanges with, at the time of purchase, no individual equity holding comprising more than ten percent of the equity portion of the investment portfolio or representing more than five percent of the total market value of the security and with the equity securities investments not exceeding twenty percent of the total market value of the investment portfolio; corporate bonds of U.S. institutions with a minimum A S&P rating as long as the corporate bond investments do not exceed twenty-five percent of the total market value of the investment portfolio; and mutual funds and exchange traded funds if, at the time of purchase, the investments do not exceed twenty percent of the total market value of the investment portfolio.

With respect to municipal investments, the legislation allows investments in both taxable and tax-exempt obligations issued by any U.S. municipality instead of only tax-exempt obligations issued by Kentucky municipalities, as long as at least fifty percent of those municipal investments are with Kentucky issuers. The legislation permits a minimum BBB rating by any NRSRO rather than a minimum AA rating by S&P, enabling self-insurance groups to invest in municipal obligations of more Kentucky issuers. Allowing taxable municipal investments could provide higher yields and expanding the issuers could protect the portfolio from economic downturns in specific geographic areas.

The bill permits a minimum BBB rating by any NRSRO rather than a minimum A rating by S&P for corporate bonds and allows investments in asset-backed securities, also with a minimum BBB rating, not to exceed ten percent of the investment portfolio's total market value. The legislation requires the self-insurance groups to divest themselves of any investments downgraded below BBB, as prudently as possible without incurring unnecessary losses.

The requirement of at least fifty percent of the total market value of the entire investment portfolio held in cash, cash equivalents, or four of the security classes referenced above: obligations backed by the U.S. government or its agencies, municipal obligations, investment share accounts in a Kentucky savings and loan association, or certificates of deposit remains. At least five percent of the total investment portfolio value still must be held in cash or cash equivalent accounts or U.S. treasury and federal agency securities with a remaining maturity of one year or less.

The revised parameters are similar to state and local government investments under KRS 42.500 and KRS 66.480, except for those statutes require minimum ratings within the A category, the level within the A category dependent upon the type of investment. The impact to localities is determined by whether they are participating in liability and/or workers' compensation self-insurance groups and the management of the groups' investments under the revised parameters. Fluctuations in the investment porfolios' value may affect premiums paid by localities. The Kentucky Association of Counties All Lines Fund has 115 counties and 720 political subdivisions and its Workers Compensation Fund has 114 counties and 548 political subdivisions. The Kentucky League of Cities Insurance Services Association has 449 members in its liability pool and its 377 members in its Workers' Compensation Trust.

KLC estimates an annual positive impact to its self-insurance pools ranging from $100,000 to $300,000 after a few years, when some of its portfolios' debt has matured and funds can be reinvested at higher rates.

Part III: Differences to Local Government Mandate Statement from Prior Versions

Part II relates to House Bill 307 GA; identical to the legislation as introduced.

Data Source(s): LRC Staff, Kentucky League of Cities, Kentucky Association of Counties All Lines Fund and Workers Compensation Fund audited financial statements, and Kentucky League of Cities Insurance Services Association and Workers' Compensation Trust audited financial statements

Preparer: Katherine L. Halloran **Reviewer:** CHM **Date:** 2/24/22