

Approved 4-26-88
Date

MINUTES OF THE House COMMITTEE ON Appropriations

The meeting was called to order by Bill Buntten at
Chairperson

1:30 ~~am~~/p.m. on March 29, 1988 in room 514-S of the Capitol.

All members were present except: Representative Vancrum (excused)

Committee staff present: Diane Duffy, Ellen Piekalkiewicz, Ed Ahrens, Robin Hunn,
Legislative Research
Jim Wilson, Revisor of Statutes
Sharon Schwartz, Administrative Aide
Sue Krische, Committee Secretary

Conferees appearing before the committee:

Charles Dodson, KAPE
Michael O'Keefe, Director of the Budget, Department of Administration
Jerry Sloan, Office of Judicial Administrator
Howard Tice, Executive Director, Kansas Association of Wheat Growers
Keith Nelson, Chairman, Kansas Wheat Commission
Galen Swenson, Administrator for Commodity Commissions, Board of Agriculture
Bill Fuller, Assistant Director of Public Affairs Div., Kansas Farm Bureau
Wilbur Leonard, Committee of Kansas Farm Organizations
Ron Miles, Executive Director, Board of Indigents' Defense Services
Ron Wurtz, Chief Public Defender, Shawnee County
Steve Wiechman, Kansas Association of Counties
Harley Duncan, Secretary of Revenue

Others attending: see attached list.

HB 2836 - An Act relating to state employees; concerning the payment of bonus amounts to certain state employees.

Charles Dodson, KAPE, explained that HB 2836 provides for a bonus for state workers based on years of service. Any person who completes ten years of service during FY 1989 will receive a bonus of \$25 times years-of-service paid in two equal installments on June 1, 1988 and December 1, 1988. Chairman Buntten indicated the total cost of this proposal is \$4,548,191. The State General Fund share is estimated at \$2,001,204.

Representative Goossen reviewed the subcommittee report on the longevity bonus plan (Attachment 1). The report is informational only, and does not include recommendations.

Michael O'Keefe, Director of the Budget, testified in support of HB 2836 and provided written testimony (Attachment 2). In response to a question, Mr. O'Keefe stated many of these employees are at the top of their pay range, so they receive only cost of living adjustments; yet, they are very valuable to the state. Mr. O'Keefe noted the Governor chose the longevity bonus plan over Phase III of the job study this year and has asked that the job study be submitted to him in increments of one percent of the salary base.

Jerry Sloan, Office of Judicial Administrator, stated as of last year the judicial pay plan is identical to the civil service pay plan and requested that the Judicial Branch be included in HB 2836. Representative Chronister moved that the Judicial Branch be included in the longevity bonus plan in HB 2836. Seconded by Representative Wisdom. Motion carried.

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MINUTES OF THE House COMMITTEE ON Appropriations,
room 514-S, Statehouse, at 1:30 ~~xxx~~/p.m. on March 29, 1988

Representative Shriver made a motion to amend HB 2836 by striking the longevity bonus plan and inserting language that fully implements Phase III of the job study for the last quarter of FY 1989 funded with the longevity bonus money of \$2.4 million. Seconded by Representative Mainey. A copy of the amendment is included (Attachment 3). Representative Mainey stated he would have preferred not hearing or taking action on HB 2836 until the report from the subcommittee reviewing Phase III of the job study is complete. Representative Solbach offered a substitute motion to table HB 2836. Seconded by Representative Lowther. Chairman Bunten believes the longevity bonus pay bill should be considered on its own merits exclusive of the job study. Following discussion, Representative Solbach withdrew his motion to table with the permission of his second, Representative Lowther. On a vote on Representative Shriver's amendment, motion failed.

Representative Bunten moved that HB 2836 be recommended favorably for passage. Seconded by Representative Mainey. Motion carried.

SB 449 - An Act concerning the Kansas wheat commission and grains commodity commissions; relating to the 20% credit to the state general fund; concerning grain research and market development agencies; amending K.S.A. 1987 Supp. 75-3170a and repealing the existing section.

Representative Heinemann explained that SB 449 is a proposal of the interim study by the Special Committee on Agriculture and Livestock. The bill reduces from \$200,000 to \$100,000 the total transfer to the State General Fund from the four commodity fee funds and classifies the Wheat, Corn, Grain Sorghum, and Soybean Commissions as grain research and market development agencies.

Howard Tice, Executive Director, Kansas Association of Wheat Growers, testified in support of SB 449 (Attachment 4). He advised that among wheat growers, there is strong support for research and market development efforts, but even stronger opposition to the state continuing to divert dollars from the Commissions to the State General Fund.

Keith Nelson, Chairman, Kansas Wheat Commission, testified in support of SB 449 (Attachment 5). This bill allows more of the wheat producers' assessment to be retained by the Commission and the Commission proposes to use the funds to initiate joint studies with the State Board of Agriculture, the Department of Commerce, and private industry to help identify opportunities leading to new products and jobs in the food and agricultural industries.

Galen Swenson, Administrator for Commodity Commissions, Kansas Board of Agriculture, testified that the fiscal impact of SB 449 on the Corn, Sorghum, and Soybean Commission funds would be approximately \$63,660. This reduction of allocations for administrative costs would allow enhanced and expanded efforts for market development and industrial use research relative to this industries (Attachment 6).

Bill Fuller, Assistant Director of the Public Affairs Division, Kansas Farm Bureau, testified in support of SB 449 (Attachment 7).

Wilbur Leonard, Committee of Kansas Farm Organizations, appeared in support of SB 449 (Attachment 8).

HB 3096 - An Act concerning the indigents' defense services act; relating to panels for indigents' defense services; disposition of certain moneys; amending K.S.A. 1987 Supp. 22-4501 and 22-4526 and repealing the existing sections.

Ron Miles, Executive Director, Board of Indigents' Defense Services, advised that the Kansas Supreme Court in December, 1987, found that

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the State of Kansas had violated the Constitution on three counts: (1) not paying attorneys enough for their services; (2) violating the equal protection clause in using different systems throughout the state; and (3) mandatory panel rule not being applied equally by the judges throughout the state. HB 3096 is designed to remedy the third problem. Section 1 of the bill requires the regional public defender, not the judge, to compile a list of eligible panel attorneys and requires the judge to appoint the regional public defender in all indigent felony cases except where there exists a conflict of interest. Section 2 of the bill will allow the Board to put money received from contracts with counties into the Indigents' Defense Services Fund. Currently the Board doesn't contract with counties because they have no way to recoup their costs; Section 2 of HB 3096 would remedy that.

Ron Wurtz, Chief Public Defender, Shawnee County, stated this bill is necessary to give statutory guidance to judges relative to assignment of attorneys.

Steve Wiechman, Kansas Association of Counties, testified that the Association is most interested in Section 2 of the bill because contracts with counties are in many cases the most economic alternative.

HB 3103 - An Act concerning the department of revenue; relating to the collection of delinquent taxes; authorizing the acquisition of an automated collections system; providing certain exemptions.

Harley Duncan, Secretary of Revenue, appeared in support of HB 3103 which would authorize the Department of Revenue to enter into a contract for the purchase of an automated collection system (ACS) for delinquent taxes including computer hardware and software. Written testimony is included (Attachment 9). Under HB 3103, payment to the vendor for the system would be based on a percent of the delinquent taxes collected above some base line amount representing our collections under current practices. Expectations are that an ACS for Kansas would cost approximately \$1.5 million, which should be recouped through increased collections in less than 24 months.

The Department requests that the bill be amended to establish a "procurement negotiating committee" as authorized by K.S.A. 75-37,102 to negotiate the ACS contract rather than vesting that authority solely with the Secretary of Revenue. A balloon of the proposed amendment is included (Attachment 10).

Representative Miller offered a conceptual motion to amend HB 3103 to establish a "procurement negotiating committee" as proposed by the Secretary of Revenue and to include language to require that the "committee" operate under K.S.A. 75-37,102. Seconded by Representative Teagarden. Motion carried. Representative Miller moved to amend HB 3103 to require the Secretary of Revenue to submit an annual report to the House Appropriations and Senate Ways and Means Committees on the results of the contract. Seconded by Representative Helgerson. Motion carried. Representative Miller moved to recommend HB 3103, as amended, favorably for passage. Seconded by Representative Teagarden. Motion carried.

The next meeting is scheduled for Wednesday, March 30, at 12:00 noon. The meeting was adjourned at 3:40 p.m.

GUEST LIST

COMMITTEE: HOUSE APPROPRIATIONS

DATE: 3-29-88

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Wilbur Leonard	Topeka	Kan K Farm Org
Alan Steppat	Topeka	Coastal Corp.
Terry Hooley	103 S. 4th Arkansas City	Leadership Ark City
Carl S. Hooley	119 Mc Arkansas City	Leadership Ark City
Shelley Brewer	R75 Box 307 Arkansas City, KS	Leadership Ark City
Brenda Coffey	R75 Bx 287 ARK. CITY, KS.	Leadership Ark City
Shirley Roberts	P.O. Box 485 Arkansas City, Ks 67005	Leadership Ark City
Sue Abbey	1727 North Tenth Arkansas City, Ks 67005	Leadership Ark City
Jeanne Mechling	RR 3 Box 83 Winfield, KS 67156	Leadership Ark City
MaryAnn Hooley	103 S. 4th Arkansas City, Ks 67005	Leadership Ark City
Bill Jullow	Manhattan	Kansas Farm Bureau
Charles Bruner	Uniontown Ks.	Sof
David Jay	Manhattan, Ks.	Ks. Wheat Comm.
Keith Nelson	Pawnee Ks	Ks Wheat Comm.
Harvey Wood	Solomon, Ks	Ks Wheat Comm.
PALEN SWENSON	Topeka	BD of Agric
Wm. H. Cahrs III	Arkansas City, Ks	Leadership Ark City
Dolores Gonzales	Topeka	K.C.C.
Tracy Maple	TOPEKA	K.H.P.
Vikki Chaffee	Topeka	K.A.P.E.
BILL PERDUE	TOPEKA	KAPE
ANN ALLSBURY	TOPEKA	SKS

March 29, 1988

SUBCOMMITTEE REPORT
HOUSE COMMITTEE ON APPROPRIATIONS
GOVERNOR'S LONGEVITY BONUS PLAN

The Chairman of the House Committee on Appropriations directed this Subcommittee to review the Governor's recommendation for a longevity bonus plan and to report back to the full Committee.

Outline of the Governor's Recommendations. House Bill No. 2836 implements the Governor's recommendation concerning the payment of bonus amounts to certain state employees. This bill was originally considered by the House Committee on Pensions, Benefits, and Investments, which reported the bill without amendment and without recommendation. The bill is now in the Appropriations Committee. Major provisions of the bonus plan are as follows:

1. eligibility for bonus payments applies only to employees in the classified service;
2. a classified employee is eligible for bonus amounts if such employee prospectively would attain ten years or more of service by the end of FY 1989;
3. length of service is defined by reference to K.A.R. 1-2-46 under which only time actually worked is counted (with some specified inclusions and exclusions), but such service need not be continuous;
4. the bonus amount is \$25 per year of service, of which one-half is payable June 1, 1988, and one-half is payable December 1, 1988;
5. the employee must be in pay status at the end of the payroll period immediately preceding the bonus payment date; and
6. bonus payments are not considered compensation for purposes of computing KPERS contributions or benefits.

Financial Aspects. The Governor's budget recommendations include reserves of \$4,400,000 from all funds, of which \$2,000,000 is from the General Fund for financing the bonus payments. Half of these amounts are chargeable to FY 1988 and half to FY 1989. Funds are not included in individual agency budgets, but are to be provided by transfer from appropriations made to the State Finance Council and by increases in expenditure limitations on special revenue funds which the Finance Council is authorized to make under the provision of H.B. 2836.

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Attachment 1

According to data furnished by the Division of the Budget, the fiscal note for the Governor's bonus program is based upon an estimated 9,229 employees receiving total payments of between \$250 and \$1,150. Eligible employees comprise almost 35 percent of the total classified service workforce of 26,600.

The following tabulation summarizes the data on which the fiscal note is based. For summary purposes, the tabulation groups employees' years of service in five-year intervals.

Governor's Bonus Plan

Years of Service	Eligible Employees		Payments, All Funds (Exc. Fringes)		
	No.	% of Total	Min.-Max.	Total	Weighted Average
10-14	3,619	39.2%	\$ 250-350	\$ 1,071,450	\$ 296
15-19	2,358	25.5	375-475	990,075	420
20-24	1,543	16.7	500-600	838,200	543
25-29	876	9.5	625-725	590,850	674
30-34	557	6.0	750-850	440,250	790
35-39	225	2.4	875-975	206,125	916
40-44	49	0.5	1,000-1,100	50,525	1,031
45-46	<u>2</u>	<u>--</u>	1,125-1,150	<u>2,275</u>	<u>1,137</u>
TOTAL	9,229	100.0%		\$ 4,189,750	\$ 454

Fringe benefits at 8.55 percent (which excludes KPERs employer's contribution) would bring the total one-time cost to \$4,547,974, which was rounded downward to \$4,400,000. The Division of the Budget estimates that approximately 45 percent, or \$2,000,000 of the total, would be financed from the General Fund.

Structure of the Basic Pay Plan. The present state pay plan, adopted by the 1985 Legislature effective for FY 1986, contains 34 salary ranges, each of which is 5 percent above the next lower range. Each range has 13 pay steps through which an employee may move based upon time on step. Each step of a range is approximately 2.5 percent more than the next lower step, and the total span from the minimum step to the maximum step is approximately 34 percent. An employee starting at step A, the minimum, reaches the maximum step D18 in 23 years. Steps and elapsed time in service are as follows (assuming no movement from range to range):

	<u>Time-on-Step (Months)</u>	<u>Cumulative (Years)</u>
A	6	--
1	6	.5
B	12	1.0
2	12	2.0
C	12	3.0
3	12	4.0
D	36	5.0
D3	36	8.0
D6	36	11.0
D9	36	14.0
D12	36	17.0
D15	36	20.0
D18	36	23.0

According to the data furnished by the Division of the Budget, 7,008 or 76 percent of the employees eligible to receive bonus payments have 10 to 22 years of service and theoretically are eligible for further step movement, albeit at three-year intervals. Data are not available as to where bonus-eligible employees are currently placed on the salary steps. Because of policies with respect to implementation of the current salary plan in FY 1986 and the first two phases of the comprehensive classification and job rate study, particularly the latter, it is likely that a significant number of employees have not attained the step on their respective ranges which coincides with their years of service.

Although a substantial number of employees who are eligible for the proposed bonus payments can be presumed to be also eligible for regular step movement, another group of employees, those at step D18 and those who are "above range" as a result of the design and implementation of the pay matrix, are not eligible for further step movement unless a change in range occurs as a result of promotion or range reassignment of the job class. As of March, 1987 (later data not available), 2,584 employees were on step D18, the normal maximum step, and 658 were above range. Such "topped-out" employees were about 12 percent of the classified service total.

Bonus Plans of Other States. At the request of the Subcommittee, the Division of Personnel Services provided information concerning bonus practices of other states. The Division reported on the 11 states in the central states consortium with which Kansas shares salary information, plus Arkansas. Eight of the 12 states -- Arkansas, Colorado, Iowa, Minnesota, Missouri, Nebraska, New Mexico, North Dakota -- are reported to have no longevity bonus of general application. Four states were reported to have such bonus systems, which were summarized by the Division as follows.

Montana

After five years of service, the employee is given the choice of receiving an additional \$10 per month, or 10 percent of the difference between his current salary and the salary assigned to the same step on the next higher range. With each additional five years of service,

the choice goes up by \$10 per month and by 10 percent of the salary difference. There is no maximum.

Oklahoma

Termed a "longevity payment program," Oklahoma provides a lump sum payment which is not considered a bonus under FLSA. It is a tiered system which provides the following payments:

<u>Years of Service</u>	<u>Per Year</u>
2-3	\$ 125
4-5	213
6-7	313
8-9	425
10-11	531
12-13	625
14-15	750
16-17	844
18-19	950
20 +	1,000

To be eligible, employees must be full-time, working a minimum of 150 hours per month. A break in service of over 30 days requires the employee to start back at 0 years of service insofar as the longevity program is concerned. A leave without pay of over 30 days merely advances the anniversary date by a corresponding number of days.

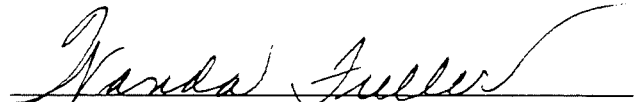
South Dakota

After 10 years of service, employees become eligible for a yearly bonus of \$10 per year of service. Service must be continuous.


Wyoming

Employees receive a bonus of \$30 per month for every five years of service.

Nonjudicial Employees of the Judicial Branch. Limited to the classified service only, the Governor's longevity bonus proposal would not extend to the nonjudicial employees of the Judicial Branch. Although paid under a pay plan matrix identical to that of the state classified service, nonjudicial employees are by statute in the unclassified service. According to the office of the Judicial Administrator, if these employees were made eligible for the bonus payment system recommended by the Governor, 583 nonjudicial employees (about 41 percent of the total) would receive total payments of \$236,100. Fringe benefit costs would bring the fiscal note to \$256,000, half payable in FY 1988 and half in FY 1989.



Representative Wanda Fuller
Subcommittee Chairperson



Representative Duane Goossen



Representative Jack Shriver

STATE OF KANSAS
DEPARTMENT OF ADMINISTRATION
MIKE HAYDEN, Governor
MICHAEL F. O'KEEFE, Director of the Budget
Room 152-E, Capitol Building
(913) 296-2436

MEMORANDUM

TO: House Committee on Appropriations
FROM: Michael F. O'Keefe, Director of the Budget
DATE: March 29, 1988
SUBJECT: Testimony on House Bill No. 2836

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

I TESTIFY IN SUPPORT OF HOUSE BILL NO. 2836. THIS BILL WOULD IMPLEMENT THE GOVERNOR'S RECOMMENDATIONS FOR A PAYMENT OF A LONGEVITY BONUS FOR LONG-TERM CLASSIFIED SERVICE EMPLOYEES IN RECOGNITION OF THEIR SIGNIFICANT CONTRIBUTION. THE BONUS WOULD CONSIST OF \$25.00 PER YEAR FOR EACH YEAR OF SERVICE FOR ALL CLASSIFIED EMPLOYEES ACHIEVING 10 OR MORE YEARS OF SERVICE IN FY 1989.

ONE-HALF OF THE AMOUNT WOULD BE PAID JUNE 1, 1988. THE SECOND HALF WOULD BE PAID DECEMBER 1, 1988. NECESSARY FUNDS WERE BUDGETED SEPARATELY IN THE FINANCE COUNCIL BUDGET FOR DISTRIBUTION BY THE STATE FINANCE COUNCIL.

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HOUSE BILL NO. 2836 DOES NOT MAKE THE BONUS PERMANENT, NOR DOES IT TREAT THE BONUS AS COMPENSATION FOR RETIREMENT PURPOSES. INDEED, OUR PREFERENCE IS THAT THE BONUS PAYMENTS BE MADE BY SEPARATE CHECK ON JUNE 1 AND DECEMBER 1 -- IN TIME FOR SUMMER VACATION AND IN TIME FOR CHRISTMAS.

THE GOVERNOR'S BUDGET RECOMMENDATION IS BASED UPON AN ESTIMATE OF 9,228 ELIGIBLE EMPLOYEES WHO WOULD HAVE A TOTAL OF 167,598 PERSON YEARS OF SERVICE. THESE ARE GENERALLY LONG-TERM EMPLOYEES, MANY OF WHOM HAVE REACHED THE END OF RESPECTIVE PAY RANGES. THEY RECEIVE ONLY COST-OF-LIVING ADJUSTMENTS.

WE HAVE INCLUDED ONLY THE CLASSIFIED CIVIL SERVICE IN HOUSE BILL NO. 2836. THE GOVERNOR'S BUDGET RECOMMENDATIONS CONTAIN MERIT MONEY FOR UNCLASSIFIED EMPLOYEES EQUAL TO 5.7 PERCENT OF THE SALARY BASE. THAT PERCENTAGE IS THE AVERAGE CLASSIFIED EMPLOYEE INCREASE UNDER THE GOVERNOR'S RECOMMENDATION. APPROXIMATELY 70 PERCENT OF ALL CLASSIFIED EMPLOYEES WILL GET A STEP INCREASE IN FY 1989. THE REMAINING 30 PERCENT WOULD GET NO STEP INCREASE. IN DEED, THE BONUS PLAN IS DESIGNED TO ASSIST THOSE EMPLOYEES.

I WOULD BE PLEASED TO ANSWER YOUR QUESTIONS.

MFO:sr

2556

DRAFT OF AMENDMENTS FOR CONSIDERATION
By House Appropriations Committee

Be amended:

On page 1, by striking all in lines 21 through 44;

On page 2, by striking all in lines 45 through 81;

On page 3, by striking all in lines 82 through 88 and inserting the following sections to read as follows:

"Section 1. (a) The governor is hereby authorized and directed to implement the revisions of the classification and compensation for positions in the service occupations group of job classes in the classified service under the Kansas civil service act in accordance with phase III of the reclassification study by the division of personnel services of the department of administration, providing for market-related compensation revisions, effective on the first day of the first payroll period which is chargeable to the fiscal year ending on June 30, 1989, and which ends after March 31, 1988.

(b) There is hereby appropriated from the state general fund for the state finance council, for the fiscal year ending on June 30, 1989, the sum of \$2,400,000 to be used for the purpose of paying the proportionate share of the cost to the state general fund, including associated employer contributions, of the revision of the classification of and compensation for positions in the service occupations group of job classes as prescribed in subsection (a), for which compensation is chargeable to payroll periods ending after March 31, 1988. To pay the proportionate share of the cost to the state general fund of each state agency of the executive branch of state government for such revisions, upon recommendation of the director of the budget, the state finance council, acting on this matter which is hereby characterized as a matter of legislative delegation and subject to the guidelines prescribed in subsection (c) of K.S.A. 75-3711c and amendments thereto, except paragraph (3) of such subsection (c), is hereby authorized and directed to transfer moneys from

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Attachment 3

the appropriation made by this subsection to proper accounts created by state general fund appropriations for the fiscal year ending on June 30, 1989.

(c) Upon recommendation of the director of the budget, the state finance council, acting on this matter which is hereby characterized as a matter of legislative delegation and subject to the guidelines prescribed in subsection (c) of K.S.A. 75-3711c and amendments thereto, except paragraph (3) of such subsection (c), is hereby authorized to increase expenditure limitations on special revenue funds and accounts established for the fiscal year ending on June 30, 1989, for the purpose of paying from such funds or accounts the proportionate share of the cost to such funds or accounts, including associated employer contributions, of the revision of the classification of and compensation for positions in the service occupations group of job classes as prescribed in subsection (a), for which compensation is chargeable to payroll periods ending after March 31, 1988.

(d) Each state agency of the executive branch of state government, which employs officers and employees who are in positions subject to the revision of the classification of and compensation for positions in the service occupations group of job classes as prescribed in subsection (a), shall prepare and submit a budget estimate for such revisions, and all amendments and revisions of such estimates, to the director of the budget. At the same time as each state agency submits such estimate, and all amendments and revisions thereof, each such state agency shall submit a copy of such estimate, and all amendments and revisions thereof, directly to the legislative research department.

Sec. 2. This act shall take effect and be in force from and after its publication in the statute book.";

On page 1, in the title, in line 18, after "to" by inserting "salaries and compensation of"; also in line 18, after "state" by inserting "officers and"; also in line 18, by striking all after the semicolon; in line 19, by striking all before the period and

inserting in lieu thereof the following: "authorizing and providing for certain revisions of the classification of and compensation for positions in certain job classes; making appropriations for the fiscal year ending June 30, 1989, and authorizing certain transfers and adjustments in expenditure limitations therefor";

And the bill be passed as amended.



KANSAS ASSOCIATION OF WHEAT GROWERS
"ONE STRONG VOICE FOR WHEAT"

TESTIMONY

House Committee on Appropriations
Chairman: Representative Bill Buntten

SB-449

Mr. Chairman and members of the committee, I am Howard W. Tice, Executive Director of the Kansas Association of Wheat Growers. I appreciate this opportunity to testify today in favor of Senate Bill 449.

Last September, we appeared before the Special Committee on Agriculture and Livestock, in support of stronger funding for the Kansas Wheat Commission, and the commissions for corn, grain sorghum and soybeans. The federal crop reduction programs and the weather have combined to greatly reduce production levels for wheat and other grains. This has been necessary in light of huge, price depressing surpluses. It has also had the negative side effect of lowering the market promotion and research budgets of the grain commissions, which are based on per bushel assessments.

In testimony before the interim committee, we asked for an increase in the wheat mill levy, to ten mills. We also asked, in compliance with a request from the state agency that audits the Wheat Commission, for authority to deny refunds of less than \$5.00 due to the cost of processing those small refunds. Thirdly, we suggested a change in designation for the commissions, from the present "fee fund agency" category to the much more accurate "Market Development Agency" definition. In addition to the more accurate designation, we suggested that this would help in removing the commissions from the requirement to contribute \$200,000 per year to the general fund.

The interim committee responded with two bills. Senate Bill 448, gives the Kansas Wheat Commission the authority to raise the mill levy to a maximum of ten mills. It also changes the words "tax" and "excise tax" in the Wheat Act, to "assessment" to more accurately reflect the fact that it is a voluntary and refundable collection, rather than a tax, which has been determined by Nebraska courts, to be non-refundable. The \$5.00 refund provision is also a part of SB 448. The other interim committee bill was SB 449 which is before you today, after passing the Senate 40-0.

This bill addressed two of our concerns; lowering the general fund contribution to \$100,000, and changing the designation to "market development agencies." The Senate Agriculture Committee amended the bill to further clarify the role of the commissions as "grain research and market development agencies," and added a paragraph defining such agencies.

Another request we feel is reasonable and proper has not been addressed this year. That issue is the state's retention of interest earnings on the grain commissions' operating balances.

During the fall months, we made the funding of the Kansas Wheat Commission the primary topic of our county meetings. We received 100% support from these meetings for the mill levy increase. Of special interest to this committee today is the sentiment that emerged at all of those meetings regarding the general fund payment. We were told most emphatically that farmers don't want their research and market development money to be diverted to the state's general fund. Many farmers told us that either they or their neighbors regularly request a refund of the wheat mill levy because of the general fund payment. We found strong support for research and market development efforts, but even stronger opposition to the state continuing to divert these dollars to the general fund. They feel this amounts to unfair double taxation of grain producers.

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Attachment 4

Our leadership, and our convention delegates agreed with local member input, and our official resolutions support a decrease, "to zero if possible, from the present \$200,000 that the four grain commissions presently pay to the state general fund."

One of the first priorities of the Kansas Association of Wheat Growers, was the creation of a research and market development agency in Kansas. It took five years to get a bill through the legislature, and one of the stipulations we had to accept was being placed in the fee fund agency category, so that 20% of the commission's income could go to the general fund. Since that time, we have worked to get rid of this unfair requirement. The 20% was first lowered to \$200,000, and that was later decreased to \$200,000 for all four commissions combined. Those were steps in the right direction, but they are not enough.

The legislative language authorizing this general fund payment states that it is to reimburse the state for administrative expenses. However, the very first payment from the Wheat Commission, in FY 1958, was more than three times the 1984 administrative cost, according to an official state audit. Of course, in 1958, administrative costs were much less than in 1984, or the current fiscal year. In order to show a comparison; however, we used the 1984 audit figure, and divided it into the \$3,326,759 which has been paid to the Kansas general fund by the Kansas Wheat Commission in its first thirty years of operation. We found that the state's actual administrative expenses, based on the 1984 audit, have been paid for 274 years.

We are not so unrealistic in our thinking to ask the legislature to refund the overpayment. However, we don't feel it is unrealistic or improper to ask this year's legislature to reduce the rate of the overcharge.

We have heard many excuses over the years, for not releasing the commissions from this payment. Of those excuses, perhaps the most prevalent, is that it would open the flood gates for such requests from the "other" fee fund agencies. There are several arguments that render that excuse invalid. First of all, the commissions are not, by definition, fee fund agencies. They do not provide a service, or any type of regulation for a fee. They promote the grain industry by investing farmer dollars in research and market development projects. Therefore, they cannot be accurately compared to "fee fund agencies."

Secondly, the Wildlife and Parks Department, formerly the Fish and Game Commission, makes no general fund payment on the basis of federal regulations that have been interpreted to indicate that federal matching funds would not be paid to Kansas if any of their license fee income is diverted to the general fund. The grain commissions also depend heavily on federal matching funds, and every dollar diverted from such programs is ineligible for matching funds.

We have also been told that the state is in too tight a budget crunch to allow this change. However, last year, when we offered an amendment to SB 277 which would have reduced the payment to zero, but over a four year period, to ease the burden on the general fund budget, that bill was buried in this committee late in the session. We were told then, that it was referred to Appropriations to be considered after the omnibus bill. However, other spending measures were passed, and in the omnibus bill, a \$165,000 appropriation was approved to raise pheasants. Since then, it has been recognized that pheasants raised in captivity don't survive, and those funds have been diverted to raise landscaping plants for state parks.

I strongly believe that economic development for our state's number one industry should have a much higher priority than landscaping for our parks. We're not even asking for general fund money for this purpose, even though it would be appropriate to do so. We're only asking for farmer dollars, voluntarily contributed for research and market development, to be restored to that purpose.

We have also been told that the general fund payment is the price we pay for the use of state authority to collect the checkoff. To that excuse, I have two responses. First, the state is also keeping the interest earned on grain commission operating balances, (also known as idle funds) and that should be more than enough payment for the use of that authority. Of course, since the entire state benefits from the market development efforts of the grain commissions, monetary payment for that authority should not be required. For further elaboration, I would point to the chart on the last page of my testimony. You will note that Kansas is one of only seven states that requires a general fund payment. You can also see that the Kansas Wheat Commission payment for the fiscal year shown was \$32,180 more than the other six states combined. The far right column shows which states keep the interest on operating balances. At the time this chart was published, there were only four states that do not get to use those funds. Idaho passed legislation last week to allow their commissions to use this interest income.

The other point to consider when examining the excuse that the general fund payment is the price we pay for using the state's collection authority, is the wording of the law itself. It clearly states that the general fund payment is to reimburse the state for administrative expenses. If the intent of the legislature in 1957 was to charge the commissions a fee for the use of this authority, why didn't they word the law in that manner. Since the law states that the payment is, indeed, to reimburse administrative costs, we feel the level of payment should more accurately reflect the actual cost of administrative activity.

By passing SB 449, this committee can take one more step toward correcting what the people who are paying the bill consider to be a gross injustice. This committee would also be taking one more step toward reducing the level of refunds, and thereby increasing actual support of grain commission efforts. In addition, this committee would be taking one more step in support of effective economic development for the basic industry that provides more jobs for Kansas citizens than any other, not to mention providing the high quality, low cost food we all need.

If you want to look simply at dollars and cents on a balance sheet for the state, and ignore the issue of right and wrong, and the sentiment of the farmers that pay the assessments, you should still pass SB 449. Since you will still keep the interest on operating balances, you should consider that increased income from a higher mill levy, and reduced refunds will increase those operating balances, and hence, the interest income.

In closing, I would like to make one more comparative observation. Much of this legislature's time has been spent on so-called "puppy mill" legislation. A major part of the argument in favor of such legislation is to improve the image of the state. We have the same opportunity today, with SB 449.

Every time we attend a national or regional meeting with representatives of the wheat industry, and the topic of mill levies and general fund payments is raised, we are met with comments that run the gamut from, "You're kidding!" to "What kind of state government do you have in Kansas?" to "Don't your legislators realize how important the wheat commission is to their state's economy?"

Kansas is the Wheat State. Kansas is the leader in wheat production, and the leader in wheat quality research, wheat cleaning research, and in efforts to educate foreign buyers for market development purposes. Wheat varieties developed by Kansas Wheat Commission funding, and Kansas State University research are grown in more counties in Hard Red Winter Wheat states than varieties developed anywhere else. A strong Kansas Wheat Commission will continue those efforts and those achievements.

I urge this committee to take a major step forward, and report SB 449 favorably for passage.



Member of
 U.S.
 Wheat
 Associates

The State of Wheat

September 1987

Kansas Must Invest to Remain the Wheat State

By Steven Graham,
 KWC Administrator

Kansas wheat producers have been leaders in wheat marketing for 30 years. With the creation of the Kansas Wheat Commission, producers established an advocate for themselves.

The commission does what each producer would like to—research wheat varieties which will be demanded in newly-created wheat products. A producer would like to show buyers his production system and then convince them he produces the best wheat in the world.

Luckily, wheat producers in Kansas realized one producer couldn't do this alone. But by working together, all Kansas wheat producers could and did, by creating the Kansas Wheat Commission.

The first 30 years have seen many successes and few failures. The commission can't lobby, so some things are out its reach. But, of course, all producers can lobby individually and make their needs heard. The commission works for all producers collectively.

For years, Kansas had America's only milling training center at Kansas State University. Now, North Dakota is expanding facilities for milling spring and durum wheats and adding feed milling facilities. Meanwhile, our competition, the Australians, recently expanded their Bread Research Institute by adding a pilot flour mill. Our International Grains Program and research projects for red and white wheats, Oriental noodles, pasta, etc. depend on the milling, baking and test equipment of the Kansas State University Department of Grain Science and Industry. Modifications and new equipment are needed to help us tell flour millers what our wheat will do in their mills. Our pasta project desperately needs an up-to-date dryer.

Research must relate to today's problems in industry or it is useless. We cannot expect U.S. flour millers and bakers to fund such research since this research is being done for the benefit of wheat

producers to increase their international competitiveness and not necessarily to help increase U.S. flour millers' or bakers' markets.

Researchers are studying industrial uses for corn, and Kansas has only scratched the surface for such work with wheat. In biotechnology, our entire country is behind Australia, Canada and the European Community. We need to finish mapping the genes of wheat and move to breeding more disease resistant, higher protein, higher yielding and cheaper-to-produce wheat.

The bottom line is that Kansas started as a leader, led for a while, got complacent and now needs to shift into a higher gear to get back into the lead.

To maintain our reputation as The Wheat State, your fellow wheat producer board members suggest two ideas.

The Kansas Wheat Commission is asking to be considered a special "market development agency." This new cat-

egory of agencies would be created by the Governor and Legislature. Unlike fee fund agencies, such agencies would be exempt from sending money to the state general fund.

Also, Kansas producers need to consider an increase in their mill levy assessment on wheat. Kansas collects 4 mills per bushel which is the lowest of all wheat commissions in the nation (see chart). The input has been too small in recent years to even keep up with the competition.

The commission is working with producers, businesses, researchers, farm organizations and legislators to determine funding priorities and levels.

The Kansas Wheat Commission has been a leader and innovator throughout its 30 years. We ask for your continued support. Please contribute your ideas through your farm organizations, legislators or directly to the commission so Kansas might remain The Wheat State.

Survey of 16 State Wheat Commissions

	Mill Levy	Payment to State General Fund	Interest on Operating Balance
Arizona	12 mills	approx. \$18,000	no
Arkansas	5 mills	approx. \$5,000	no
California	12 mills	none	yes
Colorado	5 mills	none	yes
Idaho	10 mills	approx. \$9,000	no
Minnesota	10 mills	approx. \$8,000	yes
Montana	6 mills	approx. \$30,000	yes
Nebraska	7.5 mills	none	yes
North Dakota	5 mills	approx. \$20,000*	yes*
Oklahoma	7.5 mills	none	yes
Oregon	20 mills	none	yes
South Dakota	7.5 mills	none	yes
Texas	max. 5 mills	none	yes
Washington	1/4 % of net sale to grower	none	yes
Wyoming	10	none	yes
Kansas	4 mills	approx. \$122,180	no

* North Dakota's payment to the state general fund is based on 20 percent of the interest earned on operating balance.

NO YES - LAW JUST PASSED WEEK OF 3/21/88

KANSAS WHEAT COMMISSION TESTIMONY

BEFORE THE

HOUSE APPROPRIATIONS COMMITTEE

MARCH 29, 1988

Chairman Bunten, members of the committee, ladies and gentlemen, I appreciate the opportunity to testify this morning on Senate Bill 449. I am Keith Nelson, chairman of the Kansas Wheat Commission.

SB449; INTERIM COMMITTEE'S RECOMMENDATION

Last summer and fall, the Special Committee for Agriculture and Livestock held hearings with the Kansas Wheat Commission and the other three grain commissions. The Special Committee learned that many areas needed changing and improving. The committee members realized all the changes could not be made in 1988, but they prioritized and decided to address some areas. Thus, several bills concerning the commissions are now being considered by the Legislature.

RESEARCH AND MARKET DEVELOPMENT AGENCY

SB449 seeks to define what the commissions are, namely "grain research and market development agencies." A problem since the start of the commissions has been that they were called "fee fund or other agencies." The commissions are not fee fund agencies because they do not provide a service out in the state for a fee.

The commissions are not regulatory agencies nor are they funded by an excise tax because the money is refundable. What

the Kansas Wheat Commission really should be called is one of the oldest economic development agencies in the state. Thus, this bill seeks to finally define the type of agencies we are dealing with.

KANSAS AT FUNDING DISADVANTAGE

Our grain research and market development agencies are at a funding disadvantage to similar agencies in other wheat and grain producing states. This fact was recognized by the interim committee and is being addressed by this bill and another bill suggested by the committee (SB448) concerning a wheat mill levy increase. We appreciate separate bills because the issues are different but the results are the same...more resources for Kansas wheat research and market development. SB448 allows an increase in the money going into the Kansas Wheat Commission and this bill increases the use of Kansas Wheat Commission funds collected.

There are 16 state wheat commissions in the U.S., and more than half of them pay no administrative costs to the their state general funds. If you take Kansas out, then the remaining ones pay only actual administrative costs. For 31 years, the Kansas Wheat Commission has paid far more than true administrative costs to the state general fund up front. In addition the state general fund of Kansas accrues interest benefits from any wheat farmer money that is carried over or left idle during the year. This interest on carryover could become significant as the wheat promotion levy is increased this year in SB448. We are very

concerned that, with an increase in the wheat levy, there also will be more requests for refunds, especially if something is not done to further limit the diversion of benefits (interest and direct payment) to the state general fund.

ACTUAL COSTS

The State's Central Service Cost Allocation Plan showed the Kansas Wheat Commission administrative costs to the General Fund to be \$12,150 in 1984 and \$10,916 in 1986.

A COMPROMISE OFFERED

The special committee decided against taking the wheat and grain commissions directly down to the true administrative cost level. They also chose not to address the issue of interest income and its potential to increase under SB448. Instead they felt a phase down of the direct payment from \$200,000 to \$100,000 would be a good compromise. This will mean for wheat that approximately \$40,000 of wheat farmer money would be retained for market development rather than paid to the general fund. In addition to any interest, the general fund will still receive approximately \$40,000 from the wheat commission, more than triple the actual administrative costs spelled out in the Wheat Act.

NEW FUNDS FOR ECONOMIC DEVELOPMENT

Since under this bill the wheat commission would retain \$40,000 which would have otherwise gone for general fund projects, we would like to make a proposal. In FY88, the Kansas Wheat Commission joined with many other organizations in funding

the Kansas State Board of Agriculture's blueprint study. This was an excellent study that pointed out areas where Kansas should concentrate further efforts in food processing, wheat utilization, etc. for the overall economic development of the state. The study also brought up several areas needing further study.

Every year the commission turns down research and promotion projects. For FY89 no money is budgeted for follow-up studies or action responses to the Blueprint for Agriculture report which need to be initiated soon. We need to study utility rates, transportation costs, distribution alternatives, etc. if we are to expand our food and wheat processing companies and to create new food and industrial use industries in our state.

Therefore, we to propose that as this bill legislates, more of the wheat producers' assessment be retained by the commission and used to initiate joint studies with the State Board of Agriculture, the Department of Commerce and private industry in areas which will help identify opportunities and lead to new products and jobs in the food and agricultural industries.

OTHER WHEAT AGENCIES GET INTEREST, TRANSFER PROTECTION

I should inform you that the wheat commission originally reported that all the nation's major wheat commissions receive interest on their operating balances and have protected accounts (no possibility of transfers). Even with the \$40,000 back and a mill levy increase, the Kansas Wheat Commission will not have a budget larger than some other wheat commissions. However, we

applaud the 1988 Legislature's efforts on wheat producers' behalf to take steps to make our wheat commission more competitive.

Let's leave the wheat producers' assessment with the wheat research and market development agency. If Kansas is to remain the Number 1 wheat producing, storing, transporting, milling and gluten manufacturing state and move into new wheat food and industrial areas, dollars must be invested to make these opportunities realities. Then we can say we are "The Wheat State" in the future, too.

Thank you for the opportunity to testify on this very important bill. If there are any questions, I would be glad to respond to them.

STATE OF KANSAS



STATE BOARD OF AGRICULTURE

DATE: March 29, 1988

SAM BROWNBACK, Secretary

TO: House Committee on Appropriations

BY: Galen Swenson, Administrator
Commodity Commissions, KS Board of Agriculture

RE: Senate Bill 449

Mr. Chairman, members of your committee, thank you for allowing me to address the implications of Senate Bill 449 on the Corn, Grain Sorghum, and Soybean Commodity Commissions. Senate Bill 449 would reduce from \$200,000 to \$100,000 the total transfer to the State General Fund from the four commodity fee funds. Presently, for state administrative costs, a maximum of \$200,000 is transferred on a proportional basis from each of the corn, grain sorghum, soybean, and wheat fee funds. Current fiscal year proportional allocations from these four funds are:

Corn Commission Fund	19%	\$38,200
Sorghum Commission Fund	28%	\$55,000
Soybean Commission Fund	17%	\$34,120
		<u>\$127,320</u>
[Wheat Commission Fund	36%	<u>\$72,680]</u>
		<u>\$200,000</u>

Such proportional allocations are calculated yearly by the Division of Accounts and Reports relative to the fiscal year receipts of each commission. The percentage of receipts from each fund is then calculated in relation to the \$200,000 maximum general fund credit.

Current year transfer of the corn, grain sorghum, and soybean commissions amounted to \$127,320 or 64% of the total \$200,000 limitation. A five-year average reveals a \$101,473 transfer from the three commissions or 50.7% of the total.

If the \$200,000 limitation would be lowered to \$100,000 as proposed in Senate Bill 449, the estimated allocations would obviously be reduced by 50%. Using the current percentages as above, the allocations would be as follows:

Corn Commission Fund	\$19,100
Sorghum Commission Fund	\$27,500
Soybean Commission Fund	\$17,060
	<u>\$63,660</u>
[Wheat Commission Fund	<u>\$36,340]</u>
	<u>\$100,000</u>

The fiscal impact of Senate Bill 449 on Commission functions would be approximately \$63,660. Such impact would enhance and expand Commission efforts for market development, industrial use research, and feasibility analysis relative to the corn, grain sorghum, and soybean industries, and therefore the Commissions are supportive of of SB 449.



PUBLIC POLICY STATEMENT

HOUSE COMMITTEE ON APPROPRIATIONS

Re: S.B. 449 - Classifies Grain Commodity Commissions as "Grain Research and Market Development Agencies" and Limits State to \$100,000 for Administering the Grain Commission Funds

March 29, 1988
Topeka, Kansas

Presented by:
Bill R. Fuller, Assistant Director
Public Affairs Division
Kansas Farm Bureau

Mr. Chairman and Members of the Committee:

My name is Bill Fuller. I am the Assistant Director of the Public Affairs Division for Kansas Farm Bureau. We appreciate this opportunity to express our **support** for **S.B. 449**.

Farmers and ranchers who were delegates representing the 105 county Farm Bureaus at the 69th Annual Meeting of Kansas Farm Bureau on December 1, 1987 adopted these policies:

Commodity Commissions

The corn, grain sorghum and soybean commissions and the Kansas Wheat Commission promote utilization and market development for our grains. We urge our members to continue financial support for the commissions through the check-off procedure, thereby assisting in the important research, utilization and market development efforts of the commissions.

Grain Commodity "Check-Off" Funds

The state treasurer acts as custodian for the funds of the commodity commissions. State law requires payment of 20 percent of the "producers check-off" monies to the State General Fund, up to a maximum of \$200,000. The \$200,000 is apportioned among the four commodity commissions according to net check-off receipts.

We believe the contribution of \$200,000 to be excessive and far above the value of services rendered as a custodian of funds.

We support legislation which would limit the contribution of the grain commissions to the State General Fund to an amount not to exceed a total of \$50,000 from the four commissions.

HA
3-29-88
Attachment 7

Kansas Farm Bureau worked a number of years ago to support the creation of the Kansas Wheat Commission and later the Corn, Grain Sorghum, and Soybean Commissions. Our members recognize the importance of research, promotion and marketing activities and make an investment through their contributions to the funds.

S.B. 449 was introduced by the 1987 Special Committee on Agriculture and Livestock. The proposal makes two changes. First, **S.B. 449 limits the state to \$100,000 to cover their expenses incurred in administering the funds of the Grain Commodity Commissions.** This is a step in the right direction. Our policy calls for a \$50,000 limit. Even that amount is thought to exceed the actual cost of the services performed. It is difficult for farmers to understand why their grain promotion dollars are used to fund General State Government. Even though we are seeing some improvement in the farm economy, margins of profit are tight. We need these dollars contributed by farmers working for farmers to improve markets. This translates into "economic development" in agriculture.

Second, **S.B. 449 classifies the Wheat, Corn, Grain Sorghum and Soybean Commissions as grain research and market development agencies.** This action will more accurately describe the actual functions and activities of the grain commissions.

As the world market becomes an even more important factor in selling our grain, keeping our grain commissions strong and active is vital. **We urge passage of S.B. 449.** Thank you! We would attempt to respond to any questions the Committee may have.

Committee of . . .

Kansas Farm Organizations

Wilbur G. Leonard
Legislative Agent
109 West 9th Street
Suite 304
Topeka, Kansas 66612
(913) 234-9016

TESTIMONY IN SUPPORT OF SENATE BILL NO. 449

BEFORE THE HOUSE COMMITTEE ON APPROPRIATIONS

March 29, 1988

Mr. Chairman and Members of the Committee:

I am Wilbur Leonard, appearing on behalf of the Committee of Kansas Farm Organizations, whose members support the passage of Senate Bill No. 449.

This bill is the product of a summer study by the Special Committee on Agriculture and Livestock. By designating the four grain commissions as research and market development agencies there is added emphasis to:

- 1) Fund appropriate research projects;
- 2) Conduct campaigns of development, education and publicity; and
- 3) Find new markets and expand existing markets.

The grain commissions are self supporting and are dependent on voluntary assessments made on the grain marketed. To better finance these goals, the wheat and soybean producers have sought legislative authorization to increase the assessments on wheat and soybeans.

While the state provides some of the administrative support for the commissions, the \$200,000 it receives annually from the commissions far exceeds the cost of the services it furnishes. Reducing that contribution to \$100,000, as this bill provides, still would overcompensate for the costs incurred, according to testimony before both the Special Committee and the Senate Committee on Agriculture.

The \$100,000 thus made available to the commissions could be further augmented through matching funds. This could result in significant research progress and expanded market possibilities, benefitting not only the grain farmers, but giving a boost to the entire Kansas economy.

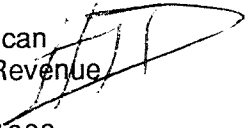
To each of you we express our appreciation for this opportunity to speak out in support of Senate Bill No. 449 and to urge you to recommend it favorably for passage.

HA
3-29-88
Attachment 8

KANSAS DEPARTMENT OF REVENUE
Office of the Secretary
Robert B. Docking State Office Building
Topeka, Kansas 66612-1588

MEMORANDUM

To: Bill Bunten, Chairman
House Committee on Appropriations

From: Harley T. Duncan
Secretary of Revenue 

Date: March 28, 1988

RE: **House Bill 3103 - Automated Collection System for Delinquent Taxes**

Thank you for the opportunity to appear before you on HB 3103 which would authorize the Department of Revenue enter into a contract for the purchase of an automated collection system (ACS) including computer hardware and software. Under House Bill 3103, payment to the vendor of the system would be based on a percent of the delinquent taxes collected above some base line amount representing our collections under current practices.

DEFINITION OF AN AUTOMATED COLLECTION SYSTEM

An ACS is an arrangement of computer hardware and software designed to manage and facilitate the collection of taxpayer accounts receivable or delinquent taxes. The system provides accounting and account tracking functions and supports a centralized telephone collection staff through several functions.

An ACS allows the integration of taxation and collection data. The computer-based system will arrange accounts based on guidelines established by management (for example, amount of liability or number of days delinquent) and, at the proper time, would automatically assign the account to a phone collector. Phone numbers will be automatically dialed and if the line is busy or no one answers, that account would be returned to the list and the next number dialed.

A series of informational screens provide collection employees: all taxpayer information (such as name, home address and phone number, business address and phone number, etc.), a detailed history of all previous collection activities, and a set of procedures for the phone collector to follow when talking to the taxpayer. The system will allow the collector the on-line capability to update the file by adding taxpayer comments, promises to pay or pay plan arrangements which are established. As the collector is entering taxpayer comments, the next account phone number is being dialed. This will save collectors much time that is now lost to busy signals and no answers. It also ensures that high priority delinquencies remain at the top of the collection efforts activity list. Additionally, the system maintains a record of all

activities by the collection employees and will provide valuable information for reporting and evaluation purposes.

This automated environment would replace the existing system which is paper driven and requires a great deal of manual processing. Penalty and interest calculations, which often involve several reporting periods, are calculated by hand. A useful and effective account tracking system does not exist which results in an inability manage the processing of accounts and also impedes the ability to respond to taxpayer inquiries on the status of their account. Word processing is not an integrated function in the current system. The current system, besides being inefficient and of limited effectiveness in collecting delinquent accounts, provides virtually no management information with which to assess the true level of accounts receivables or the effectiveness of various collection techniques.

DEVELOPMENTS IN DEPARTMENT OF REVENUE COLLECTION EFFORTS

Throughout the last year and a half, the Department of Revenue has studied our collections program and planned/implemented a number of changes we believe will modernize our approach to collection activities. On November 1, 1987, the Collections Division was established to carry on all collection activities in the areas of sales, withholding, and individual and corporate income taxes.

Prior to the Collections Division, collection activities for each type of tax were conducted by several units within the Department, and it was not uncommon for an individual account to pass through several units while collection was being pursued. The reorganization concentrates the expertise already within the department into one division with the specific charge and responsibility to collect delinquent tax dollars. It will also enhance our efforts to be fair, equitable and consistent when dealing with taxpayers. It will also allow us to focus on collecting delinquent taxes without diversion to other purposes.

The collection of delinquent accounts is an ongoing, daily task. New accounts become delinquent every day. During FY 1987, a total of 39,207 accounts were referred for collection action because the taxpayer did not respond to the notification letter mailed by the Department. This includes 7,801 sales tax accounts, 19,819 individual income tax accounts, 11,307 withholding tax accounts, and 280 corporate income tax accounts. The department has no reason to believe this type of activity is anything other than ordinary and expects it to continue in the future.

BENEFITS OF AN ACS

The Federal Government (IRS) and 10-15 other states have automated their collection process. ACS users identify both monetary and other benefits from the system. While actual costs are difficult to ascertain, users of ACS uniformly found that the system paid for itself through increased collections in less than 24 months. A brief review of the experience of other states is appended to this testimony. Among the benefits cited by states are:

- Increased collections - both in terms of more total dollars and in receiving those dollars more quickly -- because of improved productivity of the collectors. The states reviewed reported productivity improvements of 25-200 percent. Collectors are free from paper work and can work more accounts.
- More control and flexibility in determining what accounts are worked first.

- More control over accounts as they move through the system -they do not get lost in the paper shuffle - anyone accessing the system can see where an account is and what has happened to it.
- Vast improvement in taxpayer relationships because the collector can easily access complete information on the account and answer all questions.
- Improved management information to assess the effectiveness of various collection techniques
- Increased voluntary compliance because of increased effectiveness in collecting delinquent taxes.
- The system can be used to contact groups of taxpayers to receive important tax news and updates.

In short, the ACS is a productivity tool that will enable the Department to better collect delinquent taxes and thereby improve the ability of the State to meet expenditure needs from the existing tax base. It will enable us to reap the full benefits from the internal reorganization. It is indeed an investment that will pay for itself quickly and many times over.

FUNDING THE KANSAS ACS

Based on the experience of other states and discussions with vendors, we expect that an ACS for Kansas should cost roughly \$1.5 million which should be recouped through increased collections in a less than 24 months. There are three options for financing an ACS: (1) a standard appropriation; (2) a lease purchase through a certificate of participation; and (3) a contract through which the vendor is paid a percent of collections from the system.

The Administration has chosen to recommend the third means of financing the Kansas ACS in order to avoid any draw on the State General Fund and any diminution of resources for other purposes. Under the proposal, the vendor would be paid by retaining a percent of the taxes collected through the ACS above some base line level representing delinquent collections through current practices. In this manner, the vendor would be paid by retaining a proportion of receipts the State would not otherwise have collected in the absence of an ACS. The State retains the remaining proportion and is money ahead the day the system is installed. This sort of arrangement is not unique in that our contract with a collection service to work out-of-state accounts calls for payment through retention of a proportion of collections.

SUGGESTED AMENDMENT

The Department requests that the bill be amended to establish a "procurement negotiating committee" as authorized by K.S.A. 75-37,102 to negotiate the ACS contract rather than vesting that authority solely with the Secretary of Revenue. This is the manner in which procurement such as telecommunications systems, lottery systems and certain other technical systems is handled. This amendment has been agreed to by the Department of Administration. A "balloon" of the necessary amendments as well as a copy of K.S.A. 75-37,102 is attached.

EXPERIENCE OF OTHER GOVERNMENTAL ENTITIESPennsylvania

Pennsylvania has two separate ACS systems. The first system to handle individual income tax, which also served as a pilot and model, has been on-line since September 1985. The second system, to handle corporate income tax, has been on-line since November 1986. The second system is currently being expanded to include withholding and sales taxes by the end of 1988.

The individual income tax system brought in \$4 million in delinquent taxes in its first year of operation. This provided the department with a net benefit, after all costs to implement the system were paid, of \$750,000. Prior to ACS, individual income delinquencies were referred to private collection agencies on a commission basis. Not only was the commission saved, but after ACS, the department was collecting \$.65 for every \$1 referred for collection, as opposed to \$.55 for every \$1 referred for collection to the private agencies.

The second system for corporate income tax brought in \$36 million in its first year. The primary goal of this system has been to seek out and contact non-filers. Prior to ACS, collections personnel were unable to work all of the accounts that were in the inventory of available accounts. After implementation, ten collectors contacted 14,100 corporate income tax non-filers in seven months of operation. An additional and unexpected benefit has been the ability to clean-up the tax files and remove from the file corporations that never really got started in business even though all the paper work was completed. These businesses failed to notify anyone of their change in status, and as a result, have remained in the file erroneously.

New York

New York is in the middle of a modernization of their entire tax system. An automated telephone system (ATS) is a part of the five year plan. ATS is being implemented in four steps - steps one and two are in operation now. This was the only state contacted which uses pre-recorded and computer generated phone messages. In Step 1, phone agents control and monitor the call process. The taxpayer's identity is verified before the synthetic voice message is delivered. Step 2, the system controlled option, is totally automated - that is, calls are placed automatically, the message delivered and the next call made totally by the system. This has allowed call hours to extend dramatically as the system can contact 1500 taxpayers during a three hour evening period, all without increasing work hours.

Anticipated revenues from the automated system were \$1 million in FY 86-87, \$11.5 million in FY 87-88, and \$16.6 million in FY 88-89. So far actual experience has met those expectations. When the entire four step process is in place, revenues are expected to be about \$31.3 million per year. One reason for this increase is the sharp rise in outgoing call capability with the ATS system - from 30,000 to 220,000 calls per year. The calls serve as a prod to encourage taxpayers to contact the department. The fact that the department telephone number is at the end of the recorded message and that the call back rate has been about 60% indicates that taxpayers are actually listening to the message and reacting in the desired way.

In the future, New York hopes to use the system controlled option as a means to deliver important informational tax messages to selected groups of affected taxpayers and tax practitioners.

Michigan

Michigan has had the Michigan Automated Collection System (MACS) on-line since February 1986. This was the only state contacted who has contracted with a private collection agency to run the system rather than run it themselves. Department of the Treasury employees supervise the activities and authorize all enforcement actions, but the day-to-day operations are run by employees of the collection agency. This original contract was signed for a five year term. At the end of that time, the Department of the Treasury can renew the contract or take over operation of the facility themselves. The system handles personal income tax, sales and use taxes, withholding, single business tax (in lieu of corporate income tax) and intangibles tax.

The operation is housed in a separate building about five miles from the Treasury building. Accounts enter the system by a tape which is generated by the tax processing systems at the Treasury building. Computer hook-ups between the buildings do exist, however, so accounts can be monitored, updated, and checked from either building. Treasury employees are on-site to provide assistance and to insure that the terms of the contract are being kept. Related to this function is the capability to monitor out-going calls made by the phone collectors. Treasury administrators indicate they have a good working relationship with the contractor and are very pleased with the arrangement.

MACS began operation on February 6, 1986, and by March 3, 1986 had collected it's first \$1 million in delinquent tax dollars. The second \$1 million was collected by March 14th, and by May 21, 1986 \$8.8 million had been collected. The system had more than paid for itself in less than four months. \$30.1 million had been collected by October 16, 1986 and \$50.3 million by March 25, 1987, slightly more than a year after implementation. With the new system, 2,000-3,000 taxpayers can be contacted by phone each day. Prior to implementation, the only real telephone collection efforts were by field representatives.

In addition, they indicated the ACS system was used to make contact concerning other types of non-payment obligations of concern to other state agencies, such as the Department of Education (student loans), Department of Mental Health (parental obligations and cost of care in facilities), and Department of Labor (employee judgements and MIOSHA, the Michigan equivalent of OSHA).

Over the last two years, on an average monthly basis, costs to run MACS are about 14% of the total collections made through the system. Of the total MACS collections about 87% are tax collections while the remaining 13% are collections for the other state agencies mentioned. Finally, over the last two years, MACS tax collections have averaged over 26% of the total collections made by the Department of the Treasury.

Arizona

Arizona has used an ACS for sales, individual income, corporate income, and withholding delinquencies, as well as sales tax non-filers, since going on-line in January 1987. While they were unable to provide any information about dollars collected, they do have statistics which indicate that the number of accounts in each collector's inventory available to be worked has almost doubled with the implementation of the more efficient method of information flow. Another benefit mentioned was the tremendous decrease in taxpayer complaints resulting from erroneous departmental actions. Since the ACS was implemented, complaints as a result of erroneous levies made against taxpayers have fallen to less than .5%.

New Jersey

In December 1987, New Jersey brought their ACS back on-line after an amnesty period throughout the fall of 1987. The system was operated on a pilot basis for four months during the summer of 1987. During that time, five people who were also responsible for establishing procedures and training methodologies at the same time, collected \$552,000. This was from low dollar accounts that under a manual system might not have even been worked. The system is designed to handle all taxes. They believe the potential is there for very large collections through the system, though no dollar amount was indicated.

Virginia

Virginia has had an ACS in place since 1985. This was the only state contacted who developed their system in-house. However, consultants were used as project leaders and as subcontractors for programming. The system is a small part of a total integrated tax system, and is designed to handle all taxes. They estimate the total system, not just ACS, has generated about \$10 million dollars over compliance revenues prior to ACS in FYs 84, 85 and 86, \$16 million in FY 87. Estimates for FYs 88 and 89 are \$21.5 million and \$22.5 million respectively. Throughout this time period, a number of modules have been added as the entire tax system has been updated. Additionally, account turnover has greatly increased. Essentially the same number of collectors are handling 75% more accounts now with the ACS in place than in 1979.

New Mexico

New Mexico has had an ACS on-line since September 1986 which handles sales and withholding taxes, but not individual or corporate income tax. The number of calls placed by collectors has increased an average of three times. Under the manual system, the collectors averaged 10 calls/day/collector. Since ACS has been in place, that average has gone to 30-35 calls/day, with one collector averaging 60 calls/day.

HOUSE BILL No. 3103

By Committee on Appropriations

3-18

HA
3-29-88
Attachment 10

0016 AN ACT concerning the department of revenue; relating to the
0017 collection of delinquent taxes; authorizing the acquisition of
0018 an automated collections system; providing certain exemp-
0019 tions.

0020 *Be it enacted by the Legislature of the State of Kansas:*

0021 Section. 1. The secretary of revenue is hereby authorized to
0022 ~~negotiate and~~ enter into contracts to acquire an automated col-
0023 lections system, including computer hardware and software
0024 therefor, for use in the collection of delinquent taxes and any
0025 interest and penalties thereon. Any contracts entered into be-
0026 tween the secretary of revenue and a vendor of automatic col-
0027 lections systems may provide for payment of fees for the au-
0028 tomated collections system on the basis of a percentage of the
0029 amount of taxes, interest and penalties collected through use of
0030 the automated collections system. ~~All contracts entered into~~
0031 ~~under this section are exempt from the competitive bid require-~~
0032 ~~ments of K.S.A. 75-3730 and amendments thereto.~~

0033 Sec. 2. This act shall take effect and be in force from and
0034 after its publication in the Kansas register.

retary of administration, and the secretary of administration shall report each such expenditure to the joint committee on state building construction. Where expenditures are made in support of litigation in which the state is involved, such expenditures also shall be subject to the prior approval of the attorney general. All expenditures shall be paid pursuant to vouchers of the director of accounts and reports approved by the secretary of administration and shall be for one or more of the following purposes:

(1) To identify the nature, extent and causes of defects in the design, construction or other work on capital improvements;

(2) to provide architectural, engineering or other technical services to determine methods for correcting or repairing such defects;

(3) to provide services in support of claims by the state or to defend claims against the state concerning state construction projects; or

(4) to correct or repair defects for which the proceeds were received, or to make other repairs or perform maintenance related to such defects.

(c) As used in this section, "proceeds" means money paid to the state of Kansas or any state agency for forfeited bid bonds, or by an insurer, or by a person or firm performing duties related to construction under a contract with a state agency, to compensate the state for errors, omissions or other construction, architectural or engineering related defects adversely affecting the state or a state agency.

History: L. 1982, ch. 337, § 1; L. 1984, ch. 328, § 1; L. 1987, ch. 344, § 1; April 30.

GENERAL PROVISIONS

75-37.101. Certificate of participation financing; purpose; authorization and approval. (a) The secretary of administration is authorized to enter into certificate of participation financing arrangements to provide financing or refinancing for personal property and fixtures acquired for one or more state agencies, subject to approval of the state finance council, acting on this matter which is hereby characterized as a matter of legislative delegation and subject to the guidelines prescribed in subsection (c) of K.S.A. 75-3711c and amendments thereto, except that such approval may also be given when the legislature is in session.

(b) As used in this section, certificate of participation financing means an installment purchase or lease purchase agreement that is subject to appropriations and which is structured to allow investors to receive a portion of the principal and interest payments made by state agencies as required by the agreement.

History: L. 1985, ch. 270, § 1; May 9.

75-37.102. Procurement negotiating committees, services or technical products; composition; powers; notice and procedures; bidding and open meeting exemptions; reports to legislative coordinating council and committees. (a) Upon request of the chief administrative officer of a state agency and subject to the approval of the secretary of administration, the director of purchases may convene a procurement negotiating committee to obtain services or technical products for the state agency.

(b) Each procurement negotiating committee shall be composed of: (1) The director of purchases, or a person designated by the director; (2) the chief administrative officer of the state agency desiring to make the procurement, or a person designated by the officer; and (3) the secretary of administration, or a person designated by the secretary.

(c) The negotiating committee is authorized to negotiate for the procuring state agency contracts with qualified parties to provide services or technical products needed by the state agency.

(d) Prior to negotiating for the procurement, a notice to bidders first shall be published in the Kansas register. Upon receipt of bids or proposals, the committee may negotiate with one or more of the firms submitting bids or proposals and select from among those submitting such bids or proposals the party to contract with to provide the services or technical products.

(e) Contracts entered into pursuant to this section shall not be subject to the provisions of K.S.A. 75-3738 through 75-3740a and amendments thereto. Meetings to conduct negotiations pursuant to this section shall not be subject to the provisions of K.S.A. 75-4317 through 75-4320a and amendments thereto. The director of purchases shall submit a report at least once in each calendar quarter to the legislative coordinating council and the chairpersons of

the senate committee on ways and means and the house of representatives committee on appropriations of all contracts entered into pursuant to this section.

(f) Nothing in this section shall be construed as requiring either negotiations pursuant to this section or bids pursuant to K.S.A. 75-3739 and amendments thereto for the procurement of professional services or services for which, in the judgment of the director of purchases, meaningful specifications cannot be determined.

History: L. 1987, ch. 324, § 1; July 1.

75-37.103 to 75-37.105. Reserved.

75-37.106. Employee suggestion award program and employee service award program. (a) There is established an employee suggestion award program for employees and retired employees of state government. Under this program cash or honorary awards may be made to state employees and retired state employees whose adopted suggestions will result in substantial savings or improvement in state operations. Except as provided in K.S.A. 1986 Supp. 75-37,109, if a cash award is made to a state employee, an additional cash award shall be awarded to the immediate supervisor of the state employee who made the suggestion, which additional cash award shall be in an amount equal to 10% of the amount of the cash award to the state employee.

(b) There is hereby established an employee service award program. Under this program the board shall formulate, establish and maintain plans to provide a uniform system through which state employees may receive appropriate recognition for their service dedication to Kansas state government in a scheduled, timely manner.

History: L. 1986, ch. 320, § 1; July 1.

75-37.107. Same; employee award board established; composition of board. There is hereby established within the department of administration an employee award board which shall be composed of three persons who are in the classified service under the Kansas civil service act named by the secretary of administration and two persons named by the chairperson of the legislative coordinating council.

History: L. 1986, ch. 320, § 2; July 1.

75-37.108. Same; duties of board;

rules and regulations. (a) It shall be the duty of the board to adopt rules governing its proceedings, to elect a chairperson and secretary, to keep permanent and accurate records of its proceedings, to establish criteria for making awards, to adopt rules and regulations to carry out the provisions of this act and to approve each award made.

(b) The rules and regulations of the secretary of administration relating to awards pursuant to K.S.A. 75-2956b shall continue to be effective until revised, amended, repealed or nullified pursuant to law.

History: L. 1986, ch. 320, § 3; July 1.

75-37.109. Same; levels of management not eligible to receive cash awards. In establishing criteria for making suggestion awards, the board may exclude certain levels of positions from participation in the program, but in no event shall the following levels of management be eligible to receive cash awards, either for suggestions or as immediate supervisors, under the program:

(a) Level I: Governor's staff, department secretary or equivalent.

(b) Level II: Assistant or deputy secretary, assistant to a department secretary, major fiscal and administrative policy departmental director or equivalent.

(c) Level III: Division director or section head.

(d) Level IV: Assistant to division director or section head or head of major departmental function or equivalent.

History: L. 1986, ch. 320, § 4; July 1.

75-37.110. Same; cash awards; maximum amounts; report to members of legislative coordinating council. (a) Subject to criteria approved by the board, the payment of cash awards to state employees and immediate supervisors for meritorious suggestions and accomplishments may be made: (1) From appropriations made therefor, or (2) by the state agency employing the employee or by a state agency which has expenditures reduced as a result of the suggestion or accomplishment of the employee, from money appropriated for such state agency and available for operating expenditures or salaries and wages or from money appropriated in any item of appropriation from which expenditures are so reduced.

(b) The maximum cash award made to a state employee for a suggestion shall be limited to 10% of the first year's estimated