

Approved: 3-27-96
Date

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS.

The meeting was called to order by Chairperson Robin Jennison at 1:30 p.m. on March 13, 1996 in Room 514-S of the Capitol.

All members were present except: Rep. Cornfield, excused
Rep. Gross, excused
Rep. Carmody, excused
Rep. Bradley, excused

Committee staff present: Alan Conroy, Russell Mills, Susan Wieggers, Legislative Research Department
Jim Wilson, Revisor of Statutes; Mike Corrigan, Revisor
Tim Kukula, Appropriations Secretary; Todd Fertig, Administrative Aide

Conferees appearing before the committee: Lenny Ewall, Kansas Correctional Facilities

Others attending: See attached list

Chairman Jennison began the meeting by opening hearings on **SB 359**, a bill concerning correctional industries fund; accrual of interest; and farming operations accounts, and **HB 2792**, a bill granting the authorization of certain sales by correctional industries; auto bodywork for state agencies and public employees. Written testimony of Charles E. Simmons, Secretary of Corrections, was distributed to the committee on both bills (Attachments 1 & 2).

Chairman Jennison recognized Lenny Ewall to testify before the committee on both **SB 359** and **HB 2792** and answer questions. Secretary Simmons arrived later in the meeting to answer questions also.

Having no one else present to testify on **SB 359** and **HB 2792**, Chairman Jennison closed the hearings.

A motion was made by Rep. Wilk, seconded by Rep. Minor, to recommend **SB 359** favorably for passage. The motion carried.

On **HB 2792**, comments were made about the possibility of sending all state agency body work to the Hutchinson Correctional Facility for work and not opening it up to the private sector and public employees.

A motion was made by Rep. Wilk, seconded by Rep. Wilson, to amend **HB 2792** by striking section "C." The motion failed 5 to 11.

A motion was made by Rep. Helgerson, seconded by Rep. Farmer to amend **HB 2792** to reflect technical adjustments by deleting the word "to" from line 16.

A motion was made by Rep. Gatlin, seconded by Rep. Reinhardt, to recommend **HB 2792** favorably for passage, as amended. The motion carried.

Action on bills previously considered:

A motion was made by Rep. Gatlin, seconded by Rep. Farmer, to recommend **HB 2734** favorably for passage. The motion carried.

A motion was made by Rep. Edmonds, seconded by Rep. Dean, to recommend **SB 215** favorably, as amended. The motion carried 12 to 5.

The meeting adjourned at 3:00 p.m.

The next meeting is scheduled for March 14, 1996.



HOUSE APPROPRIATIONS COMMITTEE

GUEST LIST

DATE: 3-13-96

HOUSE OF REPRESENTATIVES

NAME	ADDRESS	REPRESENTING
Alison J. Hite	2911 Main Yates Center Ks. ⁶⁶⁷⁴³	Farm Bureau Capital Experience (Woodson Co.)
Amanda Lampe	RR #1 Box 12 E Piquon, Ks. (66761)	Farm Bureau Capital Experience (Woodson Co.)
Patrick Leis	Rt 2 Box 53 Yates Center, Ks. ⁶⁶⁷⁸³	Farm Bureau Capital Experience (Woodson Co.)
Phil Merr	1104 Center Goodland Ks. 67735	Farm Bureau Capital Experience (SH Co.)
Nadine Brazola	5630 Rd 9 Goodland KS, 67735	Farm Bureau Capitol Ex. (SH Co.)
Tony Parker	1028 West 14th Goodland KS 67735	Farm Bureau Capitol Ex. (SH Co.)
Leann Koons	211 N. Main Goodland, Ks. 67735	Farm Bureau Capital Experience (Sherman County)
Jessica Kaszka	6380 Rd 14 Goodland, KS 67735	FARM BUREAU CAPITAL EX. Sherman County
Alie Davis	418 Main Goodland, KS 67735	Farm Bureau Capital Ex. Sherman County
Gwen MITCHEK	816 HARRISON GOODLAND, KANSAS	FARM BUREAU CAPITAL EX SHERMAN COUNTY
Barah Melia	411 Washington Goodland, Ks. 67735	Farm Bureau Capitol Ex Sherman County
Lori Helgeert	RR 1 Box 101 Paxico, KS 66526	Farm Bureau Capital Ex Wabaunsee County
Aliasha Scott	Rt. 1, Box 204-B Alta Vista, KS 66834	Farm Bureau Capitol Experience Wabaunsee Co.
Danie Maguire	P.O. Box 211 Sharon Springs KS 66158	Farm Bureau Capital Ex Wallara Co
Markus Rem	Law	KU



DEPARTMENT OF CORRECTIONS
OFFICE OF THE SECRETARY
Landon State Office Building
900 S.W. Jackson — Suite 400-N
Topeka, Kansas 66612-1284
(913) 296-3317

Bill Graves
Governor

Charles E. Simmons
Secretary

MEMORANDUM

Date: March 13, 1996
To: House Appropriations Committee
From: Charles E. Simmons, *Secretary*
Subject: SB 359

SB 359, as amended by the Senate Ways and Means Committee, abolishes the farming operations account for Correctional Industries and transfers the funds currently in that account to the Correctional Industries Fund. Currently, a completely separate account with a separate expenditure limitation is required for the farming account. We do not believe this serves any purpose and it complicates the budget and accounting processes for Kansas Correctional Industries.

Accountability for the financial condition of the farm division will not be diminished if this bill passes. Our KCI accounting system provides a monthly profit and loss statement on each of our 17 divisions, including the farm, which we use to manage each division.

We urge favorable consideration of SB 359 as amended.

CES:jj

3-13-96

House Appropriations

Attachment
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DEPARTMENT OF CORRECTIONS
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Bill Graves
Governor

Charles E. Simmons
Secretary

MEMORANDUM

Date: March 13, 1996
To: House Appropriations Committee
From: Charles E. Simmons, Secretary
Subject: HB 2792

HB 2792 was introduced at the request of the Department of Corrections. It provides that Kansas Correctional Industries (KCI) may sell its products and services to any contractor for use in the performance of a contract with the federal government, state agencies, local agencies, non-profit organizations, schools, and churches. It also provides that Correctional Industries may sell its vehicle restoration service to any current or retired state employee.

Due to the increasing inmate population, the need to expand the number of industrial jobs for inmates continues. Our goal is to make every KCI division profitable while increasing the number of inmates employed, and to do so without State General Fund money. One of the reasons some divisions are not profitable is that there is simply not a large enough market within current restrictions to provide sufficient sales to cover overhead.

This bill provides for limited expansion of the Correctional Industries market base. If KCI is allowed to sell products to certain contractors, state and other public agencies will benefit by receiving lower bids from contractors who are able to purchase construction products from KCI at reduced prices. The Department of Corrections will benefit by increased sales in certain KCI divisions which will help make them more profitable. Also, in cases where the factory is producing at maximum capacity with the current level of inmate employees, more inmate jobs may be created. Examples of expected sales

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increases are paint for new or remodeled buildings and road signs for new road construction when contracts include signs.

The Vehicle Restoration Division of KCI, which is located at the Hutchinson Correctional Facility, has had a difficult time financially since it was opened in 1989. It is a popular industry work assignment among the inmate population and provides "on the job" training in body and fender repair, glass replacement, painting, and interior restoration. If current and retired state employees were allowed to have their personal vehicles restored in this shop, we believe the additional sales volume would make this industry profitable. It may also create more inmate jobs if sales volume is sufficient to warrant them.

The business plan for this expanded market targets classic and antique vehicles as the specific type of restoration service to be provided. We believe that by specializing in this area there will be less impact on private sector companies because much of the work would be done by owners or not done at all if substantial savings cannot be realized. We estimate sales for the expanded market to be \$200,000 to \$250,000 annually.

In October 1995, the Department of Corrections issued a Request for Proposal to all the Regents universities for an economic impact study on the vehicle restoration proposal. The Business and Technology Institute at Pittsburg State University was awarded the contract. The purpose of the study was to determine: 1) the size of the current statewide market for restoration of classic and antique vehicles among current and retired state employees; and 2) whether the proposed expansion of KCI would place an undue burden on private sector providers and result in a significant net loss of private economy jobs. Study results indicate that there is sufficient demand among current and retired state employees to sustain the operation, and there would be a minimal effect on both sales and employment on private service providers in the state.

EXECUTIVE SUMMARY

The Kansas Department of Corrections contracted with the Business and Technology Institute at Pittsburg State University to conduct a study to determine the economic impact of expanding the Kansas Correctional Industries (KCI) classic and antique vehicle restoration services in the facility at Hutchinson to current and retired state employees. The potential expansion of service, and thus the scope of the study, was limited to the restoration of classic and antique vehicles only. The purpose of the study and report was to determine the following:

1. If sufficient market demand exists within the targeted segment of active and retired state employees to sustain the KCI body shop operation in the restoration of classic and antique vehicles.
2. Whether the majority of revenues will be derived from restoration not currently included in the total state market.
3. Whether the proposed expansion of KCI restoration services will place an undue burden on private sector providers and result in a significant net loss of private economy jobs.
4. Whether the availability of mechanical repairs for these classic and antique vehicles will serve as an inducement for state employees to use the KCI services.
5. The minimum discounts that need to be offered in order to generate business for the KCI facility.

METHODOLOGY

The data for the study and report were collected through two direct mail surveys which were mailed in January 1996. One survey involved mailing 867 questionnaires to businesses involved in vehicle body repairs and/or classic or antique vehicle restoration in the state. This survey obtained 151 responses that were usable for a response rate of 17.4%. Another survey involved mailing 3,223 questionnaires to a random sampling of active state employees to determine information about their classic and antique vehicles and restoration plans, interest in the KCI program, and willingness to transport their vehicles to the service. There were 758 usable replies to this survey for an excellent response rate of 23.5%.

RESULTS

1. To determine the demand among active state employees for using the proposed KCI facility, the data was correlated to include owners of classic and antique vehicles needing restoration and their interest in the program. A total of 138 owners indicated a substantial level of interest in using the program. These owners represented 249 classic and antique vehicles requiring restoration.

2. The data also indicates potential new restoration business by correlating owners who plan to do their own restoration and those who do not presently plan to restore their vehicles with their interest in the program. A total of 79 such owners (143 vehicles) indicated a substantial level of interest in using the program.
3. Effect on the private sector was determined by comparing data on firms doing restoration work and the number of vehicles that might be lost from those firms to the expanded KCI facility. There were 80 firms that indicated they perform classic or antique vehicle restoration with estimated annual sales of \$3.2 million in restoration work. This represents approximately 4.2% of total reported annual sales.

Among the active state employees surveyed, the owners of 85 vehicles presently planned for restoration in private businesses within twelve months indicated a high level of interest in using the KCI program. Restoration of these vehicles could be lost to the private firms performing this service.

4. A total of 122 responding vehicle owners indicating a high level of interest in using the program for body restoration also indicated they would be interested in obtaining mechanical repairs on their vehicles.
5. Employee respondents were asked to indicate the level of discount they expected to obtain when using such a service. The owners of 148 (69.2%) vehicles now planned for restoration were interested at a discount level of 21-40%. The owners of 52 (66.7%) vehicles not presently planning restoration indicated an interest at a discount level of 21-40%.

CONCLUSIONS

Based upon the number of responses and the data obtained from both surveys, it is possible to make the following conclusions:

1. There is a sufficient level of demand among the active state employee respondents in this sample to sustain an expanded KCI facility for classic and/or antique vehicle restoration for at least two years. The sample data indicates that the entire market of active state employees could generate a sufficient level of demand to sustain the operation much longer.
2. A substantial portion of the revenues could be expected to be derived from a market which is not now available to private restoration firms--that being the interested owners who now plan to restore their own vehicles and the interested owners who do not plan to restore their vehicles at this time.
3. Private shop restoration of classic and/or antique vehicles presently amounts to about 4.2% of the total body repair sales in the state by the 80 firms reporting they

perform this type of work. Among the active state employees in this sample, the owners of 85 vehicles planned to have restoration done by private shops but indicated an interest in using the KCI service. Compared with the 80 firms indicating they perform restoration, this equates to slightly over one vehicle potentially lost per private restoration shop. This would not significantly affect sales and employment of the private firms.

4. Of the 138 vehicle owners interested in the KCI service, 122 (88%) would be interested in obtaining mechanical repairs in addition to body restoration service. Thus, the availability of mechanical repairs would be an inducement to use the service.
5. The KCI service should be available at a minimum discount level of 20%, with a range of 21-40% being the optimum to attract a substantial number of vehicles to the program.

SUMMARY

The proposed expansion of the KCI classic and/or antique vehicle restoration facility can be accomplished with a reasonable assurance that sufficient demand is present among active state employees to sustain the operation with minimal effect on private service providers in the state. The KCI facility should offer a discount of at least 20% and develop a method of including mechanical repairs through sub-contracting. A majority of the revenues generated by the KCI facility could come from market sectors not now utilizing the services of private businesses.