

Approved: February 13, 1996
Gale

MINUTES OF THE SENATE COMMITTEE ON COMMERCE.

The meeting was called to order by Chairperson Alicia Salisbury at 8:00 a.m. on February 9, 1996 in Room 123-S of the Capitol.

Members present: Senators Salisbury, Burke, Feleciano, Gooch, Harris, Hensley, Jordan, Petty, Ranson, Reynolds, Steffes and Vidricksen.

Committee staff present: Lynne Holt, Legislative Research Department
Jerry Donaldson, Legislative Research Department
Bob Nugent, Revisor of Statutes
Betty Bomar, Committee Secretary

Conferees appearing before the committee:

Phillip Harness, Director, Workers Compensation Commission
Representative Greg Packer
Hal Hudson, Director, National Federation of Independent Business
Ronald A. Stryker, President, Stryker Co.
Terry Leatherman, Kansas Chamber of Commerce and Industry
Jim Yount
Bill Layes, Chief of Labor Market Information Services, Department of Human Resources

Others attending: See attached list

Phillip Harness, Director, Workers Compensation Division, updated the Committee on Workers Compensation Advisory Council's recommendations which have been drafted into a bill. Mr. Harness noted that the Council made a recommendation regarding coverage for volunteer firefighters, but that the provision in the bill draft more closely reflects the Insurance Commissioner's recommendation.

Senator Harris moved, seconded by Senator Steffes that **RS 2199**, the Advisory Council's recommended amendments to the workers compensation act, be introduced as a committee bill. The voice vote was unanimous in favor of the motion.

Jerry Slaughter, Kansas Medical Society, requested the introduction of a Committee bill to require annual adjustment of medical fees paid from the workers compensation fee fund.

Senator Steffes moved, seconded by Senator Reynolds that a bill relating to fee schedules be drafted and introduced as a committee bill. The voice vote was unanimous in favor of the motion.

Senator Harris moved, seconded by Senator Reynolds a bill legislating a change in the workers compensation law as a result of the decision of Bouker vs Peerless be introduced as a committee bill. The vote was unanimous in favor of the motion.

Terry Leatherman, Kansas Chamber of Commerce and Industry, requested the introduction of a Committee bill relating to exemption from group-funded workers compensation pools under certain conditions.

Senator Reynolds moved, seconded by Senator Burke that **RS 1782**, relating to group-funded workers compensation pools, be introduced as a committee bill. The vote was unanimous in favor of the motion.

Senator Feleciano moved, seconded by Senator Ranson that **RS 2265**, relating to the eligibility of certain employers to self insure, be introduced as a committee bill. The vote was unanimous in favor of the motion.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON COMMERCE, Room 123-S Statehouse, at 8:00 a.m. on February 9, 1996.

HB 2650: Extension of employment security tax moratorium for an additional year

Representative Greg Packer stated the experience of the Employment Progress and Cooperation Tax Act of 1995 is such to allow the moratorium to be extended one year. Representative Packer stated due to the increase in interest and penalties and the low unemployment rate, the Unemployment Fund is conducive to extending the moratorium for an additional year. Representative Packer testified the Fund is \$54,400,000 richer than was projected. Attachment 1

The Chair asked whether there was concern about the increase in penalty revenues from employers who have no tax liability and, consequently, are not filing a report. Representative Packer responded he was unaware of this concern. However, there has been an increase in penalty payments, although, this increase was accredited to businesses positioning themselves for eligibility to the moratorium.

Hal Hudson, Kansas State Director, National Federation of Independent Business, stated he appeared in favor of HB 2650. Mr. Hudson informed the Committee the enactment of the moratorium last year has put thousands of dollars back in the hands of small business owners. It has enabled businesses to create new jobs, improve benefits to present employees, or buy new equipment to expand. Mr. Hudson urged the Committee to extend the moratorium if fund balances are sufficient to allow an extension. Attachment 2

Ronald Stryker, President, Stryker Company, thanked the Committee for the enactment of the moratorium on unemployment tax passed during the 1995 Session. Mr. Stryker advised the moratorium assisted him to increase his average employment, purchase additional machinery and tools, and expand employment benefits. Mr. Stryker urged the Committee to extend the moratorium for an additional year if the financial strength of the unemployment reserves fund justifies an extension. Attachment 3

Terry Leatherman, Kansas Chamber of Commerce and Industry (KCCI), testified in favor of passage of HB 2650. Mr. Leatherman advised this legislation also has the support of the Kansas Employment Security Advisory Council. Mr. Leatherman told the Committee he worked on the Council subcommittee with Wayne Maichel of the Kansas AFL-CIO which unanimously endorsed HB 2650. Mr. Leatherman stated the Trust Fund remains in good condition, making an additional year of the moratorium warranted. Kansas closed 1995 with a Trust Fund balance of \$695 million. The Trust Fund is \$75 million higher than estimated by the Department of Human Resources and KCCI. Mr. Leatherman stated that one year after the passage of the moratorium bill, there are positive signs in the unemployment in Kansas. Unemployment is lower than it has been in 20 years, employers retained around \$100 million that would have been paid in unemployment taxes and the Trust Fund remains extremely solvent. The Kansas Chamber urges support of HB 2650 due to the positive developments during the one year of the moratorium. Attachment 4

Jim Yount, appeared in opposition to HB 2650 and an extension prior to a thorough review of the claimant disqualification practices of Human Resources as it pertains to unemployment procedures. Attachment 5

The public hearing on HB 2650 was concluded.

Bill Layes, Chief of Labor Market Information Services with the Department of Human Resources, was called to report on the effect of HB 2650. The bill extends the current two year moratorium on unemployment taxes for 1995 and 1996 through 1997. The status of the Unemployment Insurance Trust Fund is currently \$677 million. Original estimates following the moratorium called for a trust fund balance of approximately \$500 million by December 1996. It is now estimated the balance will be around \$600 million. The improved balance is the result of a significant decrease in unemployment levels and sustained interest earnings. Based on the balance in the trust fund, the Department endorses extending the moratorium a third year. It is the Department's belief that this extension can be accomplished without risking the fund's solvency. HB 2650 contains safeguards which prevents the financial integrity of the trust fund from being threatened. Attachment 6

The Chair announced the addition of Senator Jordan to the Telecommunications subcommittee.

Upon motion by Senator Gooch, seconded by Senator Reynolds, the Minutes of the February 8, 1996 meeting were unanimously approved.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON COMMERCE, Room 123-S Statehouse, at 8:00 a.m. on February 9, 1996.

The next meeting is scheduled for February 13, 1996.

STATE OF KANSAS

GREG A. PACKER

REPRESENTATIVE, FIFTY-FIRST DISTRICT
7200 WATTLING CT.
TOPEKA, KANSAS 66614
(913) 478-0502
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TOPEKA, KANSAS 66612-1504
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TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS
VICE CHAIR: BUSINESS, COMMERCE, AND LABOR
ECONOMIC DEVELOPMENT
JOINT COMMITTEE ON ARTS AND CULTURAL
RESOURCES
SELECT COMMITTEE—TELECOMMUNICATIONS

February 9, 1996

Thank you Mr. Chairman and members of the Committee. I know when success is apparent, many stand to take the credit. And we have all been here long enough to know when failure is evident, the originators stand alone. As I speak before you today, introducing a bill to add a year to the very successful unemployment tax moratorium. I am very proud to say that the time that put this legislation together is not standing alone.

A year ago, after this concept was formed, I decided on the acronym EMPACT to describe the plan. It would, therefore, seem only fitting that the legislation committed to extending the moratorium be labeled EMPACT II.

The Employment Progress and Cooperation Tax Act of 1995 saved Kansas businesses \$150 million over the past year. Not to mention the tremendous positive impact it had on our state's economy. In 1994 our unemployment tax fund brought in \$176.5 million. The interest that was accrued in 1994 was around \$44 million. The estimates we made for 1995 are located in Attachment No. 1.

*Senate Commerce Committee
February 9, 1996*

Attachment 1 thru 1-2

Our actual numbers are as follows:

1996 beginning balance: \$688,600,000

\$50,000,000 more than expected

1995 contributions \$ 57,000,000

\$ 8,000,000 more than expected

1995 outflows \$147,000,000

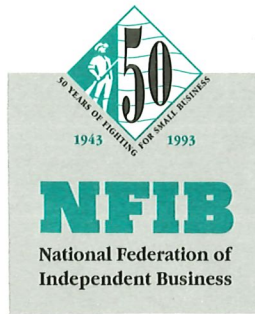
\$39,000,000 less than expected

1995 interest \$ 51,400,000

\$ 7,400,000 more than expected

It does not take a math whiz to figure out that we have \$54,400,000 more than was projected. This coupled with the lowest unemployment rate Kansas has ever seen has provided an environment that is extremely conducive to adding another year to the moratorium. Therefore, through coordination with the Governor's Office, I am pleased to introduce to you House Bill 2650 that would extend the moratorium in 1997.

LEGISLATIVE



TESTIMONY

**Testimony of
Hal Hudson, Kansas State Director
National Federation of Independent Business**

Before the Kansas Senate Commerce Committee

on House Bill 2650

Friday, February 9, 1996

Madame Chairperson and members of the Committee: Thank you for this opportunity to appear here today in support of H.B. 2650 - extending the employment security tax moratorium for an additional year.

My name is Hal Hudson. I am State Director for the Kansas Chapter of National Federation of Independent Business. NFIB is the State's largest small-business advocacy group, with over 8,000 members who employ more than 100,000 Kansans.

NFIB supported the moratorium enacted by the legislature last year, which has put thousands of dollars back in the hands of small business owners. We thank you for that. It has enabled them to create new jobs, improve benefits to present employees, or buy new equipment to expand their businesses. Extension of that moratorium appears to be justified.

I urge you to support enactment of H.B. 2650, and to encourage you to consider extending the moratorium even further, if fund balances continue sufficient to allow it.

Last year you asked what business owners would do with the savings from the moratorium. Here with me today is Ron Stryker, owner of Stryker Company, a Topeka-based heating, air conditioning and plumbing contractor. Ron also is chairman of the NFIB/Kansas State Leadership Council. He has come to tell you what the moratorium has meant to his business. Please welcome Ron Stryker.

Thank you.

*Senate Commerce Committee
February 9
Attachment 2*

LEGISLATIVE TESTIMONY OF
RONALD A. STRYKER, PRESIDENT
STRYKER CO.
3365 SW GAGE BLVD.
TOPEKA, KANSAS

Presented to: Kansas Senate Commerce Committee
on House Bill 2650

February 9, 1996

Madame Chairperson and members of the committee: Thank you for the opportunity to appear before you today in support of H.B. 2650. My name is Ron Stryker, I am president and sole stockholder of STRYKER Co. a Heating, Cooling, and Plumbing company located in Topeka.

Let me begin by saying "Thank You" for the enactment of the moratorium on employment security taxes last legislative year. I have no doubt that the moratorium was a good and wise decision. The moratorium was justified last year and appears to again be justified for 1996.

STRYKER Co. was relieved of the responsibility of paying unemployment taxes in 1995 in the amount of \$6,700.00, based on our pre-moratorium tax rate of 1.99%. In 1995 STRYKER Co. increased our average employment by 4 persons, we purchased additional machinery and tools, and expanded the employment benefits to our employees. Retirement planning, paid sick and personal leave time, and additional bonuses were enjoyed by all of our employees. These benefits were not possible in 1994.

It would be ridiculous for me to state to you that all of these positive steps were taken as a result of the savings my company enjoyed from not paying unemployment taxes. You would all know that the cost of these benefits for our 30 to 35 employees would be far more than \$6,700.00. What I hope you will understand is that the moratorium was a contributing factor in making these things happen at my company. STRYKER Co., and many other small businesses throughout the State which have an eye toward growth, did not simply add more profits to the company's bottom line, they used the reduction in expenses to fund programs for our employees, our customers, or to purchase equipment from our suppliers.

The national average net profit in the mechanical business is between three (3) and four (4) percent. If taxes on payroll are reduced from two (2) or three (3) percent to zero (0) you can easily see how what appears to be a modest reduction can have significant positive impact. This is the case with the unemployment tax moratorium.

I am hopeful that you will find that the financial strength of the unemployment reserves fund will justify an extension of the moratorium on unemployment securities taxes for another year. If you find that it is, and you approve the moratorium, my suppliers will be grateful, my employees will be grateful, and I will be grateful.

Thank you.

Senate Commerce Committee
February 9, 1996

Attachment 3

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry



835 SW Topeka Blvd. Topeka, Kansas 66612-1671 (913) 357-6321 FAX (913) 357-4732
HB 2650

February 9, 1996

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the
Senate Committee on Commerce

by
Terry Leatherman
Executive Director
Kansas Industrial Council

Mr. Chairman and members of the Committee:

I am Terry Leatherman, with the Kansas Chamber of Commerce and Industry. Thank you for this opportunity to express KCCI's enthusiastic support for HB 2650. In addition, this proposal also has the support of the Kansas Employment Security Advisory Council. It was my pleasure to work with Mr. Wayne Maichel of the Kansas AFL-CIO on a Council subcommittee on this item. Our subcommittee recommendation supporting the concept in HB 2650 was unanimously endorsed by the Council at its January 11 meeting.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

*Senate Commerce Committee
February 9, 1996*

Attachment 4 thru 4-4

HB 2305, 1995's legislation creating a two-year unemployment compensation tax moratorium and a massive permanent decrease in unemployment taxes, was possible because of the extremely solvent condition of the Kansas Employment Security Trust Fund, the fund where employer tax dollars are kept to pay unemployment compensation benefits. A year later, the Trust Fund remains in remarkably good condition, making a third year of the moratorium warranted.

*Kansas closed 1995 with a Trust Fund balance of \$695 million. At that level, Kansas would undoubtedly remain at or near the top ten of states in all key Trust Fund solvency tests and would remain ahead of neighboring states.

*The Trust Fund is \$75 million higher than Kansas Department of Human Resources and KCCI estimates of where the Trust Fund was expected to be after the first year of the Trust Fund.

One year after the passage of the moratorium bill, there are positive signs in all directions regarding unemployment in Kansas. The insured unemployment level is lower than it has been in 20 years, Kansas employers have retained around \$100 million that would have been paid in unemployment taxes and the Trust fund remains extremely solvent. Due to all the positive developments during year one of the unemployment tax moratorium, the Kansas Chamber would urge your support for HB 2650, extending this Kansas success story through 1997.

For the Committee's information, the final pages of my testimony are responses from KCCI members this summer, asking them to explain how they used any tax dollars they saved from year one of the moratorium. Our members' comments are in no way a scientific sampling, but they do support the belief that dollars employers saved on taxes created an opportunity to invest in people and equipment.

Thank you for the opportunity to express KCCI's support for HB 2650. I would be happy to answer any questions.

BACKGROUND: Due to the extremely solvent condition of the Kansas Employment Security Trust Fund, the Legislature approved a KCCI supported measure placing a two-year moratorium on the payment of unemployment compensation taxes for "positive balanced" employers in 1995 and 1996.

QUESTION: If your business qualified to pay no unemployment compensation taxes this year, please indicate below how the tax savings was utilized by your business.

RESPONSES:

4 -"raised wages"

"employee pay increases, business physical improvement"

"additional hiring and training"

"hired one additional employee"

"to hire two additional employees"

"employee bonus, help offset decrease in revenues"

"increased employment & sales"

"We have added to our employment base and made people full time that previously were doing work part-time and temporary activities"

"funded part of a new employee's compensation"

"Reallocation of health insurance costs"

"expansion of sales which would increase employment"

"safety training and incentives:"

"expansion and increasing employment"

11- "purchased new equipment"

"Yes, we received the benefit. The money saved was invested in equipment"

"invested in capital equipment - expanded work force"

"Improved profitability, lowered debt and purchased equipment. All was reinvested in the business to enhance future viability"

"Invested in Prepress Technology - Mac Computers"

"facility improvement"

"To upgrade and preserve the operations of the facility. This includes the education and betterment of the employees"

"To buy new equipment and up grade facilities, along with some more continuing education"

"Used to purchase additional production equipment, which adds more jobs as business increases"

"to upgrade tools and equipment"

"It was used to update our computer system."

"more research and development"

"re-invested in new buildings"

2 - Towards capital improvements"

2 - "update computer software & hardware"

"reinvestment in facilities & equipment, & processes to enhance or create new business, markets and jobs"

"purchased new computers, opened new offices, hired additional staff, paid off debt"

"expedited plans for capital investments and/or acquisition of property"

3 - "Pay off debt"

"used to offset increasing cost of product liability insurance"

"apply to liability & product insurance cost"

3 - "yes - reduced routine operating expense"

3 - "Capital investment"

"\$3,000/equipment purchase"

"utilized in business operations"

"To cover operating expenses that rose in other areas"

"poor year; paying expenses"

"simply lowered expenses"

"Fund expansions"

"placed into reserves"

"Reinvested it all in our business, paid income taxes and created jobs"

"ultimately reduced debt on inventory"

"overhead management"

"Ours is usually insignificant. It was easily absorbed in everyday expenses"

"we spend all we can afford to each year to expand our business. Any expense reduction will help. We don't do wine, women and riotous living."

"cash flow"

"Used as any other saving and incorporated in the general budget"

"Left in general fund for general operations"

"reduced cost of doing business"

"It helped reduce payroll taxes"

2 - "It was a very small amount - absorbed into general fund"

"Money used in every day running of the business"

2 - "money would be used to reinvest in the business"

2 - "additional profit"

"I had a very low rate so my savings was not very much. Probably used to help buy more equipment"

"We bought coffee for everyone in the business for 2 weeks"

"Less expense = increased profit"

"The \$8,000 to \$10,000 savings did not make a significant impact on the Corporation. However, the fact that someone realized it was our money and not the state's is appreciated"

"Small return compared to overall annual expenses; however, this year spent much time & \$ on small incremental expansions"

"helps us remain in business"

"Helped bottom line. This allowed us to forgo price increases, or at least lower increases planned"

"Too small to make a significant contribution. However, it's refreshing not to be penalized for others actions"

"It was greatly appreciated and reduced our losses in a very rough year"

"The actual cash savings was small to us. Where the money went I don't know. But, it sure felt good not to pay this tax"

"Money from heaven"

February 8, 1996

Madam Chairperson;
Ladies and Gentlemen of The Committee;

Good Morning.

My name is Jim Yount. My wife Sonia and I are self employed lobbyists. Today we appear before you to explore some thoughts on behalf of the over one million men and women job holders in this state who are covered by the Kansas Employment Insurance Program.

They have work to do so they are not able to be here today and are not aware of H. B. 2650

I was there when, Governor Frank Carlson proposed a fifty million dollar unemployment compensation tax reduction for employers. In the same breath Governor Carlson said, "Kansas workers who become unemployed shall also benefit." And it was done.

We are suggesting a justice amendment be attached to and travel with H. B. 2650.

The justice amendment would provide that H. B. 2650 be retained in this committee pending a thorough review of the claimant disqualification practices of the agency.

The review we are requesting and urging can be accomplished within six months.

H. B. 2650 is to produce in 1997. This poses the question, why the hurry? Yes, we are well aware of, a bird in the hand is worth two in the bush and please may there be no misunderstanding, we have no desire to see one single feather plucked from this 150 million dollar tax cut bird.

In the spirit and wisdom of former Governor Frank Carlson we believe and amendment that speaks to the bread and butter of those who labor and their families is good, just plain good.

We speak of justice, where and how does it fit?

First there is this record - Employment Security Trust Fund, surplus
1980 - 219 million dollars
1994 - 723 million dollars

*Senate Commerce Committee
February 9, 1996*

Attachment 5 thru 5-3

How and why this whopping 504 million dollar increase in the trust fund?

Some say and rightly so, interest money and low unemployment in Kansas were and are major factors.

Is there a third factor? Has a brutal and systematic disqualification of claimants made possible the one half billion dollar surplus. A simple review of the said practices will provide the answer.

Bear in mind agency personnel, serve as fact finders, prosecutors, judge and jury. Unemployed claimants seldom retain lawyers and lawyers seldom seek unemployed clients.

There were many worthy claims denied some similar to the case of Jane Doe. Herewith I present the disturbing case of Jane Doe.

A lone woman employee of a feed mill. Jane was to be married in the near future. On the job a male employee corners her in the store room and attempts rape. She escapes to her car and cowers in the vehicle until she feels safe in leaving the vicinity. She quits her job and files for unemployment compensation, she is disqualified, benefits denied. Jane appeals the examiner disqualification for benefits decision to referee. The referee upholds examiner decision.

Jane appeals to the three member unemployment compensation Board of Review, I was present as the labor member of said board.

Jane is not present, we read the transcript as provided by agency. Jane's testimony as per transcript is there, and employers testimony did not dispute Jane's charges. Employer implies his mill is not a desirable place for a woman to work.

Public member and chairman Jack Janssen and industry member, George Trombold voted to uphold the referee decision. Jane Doe's claim denied.

May we view the statute as it was then and now.

Employment security Law (44-706) (7) "The individual left work because of unwelcome harassment of the individual by the employer or another employee of which the employing unit had knowledge."

These simple understandable words, state, **"Said individual shall not be denied benefits period."**

To me the treatment of Jane Doe by the system was injustice personified.

I took the Jane Doe case to Governor, John Carlin he put me back in the hands of the agency.

I informed the Kansas AFL-CIO, I wrote a lady Senator and a lady House Member.

The legal department of the agency advised me of statute 44-714 dealing with secrecy as to claims and Attorney General, Bob Stephans advised me by letter of said secrecy statute and the penalty section.

I received the word, Stop, Jane Doe and husband to be say forget it. Case Closed.

I was disturbed then and I stand before you disturbed and wondering, what about arrogance and injustice in the agency today?

Do claimants today cry out for justice?

We renew our request, hold H. B. 2650, call for a review of the agency disqualification practices.

Ladies and Gentlemen of the committee, we thank you.

Respectfully Submitted

Jim & Sonia Yount
Valley Falls, Ks
913 945 6769

EXTENSION OF MORATORIUM THROUGH 1997
FEBRUARY 9, 1996

Good morning Madam Chairwoman and members of the committee. My name is Bill Layes and I am the Chief of Labor Market Information Services with the Kansas Department of Human Resources. This morning I appear before you to report on the effect of HB 2650. This bill would extend the current two year moratorium on unemployment taxes for CY1995 and 1996 through CY 1997. A detailed paper describing recent trust fund history is before you. This paper also contains findings on a recent survey of employers as to how the current moratorium savings have been used.

Status of the Unemployment Insurance Trust Fund and Two Year Tax Moratorium

The current status of the trust fund is excellent. Current trust fund levels (February 7, 1996) are at \$677M and Kansas ranks among the top ten UI trust funds in the nation.

The 1995 session of the Kansas Legislature enacted HB 2305 which provided for a moratorium on unemployment taxes for CY1995 and 1996. This bill contained four major features.

1. **Zero** tax for employers eligible for an experience rating (45,000 employers),
2. New employers received a **tax reduction** (11,000 employers),
3. CY 1997 tax rates following the moratorium are to be "**phased-in**",
4. Measures created to protect **fund solvency**.

Original estimates following the moratorium called for a trust fund balance of approximately \$500M by December 31, 1996. This was based on an insured unemployment rate of 1.9 per cent. While a decrease in trust fund balance of this sort is still possible, it remains unlikely. We now believe a more realistic trust fund balance at the end of 1996 could be in the neighborhood of \$600M. This improved balance for the trust fund is a result of:

1. A significant decrease in the level of unemployment from earlier periods and
2. Sustained interest earnings. (\$51.4M during CY1995)

*Senate Commerce Committee
February 9, 1996
Attachment to Thru 6-17*

Is It Possible to Extend the Moratorium For a Third Year? Yes

We believe enactment of HB 2650 which would extend the moratorium a third year is possible without risking fund solvency. Safeguards are contained in HB 2650 which would prevent a moratorium for 1997 if the financial integrity of the trust fund is threatened. Specifically, if the trust fund balance as of July 31, 1996 is less than two per cent of total wages, the moratorium will not continue for 1997. Current reserves as a per cent of total wages are 2.648 (fund would need to drop to \$520M to stop the third year moratorium).

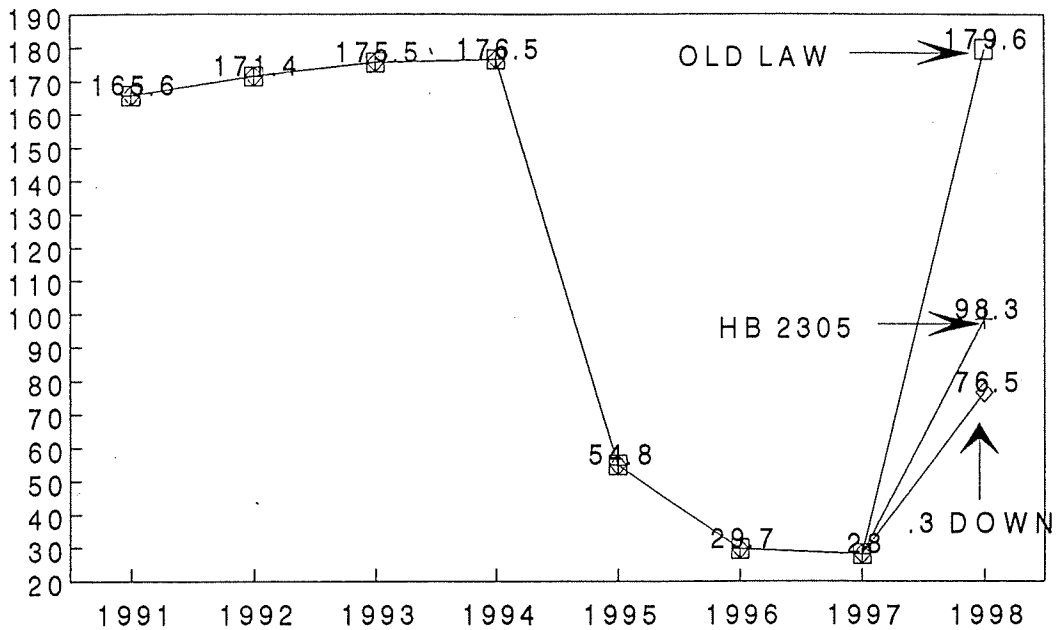
At the Conclusion of the Moratorium, Will Employer Tax Rates Skyrocket For 1998? No

Employers' tax rates will be *phased-in* for CY 1998. The method for determining total taxes from all employers is contained in K.S.A. 44-710a. Schedule III of that section determines annual total income to the fund. Prior to passage of HB 2305, a moratorium on employer taxes would have been followed by a rapid increase in income in the following year. The mechanism would have attempted to recover money lost during the moratorium period. HB 2305 (1995 session) modified Schedule III to prevent such a windfall. HB 2650 contains similar language that would also prevent a windfall during CY 1998. Schedule III was reduced by 0.5 to prevent ballooning of employer taxes. The attached graph illustrates income with and without the phase-in feature. Also shown are other scenarios by adjusting Schedule III of K.S.A. 44-710a.

In conclusion, the current level of the trust fund is excellent. The current December 1995 Kansas total unemployment rate was 3.4 per cent compared to 5.6 per cent for the United States. Assuming that the current economic situation continues, we see no difficulty in extending the moratorium for a third year. HB 2650 contains a safety net procedure for protecting solvency. KDHR supports passage of HB 2650.

This concludes my testimony concerning HB 2650. I will respond to questions.

ACTUAL AND EST. CONTRIBUTIONS OLD LAW AND HB2305



CURRENT FINANCIAL POSITION OF
THE KANSAS UNEMPLOYMENT INSURANCE
BENEFIT TRUST FUND

... PREPARED FOR
SENATE COMMERCE COMMITTEE
MEETING OF FEBRUARY 9, 1996

WAYNE L. FRANKLIN, SECRETARY
KANSAS DEPARTMENT OF HUMAN RESOURCES
DIVISION OF STAFF SERVICES
LABOR MARKET INFORMATION SERVICES

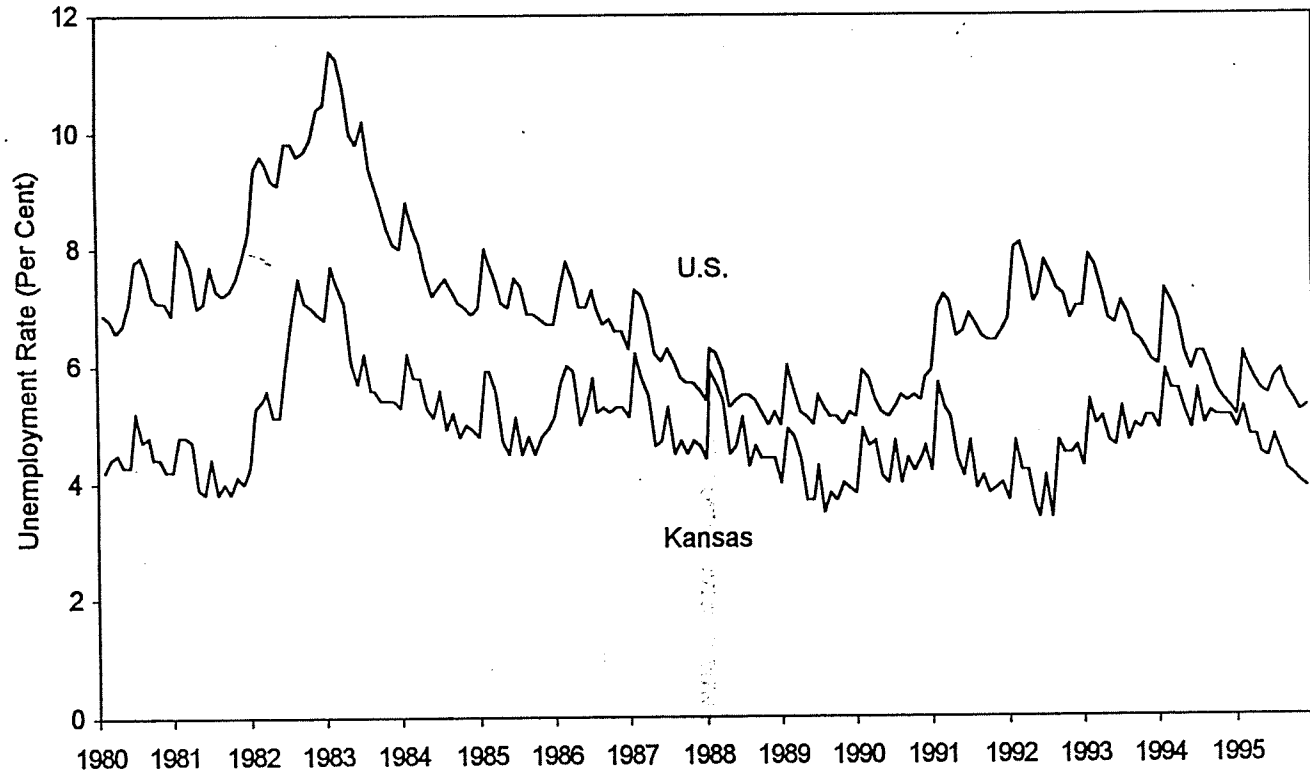
EXECUTIVE SUMMARY
KEY FACTS
Unemployment Insurance and the Kansas Economy
State Fiscal Years 1994 and 1995

Total Unemployment Rate

<u>Area</u>	<u>State Fiscal Years</u>		<u>December</u>
	<u>1995</u>	<u>1994</u>	<u>1995</u>
United States	5.7	6.5	5.6
Kansas	4.9	5.2	3.4
Kansas City MSA	4.3	4.6	3.0
Lawrence MSA	5.1	5.3	4.1
Topeka MSA	4.9	5.0	4.2
Wichita MSA	5.4	6.1	3.3

	<u>State Fiscal Years</u>	
	<u>1995</u>	<u>1994</u>
• Number of persons who received weekly payments	57,514	61,596
• Number of weekly payments	806,753	929,979
• Weekly maximum UI benefits range (minimum to maximum). Benefit payments are based on a claimant's prior earnings in insured work.	\$63.00 - \$255.00	\$62.00 - \$250.00
• Total paid in UI benefits	\$155.3M	\$174.8M
• Average time a claimant drew benefits (weeks)	14.0	15.1
• UI Contributions paid by Kansas employers	\$110.0M	\$178.2M
• The average interest rate on funds held in the U.S. Treasury was 6.76% in calendar year 1994.		
• Insured Unemployment Rate during 1995 was the lowest since 1973.		

Graph 1
U.S. and Kansas Unemployment Rates
CY 1980 - 1995



2

6-6

Table 1
Kansas Labor Market Summary
1985 - 1995 Actual; 1996- 1997 Projected
July - June State Fiscal Years

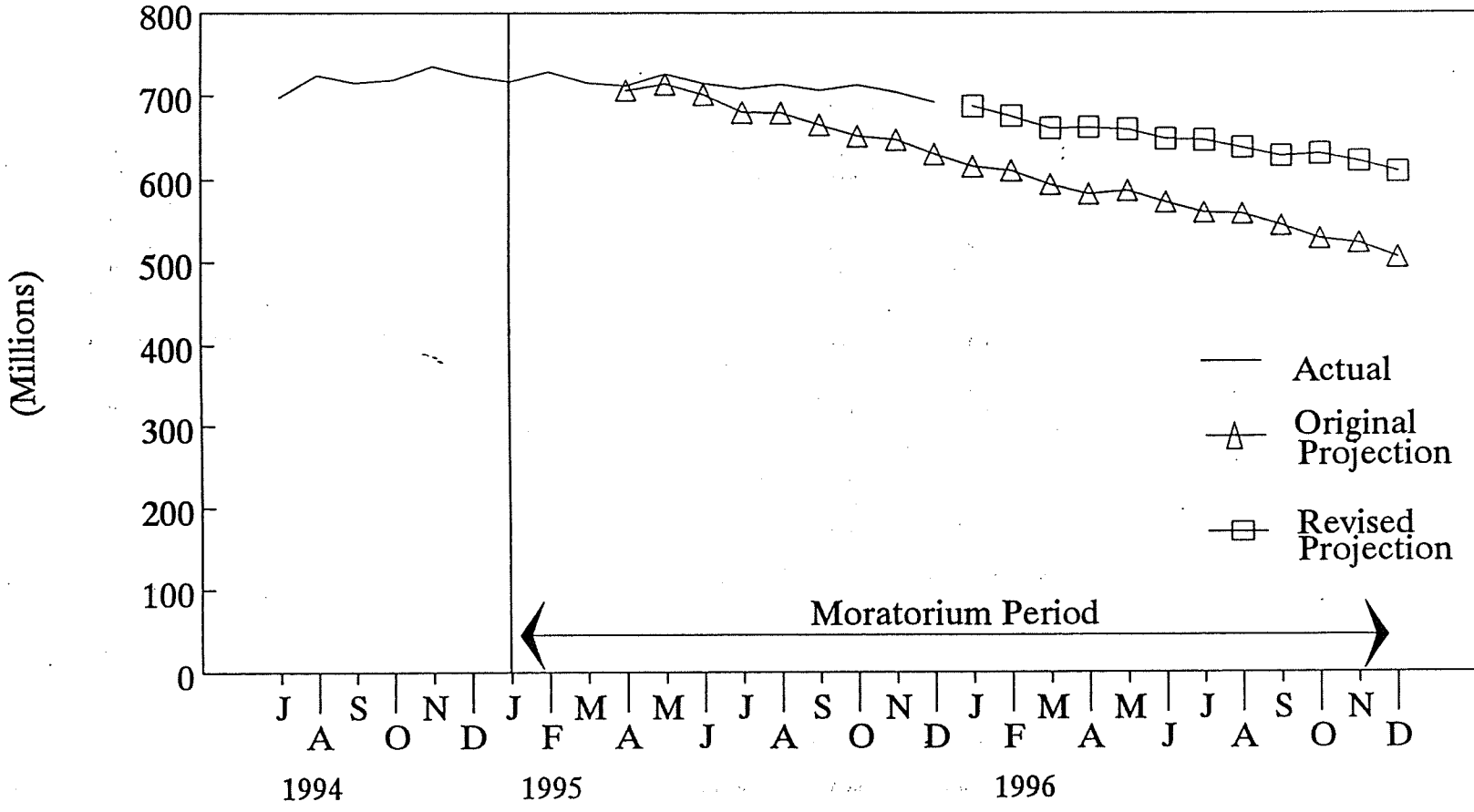
Period	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97
Civilian Labor Force--Place of Residence Data													
Civilian Labor Force	1,220,141	1,237,470	1,248,863	1,279,093	1,282,995	1,282,183	1,271,755	1,288,348	1,324,801	1,326,405	1,343,804	1,350,600	1,366,500
Employment	1,157,931	1,173,250	1,182,789	1,216,657	1,227,651	1,229,059	1,213,366	1,237,047	1,262,870	1,257,459	1,277,862	1,292,600	1,307,500
Unemployment	62,210	64,220	66,074	62,436	55,344	53,124	58,389	51,301	61,931	68,946	65,942	58,000	59,000
Unemployment Rate	5.1	5.2	5.3	4.9	4.3	4.1	4.6	4.0	4.7	5.2	4.9	4.3	4.3
Nonfarm Wage and Salary Employment--Place of Work Data (in thousands)													
All Industries	967.2	975.0	992.0	1,021.1	1,051.1	1,077.3	1,089.8	1,106.7	1,122.7	1,147.4	1,185.8	1,206.4	1,222.2
Goods Producing Industries	236.8	232.9	230.9	234.1	233.5	236.1	236.1	236.7	236.5	241.6	251.5	253.7	255.9
Mining	17.5	15.0	11.0	11.2	9.7	9.6	10.2	9.5	8.9	8.5	8.3	8.1	8.0
Construction	43.2	42.9	45.0	43.7	40.5	41.0	41.2	43.7	44.7	47.7	51.3	51.8	52.2
Manufacturing	176.1	175.0	174.9	179.2	183.3	185.5	184.7	183.5	182.9	185.4	191.9	193.8	195.7
Service Producing Industries	730.4	742.1	761.1	787.0	817.6	841.2	853.7	870.0	886.2	905.8	934.3	952.7	966.3
Transportation & Public Utilities	64.4	63.1	62.3	63.5	65.2	66.9	65.5	65.5	64.5	67.1	69.6	70.4	71.3
Wholesale and Retail Trade	242.8	245.0	249.6	255.7	263.7	267.5	268.4	270.5	272.2	277.9	286.8	291.6	290.3
Finance, Insurance & Real Estate	52.1	53.6	55.7	57.5	57.9	58.1	58.4	57.8	57.8	58.7	58.6	59.1	59.7
Services	183.8	189.6	197.5	208.2	223.1	237.5	245.0	254.3	263.3	271.1	283.1	291.6	300.9
Government	187.3	190.8	196.0	202.1	207.7	211.2	216.4	221.9	228.5	231.0	236.2	240.0	244.1
Other Categories													
Farm Employment	64.0	64.0	60.3	57.5	57.0	57.5	55.6	52.3	53.7	52.2	57.2	56.6	56.0

10/06/95 Kansas Department of Human Resources, Labor Market Information Services, phone (913)296-5058. Developed in cooperation with the U.S. Bureau of Labor Statistics.

Note: Labor force estimates beginning in January 1990 are not comparable with earlier data; FY91 and later figures (especially labor force and employment) are therefore not comparable with earlier fiscal year figures. Additionally, labor force estimates beginning in January 1994 are not comparable with earlier data; FY94 figures (especially unemployment) are therefore not comparable with earlier fiscal year figures.

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Graph 2
Reserve Fund Balance
Actual July 1994 - Projected Dec. 1996



4

8-8

MAJOR FEATURES OF HB2305 MORATORIUM ON UNEMPLOYMENT INSURANCE TAXES

Most Employers Receive Zero Tax Rates

- A total of 45,000 employers received a zero tax rate for calendar years 1995 and 1996. Had the moratorium not been in place, the range of rates would have been 0.05% - 3.68%.

New Employers Rates Reduced

- New employers (11,000) received a reduced tax rate of 1.0 per cent. Without the moratorium, rates would have ranged between 3.44% - 5.06%.

CY1997 Tax Rates To Be "Phased-In"

- Calendar year 1997 tax rates will be "phased in" and reduced to prevent a windfall following the two year period of zero rates. Effective CY 1995, the Fund Control Schedule in K.S.A. 44-710a was adjusted downward to reduce the level of taxes on total wages.
- The phase-in process reduces total income to the fund. An estimated net reduction of \$109.6M for CY 1997 would be realized as a result of the phase-in.

	<u>Income</u>
No phase-in	\$207.9M
With phase-in	\$98.3M

Measures Enacted To Maintain Fund Solvency

- A moratorium on tax rates for 1996 will be allowed only if levels of the trust fund are safe.

...However, for rate year 1996 *and* 1997, and 0% contribution rate for such eligible employers shall not be effective if the reserve fund ratio in column A of schedule III as determined by this section is less than 2%.

...for rate year 1996 *and* 1997, the 1% contribution rate for all employers who are not eligible for a rate computation shall not be effective if the reserve fund ratio in column A of schedule III as determined by this section is less than 2%.

UNEMPLOYMENT INSURANCE TAX MORATORIUM SURVEY

SUMMARY OF RESULTS

Total mailing	171
Total response	51

Was the tax saving utilized by:

1. Adding additional employees?		
Number of employers	14	
Number of employees added	160	
2. Purchase of additional equipment?		
Number of employers	30	
3. Acquisition of additional property or leased/rental space?		
Number of employers	8	
4. Firm expansion or relocation?		
Number of employers	11	
5. Other uses? If yes, please explain.		
Number of employers	18	
Other uses reported include:		
Increased employee pay or benefits.		
Number of employers	7	
Offsetting other operating or increased costs.		
Number of employers	6	
Product development.		
Number of employers	1	
Miscellaneous.		
Number of employers	4	

**HOW WERE THE MORATORIUM SAVINGS USED?
COMMENTS FROM SELECTED EMPLOYERS**

KSQ Blowmolding of Winfield, Kansas
Estimated savings - \$60,000 - Profit sharing

"Although we appreciated the moratorium, I would have preferred reducing rates to make it last longer. As it is, we will have a significant increase in 1997 overhead structure." Gregory N. Thompson

WSM Contractors, Inc. of Kansas City, Kansas
Estimated savings - \$6,000 - Raises to employees

"This moratorium allowed us to pay other debts. We are a small business only four years old. Any money that we do not have to pay out is a big plus." Sharon Masingale

Prestige Laundry, Inc. of Garden City, Kansas
Estimated savings - \$720

"We are in the process of adding a new location. This savings is not the whole answer for us, but it helps. Having government not take money is wonderful and beneficial to all." Keith R. Collins

C & C Climate Control, Inc. of McPherson, Kansas
Estimated savings - \$2,000

"We very much appreciate efforts to reward those companies that make honest efforts to provide permanent employment opportunities." Don Sloup

Horizons Inc. of Junction City, Kansas
Estimated savings - \$6,500

"Anytime a tax or expense is removed or reduced it helps a small business. It gives much more incentive to grow and invest money." Harold Johnson

Gary Gilbert Inc., dba Midas, of Topeka, Kansas
Estimated savings - \$30,000 - Employer matching contributions in 401K plans

"The moratorium was a breath of fresh air in the midst of the escalating costs of doing business. Thank you." Gary Gilbert

WIFCO Steel Products, Inc. of Hutchinson, Kansas
Estimated savings - \$2,000 - Hire new employees

"Any legislation which reduces the cost of hiring an employee is a positive step. I suggest property tax credits tied to the number of employees." Rob L. Howell

Raven Enterprises, Inc., Taco Tico, of Wichita, Kansas
Estimated savings - \$48,000 - Open new facility and new employees

"I really appreciate it, we are a small company..." Kevin F. Raven

Johnson County Board of Realtors of Overland Park, Kansas
Estimated savings - not provided - offset other increased costs

"Responsible legislation. Rewards those that have a good record." Joanne Arnold

Midwest Telephone Service, Inc. of McPherson, Kansas
Estimated savings - \$1,500 - additional equipment

"It was refreshing to see HB 2305 passed by the legislature, as it is a benefit to small businesses, such as ours. Other bills such as these would help allow small businesses to prosper in somewhat difficult economic times." Jerry Andrews

Dugan Equipment & Supply Co., Inc. of Kansas City, Kansas
Estimated savings - \$6,000 - additional employees and additional property/rental space

"Any reduction in taxes for a small business helps operating capital." Robert H. Dugan

Other comments from employers not wishing to be identified.

"It makes businessmen feel here is somebody out there who cares!"

"I'm pleased that our Kansas government is careful enough to save funds like this and return them."

"It is nice to save wherever possible!"

"The savings have been spread across many areas. I appreciate this legislation, as over funding does not make sense."

"Help keep the doors open, one less expense each month."