

Approved: 2/14/97  
Date

MINUTES OF THE HOUSE COMMITTEE ON BUSINESS, COMMERCE & LABOR.

The meeting was called to order by Chairman Al Lane at 9:05 a.m. on January 22, 1997 in Room 526-S of the Capitol.

All members were present except: Rep. David Adkins - excused  
Rep. Sue Storm - excused

Committee staff present: Jerry Donaldson, Legislative Research Department  
Bob Nugent, Revisor of Statutes  
Bev Adams, Committee Secretary

Conferees appearing before the committee: Reggie Davis, KDHR  
Bill Layes, KDHR

Others attending: No guest list was passed.

Chairman Lane introduced Reggie Davis, Director of the Division of Employment Security for the Department of Human Resources (KDHR). Mr. Davis had been asked to return to talk about the unemployment tax moratorium. He introduced Bill Layes, Chief of Labor Market Information Services for the Department of Human Resources. Mr. Layes has been in on the moratorium from the beginning and is the residential expert on the subject.

Before Mr. Layes began his testimony, Chairman Lane introduced Dr. Alex Scott, a former representative, who was in the audience.

Mr. Layes gave a short overview of the status of the Kansas Employment Security Trust Fund. The current balance of the trust fund is \$633.0M. This money is used to pay benefits to eligible unemployed claimants. The committee was interested in whether the moratorium that features a zero tax for positive pay employers, among other features, could be continued for a fourth year without posing a significant risk to the financial integrity of the fund. The department believes that this is possible, assuming that the current economic situation continues with unemployment rates at 20 year lows. (see Attachment 1) Mr. Layes concluded by answering questions from the committee.

At the end of the briefing, Reggie Davis introduced Paul Bicknell, Chief of Contributions, Division of Employment Security for the Department of Human Resources. Mr. Layes and Mr. Bicknell have worked very diligently on the moratorium and Mr. Davis feels it is a big benefit for Kansas employers.

Chairman Lane asked if there was any one present who would like to introduce bills before the committee. No one came forward and the meeting was adjourned at 9:20 a.m.

The next meeting is scheduled for January 23, 1997.

HOUSE BUSINESS, COMMERCE, AND LABOR COMMITTEE  
EMPLOYMENT SECURITY TRUST FUND AND SENATE BILL 20  
January 22, 1997

Good morning Mr. Chairman and members of the committee, my name is William H. Layes. I am the Chief of Labor Market Information Services, Kansas Department of Human Resources. I appear before you this morning to speak regarding the status of the current unemployment insurance trust fund.

The Kansas Employment Security Trust Fund is used to pay benefits to eligible unemployed claimants and is safeguarded by federal and state statutes. States, however, have wide discretion in the method of employer taxation and in the payment of benefits to eligible claimants.

**Is the Kansas Trust Fund Solvent?**

The current trust fund stands at \$633.0M. By all measures used to determine adequacy, the Kansas Trust Fund remains one of the most solvent funds in the nation. The fund remains sound even following two consecutive years (1995 and 1996) of zero tax rates for 45,000 Kansas employers.

**Recent Kansas Economy**

Employment levels in Kansas have remained consistently high in recent times. In fact, the current average annual unemployment rate for 1996 of 4.0 per cent is the lowest average unemployment rate since 1989. Wide spread employment gains have been experienced since the recessionary period 1982-1983. Kansas has recorded annual gains in wage and salary employment of nearly 2.5 per cent since 1984. Dramatic employment increases have been evidenced in the Wichita area, particularly in the aircraft industry. These major Kansas employers have added nearly 6,000 jobs in the

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Attachment 1*

last year alone. The unemployment rate in Wichita currently stands at 3.6 per cent for November 1996 and a widespread shortage of aircraft workers exists.

Kansas wage and salary employment from November 1995 to November 1996 has increased by 40,000 workers. Goods-producing industries, i.e., construction and manufacturing, have gained by nearly 15,000 workers from November 1995 to November 1996. Employment in service-producing industries, i.e., trade, finance, and services, has risen nearly 24,000 jobs for the same period. The state economy is robust and we see no compelling evidence which would alter this condition. The annual average per cent change in wage and salary employment is shown for the last 25 years by Graph 1. National changes in wage and salary employment has averaged 2.0 per cent during the same period. Kansas averaged 2.3 per cent.

**History of Employer Contributions and Benefit Payout to the Unemployment Insurance Trust Fund.**

The Kansas plan for long term financing of the unemployment insurance program attempts to balance income with expenditures from the fund. Graph 2 illustrates benefit payments and contributions for the 1970-1995 period. Historically, benefits paid from the trust fund and contributions received have averaged .8 per cent of total wages paid in the state. Current law contains provisions which lowered the income to .4 per cent of total wages.

**Can the Moratorium be Safely Extended?**

Legislation introduced this session in the form of SB 20 would continue the same

employer moratorium through CY1998. Major features of Senate Bill 20 include continuation of:

1. **Zero** tax for employers eligible for an experience rating (45,000 employers),
2. New employers received a **tax reduction** (11,000 employers),
3. Negative balance employers received a reduction in tax rates,
4. Measures are maintained to protect **fund solvency**.

Graph 3 illustrates the history of the fund since the inception of the moratorium during rate year 1995-1996. At the beginning of the moratorium the trust fund stood at \$723.8M. Most recent trust fund balance for December 1996 is \$640.9M. If the current economic situation continues, (insured unemployment rate of 1.3 per cent and total unemployment rate of 4.0 per cent), we expect the trust fund balance at the end of 1997 to be \$564.7M and \$478.2M by the close of 1998. Should this economic scenario occur the fund will have been reduced by \$246M over the four-year period.

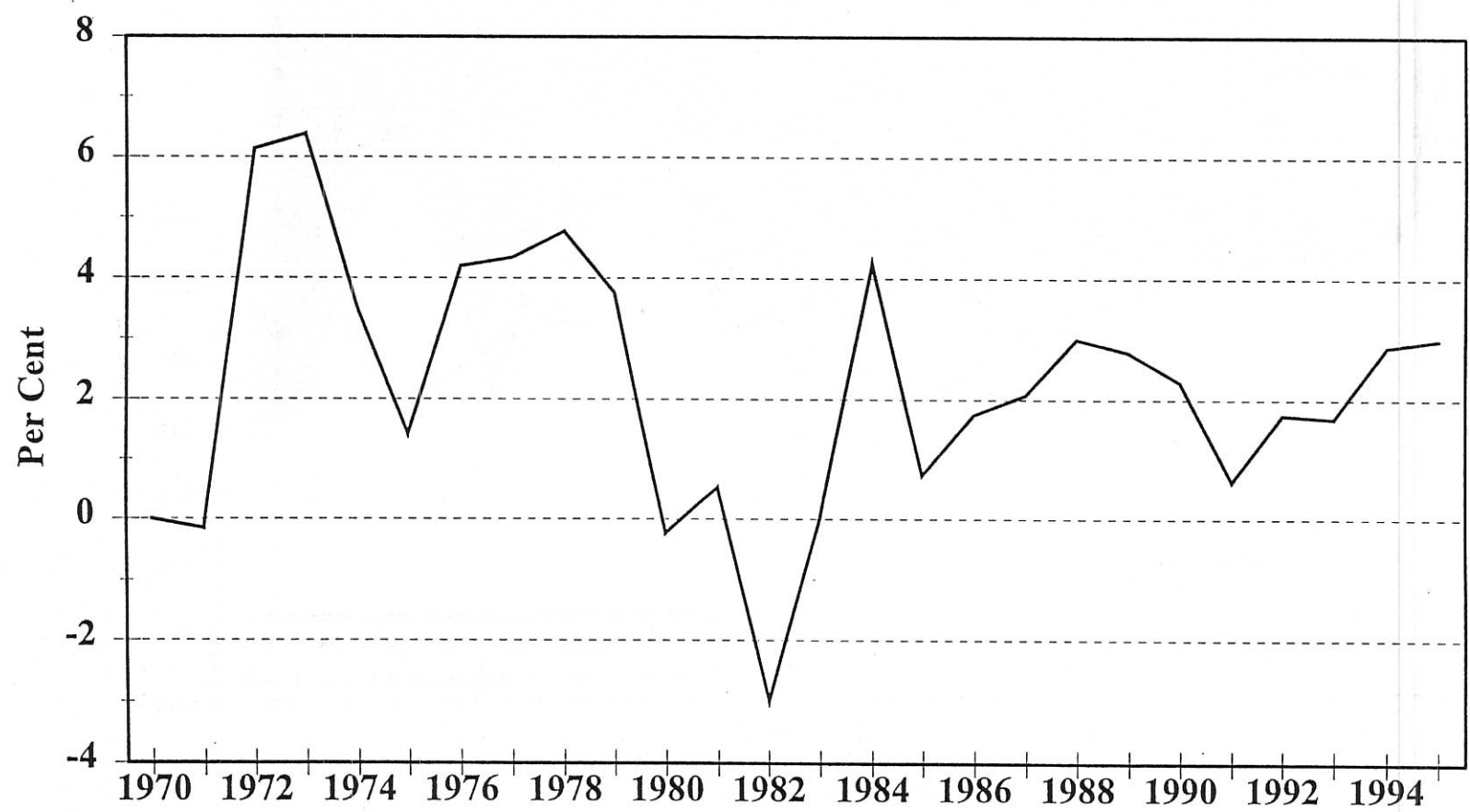
In closing, it is our belief that current reserves can withstand a fourth year of moratorium without posing a significant risk to the financial integrity of the fund. This assumes, however, that the current economic situation continues with unemployment rates at 20 year lows.

This concludes my testimony, Mr. Chairperson. If you or your committee have questions, I would be happy to respond.

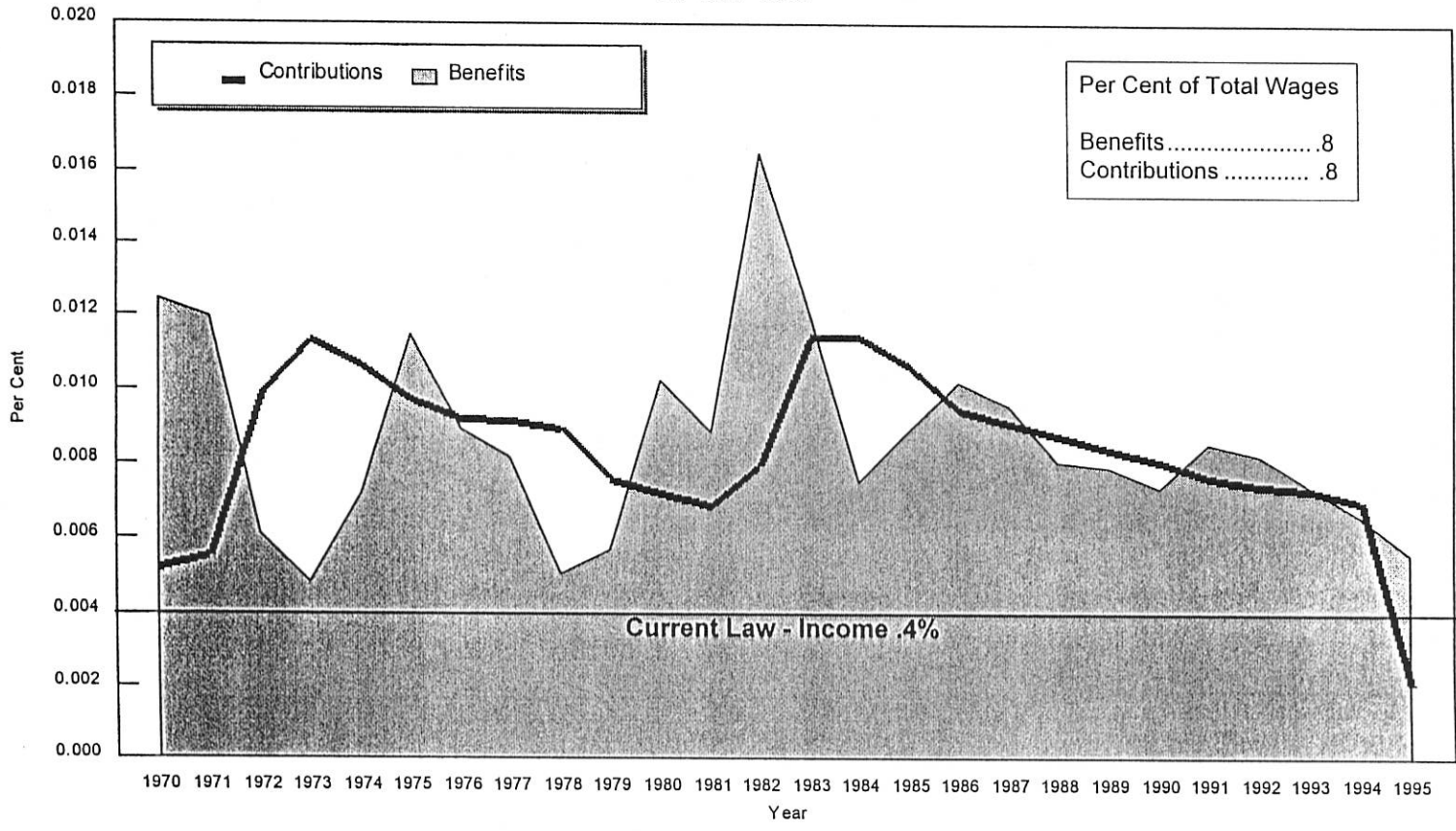
## UNEMPLOYMENT INSURANCE TRUST FUND

- The trust fund balance at the beginning of CY 1995 was \$723,833,371.
- A moratorium on unemployment taxes for 1995 and 1996 was enacted by the 1995 Legislature; the moratorium was extended to 1997 by the 1996 Legislature.
- The moratorium reduced the rate for the majority of Kansas employers; approximately 45,000, to 0.00 per cent. The rate for new employers; approximately 11,000, was set at 1.00 per cent.
- The moratorium extension reduced rates for negative balance employers; approximately 3,400, to a range of 1.1 to 6.0 per cent.
- The moratorium saved employers an estimated \$93.7M in CY 1995 and \$28.2M in CY 1996.
- The decreased savings in CY 1996 was due to action by the 1995 Legislature which reduced annual income to the fund from employer contributions.
- The trust fund balance at the beginning of CY 1997 was \$640,871,459.
- The fund balance has been higher than projected because unemployment rates have been lower than anticipated.
- It was originally estimated that the fund balance would be about \$500.0M at the end of a three-year moratorium. The revised estimate is \$564.7M, based on a 1.3 per cent insured unemployment rate.
- The fund balance was \$636.0M as of January 11, 1997.

**Graph 1**  
**Annual Average Per Cent Change**  
**Wage & Salary Employment**  
**CY 1970 - 1995**



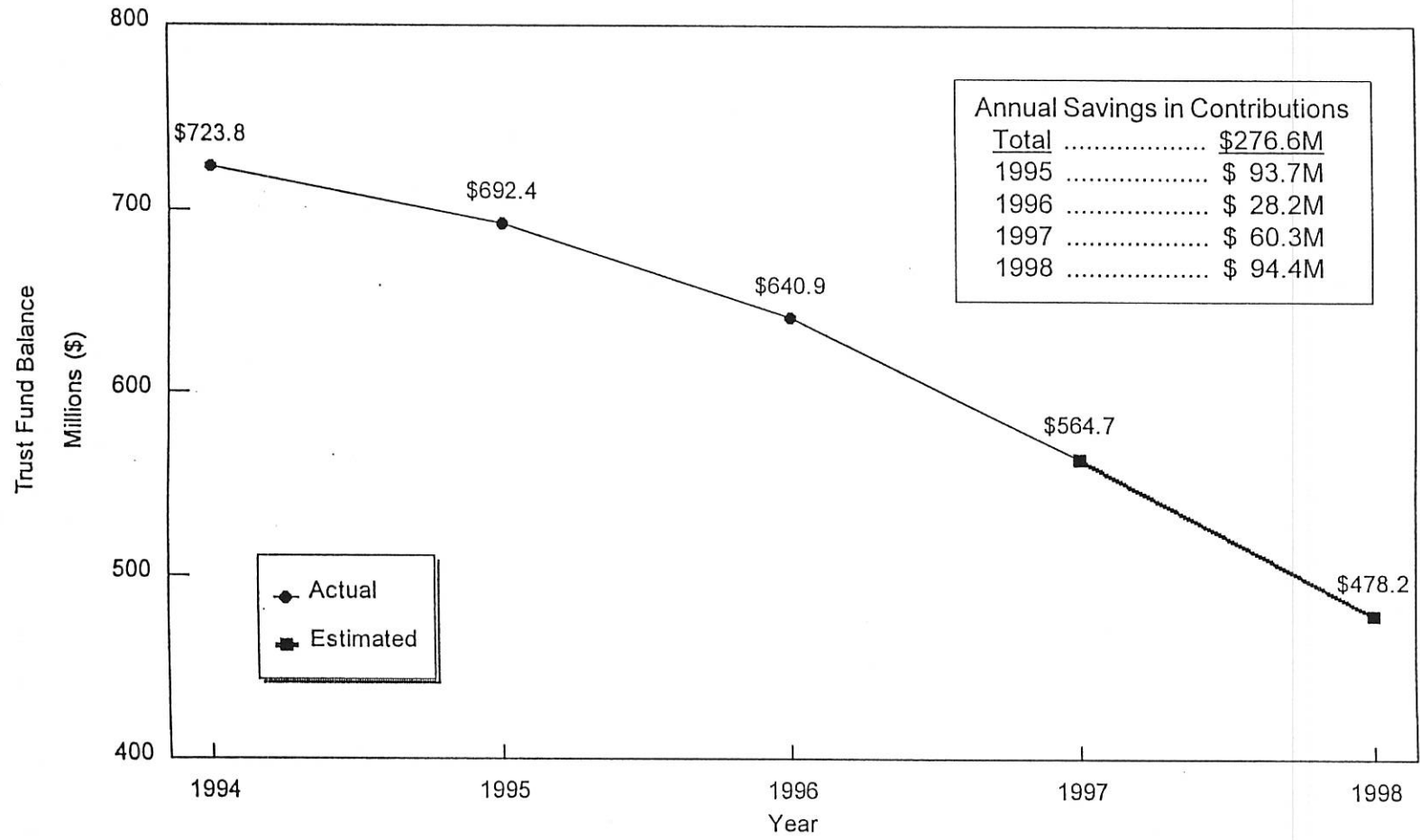
Graph 2  
Contributions and Benefits  
as a Per Cent of Total Wages  
CY 1970 - 1995



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Graph 3  
Recent History of the Trust Fund Balance  
End of CY 1994 - 1996 and Estimated 1997 - 1998  
With Moratorium in 1998



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