

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS.

The meeting was called to order by Chairperson Phil Kline at 1:30 p.m. on February 16, 1998 in Room 514-S of the Capitol.

All members were present except:

Committee staff present: Alan Conroy, Stuart Little, Shannon Nichols, Rae Anne Davis, Paul West, Julian Efird, Legislative Research Dept;
Jim Wilson, Mike Corrigan, Revisor of Statutes Office;
Helen Abramson, Administrative Aide; Linda Swain, Appropriations Secretary

Conferees appearing before the committee:

Senator Greta H. Goodwin
Charles E. Simmons, Secretary, Kansas Department of Corrections (KDOC)
Mike Hutfles, Director of Public Affairs, Department of Social & Rehabilitation Services (SRS)
Representative Tom Sloan
Meredith Williams, Kansas Public Employees Retirement System (KPERS)
Jerome L. Hanson, Vice President, Kansas University Classified Senate, KU
Craig Grant, Kansas National Education Association (KNEA)
John LaFaver, Secretary, Department of Revenue

Others attending: See attached list

Hearing on SB 399 - Persons in custody of secretary of corrections providing services to KS soldier's home and KS veteran's home not subject to background checks.

Senator Greta Goodwin testified in favor of **SB 399 (Attachment 1)**. Legislation passed in 1997 restricted persons with certain felony convictions from working at adult care homes. Senator Goodwin described how the inmates of the Winfield Correctional Facility have been working at the Winfield State Hospital & Training Center (WSHTC) since 1987. She noted there has never been a major safety incident involving the inmates from the WSHTC. In addition an estimated \$1M has been saved in expenses by using the program.

Charles E. Simmons, Secretary, Department of Corrections, supports the **SB 399 (Attachment 2)**. He noted the benefits of the inmates working and the precautions taken to prevent problems. A discussion followed concerning safety.

Mike Hutfles, Director of Public Affairs at SRS, spoke in support of **SB 399** stating the SRS would like to continue their partnership with KDOC and believe the KS Veterans' Home will benefit from the same partnership. (**Attachment 3**).

Don Myer, Executive Director, KS Commission on Veterans Affairs, distributed his written testimony and was available for questions (**Attachment 4**). There were no questions.

The hearing on **SB 399** was closed.

Hearing on HB 2771 - Creating the Kansas public employees retirement advisory council; system transactions and communications.

Representative Tom Sloan spoke in favor of **HB 2771 (Attachment 5)**. The bill is a result of conversations with constituents and KPERS staff members about improving communications between KPERS trustees and members. It creates a KPERS advisory council elected from the active and retired members and enables KPERS trustees to directly communicate with members instead of through employers. Representative Sloan spoke briefly on the **HB 2771** balloon bill. Discussion followed.

Meredith Williams, KPERS, provided information concerning **HB 2771**. KPERS agrees with the part of the bill addressing the communication problem between KPERS and its members. Currently communication goes through the employers and the relationship with the 1400+ employers is not always good. If employers don't pass on KPERS information the members may not hear of important benefit information. He stressed there is a desperate need for a vehicle to better communicate with employers and members. The KPERS trustees will be meeting on February 20 to review the revised bill; they were not happy with **HB 2771** as originally drafted. He expressed concerns with the formation of the employee advisory council.

An extensive discussion followed including concerns on: past experience with the employee advisory councils; unrealistic requests from members with little input from the employers; possible duplication of work and additional costs to hire independent consultants for the council; the fiscal note required to set up the data base, mailings and maintenance; the very real need to communicate to the members; the current lack of accountability of "designated agents" to distribute materials to members; ideas concerning communicating with members.

Jerome L. Hanson, Vice President, KU Classified Senate, testified in support of HB 2771, on behalf of the classified employees at KU (Attachment 6). The KU Classified Senate believes there is a need for the people making decisions about KPERS to have more vested interest in KPERS. They feel the proposed council would be advisory in nature and should pose no threat to either the board or any other legislative body.

Craig Grant, KNEA, testified in favor of HB 2771, stressing the need for an advisory committee made up of employees and employers, which deals with benefits and enhancing benefits (Attachment 7).

After a few questions, the hearing on HB 2771 was closed.

Subcommittee Report

Representative Mollenkamp reported the House Subcommittee concurred with the Governor's recommendations for the Department of Revenue for FY 98 with two comments. The Subcommittee concurred with the Governor's Recommendations for FY 99 with four observations (Attachment 8).

An extensive discussion followed concerning: shrinkage rates; vacancy reports; and service problems caused by a shortage of employees.

John LaFaver, Secretary, Department of Revenue, addressed the chart "Project 2000 Investment and Benefit Analysis". He answered questions on the estimated cumulative net benefit of \$128M projected for FY ending 2003. Representative Helgerson requested a copy of the investment and revenue numbers used to put the chart together.

A motion was made by Representative Mollenkamp, seconded by Representative Packer to adopt the Subcommittee report for FY 98 & FY 99 for the Department of Revenue. The motion carried. Representative Helgerson voted no.

Chair Kline noted requests for introduction of bills. One request was from Dan Stanley, Secretary of Administration, amending the Open Records Act; another from Representative Mayans on nursing facilities; and another from the Board of Regents on moving expenses.

Representative Farmer had a request for a bill concerning transferring title to certain personal property accepted on behalf of the State of Kansas.

A motion was made by Representative Helgerson, seconded by Representative Minor to accept the four bills for introduction. The motion carried.

A motion was made by Representative Reinhardt, seconded by Representative Packer to approve the minutes for February 5, 1998 and February 9, 1998. The motion carried.

The meeting adjourned at 3:15 p.m.

The next meeting is scheduled for February 17, 1998.

APPROPRIATIONS COMMITTEE GUEST LIST

DATE: 2/16/98

NAME	REPRESENTING
Don A. Myer	KEVA
Don Ryan	S.E.A.K.
Keith Haxton	S.E.A.K.
Craig Grant	HNEA
Erik A. Santorus	Pete McGill & Assoc.
Charles Simmons	Dept. of Corrections

STATE OF KANSAS

GRETA H. GOODWIN
SENATOR, 32ND DISTRICT
COWLEY AND SUMNER COUNTIES

STATE CAPITOL BUILDING
ROOM 403-N
TOPEKA, KANSAS 66612-1504
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TOPEKA

SENATE CHAMBER
TESTIMONY

BEFORE THE HOUSE APPROPRIATIONS SUBCOMMITTEE
SENATE BILL NO. 399
February 16, 1998

COMMITTEE ASSIGNMENTS
RANKING MINORITY MEMBER: JUDICIARY
MEMBER: ASSESSMENT AND TAXATION
ENERGY AND NATURAL RESOURCES
TRANSPORTATION AND TOURISM
JOINT COMMITTEE ON HEALTH CARE
REFORM LEGISLATIVE OVERSIGHT
JOINT COMMITTEE ON STATE BUILDING
CONSTRUCTION
HEALTH CARE STABILIZATION FUND
OVERSIGHT
KANSAS SENTENCING COMMISSION

Chairman and Members of the House Appropriations Subcommittee:

I appreciate the opportunity to appear before you today to testify in support of SB 399.

During the 1997 legislative session, legislation was passed which placed restrictions upon any person who operates an adult care home should there be person(s) employed by the operator who has certain felony conviction(s), committed an act of physical, mental or emotional abuse or neglect or sexual abuse validated by SRS, among having other types of criminal history.

The Kansas Veterans' Home is currently in the development process of establishing a veterans' home on the campus of the soon to be closed Winfield State Hospital and Training Center (WSHTC). The above mentioned legislation has raised a red flag as to whether the beneficial use of inmate labor used by WSHTC can be continued by the Kansas Veterans' Home. To support the change proposed in SB 399, I offer the following historical information of the continued use of inmate labor given to the Winfield State Hospital by the Winfield Correctional Facility on the WSHTC grounds since 1987. I want to point out a major benefit to the state and the Veterans' Facility if this labor arrangement is allowed to continue, as well as address the concern of safety of the residents and employees.

Beginning in 1987 inmates were used consistently to augment the grounds maintenance work force at WSHTC. After the initial arrangement, additional assignments were added. In April, 1995 a formal Memorandum of Understanding was made between WSHTC and the Winfield Correctional Facility. The agreement included work on grounds, buildings, and equipment upkeep and general repair. I have attached to my testimony a list of the activities inmates have provided to WSHTC, together with the annual savings based on lowest skills qualification. The estimated annual savings calculations of \$716,763 are conservative estimates based on minimum qualification classifications. From a tax payer perspective, I personally find the savings to be advantageous in managing state government with cost saving measures and maximizing the use of inmate labor.

On a more recent undertaking, the Winfield Correctional Facility, along with the Aramark Food Service Company, moved their kitchen operations from the Winfield Correctional Facility to the WSHTC grounds and began providing meals to our remaining

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Attachment 1

hospital residents, staff and the inmates on Saturday, January 17, 1998. All inmates are now cooking and preparing the food under close supervision. Approximately 12 inmates worked along side the WSHTC food service staff until Friday, January 30, 1998, when the remainder of the WSHTC food service workers were laid off. Estimated cost savings on this undertaking are \$249,036.

In relation to the concerns of safety of adult care home residents which prompted the 1997 legislation, according to the administration of the WSHTC, there has never been any major incidents involving inmates from the Winfield Correctional Facility in all the years that inmates have been on their grounds. There have been no physical attacks, verbal attacks, rapes, or any other kind of human transgression on any employee or resident by an inmate. The inmates are highly supervised and the supervisors are trained to diffuse any situation quickly and remove an inmate from the area should that have ever been necessary. The statement made by WSHTC administration is "that the working relationship between this facility and the Winfield Correctional Facility can only be described as excellent." I expect nothing less should inmate labor be allowed on the grounds of the future Kansas Veterans Home.

I appreciate the opportunity to speak in support of SB 399 and ask for your favorable consideration of this bill. I will be glad to stand for questions.

Grounds Maintenance (8 inmates) (\$136,520 annual savings based on lowest skills qualification)

Mowing grass with riding and push type lawn mowers
Operating weed eaters
Trash collecting and hauling to Cowley County Landfill
Painting curbing
Maintenance of WSH&TC Cemetery
Cleaning of Sewer Treatment Plant
Cleaning of steam tunnels
Cleaning out buildings

Paint Shop (4 inmates) (\$68,000 annual savings based on lowest skills qualification)

Painting the outside of buildings
Refinishing and staining furniture

Woodworking/Cabinet Shop (6 inmates) (\$102,390 annual savings based on lowest skills qualification)

Designing and building picture frames, cabinets, and bookcases

Automotive Shop (3 inmates) (\$51,000 annual savings based on lowest skills qualification)

Washing and cleaning of vehicles
Engine repair and preventive maintenance

Warehouse (4 inmates) (\$68,272 annual savings based on lowest skills qualification)

Unload delivery trucks
Dilute chemicals
Perform custodial work
Stock shelves
Assist with deliveries
Assist with inventory
Fill orders

Electrical Shop (4 inmates) (\$68,272 annual savings based on lowest skills qualification)

Assist with replacing light bulbs
Perform electrical repairs and maintenance
Air conditioning and refrigeration repairs
Street light replacement and repairs

Laundry Building (7 inmates) (\$119,455 annual savings based on lowest skills qualification)

Operate a variety of laundry equipment to wash clothing, linens, and towels
Sort clothing
Fold clothing
Pick up and delivery of soiled and clean items

Plumbing Shop (3 inmates) (\$51,195 annual savings based on lowest skills qualification)

Clean sewer lines
Repair sinks and toilets
Water and sewer line maintenance



DEPARTMENT OF CORRECTIONS
OFFICE OF THE SECRETARY
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Bill Graves
Governor

Charles E. Simmons
Secretary

MEMORANDUM

To: House Appropriations Committee
From: Charles E. Simmons, Secretary *CES*
Subject: SB 399
Date: February 16, 1998

The 1997 Legislature authorized a 127-bed increase in capacity at Winfield Correctional Facility (WCF) through re-occupancy of the A Dormitory building. The facility now has an operating capacity of 522 minimum security inmates. The Department of Corrections is ready, willing, and able to make inmates from WCF available to work at the Winfield Veterans Home when it becomes operational.

Inmates from WCF could work in areas such as facility and grounds maintenance, laundry service, and food service. Use of inmate labor will provide work opportunities for the inmates at the facility, and will also provide services to the Veterans Home at a lower cost than would result if staff positions were added to provide these services. Using inmates in providing food service will also result in a lower per meal cost than would be possible if meals were prepared using state employees or pursuant to a contract which did not include use of inmate workers. Moreover, a joint kitchen serving both the Veterans Home and WCF would avoid the need to construct a new kitchen at WCF. The existing kitchen at our facility is too small to handle preparation for the 522 inmates which will be housed there.

Inmates have a history of working on state hospital grounds, including those at Osawatomie, Larned, Winfield and Topeka. These work arrangements have been carried out with minimal problems and have resulted in significant fiscal savings for the State. The department is interested in negotiating an interagency agreement with the Veterans' Home for this purpose.

Inmates assigned to work details pursuant to such an agreement will not provide direct services to residents of the Veterans Home. They will not have any unsupervised direct contact with residents.

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Attachment 2

**State of Kansas
Department of Social
& Rehabilitation Services**

Rochelle Chronister, Secretary
Janet Schalansky, Deputy Secretary

For additional information, contact:

SRS Office of Research
Suzanne Woods, Director
915 SW Harrison Street, Sixth Floor
Topeka, Kansas 66612-1570
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For fiscal information, contact:

SRS Finance Office
Diane Duffy, CFO
915 SW Harrison Street, Tenth Floor
Topeka, Kansas 66612-1570
☎785.296.6216 / Fax 785.296.4676



**House Appropriations Committee
Monday, February 16, 1998**

Testimony: SB 399

**Office of the Secretary
Rochelle Chronister, Secretary
785.296.3274**

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Attachment 3*

Kansas Department of Social and Rehabilitation Services
Rochelle Chronister, Secretary

House Appropriations Committee
SB 399

February 16, 1998

Chairman Kline, members of the House Appropriations committee, thank you for the opportunity to appear before you today. My name is Mike Hutfles, Director of Public Affairs at SRS.

I am here to support SB 399. This legislation would allow inmates in the custody of Kansas Department of Corrections (KDOC) to work at the Kansas Veterans' Home at Winfield, Larned State Hospital and Osawatomie State Hospital. Currently, SRS uses supervised inmates for a variety of activities at Larned and Osawatomie such as grounds maintenance, painting, kitchen labor, etc. The use of inmate labor has saved the agency close to \$500,000 per year. SRS would like to continue our partnership with KDOC. I believe the Kansas Veterans' Home will benefit from the same partnership that we have enjoyed over the years.

Thank you for your support of SB 399. I stand for questions.

**Testimony by Don Myer, Executive Director
Kansas Commission on Veterans Affairs
on Senate Bill 399
before the
House Appropriations Committee
February 16th, 1998**

Mr. Chairman and members of the committee, my name is Don Myer, and I am the Executive Director of the Kansas Commission on Veterans Affairs. I am here today to testify on Senate Bill 399. This bill would allow my agency to utilize Kansas Department of Corrections resources, including inmate labor, to support logistic, maintenance, service, and other operational requirements at the Kansas Veterans Home and Wichita Annex, as well as at any other site such support was found to be appropriate and mutually beneficial. This was one of the original planning assumptions accepted by the legislature and the Governors' office in supporting the establishment of the Kansas Veterans Home during the last legislative session. As a result, the budget I submitted assumed that various services would be provided to the Kansas Veterans Home by the Winfield Correctional Facility, including such areas as laundry, security, and grounds maintenance. We were also exploring the possibility of sharing the dining facility in the Kansas Veterans Home. If this is not possible, I estimate that it will require an additional 18 FTE, above the number requested in my budget submittal, to provide these services, at a cost of over \$250,000 for FY 1999 (encl 1), and over \$300,000 annually beginning FY 2000, our first full year of operations. These costs are just for my agency. I understand that additional costs could also be incurred by other state agencies also affected.

Thank you for this opportunity to testify. I would be happy to answer any questions you might have at this time.

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KVH FTE Augmentation

4-2

Position	Number	Annual Salary	Annual Salary (ADJUSTED)	Fringe	Sub-total	Shrinkage (4.5%)	Total
Cooks	7	\$114,441.60	\$85,831.20	\$24,863.02	\$110,694.22	\$4,981.24	\$105,712.98
Food Service Worker	3	\$44,491.20	\$33,368.40	\$10,655.58	\$44,023.98	\$1,981.08	\$42,042.90
Utility Worker	6	\$84,960.72	\$63,720.54	\$21,311.16	\$85,031.70	\$3,826.43	\$81,205.27
Driver	2	\$28,288.00	\$21,216.00	\$7,103.72	\$28,319.72	\$1,274.39	\$27,045.33
Total	18	\$272,181.52	\$204,136.14	\$63,933.48	\$268,069.62	\$12,063.13	\$256,006.49

TOM SLOAN
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TOPEKA

HOUSE OF
 REPRESENTATIVES

COMMITTEE ASSIGNMENTS
 MEMBER: ENVIRONMENT
 UTILITIES

Testimony on HB 2771 - February 16, 1998 - House Appropriations Committee

Thank you Mr. Chairman, members of the Committee.

HB 2771 resulted from many conversations with constituents and KPERS staff members about improving communications between KPERS Trustees and members. The bill as drafted has two components:

1. It creates a KPERS advisory council elected from the active and retired memberships (page 1, beginning line 17) charged with reviewing KPERS policies and advising the Trustees (page 2, beginning line 10); and
2. Enabling the KPERS Trustees to directly communicate with active members, instead of through the members' employers (page 11, beginning line 24).

The objective for this bill was to provide the same information and communication opportunities for KPERS members as persons invested in other pension programs enjoy. HB 2771 has been a "work in progress" as KPERS staff and I attempted to identify a less complicated and less expensive way of accomplishing the goal. To that end, we continued discussing how KPERS members could most effectively assist the Trustees and staff.

Attached to my testimony is a copy of HB 2771 with suggested revisions. The Advisory Council is somewhat reconstituted from the original draft and will provide input on current and proposed practices and policies in the areas of life and disability coverage, retirement benefit structure and benefit administration, communications, etc. They will not be "lobbyists", but will suggest legislation to the Trustees.

The concept and language were suggested by KPERS staff as best accomplished their desire for member input and members' desires for additional information and decision-making input.

The language regarding KPERS developing a means of directly communicating with active members remains unchanged.

Mr. Chairman, members of the Committee, HB 2771 with the suggested amendment language will better enable KPERS Trustees and staff to meet the expectations of the members, and reassure members that the Trustees and staff are working effectively on their behalf. As both KPERS members and staff support this proposal, I encourage you to consider HB 2771 favorably. Thank you.

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Testimony Regarding KPERS Advisory Council
HB # 2771
February 16, 1998

Submitted by:
Jerome L. Hanson
VP KU Classified Senate
University of Kansas
2004 Learned Hall
Lawrence, Ks. 66045
(785) 864-2962

The Univ. of Kansas Classified Senate is an organization that represents classified employee concerns at the University of Kansas.. I am here to speak on behalf of these classified employees concerning House Bill No. 2771, a proposal for a Kansas Public Employees Retirement System advisory council.

The initiative for this proposal originated in a meeting that is held each fall when representatives from all the classified senates of the regents schools meet to decide which legislative issues need to be addressed. During the Fall meeting in 1996, at Kansas State University's facility in Salina, one of the issues decided upon was the need for classified employees to have more of a voice in matters affecting their retirement system. There is a general feeling among classified employees that people making decisions about KPERS need to have more of a vested interest in KPERS. The failures in the direct placement real estate investments of the early 1980s did a lot to shake the confidence of retirement system members and some of that confidence has still not been restored.

A position was adopted at that meeting that more contributing members and retirees were needed on the KPERS board. The representatives from KU didn't agree with that position. We thought the success of the KPERS investment program (with the previously noted exceptions) spoke well for its composition and that the composition should remain the same.

The area where we thought employees might be useful was in the advisory area. Every year there are modifications to KPERS that affect the plan and retirement benefits. These are usually delivered as a fait d'accompli after the legislative session is over. Some of these changes have been detrimental to the welfare of state employees. Since there is no regular conduit of information to classified employees regarding proposed legislation, it is extremely unlikely that a classified voice is ever part of the process. From a bill's conception (often in the KPERS board) to its being signed into law, there is normally no input from the people most affected by the changes in that legislation.

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Two examples of legislation that were either partially or totally unfavorable to employees;

HB 2211 of the 1993 session, called for the replacement of only seventy five percent of the employees retiring under KPERS. This bill was signed into law in 1994 and the changes mandated by HB 2211 have steadily eroded the state labor force, so that now many agencies are trying to accomplish more work, with fewer employees, with very little recognition, all due to this mandated downsizing, which by the way has **NO** Sunset clause.

SB 435 of the 1994 session disallowed the use of double or triple deduction buy-back for purposes of computing final average salary. This legislation, when signed into law, removed a benefit, with no grandfather clause, that had been part of the terms of employment for thousands of state workers hired before it was incorporated into the 1994 KPERS Omnibus Bill.

It is our impression that few retiree's, KPERS member's or classified employees, if any, were consulted during the deliberations over either of these bills.

The University of Kansas Classified Senate invited Representative Tom Sloan to a meeting where we voiced these concerns. His response was a proposal that has evolved into this bill, which we heartily support. The formation of an advisory council composed of employee members and retirees would go a long way toward creating confidence in the legislative process and dispelling some of the confusion and mistrust resulting from the direct placement real estate speculation of the early 1980s as well as some of the general paranoia rampant more recently due to hiring freezes, downsizing efforts, privatization, talk of privatization, and the new pay plan known as Performance 2000 which is being discussed.

The fact that this proposed council would be advisory in nature means that it should pose no threat to either the board or any other legislative body. It would give members and retirees, at a minimal cost to the taxpayers, what we feel is sorely needed, a voice in the process; a voice that would provide the people actually making the decisions and writing the legislation a perspective that is often difficult to find and that has, thus far, generally been lacking. The confidence that this council would restore in the system and the good will generated would be a good return on any expense incurred by its creation.

As a classified employee and member of KPERS, I wish to thank you for this opportunity to share our concerns.



KANSAS NATIONAL EDUCATION ASSOCIATION / 715 W. 10TH STREET / TOPEKA, KANSAS 66612-1686

Craig Grant Testimony Before
House Appropriations Committee
Monday, February 16, 1998

Thank you, Mr. Chairman. I am Craig Grant and I represent Kansas NEA. I appreciate this opportunity to speak with the committee in support of HB 2771.

The KPERS board has advisory committees as part of its structure presently. There are advisory committees on the many different types of investment practices. There is no such advisory committee on benefits and enhancing benefits. It would make sense that such a council should be representative of employees and employers. It would also make sense to have them make recommendations on investment strategies and contribution rates also.

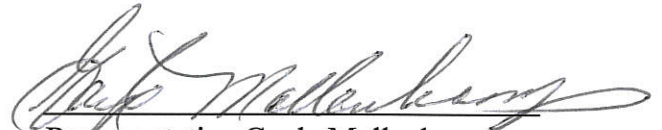
We realize that the KPERS board does not change benefit and contribution rates, (actually the group may need to be advisory to the Legislative Joint Committee on Pensions & Investments); however, the KPERS board could take a leadership role in recommending benefit enhancements to legislative committees. Maybe this committee would push the board to emphasize those enhancements in the future. We would hope so.

Because of these reasons, we would support HB 2771. Thank you for listening to our concerns.

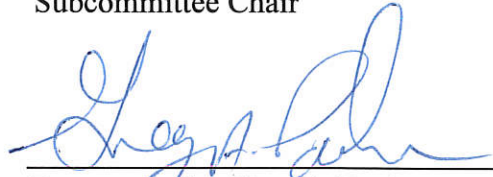
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**HOUSE APPROPRIATIONS
SUBCOMMITTEE REPORT
ON
DEPARTMENT OF REVENUE**

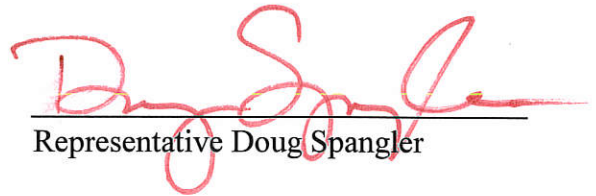
FY 1998 and FY 1999



Representative Gayle Mollenkamp,
Subcommittee Chair



Representative Greg A. Packer



Representative Doug Spangler

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Attachment 8

SUBCOMMITTEE REPORT

Agency: Department of Revenue

Bill No. 2895

Bill Sec. 12

Analyst: West

Analysis Pg. No. 1144

Budget Page No. 385

<u>Expenditure Summary</u>	<u>Agency Est. FY 98</u>	<u>Gov. Rec. FY 98</u>	<u>House Subcommittee Adjustments</u>
All Funds:			
State Operations	\$70,024,020	\$ 68,081,903	\$ 0
Aid to Local Units	6,630,000	6,630,000	0
Other Assistance	<u>2,500,000</u>	<u>2,500,000</u>	<u>0</u>
TOTAL	<u><u>\$79,154,020</u></u>	<u><u>\$ 77,211,903</u></u>	<u><u>\$ 0</u></u>
State General Fund:			
State Operations	\$27,871,964	\$ 27,832,676	\$ 0
Aid to Local Units	0	0	0
Other Assistance	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	<u><u>\$27,871,964</u></u>	<u><u>\$ 27,832,676</u></u>	<u><u>\$ 0</u></u>
FTE Positions	1,182.5	1,182.5	0.0
Unclassified Temp. Positions	<u>1.0</u>	<u>1.0</u>	<u>0.0</u>
TOTAL	<u><u>1,183.5</u></u>	<u><u>1,183.5</u></u>	<u><u>0.0</u></u>

Agency Est./Governor's Recommendation

The agency estimates current year expenditures of \$79.2 million from all funding sources, an increase of \$5.2 million from the approved budget. The majority of the increase (\$4.4 million) is from the Automated Tax Systems Fund and is primarily associated with Project 2000 start up costs for the service level agreement with DISC. The agency also anticipates a \$775,000 increase in local aid payments. State General Fund financing of \$27.9 million is a reduction of \$119,750 from the approved budget.

The Governor recommends FY 1998 funding of \$77.2 million, a reduction of \$1.9 million from the agency's estimate. The Governor recommends a \$2.2 million reduction from the agency's estimate of expenditures from the Automated Tax Systems Fund for Project 2000. In addition, the Governor recommends the addition of \$75,000 from the Division of Vehicles (DOV) Operating Fund for Year 2000 computer modifications through DISC and \$381,822 from the DOV Operating Fund for replacement license plate equipment and manufacturing costs. Recommended State General Fund expenditures of \$27.8 million represent a decrease of \$39,288 from the agency's estimate.

House Subcommittee Recommendation

The House Subcommittee concurs with the Governor's recommendation, with the following comments.

1. In reviewing the list of reported vacancies with the agency, the Subcommittee learned that many of the positions listed were either duplicative, had been filled, or had been lost in the retirement reduction process. A review by the agency indicated that of the two and a half pages of reported vacancies, only 27 positions are actually vacant at this time.
2. The Subcommittee was informed that as a technical adjustment the 1998 supplemental bill will include provisos authorizing the agency to pay for official hospitality and to collect fees for courses.

SUBCOMMITTEE REPORT

Agency: Department of Revenue

Bill No. 2893

Bill Sec. 46

Analyst: West

Analysis Pg. No. 1144

Budget Page No. 385

<u>Expenditure Summary</u>	<u>Agency Req. FY 99</u>	<u>Gov. Rec. FY 99</u>	<u>House Subcommittee Adjustments</u>
All Funds:			
State Operations	\$70,154,432	\$ 68,549,847	\$ 0
Aid to Local Units	6,630,000	6,630,000	0
Other Assistance	<u>2,500,000</u>	<u>2,500,000</u>	<u>0</u>
TOTAL	<u>\$79,284,432</u>	<u>\$ 77,679,847</u>	<u>\$ 0</u>
State General Fund:			
State Operations	\$34,204,337	\$ 28,359,849	\$ 0
Aid to Local Units	0	0	0
Other Assistance	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	<u>\$34,204,337</u>	<u>28,359,849</u>	<u>\$ 0</u>
FTE Positions	1,182.5	1,179.5	0.0
Unclassified Temp. Positions	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
TOTAL	<u>1,182.5</u>	<u>1,179.5</u>	<u>0.0</u>

Agency Req./Governor's Recommendation

The agency requests FY 1999 funding of \$79.3 million, including \$1.9 million in requested enhancements. The request is a net increase of \$130,412 from the current year estimate of state operations expenditures. Requested State General Fund financing of \$34.2 million is an increase of \$6.3 million from the current year. Of this amount, \$4.9 million is associated with a proposed change in the financing of Project 2000 and \$1.1 million is attributable to the requested enhancements. Absent the requested enhancements the FY 1999 budget request would total \$77.4 million, a decrease of \$1.8 million (2.2 percent) from the current year.

The Governor recommends an FY 1999 budget of \$77.7 million, an increase of \$0.5 million (0.6 percent) from the current year. Recommended State General Fund financing totals \$28.4 million and includes \$176,000 for training assistance for county appraisers (\$126,000) and a study to establish the economic life of personal property (\$50,000). The Governor does not recommend funding for the other enhancements requested by the agency. The Governor also does not recommend State General Fund financing for Project 2000 and includes \$5.7 million from the Automated Tax Systems Fund to continue system development in FY 1999.

House Subcommittee Recommendation

The House Subcommittee concurs with the Governor's recommendations, with the following observations:

1. The Subcommittee has reviewed the agency's performance measures and notes that they may be found on pages 1,153, 1,156, 1,158, 1,159, and 1,161 of the budget analysis.
2. The Subcommittee wishes to congratulate the agency on the job it has been doing in improving customer service. The Fast Track Appeals system has produced dramatic reductions in both the number of appeals filed and the number of unsettled cases. The FY 1997 Sales Ratio Study was reported by Legislative Post Audit as a "national benchmark of excellence. All counties are now operating VIPS on a uniform AS/400 system. Liquor enforcement citations were up 42 percent from FY 1992 to FY 1997 and for the first 7 months of FY 1998 are up 28 percent from last year. All this while the agency has been developing Project 2000, reducing staff and re-engineering their business.
3. The Subcommittee notes that the agency's staffing has been reduced by 12.7 percent since FY 1988, including a reduction of 6.2 percent in the last 4 years. The Subcommittee is concerned about the impact on the agency's performance should continued staffing reductions occur or if shrinkage savings continue to be recommended at an artificially high level. The Subcommittee was informed that the budgeted FY 1999 shrinkage rate of 5.5 percent will require leaving vacant positions open for at least two months with the possibility of hiring freezes if budgeted shrinkage does not occur. The Subcommittee is concerned that this practice is damaging to the agency's customer service and recommends that future budgets should include lower assumptions of shrinkage savings.
4. The Subcommittee reviewed the current status of Project 2000. System development and implementation continue as scheduled, with \$24.1 million in additional revenues collected attributable to the project. A new taxpayer assistance center is scheduled to open this summer on the first floor of the Docking State Office Building, while electronic filing is increasing at a dramatic rate. The Tax Discovery program has discovered 3,894 new taxpayers since 1995, generating \$3.0 million in new revenues, while the Integrated Collections System has doubled their number of contacts per hour. Project 2000 still faces several hurdles before it is fully implemented, with perhaps the most difficult being the recruitment and retention of information technology personnel. As noted on the attached chart, the agency anticipates that Project 2000 will reach the break-even point during FY 1999 and produce a net benefit of \$128 million through FY 2003.

Project 2000 Investment and Benefit Analysis

Cumulative Investment, Revenues, and Benefit

