

Approved: 1/15/98
Date

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

The meeting was called to order by Chairman Al Lane at approximately 9:05 a.m. on January 14, 1998 in Room 526-S of the Capitol.

All members were present except: Rep. David Adkins - excused
Rep. Broderick Henderson - excused

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

Conferees appearing before the committee: Susan Somers, Board of Accountancy
Wayne Franklin, Secretary, KDHR
Reggie Davis, KDHR
Bill Layes, KDHR
A. J. Kotich, KDHR

Others attending: See attached list

Chairman Lane introduced our new committee member, Rep. Cindy Empson.

Susan Somers, Board of Accountancy, requested a bill be drafted to impose civil penalties on CPA's whose licenses have been revoked and they continue to practice. Also included in the bill would be civil penalties for others who hold themselves out as CPAs.

A motion was made by Rep. Beggs to introduce the bill as a committee bill. A second was made by Rep. McCreary. The motion passed.

Secretary Wayne Franklin of the Kansas Department of Human Resources appeared before the committee to bring them up to date on some of the important initiatives going on in his department. He also introduced people in his department: Reggie Davis, Bill Layes, Paul Bicknell and A. J. Kotich. (See attachment 1)

Reggie Davis, Director of the Division of Employment Security, Kansas Department of Human Services, made a few remarks about the new claims centers, unemployment insurance, and the plan to continue the moratorium for another year. (See attachment 2)

William Layes, Chief of Labor Market Information Services, Kansas Department of Human Resources, made a few remarks to the committee regarding the current Kansas employment situation and the status of the unemployment insurance trust fund. (See attachment 3)

A. J. Kotich, Chief Counsel, Legal Services, Kansas Department of Human Resources, spoke to the committee about the Employment Security Advisory Council and a hearing concerning sexual harassment. The council has been studying several proposals and some will come before the committee. At the request of Chairman Lane, Mr. Kotich said he would send notices to the members of the committee about advisory council meetings.

Chairman Lane adjourned the meeting at 9:36 a.m.

The next meeting is scheduled for January 15, 1998.

HOUSE BUSINESS, COMMERCE & LABOR COMMITTEE
GUEST LIST

DATE: January 14, 1998

NAME	REPRESENTING
A J Kotich	DNR
PAUL BICKNELL	KDHR
Bill Laves	KDHR
Reggie Davis	KDHR
Wayne L. Franklin	KDHR
SUSAN SOMERS	Bd. of Accountancy
Glaine Frisbie	Division of the Budget
Terry Leatherman	KCCI
Steve Montgomery	MAWA
Tom Whitaker	Ks Motor Carriers Assn

STATE OF KANSAS
DEPARTMENT OF HUMAN RESOURCES



Bill Graves, Governor

Wayne L. Franklin, Secretary

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**Remarks to House Business, Commerce and Labor Committee
Rep. Al Lane, Chairman
Kansas Department of Human Resources
Wayne L. Franklin, Secretary**

Good morning Chairman Lane and committee members. Thank you for inviting me to your meeting this morning to allow me to tell you some of the important initiatives we have going on at the Kansas Department of Human Resources.

To begin, the Employment and Training Division, under the direction of Jill Crumpacker, conducted 17 One-Stop public planning sessions across Kansas to gather input from communities as to how they envision a one-stop being created to serve their citizens. Along the lines of One-Stop, E&T installed dozens of computers in public libraries across the state so Kansans can access essential state services and information via the Internet. As you know, Jill has been busy with the activities of the Kansas Workforce Investment Partnership and has many other activities on the horizon for this important group.

As most of you know, the Unemployment Insurance Division has been working on the Kansas Initial Claims (KIC) project for the past year and have made numerous accomplishments under the guidance of Reggie Davis, UI Director. The KIC call centers will streamline the process by which Kansans file for first-time unemployment claims, a significant savings for the customers and the state of Kansas. This project remains on target to go on-line late this spring.

One of the most customer-oriented achievements of the Workers Compensation Division was the establishment of a mediation unit, under the guidance of division director Phil Harness. This unit attempts to settle work comp claims before they reach the judicial process. Phil has worked diligently with your committee and others to fine-tune the workers compensation laws so they are workable to all parties in the process.

Under the direction of Staff Services director Roger Aeschliman, this division's Information Systems unit transitioned to the state's central processing system, better known as DISC last year. This was an extensive project that resulted in no delays or major mishaps for the agency.

*House Business, Commerce
& Labor Committee
1/14/98
Attachment 1*

Last fall, I was honored to become president of the Interstate Conference of Employment Security Agencies, or ICESA, as we refer to it, a national organization of my peers in state workforce development agencies. I am honored to be president of this organization that has such a great impact on employment and workforce legislation on the state and federal levels. During the coming year I will be concentrating on several issues including the implementation of America's Talent Bank to complement the existing America's Job Bank on the Internet, the use of unemployment taxes, One-Stop activities, School-to-Careers and Year 2000 compliance.

I was also honored last year by ICESA and the U.S. Department of Labor in receiving the William J. Harris Equal Opportunity award. This award represents the commitment KDHR employees have made to equal opportunity employment. Our efforts include everything from having a full-time Equal Opportunity officer, having several Equal Opportunity checks and balances, providing a conduit for Kansans to access the Kansas Human Rights Commission, and conducting diversity and sexual harassment training on an annual basis through our personnel and legal departments.

Thank you for allowing me to make these brief remarks about the activities of the Kansas Department of Human Resources. We are looking forward to a busy and productive 1998. If there is anything I or my staff can do for you, don't hesitate to call.

KANSAS UNEMPLOYMENT INSURANCE MORATORIUM
Comments by Reggie Davis

General

In each of the 50 states, Unemployment Insurance is available to unemployed workers who have lost their job through no fault of their own and who meet strict state law requirements of availability and eligibility. In all states the means to support the weekly payments made to claimants comes from an employer paid unemployment insurance tax or "contribution rate". Employers are ranked or "experience rated" using their history with the incidence of unemployment and the amount of benefits charged to their individual accounts. Those employers recording the best experience receive the lowest rates and those with the least favorable records are assigned the highest. Contributions are "pooled" together to form an "Unemployment Trust Fund". Today I want to discuss the history of the tax moratorium in Kansas. As you may know, our state has had a moratorium in place for CY1995-1997.

How is it that a state the size of Kansas can reduce employer tax rates to zero, create a moratorium on future unemployment insurance taxes and continue to pay benefits? It is our hope in this paper to discuss these facts. We also want to cover recent economic events and movements in the level of the trust fund and discuss the effect of the moratorium on Kansas businesses. Finally, we wish to discuss what we believe the future holds for the unemployment insurance moratorium in Kansas.

*House Business, Commerce
& Labor Committee*

1/14/98

Attachment 2

Economic Background

In Kansas, as in many other states, unemployment has remained very low and the fund has experienced steady growth since the recession of 1982-1983. By December 1994 the Kansas fund had reached \$734 million. This "dollar level" of reserves, while a record high for Kansas, may be only moderate when compared to the larger states. For these reasons we believe it is necessary to compare the level of reserves in relationship to pay out, that is, total wages. Or to say it another way, the dollar amount of the trust fund is considerably less meaningful than is the trust fund size in relation to total wages paid in each state. At the risk of becoming too technical, I believe it is necessary that we use longstanding actuarial measures such as the "reserve ratio" which allow valid state-by-state comparisons.

The table below illustrates the continued reduction in the Kansas unemployment rate. The average unemployment rate for 1996 stood at 4.5 per cent and the average rate through September 1997 is 4.0 per cent. In addition to very low rates of unemployment, unprecedented growth has been experienced in the number of working Kansans. Last year alone, nearly 6,100 jobs alone were added in the aircraft industry. Nonfarm wage and salary employment each year has increased at a rate of nearly 2.5 to 3.0 per cent; a rate above the national totals. Many of the wages offered in the aircraft industry average \$45,000-\$50,000 annually. This level of wage growth allows for significant contributions to the unemployment insurance trust fund.

Kansas Total Unemployment Rate
Annual Average CY 1990-1997

<u>Calendar Year</u>	<u>Rate</u>
1990	4.5
1991	4.5
1992	4.3
1993	5.0
1994	5.3
1995	4.4
1996	4.5
1997 (nine months)	4.0

Growth Of the Fund

Along with the strong growth, many began to raise the question of fund adequacy. How much is enough? A key question for any state regarding adequacy is the size of the trust fund related to total wages or the "reserve ratio". The ratio of the Kansas trust fund to total wage stood at 1.02 at the end of the 1982-1983 recession. By December 1994 this ratio had improved to 3.28 and the state ranked ninth nationally by most measures of adequacy. Even by the most conservative estimates, Kansas reserves were considered very adequate. Some considered these levels excessive and pushed for major tax reductions.

In earlier years efforts were made to reduce the trust fund balance. These usually took the form of modification or manipulation of the schedule which determines total tax collections. However, it had never been proposed that a complete moratorium be enacted.

Trust Fund Adequacy Measures
CY 1985-1996

<u>Calendar Year</u>	<u>Reserve Fund Balance (millions)</u>	<u>Reserve Fund Ratio</u>
1985	\$295.7	1.88
1986	322.7	1.95
1987	355.0	2.04
1988	404.4	2.19
1989	461.7	2.38
1990	526.9	2.54
1991	560.3	2.60
1992	595.2	2.59
1993	647.0	2.72
1994	723.8	2.88
1995	692.4	2.59
1996	640.9	2.24

During the 1995 session of the Kansas Legislature, action was taken to put in place a moratorium on taxes for all "positive balance" employers. As you know, positive balance employers are those who have paid more in taxes than has been paid in benefits or "charged" to their individual accounts. This legislation is effective for CY1995 and CY 1996. New employers in Kansas have historically received a computed industry rate based upon the nature of the new employer business. The rates usually range from 2.5 per cent to 5.8 per cent. Action was taken to reduce new employer rates to a maximum of 1.0 per cent.

The Kansas Department of Human Resources is privileged to have a 12-member Advisory Council composed of Labor, Management, and public members which consider Employment Security issues. This policy group usually meets three to four times over the course of a calendar year. Due to the makeup of the council, i.e. Labor, Management and

public, agreed upon policy matters will likely face little resistance in the Kansas Legislature. While the council did not endorse the total moratorium, it felt some measure of tax reduction would be desirable. Labor and public members were in agreement with the decision, provided assurances were given that the fund continue to provide benefits to claimants at the same levels and also preclude the need to borrow from the federal government to remain solvent.

Effect of the Moratorium on Business

Without question the moratorium has had a dramatic positive effect on Kansas business. It may even be argued that the tax reduction has created a major economic stimulus which has helped record some of the lowest unemployment rates in 25 years. It would be quite a "stretch" however, to assume that the moratorium is responsible for the favorable economic climate. In fact, most Kansas employers believe the moratorium is simply another advantage afforded Kansas business in addition to a rising tide of a favorable national economy. However, in an attempt to learn more about the effect of the moratorium on the business community, an unscientific poll or questionnaire was mailed to several thousand Kansas firms. Employers were asked to comment as to how the tax reductions were otherwise used. Employers responded that the savings were used to add new employees, assist with firm expansion, and for fringe benefits. Here are some employer responses when asked how the savings were utilized:

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 - \$7,000

"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

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

The moratorium has clearly allowed employer retention of significant amounts for other uses. It also provided the opportunity for employers to increase employee fringe benefits which otherwise would not have been possible. We believe that this additional employee benefit feature is especially important due to current labor shortages which Kansas as well as most other state experience. In fact, it may be a significant tool for employer recruitment efforts.

Future of the Moratorium

So what does the future hold for the Kansas moratorium? The legislation passed during the 1996 session allowed for continuation of the moratorium (with certain safeguards) through CY1998. These safety measures include a "trigger off" device which

would be effective if state reserves fall below two per cent of total wages. The Kansas Department of Human Resources has recently certified that the moratorium will be in effect for CY1998 since the state reserves remain well above that two per cent threshold. Recent discussions have also centered about continuation of the moratorium through CY1999. If this occurs, our state will have experienced a moratorium for an unprecedented five-year period. At some point, it is critical that a "return to reality" occur. Prior to the moratorium, interest received on the Kansas trust fund offset 25 to 40 per cent of total annual benefit pay out. Due to the trust fund reduction, these interest earnings will undoubtedly be reduced with the corresponding fund reductions. We believe some action will be necessary in either the 1998 or 1999 session of the Legislature to "phase-in" some return to taxes. Statisticians, elected officials, and administrators may differ on the wisdom of a state mandated unemployment insurance moratorium. Indeed, questions were raised by federal Department of Labor officials following enactment of this legislation. Even some employers questioned the wisdom of this legislation citing that this was legislated "tax deferment" instead of a true tax reduction. When a "catch-up" becomes necessary, undoubtedly some employer "sticker shock" will occur as taxes once again become necessary to replenish the fund. In the meantime, significant interest may be lost on reduced fund balance. However, the Kansas employer community has experienced a major temporary tax relief uncommon to the history of the Kansas unemployment insurance program.

Stay tuned for new developments.

HOUSE BUSINESS, COMMERCE, AND LABOR COMMITTEE
STATUS OF EMPLOYMENT SECURITY TRUST FUND
JANUARY 14, 1998

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 current Kansas employment situation and the status of the unemployment insurance trust fund.

The Kansas Economy

Unemployment Rate and Employment

The Kansas unemployment rate for November 1997 was 3.6 per cent. The average rate for 11 months of 1997 was 3.9 per cent, which compares to 4.5 per cent for the same period in 1996. This rate is the lowest annual unemployment level since CY1979. Rates of unemployment remain consistently low in the Wichita and Kansas City areas and elsewhere in the state. The November 1997 rate for the Wichita area was 3.1 per cent and Johnson County stands at 2.3 per cent.

Widespread labor shortages remain problematic for many Kansas employers. Kansas wage and salary employment, or the count of actual jobs reported by employers, increased by 25,000 workers from November 1996 to November 1997. Goods producing industries, i.e., construction and manufacturing have gained nearly 13,000 workers from November 1996 to November 1997. Employment in service-producing industries, i.e., trade, finance, and services, has risen more than 12,000 jobs for the same period. The aircraft industry alone has added 13,000 jobs since January 1995, the start of the moratorium. The state economy remains robust and we see no compelling evidence which would alter this condition.

The Employment Security Trust Fund

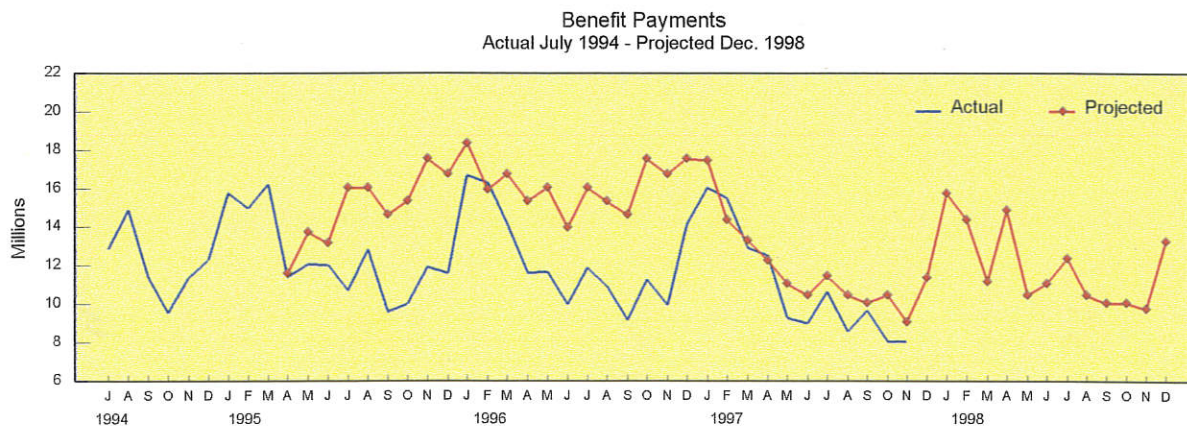
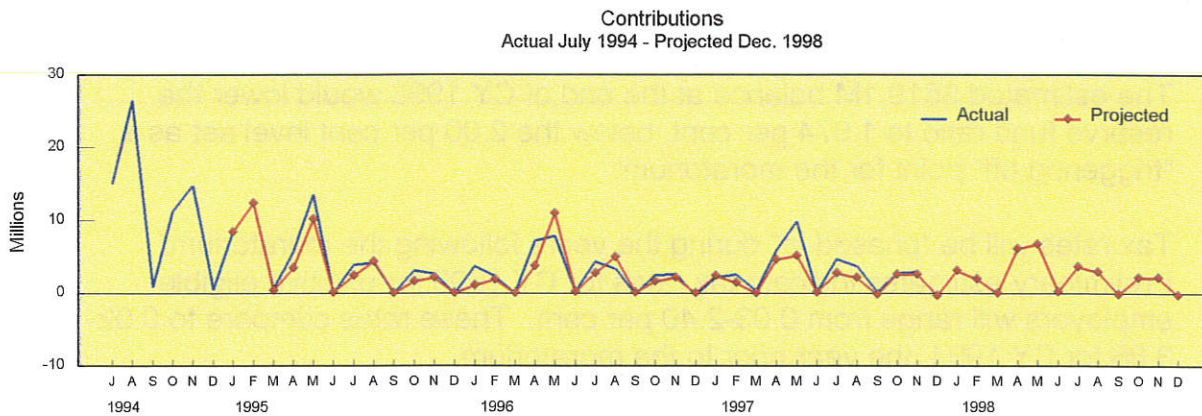
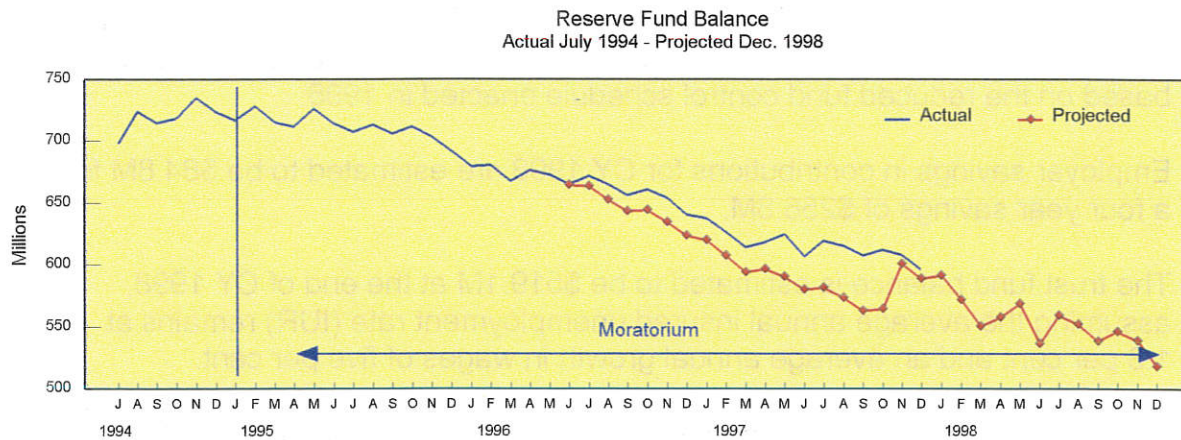
The Kansas Employment Security Trust Fund is used to pay benefits to eligible unemployed claimants and is safeguarded by federal and state statutes. The attached worksheet contains an analysis of the Unemployment Insurance moratorium since its inception in January 1995. Three graphs are shown which provide reserve fund balance, contributions, and benefit payments. The reserve fund balance stood at \$723.8M at the beginning of the moratorium period. The current balance is \$596.4M and yet remains one of the most solvent in the nation. The fund is sound even after three consecutive years (1995, 1996, and 1997) of zero tax rates for 45,000 Kansas employers. Assuming **an insured unemployment rate** of 1.3 per cent continues and a five per cent annual increase in wage growth, we believe the fund balance will be reduced to approximately \$519.1M by the end of CY1998; the fourth consecutive year of the moratorium. You may remember that a safety feature was added to the statute, which would have prevented continuation of the moratorium for CY 1998, should the trust fund balance fall below two per cent of total wages. Currently, two per cent of total wages equals approximately \$526.0M.

In closing, it is our belief that current reserves remain healthy and the fund can safely tolerate a continuation of the moratorium for CY1998. I would like to briefly review the graphs on the attachment and then stand for questions.

Monitoring the Kansas Unemployment Insurance Trust Fund November 1997

	November		Year To Date	
	1997	1996	1997	1996
Reserve Fund Balance	\$608,371,042	\$654,849,816	n/a	n/a
Contributions Received	3,020,537	2,604,903	35,766,707	34,583,302
Benefit Payments	8,100,928	9,970,339	120,753,266	134,096,173
Treasury Interest	0	0	42,900,852	47,626,942
Penalty/Interest	29,494	40,361	431,653	415,538

n/a Not applicable



3-3

The Moratorium on Unemployment Insurance Contributions And the Effect of the Extension for CY 1998

- The majority of Kansas' employers will experience a fourth year (CY 1998) of a moratorium on their Unemployment Insurance contributions. The 1995 Kansas legislature placed a moratorium on taxes for CY 1995-1996. The 1996 and 1997 sessions extended it through 1997 and 1998, respectively. The Kansas Department of Human Resources has certified that the moratorium will extend through CY 1998.
- The total savings to employers since the effective date of the moratorium in CY 1995 to the end of CY 1997 are estimated to be \$172.0M. Estimates are based on the reduced fund control schedule enacted in 1995.
- Employer savings in contributions for CY 1998 are estimated to be \$84.8M for a four year savings of \$256.8M.
- The trust fund balance is estimated to be \$519.1M at the end of CY 1998, assuming the average annual insured unemployment rate (IUR) remains at 1.3 per cent and an average annual growth in wages of five per cent.
- Estimated total wages for contributing employers for CY 1998 is \$26.3B. Wages have increased at a rate of five per cent in recent years. Total wages increased eight per cent in 1997.
- The estimated \$519.1M balance at the end of CY 1998 would lower the reserve fund ratio to 1.974 per cent, below the 2.00 per cent level set as a "triggering off" point for the moratorium.
- Tax rates will be "phased-in" during the years following the moratorium. Preliminary estimates indicate tax rates for CY 1999 for positive eligible employers will range from 0.03-2.40 per cent. These rates compare to 0.02-3.86 for CY 1994, the year prior to the moratorium.

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Trust Fund Balance and 2% "Safety Level" End of CY 1994 - 1996 and Estimated 1997 - 1998

