Approved: 1-28-99
Date

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson Senator Audrey Langworthy at 11:08 a.m. on January 26, 1999, in Room 519-S of the Capitol.

All members were present except:

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Secretary Karla Pierce, Department of Revenue
Ron Appletoft, Water District No. 1 of Johnson County
Secretary Rochelle Chronister, Department of SRS
Sharri Black, Lutheran Social Service
Sister Therese Bangert, Kansas Catholic Conference
Michael Harris

Others attending: See attached list.

The minutes of the January 21 meeting were approved.

Karla Pierce, Secretary of Revenue, briefed the Committee on the current organization structure of the Department of Revenue and the changes which have been made to improve the Department's performance through an initiative named Project 2000. She called attention to a Department organization chart attached to her written testimony. The Department has grouped jobs together to form an organization structure with four core business processes: Channel Management, Customer Relations, Compliance Management, and Enforcement. The four processes operate as the Division of Tax Operations. Legislation has been proposed that will eliminate the Division of Collections. Secretary Pierce also discussed the top five expectations Kansans have of the Department of Revenue and what procedures have been implemented by the Department to meet those expectations. (Attachments 1 and 2)

Secretary Pierce also distributed copies of a Department customer service pamphlet available for taxpayers entitled "Quick Guide to filing Kansas taxes, Refunds, and Credit to taxpayers." The pamphlet lists the methods Kansans can use to file their taxes by telephone or computer and includes information on tax refunds and tax credits.

SB 67–Income taxation; excluding certain retirement benefits.

Ron Appletoft, Water District No. 1 of Johnson County, testified in support of **SB 67**. He explained that, currently, benefits paid under the Water District No. 1 retirement plan are subject to state income tax to the same extent as any other income would be. However, benefits paid under other public retirement plans are exempt from state tax. He contended that the Johnson County water district retirement plan should be treated the same as other public retirement plans. (Attachment 3)

Senator Donovan asked how retirement benefits in other water districts in the state are treated. Mike Armstrong, Water District No. 1 of Johnson County, explained that Water District No. 1 is the only water district organized under this statute as an urban water district. The other water districts in the state are generally rural water districts. Rural water districts have the option of coming into the Kansas Public Retirement System (KPERS), and many of them do so. Water District No. 1 was created before KPERS and has its own statutes. Switching over to KPERS would cause problems for Water District No. 1 because it would result in two retirement programs being in place, one for existing employees and one for new employees.

There being no other persons wishing to testify, the hearing on **SB 67** was closed.

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE, Room 510-S Statehouse, at 11:08 a.m. on January 26, 1999.

SB 45–Income taxation; enhancing the adoption expense credit.

Rochelle Chronister, Secretary of the Kansas Department of SRS, testified in support of **SB 45**, noting that a tax credit for adoption expenses incurred by families adopting children will encourage families to adopt children; and, consequently, permanency will be established for more children. To qualify for the tax credit, Kansas families are required to meet qualifications pursuant to section 23 of the federal internal revenue code The bill simply updates the date and increases the available adoption expense credit enacted in 1997 from $1,500 to $3,000. (Attachment 4)

In answer to Committee questions concerning the types of adoptions addressed in **SB 45**, Secretary Chronister and staff clarified that Section (b) regards the adoption of children in the custody of SRS and children with special needs. Section (a) regards all general adoptions.

Sharri Black, Lutheran Social Service, gave further testimony in support of **SB 45**. Lutheran Social Service was awarded the adoption contract for the state approximately three years ago. During this time, there have been more adoptive placements in the state than ever before. Ms. Black emphasized that the financial impact on an adoptive family can be significant, and the bill would make a difference to the many Kansas families who adopt children in future years. (Attachment 5)

Sister Therese Bangert, Kansas Catholic Conference, followed with testimony in support of **SB 45**. She said the families who adopt SRS children deserve not only respect but also financial support. She also strongly urged the Committee to request that the Department of Revenue prepare a pamphlet explaining the credit to those who prepare taxes for adoptive families. (Attachment 6) Shirley Sicilian, Department of Revenue, stated that the request was valid. She assured the Committee the pamphlet would be prepared by the Department without being required by statute.

Michael Harris, an adoptive parent from Junction City, gave final testimony in support of **SB 45**. As an adoptive parent of six special needs children, Mr. Harris noted that raising the children is not easy. He and his wife have had to readjust their budget to help meet the needs of the children. Though they receive some financial assistance from SRS, the need still out weighs the SRS support. One of their greatest needs is housing. He and his wife went from a one bedroom home to a four bedroom home, increasing their utility bills and mortgage expense. Mr. Harris emphasized that it was well worth the move because the children have been a joy and an inspiration to their lives. In conclusion, Mr. Harris stated that he understood that passage of **SB 45** would not pay the ongoing expenses for children with special needs; however, the tax credit that the bill will generate will be a tremendous financial help for him and his wife and for other families who adopt children with special needs. He urged the Committee to consider children with special needs when voting on the bill.

There being no others wishing to testify on **SB 45**, the hearing was closed.

The meeting was adjourned at 12:00 p.m.

The next meeting is scheduled for January 27,1999.

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: January 26, 1999

NAME	REPRESENTING
George Welch	Barbee & Assoc.
Karen Pierce	KDOR
George Peterson	Ks Taxpayers Network
Alex Kotoyantz	Geary Co Convention Bureau
Marilyn Jacobson	SRS/CFS
Joyce Allegrucci	SRS/CFS
Rochelle Chronister	SRS
S Therese Bangert	Ks. Catholic Conference
Julie Hein	Hein and Weir, Chtd.
Jack Glaves	Cry-Duke E&T N Energy
Julie Farthing	Lutheran Social Service
Brenda Vrazelman	" " "
Tara K. Foster	Lutheran Social Service
Ron Smith	Ks Bar Assoc
Fred Mertz	Ricky Recardo Enterprises

STATE OF KANSAS
Bill Graves, Governor

DEPARTMENT OF REVENUE
Karla J. Pierce, Secretary

Office of the Secretary
Kansas Department of Revenue
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Topeka, KS 66612-1588

(785) 296-3041
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Office of the Secretary

TESTIMONY

TO: Senate Assessment & Taxation Committee
Senator Langworthy, Chairperson

FROM: Karla Pierce, Secretary of Revenue

RE: Kansas Department of Revenue Overview

DATE: January 26, 1999

I would like to thank the committee for this opportunity to share with you the current organization structure and changes we have made to improve our performance.

Kansas Department of Revenue -- a radical transformation

Before 1995, the Kansas Department of Revenue (KDOR) was organized around five operating divisions and the Secretariat. Those Divisions were Vehicles, Property Valuation, Taxation, Collections and Alcoholic Beverage Control (ABC).

A major organizational change has occurred in the area Taxation, Collections and ABC. An initiative named Project 2000 (not Year 2000 related) is transforming these three divisions into customer focused, team based organization. The scope of Project 2000 is to identify customer expectations, redesign our business operations, implement an integrated tax system, reassign the human resources and increase revenues. Project 2000 is paid for out of increased revenues the performance improvements earn. The basis of the transformation is rooted in these three vision statements.

We will put the customer first every time.
We will be a benchmark for the nation.
We will sustain a team environment.

Senate Assessment + Taxation
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Attachment 1

If we are to put our customers first, we must understand their needs and expectations. We held focus groups, followed by a detail survey. We found the between 59% and 62% of our customers were satisfied with our service. We also learned the top five expectations Kansans have of their Department of Revenue.

Friendly attitude by Department associates.
Simple forms in plain language.
Equal treatment of all taxpayers.
Knowledgeable people answering the phone.
One person to handle their account – start to finish.

Once we knew what services to provide, we had to learn some best practices from private industry on how to deliver them. We visited with a number of Kansas companies, as well as some well-known insurance companies. We took all this information and redesigned our business operations. First we designed business processes applying the latest technology where appropriate. We designed the jobs to be a team based environment. We grouped the jobs together to form the organization structure that resulted in four core business processes; Channel Management, Customer Relations, Compliance Management, Enforcement. This work was previously done by 10 different bureaus in three Divisions. We have proposed legislation that will eliminate the Division of Collections. The four processes above operate as the Division of Tax Operations.

Channel Management

Prior to the redesign, the returns processing area was thought of as a big paper factory. We put out forms and expected every one to use them. You had no other options. As we redesigned this process we realized that by using technology you could offer a number of different "channels" to file your taxes. And that taxpayer should be managed across the different channels into the one best fits their needs. We now have four main channels. We have telephone filing, PC filing, electronic filing through the IRS and paper. We have applied imaging and character recognition technology to the paper channel to make it as paper-less as possible once it hits our door. "Simple forms in plain language" means taxpayers can make a "Quick Call" to KDOR and file their return, spend about 10 minutes to file their long form or down load an automated form from our Web page, fill it out and file it over a secure telephone line. We call these products simple solutions to filing your taxes.

Customer Relations

Customer Relations core business process is responsible for keeping customers in compliance with our tax laws. Through education, rapid registration, licensing and providing general assistance, this process provides a single point of contact for assisting customers. The blueprint requires that business tax customers be assigned a customer service representative by name and phone number to provide all services for all tax types. By the end of 1999, each business just needs to know a name and a phone number to get personalize service. Our customer representatives will be organized in teams that work with specific customer segments. We have the wage earner segment in operation. This year we will reassign staff to the remaining business segments. Examples are small, medium and diversified business segments, contractors, utilities, oil and gas, and entertainment. There are 12 customer segments in all that will fulfill the customers' expectations of "one person to handle their account start to finish."

Compliance Management

Compliance Management core business process consists of tax discovery, audit and collections sub- processes. Their role is to bring taxpayers back into compliance in the least intrusive manner possible. They provide education, locate future customers, assess additional tax and provide audit and collection case resolution. Using historical information we have in our systems, we can work with the customer based on the probability the customer is going to comply. We have automated the decision making process through the use of a risk management software tool. This is similar to what banks and other financial organizations use. The compliance core business process meets the customer expectation of "equal treatment" by ensuring all customers pay the right amount of tax.

Enforcement

The final core business process is Enforcement. For those customers who choose not to comply we must take some legal action against them. This core process files all civil actions taken against a taxpayer, manages bankrupt accounts and completes criminal fraud investigations to build cases for prosecution. This core process enforces liquor and tobacco laws. They assess and collect drug taxes. The criminal investigation staff are certified law enforcement officers.

"Knowledgeable People"

To meet the expectation of "knowledgeable people on the phone" we have done two things. First, is the implementation of the Policy Information Library and the issue resolution process. Prior to 1995, policy knowledge was held by a few people. It meant that associates on the phone had to ask a supervisor or the policy experts for answer. A response could take months to get an answer and it was not readily shared. Now if a customer calls in with a question, the associate has all our policies at their fingertips in a lotus notes data base. We have established a management process that allows associates to surface questions by entering an issue in the issue tracking system. This issue is researched by a team including auditors, attorneys and research staff. A recommendation is written up and forwarded to the policy council that is chaired by the Secretary of Revenue. They make a final decision and the policy is published in the library for all to see. The taxpayers have access to the same policy over the Internet.

The second way we are supporting our associates is with the establishment of the Learning Center. We have dedicated 12 associates to the training and development needs of the general workforce. This team supports the culture change, customer service, team based work environment and the training of all procedures and policies.

Information Systems Bureau plays a large role in developing and supporting the technical infrastructure and software applications. The new systems are built on a client-server platform using industry standard database and programming language. Attracting and maintaining top talent is a challenge. We use creative ways to attract, motivate and maintain a solid workforce. Some of those tools are giving bonuses, Washburn University internship program and a "grow our own" trainee program that invests in KDOR staff.

One other key change to note is the implementation of the tax assessment reconsideration process. This informal process replaced the Director of Taxation's KAPA hearing process. The new process is designed to provide quality control of tax assessments. It is informal and must be completed in 270 days. The final determination is issued by the Secretary and can be appealed to the Board of Tax Appeals.

The final customer expectation I want to address is the "friendly attitudes" expectation. I tell all new associates during orientation this means to put a smile in your voice. It is really more than that. It is a reflection of changing the culture from that of tax police to one of service provider. To provide first class customer service, there must be a culture that supports sharing of information, learning, accountability and responsibility. We have built those enabling mechanisms into the job and team structure. We are reassigning staff based on their competencies. We have hired all new managers using a profile of customer orientation, leadership, team work and developing others. Associates that serve in customer service representative roles are interviewed for their customer orientation.

The Integrated Tax System

Project 2000 begun in July 1995 and is a five year project. We have implemented many improvements. In October we implemented that integrated tax system (ASTRA) for individual income, estimated payments, food sales, homestead, fiduciary and withholding taxes. Last week we upgraded the software with the changes for last year's legislation. This most recent implementation was costly and added an element of risk that has slowed the start of this tax season.

In 1999, we are adding retailers' sales, retailers and consumers compensating, corporation income and estimated taxes to the integrated tax system. This is not add on code. For an integrated tax system to work the new code must be built into the system. Since all code is changed a large testing effort must be mounted to ensure a quality release of software. The November 1999 release of the software brings all these taxes into Year 2000 compliance. Any changes to functionality that must be implemented in July 1999 or January 2000 will put the probability of meeting our implementation dates at serious peril. We need your help to manage this situation. We can make changes that are table driven; such as exemption amounts, credit percentages, rates of existing taxes. Any legislative change requiring new functionality would be extremely costly and would jeopardize achieving this goal. For instance, the food sales tax reduction would require new functionality because businesses that sell both food and non-food products would need to file a return that reports both amounts, including local option sales tax. Once we get past the 1999 implementation, we can enhance the system to implement most anything.

Year 2000 Compliance of Remaining Systems

The are three steps to ensuring our systems are year 2000 compliant. The first is to modify or, in the case of the major tax systems, replace the existing software application. Then the changes are tested in our existing environment using 2000 dates, as well as other standard test criteria. Once the tests are approved, the system goes back into production. We have all but one small excise tax and the large tax system at this stage.

.ne next step that occurs is the re-test of the software in a year 2000 compliant environment. We are in the process of testing all of our vehicle and drivers licensing software in this special environment. We expect to be completed with these test by July 1999.

The Y2K certified version of CAMA system is in production in two mainframe counties. The other three are expected to be in production in July 1999. We have 13 AS 400 counties in production with a Y2K certified version of CAMA. The remaining counties are expected to come up between March and July 1999.

The physical inventory of all PC hardware and software is nearly complete and will be finished by January 31, 1999. This includes the county equipment.

In summary, the biggest risk we have is with the remaining taxes we are adding to the integrated tax system. We have marked the calendar with frequent checkpoints to be sure we can catch a problem early enough to build contingency plans.

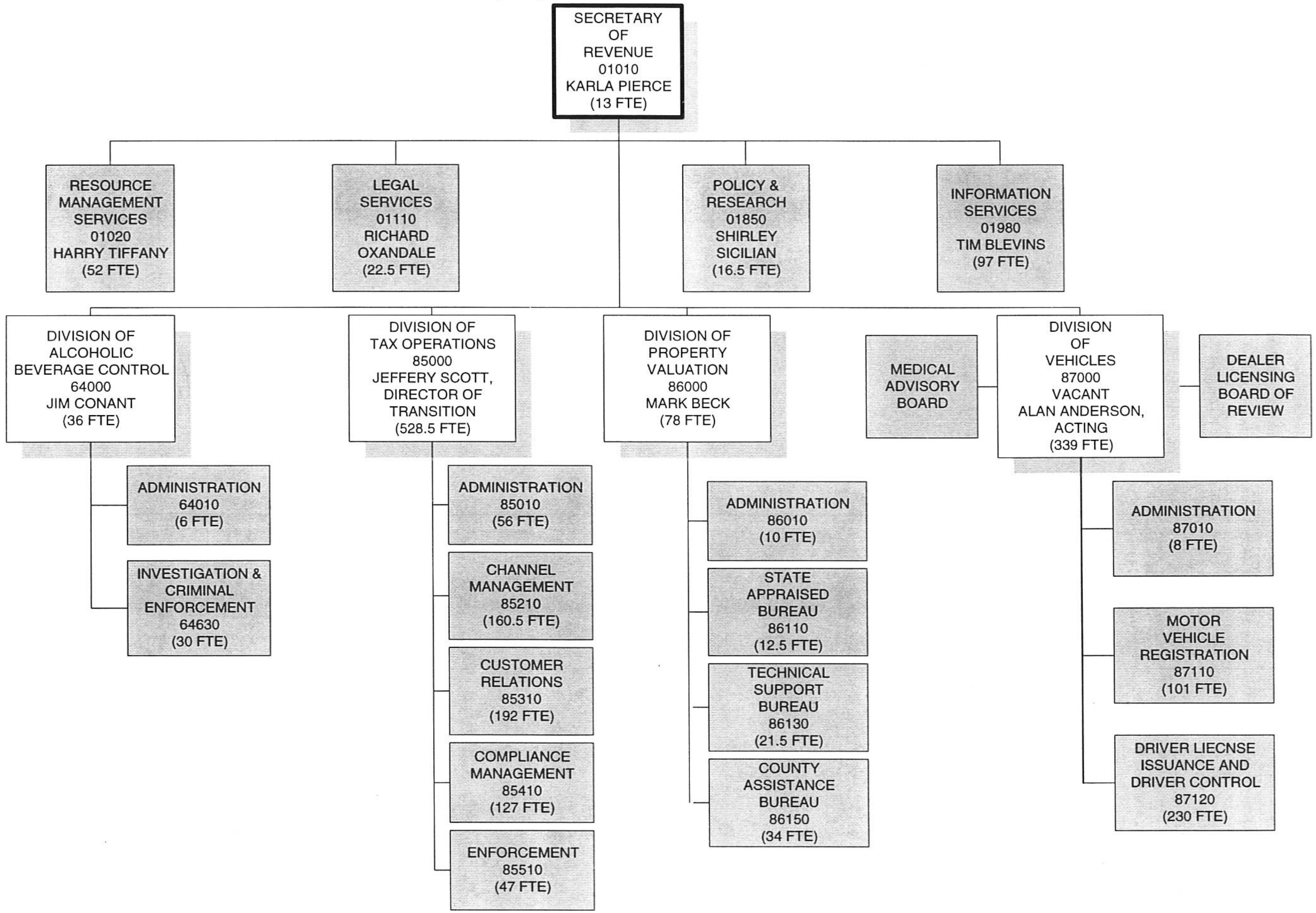
Summary

As you can see the Department of Revenue has under gone significant change. We still have more work to do. I think the best analogy that applies to this situation is that we are under construction. During this time, our service is not going to be at the level we want to perform or taxpayers expect us to perform. I believe that this short term inconvenience will enable us to provide world class service in the years to come. I appreciate your support of the Department as we continue our journey "to put the customer first every time."

ORGANIZATION CHART
KANSAS DEPARTMENT OF REVENUE

Fiscal year 1998 Authorized

1,182,5 TOTAL POSITIONS



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WATER DISTRICT NO.1 OF JOHNSON COUNTY

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Testimony On Senate Bill 67

Presented at the
Senate Committee On Assessment and Taxation
On January 26, 1999

Water District No. 1 of Johnson County appears in support of Senate Bill 67 which would exempt Water District Retirement Plan benefits from state income tax.

Water District No. 1 is organized as a regional public water utility and serves over 330,000 consumers in and around Johnson County. The Water District is operated as a quasi-municipal corporation pursuant to K.S.A. 19-3501 et seq.

Currently, benefits paid under the Water District Retirement Plan are subject to state income tax to the same extent as any other income would be. Benefits paid under other public retirement plans are exempt from state tax, including the Kansas Public Employees Retirement Systems (KPERS), the Kansas Policemen and Firemen's Retirement System and the Board of Public Utilities (BPU) Retirement Plan (K.S.A. 74-4923 and 13-1246a).

The Water District has approximately 330 employees and the Water District Retirement Plan is currently paying $11,870 in monthly benefits to 15 retirees. This exemption would have an estimated annual impact on state revenues of less than $10,000. It appears that the impact to the state is not material, however, the impact to a Water District retiree could be substantial.

The Water District Retirement Plan should be treated the same as other public retirement plans, therefore, Water District No. 1 urges your support of Senate Bill 67.

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Attachment 3

State of Kansas
Department of Social & Rehabilitation Services

Rochelle Chronister, Secretary
Janet Schalansky, Deputy Secretary

For additional information, contact:

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Senate Assessment and Taxation Committee
January 26, 1999

Testimony: Income Tax Credit for Adoption

Children and Family Services
Joyce Allegrucci, Commissioner
(785) 368-6448

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Attachment 4

Contents

Kansas Department of Social and Rehabilitation Service
Rochelle Chronister, Secretary

Senate Assessment and Taxation Committee
Income Tax Credit for Adoption

January 26, 1999

Madam Chairperson and members of the Committee, I am Rochelle Chronister, Secretary of the Department of Social and Rehabilitation Services. I thank you for this opportunity to appear before you today in support of Senate Bill 45.

The Department of Social and Rehabilitation Services supports tax credit for adoption expenses incurred by families adopting children. The reduction in the financial burden associated with adoption will encourage families to adopt children. Consequently, permanency will be established for more of our children caught, though no fault of their own, in the foster care system. These children will be with loving and caring parents in a permanent home.

To qualify for the tax credit, Kansas families are required to meet the qualifications pursuant to section 23 of the federal internal revenue code. As per the code, the expenses must be reasonable and necessary adoption fees, court costs, attorney fees, and other expenses which are:

➢ directly related to the legal adoption of an eligible child,

➢ not incurred in violation of State and Federal law (i.e. carrying out any surrogate parenting arrangement), and

➢ not in connection with the adoption by an individual's spouse (step-parents).

An eligible child, as defined in section 23, is less than 18 years of age or is physically or mentally incapable of caring for himself.

Children with special needs are also included in the tax credit allowance of the federal code. A child with special needs, as determined by the state is a child who: 1) should not be returned to the home of the parent and 2) is eligible for adoption assistance as a result of factors or conditions (ethnic background, age, minority or sibling group, medical, mental, physical, or emotional handicaps) who can not be placed with adoptive parents without adoption assistance.

Senate Bill 45 increases the available adoption expense credit enacted in 1997 from $1500 to $3000.

Thank you for this opportunity to speak with you today.

Good morning, and thank you for this opportunity to address the importance of this bill which increases the income tax credit for adoption expenses.

My name is Sharri Black and I am the Program Director of the Lutheran Social Service (LSS) Kansas Adoption Network. Almost three years ago, LSS was awarded the adoption contract for the state. On October 1, 1996, we assumed responsibility for 730 children. In the short time since, that number has swelled to almost 2300 children for whom we are providing adoption services. During this time as well, we have experienced more adoptive placements in the state than ever before. Many families are responding to our recruitment efforts. Yet many children remain in need of families. At the end of December 1998, we had 727 children still waiting for families, and that number grows daily.

Being a parent is one of the most significant commitments there are in life. Being a parent to children through adoption, especially children who have experienced, or were in danger of experiencing, situations that has shocked or torn the hearts of many of us, is another matter. We ask these families to step forward and make that same commitment with many unknowns and no guarantees. We ask them to risk loving a child that may have tremendous pain and loss, and providing for the many needs of that child. No matter what. We ask them to be the parents of that child.

As parents of four children, three of whom were adopted through the child welfare system, my husband and I know first hand all the "hidden costs", if you will, of the journey of parenting and raising children.

Even with adoption support, which many families receive, the financial impact on a family, can be significant.

Bill S45 will make a difference to the many Kansas families who will adopt children this year and in future years. Your support of this bill will join our efforts, and those of adoptive parents, to make a difference in the lives of the many children who wait for loving and committed families. I thank you on their behalf.

January 26, 1999
Sharri L. Black, LMSW

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1-26-99
Attachment 5

Kansas Catholic Conference

6301 ANTIOCH • MERRIAM, KANSAS 66202 • 913-722-6633

TESTIMONY on SB 45
Assessment and Taxation Committee
January 26, 1998

Sister Therese Bangert
Kansas Catholic Conference

I come to speak for the Kansas Catholic Conference in support of Governor Grave's recommendation of enhancing the adoption expense credit. I cannot tell you how much respect I have for families who are choosing to make a permanent home for Kansas children who are currently in the custody of SRS or a child of special needs. These families deserve not just our respect but our financial support.

In preparing for this testimony I talked with a staff person at Lutheran Social Services who suggested that a pamphlet be prepared for families seeking this tax credit. In the past families have experienced difficulty explaining this credit to those who prepare their taxes.

I would also like to take the opportunity to share with this committee that there are other very important needs for the providers of adoption services that I believe the legislative body should address. These needs are not germane to this particular committee but should be given serious consideration by the committee of the whole.

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Attachment 6