

MINUTES OF THE SENATE COMMITTEE ON SENATE WAYS AND MEANS.

The meeting was called to order by Vice Chairperson David Adkins at 10:35 a.m. on March 1, 2001 in Room 123-S of the Capitol.

All members were present except: All present

Committee staff present:

Alan Conroy, Chief Fiscal Analyst, Kansas Legislative Research Department
Debra Hollon, Kansas Legislative Research Department
Amory Lovin, Kansas Legislative Research Department
Kathie Sparks, Kansas Legislative Research Department
Julian Efird, Kansas Legislative Research Department
Michael Corrigan, Assistant Revisor, Revisor of Statutes Office
Julie Weber, Administrative Assistant to the Chairman
Mary Shaw, Committee Secretary

Conferees appearing before the committee:

Senator Lana Oleen
Bob Longino, Acting Director, Division of Alcohol Beverage Control, Kansas Dept. of Revenue
R. E. "Tuck" Duncan, Attorney, Kansas Wine & Spirits Wholesalers Association
Amy Campbell, Executive Director, The Kansas Association of Beverage Retailers
Rita Madl, Board Member, Kansas Licensed Beverage Association
Neal Whitaker, Executive Director, Kansas Beer Wholesalers Association
Ron Hein, on behalf of the Kansas Restaurant and Hospitality Association
Janet Schalansky, Secretary, Kansas Department of Social and Rehabilitation Services
Kathy Porter, Office of Judicial Administration

Others attending: See attached guest list

Vice Chairman Adkins opened the public hearing on:

SB 13—Fee increases for certain liquor licensees and CMB licensees; refunds; ABC general fees fund, established

Staff briefed the Committee on the bill.

Vice Chairman Adkins welcomed Senator Lana Oleen who spoke in support of **SB 13** (Attachment 1). Senator Oleen mentioned that **SB 13** was recommended to the Kansas Legislature by the Special Committee on Federal and State Affairs. She explained that the Special Committee spent a significant amount of time probing the issue of dwindling enforcement of Kansas liquor laws and underage drinking. Senator Oleen noted that this bill would increase several of the license and permit fees for liquor licensees.

Vice Chairman Adkins welcomed Robert Longino, Acting Director, Division of Alcoholic Beverage Control, Kansas Department of Revenue who spoke in support of **SB 13** (Attachment 2). Mr. Longino spoke regarding several initiatives that have been undertaken to deal with many of the issues brought up during the interim committee. He also noted some facts and projections that might shed some light on the need for increased staffing and resources of the division and preliminary requirements identified to support enhancing the division's capabilities and performance. In his closing testimony, some concerns were mentioned regarding the way the current bill is drafted that the current division of Alcoholic Beverage Control budget from the state general fund could be reduced by an amount equal to the fees collected under this bill.

Vice Chairman Adkins welcomed R. E. (Tuck) Duncan, Attorney, Kansas Wine and Spirits Wholesalers Association who spoke in opposition to **SB 13** (Attachment 3). Mr. Duncan mentioned that the Kansas

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Wine and Spirits Wholesalers Association appears in opposition to **SB 13** in its current form. He also listed several concerns in his written testimony.

Chairman Morris welcomed Amy Campbell, Executive Director, The Kansas Association of Beverage Retailers, who spoke in opposition to **SB 13 (Attachment 4)**. Ms. Campbell mentioned that retail liquor store licensees are particularly concerned about the increased application fees, which would go from \$10 per year to \$100. She noted that this is a concern because most of the locally owned small liquor stores which only employ one or two part time clerks and do not have large, flexible budgets. Ms. Campbell also explained that they would respectfully request the bill be amended to permit the 700 retail liquor stores to have two year licenses and listed several benefits in her testimony.

Chairman Morris welcomed Rita Madl, Board Member of the Kansas Licensed Beverage Association and Owner/Operator of The Sandbar in Lawrence and The Lodge in Baldwin City. Ms. Madl spoke in opposition to **SB 13 (Attachment 5)**. She mentioned that they have concerns with **SB 13**. Ms. Madl noted that they are willing to accept a small increase in fees to secure the future budget of this agency.

Chairman Morris welcomed Neal Whitaker, Executive Director, Kansas Beer Wholesalers Association, who spoke in opposition to **SB 13 (Attachment 6)**. Mr. Whitaker enclosed with his testimony copies of the testimony he gave to the Interim Committee which lists some of the problems and a copy of the restructuring plan. The concerns are listed in his testimony regarding **SB 13**.

Chairman Morris welcomed Ron Hein, on behalf of the Kansas Restaurant and Hospitality Association (KRHA), who spoke as a neutral conferee regarding **SB 13 (Attachment 7)**. Mr. Hein noted that the KRHA has concerns about the bill. He mentioned that they support the provisions of SB 13 that provide that the increases in the fees will be put directly into the alcoholic beverage control general fees fund created by the bill. In his testimony Mr. Hein explains other concerns and points regarding the bill. Mr. Hein mentioned that KRHA does not take a position for or against **SB 13** at this time.

The Chairman thanked the conferees for appearing before the Committee. There being no further conferees to come before the Committee, the Chairman closed the public hearing on **SB 13**.

Chairman Morris opened the public hearing on:

SB 329—Child support enforcement, Kansas payment center and income withholding

Staff briefed the Committee on the bill.

Chairman Morris welcomed Janet Schalansky, Secretary, Kansas Department of Social and Rehabilitation Services, who spoke in support of **SB 329 (Attachment 8)**. Secretary Schalansky explained that this legislation codifies the authority of the Kansas Supreme Court to require that child support payments be sent to the Kansas Payment Center (KPC). She further noted that a proviso in the 2000 Omnibus budget bill was enacted which authorized the Kansas Supreme Court to issue an administrative order directing child support payments to be made to the KPC instead of to the district courts. The legislative proviso and Supreme Court Administrative Order No. 154 will both expire on July 1, 2001. Secretary Schalansky also provided an update on the Kansas Payment Center.

Chairman Morris welcomed Kathy Porter, Office of Judicial Administration, who spoke in support of **SB 329 (Attachment 9)**. Ms. Porter mentioned that continued operation of the Kansas Payment Center will require legislation this year. Without legislative action, the statutory requirements that support payments be made through the clerk of the district court or the court trustee will again become effective on July 1, 2001. At that point in time, the KPC will have been operation for nine months, and it will be nearly impossible for the system of receipting and disbursing these payments to be returned to the courts. Ms. Porter noted that the Office of Judicial Administration requests three amendments to **SB 329** as listed in her testimony.

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The Chairman thanked the conferees for their appearance before the Committee. There being no further conferees to come before the Committee, the Chairman closed the public hearing on **SB 329**.

The meeting was adjourned at 12:20 p.m. The next meeting is scheduled for March 2, 2001.

**SENATE WAYS AND MEANS COMMITTEE
GUEST LIST**

DATE March 1, 2001

NAME	REPRESENTING
Ron J. Buehning	Social work intern
R Longino	KDOR ABC
Steve Richman	KQVR
Jim Conat	KDOR
Virginia Taylor	OJA
Amy Bertrand	OJA
Andy Skew	PMCA
John Belys	SRS
Pete Bodyk	KDOR/ABC
Bill M: Eg	KPOR/ABC
Rita made	Kansas Licensed Beverage Association
Ted made	Kansas Licensed Beverage Association
Ron Hein	KS Restaurant and Hospitality Association
Stacey Herman	SRS
Amy A. Gammell	KABR
Jim Robertson	SRS

State of Kansas

LANA OLEEN
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COMMITTEE ASSIGNMENT
CHAIR: CONFIRMATION OVERSIGHT
VICE CHAIR: ORGANIZATION, CALENDAR & RULES
MEMBER: STANDING & JOINT COMMITTEES



Majority Leader Kansas Senate

SENATE CHAMBER, STATE CAPITOL
TOPEKA, KANSAS 66612-1504

TESTIMONY SENATE WAYS & MEANS THURSDAY, MARCH 1, 2001 SB 13

Chairman Morris and Members of the Ways & Means Committee:

I appreciate the opportunity to offer testimony on SB 13, which was recommended to the Kansas Legislature from the interim committee on Federal and State Affairs. We spent a significant amount of time probing the issue of our dwindling enforcement of Kansas liquor laws and underage drinking. We had a working subcommittee that made recommendations to our full committee and received much information and testimony from Alcohol Beverage Control (ABC), industry representatives, members of the public and law enforcement.

I believe we have presented, for your consideration, a sound and balanced plan to direct those fees and taxes to their intended use. The bill would increase several of the license and permit fees for liquor licensees. (The attached table indicates the types of fees which would be increased and the amounts of the increase.) The Committee staff estimate that the increased fees would generate approximately \$661,000 in new revenues, which would be earmarked for enhanced enforcement of the liquor laws. The bill would also eliminate the current provisions in the liquor laws which allow for refunds to be paid to licensees for licenses cancelled during the license period.

The interim Committee concluded "that additional revenue is necessary to allow for enhanced enforcement efforts regarding the liquor laws and an expansion of the enforcement staff positions." Under current law, all license fee revenues go into the State General Fund. Under SB 13, the current license fees would continue to be deposited in the State General Fund; however, the new revenues resulting from the fee increase would flow

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into the new ABC General Fees Fund to be used for enforcement efforts. There would be no loss to State General Fund receipts.

With regard to the refund provisions, the Committee stated "that such a system of license fee refunds is not needed and creates additional work for the license staff." In fiscal year 2000, refunds issued from the different fees amounted to \$33,000.

Complicated and controversial issues sometimes need a longer look. We did just that these past five months and our result is SB 13. With the capable director of ABC, the enhanced measures recommended, and your favorable action on this bill, we can move closer to a better job of liquor enforcement in this state.

Respectfully submitted,

A handwritten signature in black ink that reads "Lana Oleen". The signature is written in a cursive, slightly stylized font.

Senator Lana Oleen

**ABC Liquor License Fees Increase Proposed by Joint Committee
on Federal and State Affairs
(December 2000)**

<u>Type of Fee</u>	<u>Number of Licensees (as of Dec. 2000)</u>	<u>Current Fee</u>	<u>Current Revenue</u>	<u>New Fee</u>	<u>New Revenue</u>	<u>Increase</u>
Liquor License Application Fee:						
Initial	450	\$50	\$ 22,500	\$100	\$ 45,000	\$ 22,500
Renewal	2,989	10	29,890	100	298,900	269,010
Supplier's Permit Fee	546	25	13,650	100	54,600	40,950
Brand Registration Fee	9,138	25	228,450	50	456,900	228,450
Salesman's Permit Fee	1,027	10	10,270	25	25,675	15,405
CMB License Stamp Fee	<u>3,400</u>	25	<u>85,000</u>	50	<u>170,000</u>	<u>85,000</u>
TOTAL	<u>17,550</u>	N/A	<u>\$ 389,760</u>	N/A	<u>\$ 1,051,075</u>	<u>\$ 661,315</u>



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Division of Alcoholic Beverage Control

To: Senator Morris, Chairman Senate Ways and Means Committee

From: Robert Longino

Date: March 1st, 2001

Subj: Testimony in Response to SB13

Mister Chairman and distinguished committee members – good morning. I appreciate the opportunity to spend a few minutes with you today discussing SB 13 and the needs of the Alcoholic Beverage Control Division.

Senate Bill 13 was the result of a Joint Interim committee studying, “the apparent reduced roles and functioning of the Division of ABC.” This committee received extensive testimony from the alcoholic beverage industry as to their perception of problems the division was experiencing and extensive testimony from me as to how we were operating, why we had problems and what we were doing to correct the problems.

It became apparent to the committee that the division faced a series of issues that included increased duties, reduced funding and internal departmental restructuring all of which have led to challenges for the division. Additionally, during the last budget cycle the division took losses directly and indirectly as basically 8 positions were eliminated. Former Secretary Pierce saved 4 of the positions by eliminating other positions in the department.

In the past year, several initiatives have been undertaken to deal with many of the issues brought up during the interim committee. The following is a brief review of some of those issues.

1. Reevaluation of the division’s duties. Based on resources available and a focus on alcohol, several other enforcement activities were reduced in scope. (Specifically the drug tax, tobacco compliance and tax fraud programs.)
2. Refocus on primary mission of alcohol regulation. Efforts were undertaken in all areas of the division to reprioritize efforts with the top priority being alcohol regulation.
3. Modification to Project 2000 scheme. The department’s Project 2000 made several changes to the division’s functioning. Unfortunately, several of these changes had the net effect of reducing the efficiency and effectiveness of the division. As part of our reevaluation, the decision was made to return the licensing section to the control of the Director of ABC. This transition occurred on January 1st, 2001. Attached to this package you will find a current organization diagram of the division.
4. Expanding the division’s automated capabilities. We continue to expand our website, have developed a robust licensee database, have developed an email contact procedure, are

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enhancing our automated case management system and looking to develop a variety of other automated procedures to improve our efficiency.

5. Submission of a FY2002 enhancement package. After losing several positions in the FY2001 budget, we developed a FY2002 enhancement aimed at replacing some of the lost positions and establishing a training and prevention section. Our request was for 10 positions with a focus on underage drinking. During the interim committee, I was told and the report states, "the committee recommends that the state division not become directly involved in education and training programs." This request was also not included in the Governor's FY 2002 budget. Based on occurrences since this enhancement was developed, other more pressing needs have been established.
6. Improving overall efforts. Significant energy has gone into our efforts to "dig out of the hole." The department has contributed some funding and positions to support our efforts. However, to take it to the next level, additional resources are required.

The interim committee recognized the need for additional resources and looked for possible funding options. Several options were discussed and the final committee report included this bill proposing increases in application fees and permit fees. These fees are relatively low in comparison to the efforts involved to license and regulate the industry. These fees are also relatively low in comparison to other state's fees. There are no proposed licensee fee increases in this bill. I have attached a sheet summarizing the current fees and the financial impact of the proposed increases.

The following are some facts and projections that might shed some light on the need for increased capabilities of the division.

- The division's budget has grown very little over the past 6 or 7 years. It is actually difficult to get a clear picture from the numbers due to several of the internal changes that occurred with the department and the division.
- The number of licensees continues to grow. During this year's general election an additional 5 counties passed liquor-by-the-drink.
- There has been a substantial growth in the amount of alcoholic beverages brought into and consumed in the state. Tax revenues from the three taxes on alcoholic beverages (gallage, enforcement and drink taxes) have grown approximately 30% in the past 7 years. Total taxes collected in FY 1994 were approximately 56.5 million dollars and in FY 2000 they were approximately 73.5 million dollars. These figures do not reflect how much additional revenue is collected on the sales tax of cereal malt beverages.
- The current tax collections in FY2001 are 2.5 million dollars ahead of last year's pace through half of this fiscal year.
- The number of requests for support by local law enforcement agencies and other agencies involved in alcohol continues to increase.

The following is a listing of preliminary requirements identified to support enhancing the division's capabilities and performance.

- Requirement for additional enforcement agents to provide sufficient coverage of the state and licensees. This section's focus is on overall criminal and civil enforcement of the liquor laws with support to licensee education and training. We currently only have 18 field enforcement agents spread throughout the state. The workload is substantial and certain areas of the state and major metropolitan areas are woefully understaffed. A common theme we hear from local law enforcement is "we need help and expertise."

- Requirement for additional compliance agents to provide sufficient coverage of the state and licensees. This section is focused on tax collection and licensee adherence to liquor laws. Although this section is not directly under the control of ABC, we work very closely on compliance, tax and regulatory issues. In the departmental reorganization in the late 1990s, we transferred 4 associates to this section. In the FY2001 all 4 positions were lost, but 2 positions were eliminated elsewhere.
- Requirement for additional staff support in the licensing and tax account management function. The division works very closely with the department's compliance management core process in keeping licensees current in taxes. In the new configuration of our licensing section, we will eventually be monitoring all of our licensees tax accounts as well as performing the licensing function. This section needs additional support to perform a variety of office management duties and related activities as current associates have a large number of accounts to manage.
- Additional office administrative staff support to perform file management, reconciliation and data entry type duties. We are currently backlogged in several areas and are unable to pay full attention to other responsibilities.
- Additional automation and communications support to off site agents.
- Review current classifications of several division positions to ensure they are properly classified for the functions they perform.
- Automation upgrades to the current astra case management system as well as development of an EDI gallonage reporting system to automate product flow tracking and auditing.

Again, this is an initial review of current areas in need of additional funding and support. As we continue to refine our long-term goals for the division, we will expand and refine this initial list.

In closing, let me assure this committee that it is my intent to move this division forward. We have experienced some rough times in the past several years but are working to get them behind us. Critical to this development and modernization of the division will be additional resources. The passage of this bill and the use of the increased fees for alcohol functioning of the division are very important steps in our plan.

I will add that there are some concerns that the way the current bill is drafted that the current division budget from the state general fund could be reduced by an amount equal to the fees collected under this bill. If this were to occur, the division would be no better off and the alcoholic beverage industry would be out the additional funds with no enhanced service to show for it. If that is the intent or probable outcome, we would oppose this bill.

Thank you for the opportunity to discuss this important issue with you today. I will be glad to attempt and answer any additional questions you may have.

Current Fees

Type of Fee Liquor (Annual)	Licenses &Permits	Fee	Approx. Total
Liquor License Application Fee			
Initial	450	\$50	\$22,500
Renewal	2989	\$10	\$29,890
Supplier's Permit Fee	546	\$25	\$13,650
Brand Registration Fee	9138	\$25	\$228,450
Salesman's Permit Fee	1027	\$10	\$10,270
CMB License Stamp Fee	3400	\$25	\$85,000
			\$389,760

Fee Option

Type of Fee Liquor (Annual)	Licenses &Permits	Fee	Approx. Total
Liquor License Application Fee			
Initial	450	\$100	\$45,000
Renewal	2989	\$100	\$298,900
Supplier's Permit Fee	546	\$100	\$54,600
Brand Registration Fee	9138	\$50	\$456,900
Salesman's Permit Fee	1027	\$25	\$25,675
CMB License Stamp Fee	3400	\$50	\$170,000
			\$1,051,075
		Increase of	\$661,315

K • A • N • S • A • S
WINE & SPIRITS
WHOLESALERS ASSOCIATION, INC.

March 1, 2001

To: Senate Committee on Ways and Means
From: R.E. "Tuck" Duncan
Kansas Wine & Spirits Wholesalers Association
RE: SB13

The Kansas Wine & Spirits Wholesalers Association appears in opposition to SB13 in its current form. This bill is the result of the work of the Special Committee on Federal and State Affairs.

"The Committee recommends that liquor law enforcement efforts be enhanced through the addition of new enforcement positions to handle the increased workload of Alcoholic Beverage Control (ABC). To finance this expansion, the Committee recommends that a fee increase be enacted on six specific license fees and **that the additional revenue s be earmarked exclusively for liquor law enforcement efforts.**" (emphasis added).

We do not believe that the bill as written accomplishes that goal unless there is added a provision that state general fund (SGF) appropriations to ABC will not be reduced in the amount of the increased fees.

There was much discussion about the organization of the ABC and this is likewise reflected in the Special Committee's report. In particular there is reference to a Memorandum of Agreement within the Department of Revenue. *"The Committee urges the new Secretary of Revenue to follow both the letter and spirit of the agreement."* We would like to see this agreement memorialized in some way (such as in a proviso in the Department's appropriation bill).

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We are concerned that the 100% increase in the brand registration fee may reduce consumer choice. This is a fee paid for each "label" a supplier sells in Kansas. Small producers (particularly vintners) may be dissuaded by the combination of the increased supplier permit fee (increased from \$25 - \$100) and the brand registration fee (increased from \$25 to \$50) to sell their products in Kansas.

An additional concern is that the increased contribution by the industry to support the work of the ABC is not being matched by state government. The industry proposal to enable the ABC to meet its statutory functions and to allow it to improve its technological resources included a "*state dollar-for-dollar match of license fees.*"

Therefore, we ask that you hold harmless these new funds from any reduction in SGF allocations to the ABC, that you ensure that the Memorandum of Agreement is codified, and that the state match dollar-for-dollar the industry's contribution to the agency.

Thank you for your attention to and consideration of these matters.



The Kansas Association of Beverage Retailers

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Jim Scott, President

Amy A. Campbell, Executive Director

Testimony presented to the
Senate Committee on Ways and Means
Re: Senate Bill 13

March 1, 2001
Amy A. Campbell, Executive Director

Mr. Chair and Members of the Committee, I am speaking to you today on behalf of the Kansas Association of Beverage Retailers (KABR). Thank you for allowing me to appear and provide information regarding Senate Bill 13 which would increase the fees paid by retail liquor store owners when renewing their licenses.

This legislation rises out of an Interim Committee, which heard testimony from the Division of ABC and the industry it licenses, regarding problems in services and duties at the agency. Drastic structural changes at the ABC over the past several years resulted in serious licensing delays and records problems. Representatives of the licensees worked with the Director last fall to attempt to reach a solution to some of these problems - but that is not the proposal before you.

Senate Bill 13 attempts to aid the agency by supplementing its budget with fee increases, some more significant than others. Retail liquor store licensees are particularly concerned about the increased application fees, which would go from \$10 per year to \$100. Obviously, this is a notable increase for a Mom and Pop liquor store, most of which only employ one or two part time clerks and do not have large, flexible budgets.

Additionally, the structure of this bill provides that the increase in fees would be earmarked for the agency, but there is nothing to insure that State General Funds will not be adjusted through the appropriations process -- which could result in no overall increase to the agency at all. We are very concerned about this precedent.

KABR supports taking steps to empower the agency to properly serve the Kansans it licenses and to sufficiently enforce the three tier distribution system which is so important to our business. Therefore, we would respectfully request the bill be amended to permit the 700 retail liquor stores to have two year licenses.

This would provide several benefits:

1. Licensees would file every two years, rather than every twelve months.
2. The agency would receive two years' fees up front.
3. The work for the licensing division would be cut in half, as it pertains to liquor stores.
4. Licensees would, in essence, pay only \$50 per year for application fees.

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The agency has indicated that the only potential problem with this idea is that it could allow the few licensees out there that get behind on their taxes to stretch that delinquency more than 12 months. We would suggest that the agency might pull up tax records once a year, rather than waiting until renewal, in order to prevent such delinquencies. Further, this amendment would not seek to limit the agency's ability to collect those taxes. We would be willing to begin the two year licensing system as a pilot project - with a review of the program after three years to see if the system has resulted in significant abuse.

KABR believes that it is important to support an independent licensing and enforcement agency and supports any steps we might take to increase the agency focus on the industry.

Thank you for allowing me to speak to you today. I would be happy to answer any questions.



THE KANSAS LICENSED
BEVERAGE ASSOCIATION

February 29, 2001

To: Chairman Morris
Senators of The Ways and Means Committee

From: Rita Madl Board Member Of the KLBA (Kansas Licensed Beverage Association) Owner /Operator of
The Sandbar, in Lawrence and The Lodge of Baldwin City

RE: Testimony on SB 13

Chairman and Senators of the Committee,

Thank you for allowing me to appear today. I am Rita Madl; I am the owner-operator of The Sandbar in Lawrence and The Lodge of Baldwin City. I am a member of the Board of directors for the KLBA. I am the Kansas State TAM(Techniques of Alcohol Management) Coordinator ,our on-premise server training program. Our association represents on-premise licensees; we are your restaurants, hotels, private clubs, bars and caterers. To receive an alcohol Beverage License in Kansas, the following fees must be paid;

\$1000.00	Minimum Bond for potential Excise Tax Liability
\$ 250.00	To my local Municipality
\$ 250.00	To our Federal Alcohol, Tobacco and Firearms License
\$1000.00	To Department of Revenue for a Drinking Establishment License
\$ 50.00	Initial application Fee

Additional fees may be required for depending on your local municipality.

Unlike other retail businesses, we pay 8% on all alcohol items at the time our purchase and than collect a 10% tax from all alcohol sales.

We have concerns with Senate Bill-13. During the interim session of 2000, we attended and participated in the Joint Federal and State Affairs Committee. One of the issues addressed was the role and funding of the ABC. We testified and worked to assist the Committee in defining the role of the ABC, to better meet their goal of service and enforcement. We are willing to accept a small increase in fees to secure the future budget of this agency. We believe that Senate Bill-13, however well intentioned, falls short of accomplishing these objectives. Doubling our initial application fee and raising our renewal from \$10 dollars to \$100 is too much.

Thank you for your Time.

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TESTIMONY
SENATE BILL 312
SENATE COMMITTEE ON FEDERAL AND STATE AFFAIRS
Neal Whitaker, Executive Director
Kansas Beer Wholesalers Association
March 1, 2001

Senate Bill 13 is before you today because the Department of Revenue has systematically dismantled the ABC with the assistance of the Governor's office and the legislature. Every year, for at least the last five years, the level of funding for that agency has been reduced. In addition, the Department of Revenue found ways to assimilate ABC employees into other Department of Revenue responsibilities, increase their work load and reduce their number. All of this occurred even though the public and the industry were clamoring for well-reasoned approaches to attacking the increasing problem of underage consumption.

The problems with the agency became so large that we were finally able to get an interim study. I have included the testimony I provided to the interim committee, which lists some of the problems.

By last spring, the agency had reached the point where it was almost unable to issue licenses and was not issuing salesmen's licenses.

We were directed by the chairperson of the interim committee to help develop a restructuring plan for the ABC. That plan is attached. It had three phases.

First, establish a fee fund that would allow ABC to return to its previous independent status while remaining under the Department of Revenue.

Second, in order to enhance ABC operations and return them to their previous level of excellent service to the state, additional funds should be provided to the ABC through Department of Revenue funding.

The third part of the plan was that the ABC agents' duties should be limited to ones directly related to ABC business unless the Department of Revenue, which has been utilizing ABC as their police force, would reimburse the agency for the agents' time.

The interim committee's response was Senate Bill 13, which increases fees.

We are very concerned about this approach for historical reasons. I believe that this fee fund will not be in addition to current ABC funding but in lieu of ABC funding. Senate Bill 13 could only be considered a stop gap measure and the restructuring plan for ABC that we have proposed needs to be seriously addressed.

Because of the nature of ABC it should be a stand alone agency. People in licensing and marketing and the tax collection operations should be under the direct control of the director of ABC. Last year the State of Kansas collected

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\$73.5M in taxes from the industry. The amount of those taxes has gone up every year for the past five years because two of the taxes are based on percentages of the retail sales price. Because the need for reasonable enforcement of laws relating to underage consumption is a general government responsibility of the state, the state should provide funding for those operations. Increasing fees on the industry is not the solution to that problem.



**TESTIMONY BEFORE THE
JOINT COMMITTEE ON FEDERAL AND STATE AFFAIRS
NEAL WHITAKER
EXECUTIVE DIRECTOR
KANSAS BEER WHOLESALERS ASSOCIATION
SEPTEMBER 26, 2000**

A little over two years ago Rebecca Rice, Tuck Duncan and I met with Secretary of Revenue Karla Pierce and then ABC Director Jim Conant for a briefing on radical changes they were making in how ABC would function administratively. My first concern was that this probably was the first step toward dismantling ABC and absorbing it totally into the Department of Revenue. As you have all discovered, the alcoholic beverage industry, not only in Kansas but nationwide, is a very strictly regulated industry with complicated statutes that separate the three tiers: manufacturing, wholesaling and retailing, so that there are only arms length transactions occurring between the tiers. With the exception of the passage of liquor by the drink, our system today is basically identical to what the 1949 Kansas Legislature envisioned when they passed the Liquor Control Act. During the meeting we were assured that the move to a core process management system would provide better service than the industry was receiving at that time. Each licensee would have a customer service representative assigned who would be cross-trained and be able to deal with all licensing and taxation issues. That in fact has happened. But, it appears from the outside that there is only one customer service representative to deal with an industry that has thousands of licensees, thousands of brands to register, tens of thousands of employees and a telephone system to reach that one person that is impossible to operate, and the result is a system that cannot possibly work. I would like to add here that none of what I am saying is about the personnel, either in the Department of Revenue or with the Enforcement Division of ABC. Everyone we have come in contact with has been courteous and tried to deal with the particular problem that was presented to them.

When I receive a call concerning a problem with ABC it normally starts like this, "I have been calling Topeka trying to talk to someone at ABC and I can't get through the phone system." or "I left a message two weeks ago and have never been called back." or "The line is busy continuously."

Salesmen's permits are the largest issue. I have complaints listing salesmen's permits applied for on January 27, February 11 and many dates from then on that have never been received. Letters are written to Topeka asking about the whereabouts of the permits and they are not responded to. There are complaints that salesmen's permits are not returned because the agency claims that there was no check accompanying the application when in fact checks were mailed with the applications. I know of at least two instances within the last year where enforcement tax checks sent to the Department of Revenue have been lost. At least one was discovered by a taxpayer who noticed that his check for \$16,000 had never cleared his bank. This tax payment was six months old and he had never received a notice from the agency that he was delinquent.

Requests for tax forms often go unanswered. One wholesaler told me he called three times to get copies of a strong beer excise tax worksheet and was finally told on the fourth call to use the 3.2% forms and write 5% across the top. When this same wholesaler came to Topeka to renew their license he asked for the tax forms and was given wine and spirits forms instead of beer. Again this same wholesaler said that the retail sales tax and consumer use tax forms were received after the taxes were due for the first quarter of 2000.

Another wholesaler told me he had not received his wholesalers license renewal and yesterday in Junction City I was told of a retailer who had renewed his license but had not gotten it back from Topeka. He was told to display the renewal application in place of the license. In the past wholesalers have been cited by agents for selling to an unlicensed establishment where there was not a current license on the premises.

Where is the information? All shipments of beer into the state by suppliers are required to be reported two ways to the ABC/Department of Revenue. The suppliers are supposed to file a monthly report of their total shipments into the state by size of container. They are also supposed to provide the agency with copies of all the invoices to wholesalers concerning product shipped into the state. It is assumed that these two endeavors are so the department can track how much product is coming in and who it is going to so that tax payments can be verified and that the product is not being illegally diverted. We routinely ask for these public records and most of the time the department is unable to produce the documents.

Finally, as many of you know, beer is a perishable product and once its shelf-life is reached it must be destroyed. Once the product is destroyed the state refunds the gallonage tax that was paid in advance. Until about two months ago the state was eight months behind in refunding those gallonage taxes.

Consequently, when you mention ABC to a member of the industry today they just smile and shake their head, which is truly unfortunate because it is not the personnel's fault but the system's fault and the total lack of appropriate funding for an agency that generates millions of dollars in tax revenue.

Restructuring Plan

As requested, ABC Director Bob Longino met with Amy Campbell, KABR; Monty Schlank and Rita Madl, KLBA; Tuck Duncan, KWSWA; Rebecca Rice and Neal Whitaker, KBWA October 5, 2000 to determine whether the industry and ABC could develop a general plan to solve continuing customer service problems at ABC. The participants focused on solutions for the long term, rather than short-term, to avoid compounding the current situation.

The following components were acceptable to the participants, although each organization has additional concerns not addressed by this general plan.

Establish a Fee Fund: The proposal creates a liquor licensee fee fund, returning ABC to its previous independent status while remaining under the umbrella of the Department of Revenue. The existing license fee structure would remain but the liquor fee funds currently deposited in the state general fund would be deposited in an ABC operating fund not accessible by the Secretary of Revenue. The liquor licensee fee fund would fund only statutorily described ABC functions associated with the fees collected.

State Matching Funds: It is estimated by the Department that additional funds from industry taxes might be necessary to perform the required statutory functions because such functions exceed traditional licensee services by including general public health and welfare services, i.e. underage consumption and industry tax collections. The additional operating revenues would originate from a state dollar-for-dollar match of licensee fees.

ABC Agent Duties: The Department of Revenue has assigned certain responsibilities to ABC which are not designated by statute. Some of these assignments involve using ABC agents as general law enforcement agents. ABC agents could continue to be utilized by Revenue (assuming statutory authority exists or is obtained) if an as-yet-unspecified percentage of the benefit to the Department was automatically placed in the fee fund to offset the costs of providing the assistance.

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**Testimony re: SB 13
Senate Ways and Means Committee
Presented by Ronald R. Hein
on behalf of
Kansas Restaurant and Hospitality Association
March 1, 2001**

Mr. Chairman, Members of the Committee:

My name is Ron Hein, and I am legislative counsel for the Kansas Restaurant and Hospitality Association. The KRHA is the trade association for restaurant, hotel, lodging and hospitality businesses in Kansas.

KRHA has some concerns about SB 13, which increases the application and renewal fees for various licenses paid by our members who have certain alcohol licenses. We understand that it is necessary periodically to increase fees to keep up with inflation and justify program expansions.

We support the provisions of SB 13 that provide that the increases in the fees will be put directly into the alcoholic beverage control general fees fund created by the bill. This is a good, first step. We would be very supportive of seeing, at some time in the future, the ABC financing the administrative licensing responsibilities as a fee-funded agency.

As an association, we are very concerned about all expenses that are borne by our members, and license fees are no different than any other expense. We generally have no objections to increases in license fees that are reasonable, not excessive in terms of percentage increases, justified by inflation or other circumstances, and are used for our industry's regulation. It is incumbent upon the KRHA to monitor any efforts to increase fees, and to work with the state and, in this case, the ABC so that they have the proper resources to perform their regulatory functions, while not imposing excessive or inefficient increases in costs to our members.

Although resources appear tight for the State right now with a declining or, at least, slower moving economy, our businesses are subject to the same economy. The businesses who would pay these fee increases are also facing significant tax increases directly on their business, and possibly other general tax increases.

Although we have some opposition to the amount of the fee increases, we do understand the fiscal situation facing the state. The fee increases are certainly preferable to potential tax increases which are being considered. We also see some positives in the partial move of SB 13 towards a fee-fund approach for the ABC. In light of this, the KRHA does not take a position for or against SB 13 at this time.

Senate Ways and Means
3-1-01
Attachment 7

Kansas Department of Social and Rehabilitation Services
Janet Schalansky, Secretary



Docking State Office Building
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for additional information, contact:

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Senate Ways and Means, Room 123-S
March 1, 2001 at 10:30 a.m.

SB 329

Department of Social and Rehabilitation Services
Janet Schalansky, Secretary
(785) 296-3271

Senate Ways and Means
3-1-01
Attachment 8

Kansas Department of Social and Rehabilitation Services
Janet Schalansky, Secretary

Senate Ways and Means, Room 123-S
March 1, 2001 at 10:30 a.m.

SB 329

Mr. Chairmen and members of the committees, thank you for this opportunity to testify in support of SB 329 regarding the Kansas Payment Center (KPC). This legislation codifies the authority of the Kansas Supreme Court to require that child support payments be sent to the KPC. As you are aware a proviso in the 2000 omnibus budget bill was enacted which authorized the Kansas Supreme Court to issue an administrative order directing child support payments to be made to the KPC instead of to the district courts. The legislative proviso and Supreme Court Administrative Order No. 154 will both expire on July 1, 2001.

Today, I would like to provide you with a brief update on the KPC.

- The Kansas Payment Center (KPC) the state's new federally mandated, centralized child support payment facility, is up and running as of September 29, 2000. Central processing of child support payments was a key element of federal welfare reform, enacted in 1996. The requirement to set up a central payment center covers not only payments in all cases administered by the Kansas Department of Social and Rehabilitation Services (SRS), but also child support payments in most other Kansas cases. It is estimated that the KPC will handle 1.9 million transactions annually valued at \$350 million.
- The KPC was established after two years of intensive coordination between SRS and the Office of Judicial Administration (OJA) with input from Clerks of Court and the business community. Tier Technologies, Inc., was selected to develop and operate the Kansas Payment Center and has worked with SRS and OJA during the past year to develop the system.
- As with any undertaking of this magnitude there have been problems that needed to be addressed and resolved. The KPC has made significant progress in the arenas of timely processing of payments and responsiveness by customer service staff. SRS, OJA, and Tier are committed to pursuing continuous quality improvement at the KPC.
- To ensure that our positive trend towards improved KPC services continues, SRS, OJA, and Tier managers participate in frequent conference calls and meetings to discuss customer needs, problem resolution, and operational issues. Tier has responded to SRS and OJA requests for corrective action by involving their top managers in Kansas; by committing to the hiring of more permanent staff; and by providing more staff training.

- Additionally, our future focus will address the length of time a payment is in unidentified status, outreach to employers and parents concerning the benefits of EFT and direct deposit, and correction of payment histories to reflect case adjustments. We are confident that by continuing to pool resources and partner with the OJA, the courts, and Tier Technologies, centralized payment processing will become a positive and beneficial service for both employers and parents.
- I would like to go back and review what has been done and where we are today. More than 200,000 redirect notices were sent to employers, recipients, and payors on or about September 15th. In essence, this notice changed the location where payments are to be sent from the 107 Clerks of Courts to the Kansas Payment Center. The authority for this change was included in a legislative *proviso* during the 2000 Legislative Session.
- Start-up problems impacted the KPC's ability to initially process and disburse payments in a timely manner (48 hours). These issues included such things as, payments received by the KPC were difficult to identify and process because they lacked the necessary information (county in which the case was filed and court number); employers / payors continuing to send payments to the Court Trustee's Office or SRS rather than directly to the KPC; and data conversion errors.
- In response to the start-up problems the following actions were taken in October:
 - Tier brought in experts from other states on a temporary basis;
 - SRS and OJA loaned staff to the KPC;
 - Tier added additional permanent staff;
 - SRS and Tier provided emergency support payments in urgent cases;
 - Tier added phone lines;
 - Tier extended customer service hours;
 - SRS and OJA requested the media to assist with getting the information out.
- During the first four and one half months of operation, October through mid-February, 701,703 transactions were received by the KPC representing \$126.5 million. Same day processing has been occurring since October 14th. However, some checks go into "unidentified" for a variety of reasons, such as incomplete information, and are not processed on the same day.
- Progress and improvement continued to be made in payment center operations over the course of the last two months. The KPC's automation continues to function as designed. Tier has hired additional full and part-time staff for the KPC; the percent of payments going into unidentified status (resulting in distribution delays) continues to decrease; and the average "wait time" when customers call the KPC has been significantly reduced.

- Overall, the volume of complaint calls made to the KPC, the Office of Judicial Administration (OJA), the Department of Social and Rehabilitation Services (SRS) and other public officials, has decreased as more effective services are provided. SRS continues to receive a steady but manageable number of calls from concerned customers but, due to the decrease in volume of calls, more time is available to assist the caller and resolve problems that may be impacting their case.
- Since beginning operations on September 29, 2000, Tier has increased staffing at the KPC from 45 to 80 to meet communication and processing needs. Currently, 18 customer service staff are available to receive phone calls. In addition to talking personally with a customer service representative, customers have the option of obtaining payment information from an automated voice response system or from a KPC web site. The number of incoming phone lines to the KPC has been increased from 50 to 72 to accommodate callers who wish to obtain automated or personal information.
- The amount of time the average caller waits to reach a customer service representative has been reduced from over 40 minutes to a frequent daily average of less than 5 minutes. Improvements are continuing to be made as a result of increased staff, more phone lines, and a reduction in the number of problem cases which prompt phone calls. Our goal is to keep the average wait time below two minutes.
- The KPC has worked very hard to reduce the percentage of payments entering unidentified status. The total number of receipts going into unidentified status has steadily decreased from 10% to 2% daily. The 2,123 payments in the unidentified category on February 1st, which belong to families, represented \$439,682.
- As with any accounts receivable system, certain payments will always be unidentifiable. Although the daily percent of unidentified payments varies, the current rate is between 2% and 3%. Anecdotal information from several other states indicates that a 5% rate is fairly common. Of the total receipts processed less than 1% (.87) are currently in unidentified status. The primary focus of the KPC, SRS, and OJA has been to resolve questions so that payments can be disbursed as timely as possible.
- There are several benefits to this system. Employers benefit by being allowed to send withheld support for multiple employees in one check to one location, and by having the ability to use electronic transfer of funds for all employees in a single transaction. It is estimated that Kansas employers will save approximately \$3 million per year because of reduced postage and administrative expenses. Custodial parents and parents paying child support will benefit from having 24-hour access to the web site and toll-free automated attendant voice response system, and those who elect to use direct deposit will receive disbursements more quickly than by mail.

- The KPC toll free number is 1-877-572-5722. The web site is located at: www.kspaycenter.com.
- Attached for your information is a detailed staff memo regarding the KPC.

Kansas Department of Social and Rehabilitation Services
Janet Schalansky, Secretary

Kansas Payment Center (KPC)

February 26, 2001

Background

There are three components to the child support enforcement program: establishment of orders; enforcement of orders; and receipt / disbursement of funds. The KPC only deals with the third component. From the perspective of the courts and most people receiving support, the previously existing Kansas system regarding receipt / disbursement of support funds performed satisfactorily, particularly compared to payment handling in other states. As a rule, the local district courts got support payments posted and mailed out quickly. Problems were usually isolated and most involved rapid status changes in individual cases, habitual bad check writers, or chronic vacancies or labor shortages.

Under that system, support payments were processed in all 105 counties. This system served well in the past, but the rising volume of transactions, the availability of new technologies, and the growing reliance on income withholding by employers all contributed to reevaluating the way payments are handled. For example, employers found it more difficult – and more costly – to carry out income withholding when payments had to be sent to multiple Kansas counties.

In response to lobbying by the American Payroll Association and business advocates, Congress in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) required centralized processing of support payments as a key element for improving child support remittance procedures. PRWORA required the State to establish a centralized unit for collection and disbursement of support payments in all IV-D (SRS) cases and income withholding payments established after October 1997 in Non-IV-D (non SRS) cases. The Kansas Payment Center is the centralized unit for collection and disbursement of child support payments in Kansas. A proviso in the 2000 omnibus budget bill was enacted to clarify the Supreme Court's authority to issue a rule concerning payments to the KPC. (Copy of proviso is attached.)

It is important to note that SRS cases (Title IV-D) include not only individuals that are on public assistance but any individual, regardless of income, who applies for child support services. It is estimated that approximately 54% of all child support cases are Title IV-D (SRS).

The inclusion of Non-IV-D cases forced states to decide whether to continue processing the older Non-IV-D payments through local courts – with the complications and costs of running dual systems – or to have a single, centralized process. Because both IV-D and Non-IV-D cases are affected, SRS and the Office of Judicial Administration (OJA) have actively collaborated from the beginning in defining and designing the KPC. Running dual systems – the KPC for

mandated payments and local court processing for all other child support payments – would present difficulties for the courts, for SRS, and for the general public. The KPC must be capable of handling Non IV-D cases, so including them primarily affects the volume of transactions the KPC is handling.

Experts in the field of remittance processing have commented that insufficient volume drives up the cost per transaction because economies of scale cannot be fully realized. The decision to include all IV-D payments and Non-IV-D cases which have an order requiring payment to the Clerk of the Court in the Kansas Payment Center, not only eliminates the confusion and problems running dual systems would create, it brings the KPC's processing volume closer to an optimal cost per transaction. Non-IV-D cases which do not have an order requiring payment to the Clerk of the Court are not processed by the KPC.

Penalty

In November 1999 the U.S. Congress enacted H.R. 3424 which provided relief for states that were making good faith efforts to implement support payment centers. Under the original penalty provision, Kansas was at risk of losing all federal funds for the IV-D program and a percentage of the TANF block grant. For states unable to meet the original 1999 implementation date, the new law provided a graduated scale of IV-D penalties (starting at 4% of FFP, federal financial participation) and eliminated the related penalty against TANF.

For each consecutive year of noncompliance, the alternative penalty increases as follows:

1 st year	4%
2 nd year	8%
3 rd year	16%
4 th year	25%
5 th (and each additional) year	30%

The new law also provides a partial rebate of the penalty for the fiscal year during which the state completes implementation. Based upon the KPC's implementation, Kansas qualified for a rebate for federal fiscal year 2000, limiting our penalty to 1% of administrative costs (\$242,000).

Failure to continue operating the KPC puts the State of Kansas at risk of having its Child Support Enforcement (Title IV-D) state plan found out of compliance with Title IV-D requirements. If the State were found to not be making a good faith effort the U.S. Department of Health and Human Services (HHS) could find the State out of compliance with state plan requirements, and suspend all IV-D federal funding (\$36,800,000 for state FY2001). HHS, also would have authority to impose sanctions against the temporary assistance to families (TAF) block grant. HHS made a certification visit to Kansas in early February and we are awaiting their report.

Waiver

Last session information was provided to the Senate Judiciary Subcommittee during hearings on SB 530 regarding the only state we were aware of that was granted a "waiver," Indiana. Indiana

does provide employers with a single location for submission of payments in wage withholding cases as required by PRWORA. The waiver allowed IV-D non-wage withholding case payments to be made to the Clerks of the Court. The waiver was granted based on the fact that the Clerks of the Court automated system was already linked allowing payment histories to be viewed statewide. In Kansas, on the other hand, the automated systems used by Court Clerks each operate independently with no linkage.

Michigan has also now been granted a waiver. The Michigan waiver requires a central receipt and processing location but allows checks to be disbursed (printed) from multiple locations. Michigan, like Indiana, is a county based IV-D system, while Kansas is state administered.

Planning

Planning and preparation for centralized payment of child support in Kansas has been extensive. Enactment of the federal legislation requiring all states to centralize support payments occurred in late 1996. Well before that event, however, SRS child support managers coordinated with the Office of Judicial Administration (OJA) to invite Lockheed IMS to come to Kansas in 1993 and present information to employers, state staff, and county personnel about the functions of Lockheed's child support payment centers. SRS recognized even then the potential benefits centralized collections could offer the child support program; Lockheed's presentation offered an opportunity to learn the business community's point of view about payment processing. Several large and small Kansas employers attended, and their response to the concept was very positive.

In September 1997, basic federal standards were issued concerning statewide collection processing. In acknowledgment of the inter-branch cooperation required for successful transition and for compliance, SRS and OJA committed to developing an effective partnership. A work team of key staff from each office was formed to develop initial business rules for the entity, dubbed the Kansas Payment Center (KPC).

The KPC work team has taken advantage of many opportunities to learn from the experience of states already operating central collection units. Representatives from OJA and SRS attended a topical, national symposium in Atlanta in December 1997. Site visits were made to the Connecticut and New York payment centers in December 1998 and to Wisconsin's payment center in early 1999. Centralized payment processing was the primary topic at HHS' 1998 Central States Judicial Conference, in which judicial and administrative representatives from Kansas, Iowa, Missouri, and Nebraska participated. Lastly, since May 1999 SRS has facilitated a monthly teleconference of state experts in central payment processing for HHS Region V (Chicago) and Region VII (Kansas City) states.

In 1998, SRS retained State Information Technology Consortium (SITC) to assist SRS and OJA with initial planning for centralized support collections in Kansas. The tasks at hand were to perform a comprehensive needs assessment, establish priorities, identify risks, and develop a strategy for mitigating risks to the extent possible. As part of this process, SRS and OJA co-hosted a two-day, inclusive stakeholder meeting at the Kansas Judicial Center in July 1998.

Participants included a variety of child support professionals from district court trustee operations, SRS, and the private bar; representative clerks of court, court administrators, and judges; and employers and legislators who had expressed ongoing interest in child support; as well as payors and families.

A critical decision that was made early on was whether to establish the Kansas Payment Center as a internal operation, developed and operated by state staff, or to outsource the development and operation. Although both approaches have been successful in other states, SRS and OJA concurred that outsourcing would provide proven expertise and technology, avoid a major increase in state staff, and provide an excellent means for meeting the needs of both the judicial and executive branches of government. Before reaching this consensus, however, discussions were held with staff from the State Treasurer's office to explore the possibility of that office becoming the pay center.

SRS and OJA worked together to issue a formal Request for Information (RFI) in October 1998. Six responses were received, several of which provided helpful background for the group's task of developing a Request for Proposal (RFP) that would address the unique circumstances and requirements in Kansas.

To assist the KPC work group in preparing the RFP, SRS contracted with Policy Studies Inc. (PSI) in March 1999 to provide expert advice on proposed business rules for the KPC and for technical support in drafting the statement of work for the RFP and preparing for the pre-proposal conference with interested vendors. Working with OJA and the Division of Purchases (Department of Administration), SRS issued the RFP in June 1999. Representatives from SRS and OJA participated in the pre-proposal conference, drafted addenda to the RFP, evaluated proposals, asked and answered questions, reviewed vendor demonstrations, and checked references.

Ultimately, Tier Technologies, Inc. of Walnut Creek, California, a vendor experienced in child support remittance processing in such states as Idaho, Maryland, and New Jersey, as well as other states, was selected as the successful bidder, and a contract was entered into on October 15, 1999. The costs of this service for the three year contract period is approximately \$17.5 million. Much of this cost is eligible for 66% federal financial participation. SRS projected the KPC would handle 158,000 transactions per month at an estimated value of \$30 million. Parents who pay and receive support are not charged for KPC services.

The KPC performs basic functions which were carried out in all the local district courts for handling child support payments made by parents or employers. The Kansas Payment Center receives the support payments, posts the payments to individual court order accounts, disburses the money to the appropriate person or office, and provides payment histories as needed. The KPC is subject to specific performance standards for timeliness and accuracy, accounting standards and internal controls for handling funds, and audits.

Because of the high level of automation the KPC called for, a project plan was submitted to and approved by the Executive Branch Chief Information Technology Officer (CITO). SRS and OJA have reported several times to the Joint Committee on Information Technology about the plans and progress of the KPC.

Tier's compensation for operating the KPC is based upon transaction volumes; our contract sets these prices for the full life of the contract, including any extensions. The costs for payment processing are based upon historical transaction volumes in Kansas. Because the automated voice response unit and specialized customer service unit are both new for Kansas, we have relied upon other states' experiences with customer service volumes as the basis for those cost projections.

The KPC also provides related services, which include:

- Operating a 24-hour VRU (voice response unit), allowing parents to check the status of recent payments;
- Operating a customer service unit to supplement the VRU during normal business hours;
- Providing web-access to payment histories;
- Making daily payment information available electronically for the District Court Trustees and SRS;
- Accepting payments made by electronic funds transfer (EFT); and
- When authorized by the individual, disbursing support to the family by making direct deposits to the custodial parent's bank account.

Although difficult to quantify, we believe that the savings to employers will be substantial. Savings for the business community will include replacing multiple remittances to multiple courts (postage and checks) with one remittance to the KPC. Also, the option to complete all remittances by a single transmission can reduce processing costs for large employers. We expect employers to benefit from having toll-free access to customer service representatives trained to assist employers with remittance questions. It is anticipated that Kansas employers will save approximately \$3 million per year because of reduced postage and administrative expenses.

Families, too, will benefit. The availability of direct deposit eliminates the fluctuations of mailed payments and provides protection from lost or stolen checks. This feature has proven popular in other states and carries the long term benefit of holding down processing costs.

Implementation

After a year of planning with Tier the KPC was established on September 29, 2000. There were several initial issues with the KPC primarily revolving around the timeliness of processing and the responsiveness of customer service staff. During the first four months of operation, October through January, 591,755 payments were received by the KPC representing \$113.4 million. For a payment to be properly credited and disbursed, the person making the payment (the employer or the obligor) should show on the payment whose support is being remitted and the court case number together with the county where the support order was entered. The payment is then sent directly from the payor to the KPC. When payments arrive at the KPC without sufficient identifying information, the processing of payments is delayed and the payment is placed into the "unidentified" status. Information available on the payment is used to do the research needed to determine how the payment should be processed. Each payment instrument, source document and envelope is optically scanned into KPC automation for use in research if needed.

Another reason payments become "unidentified" is because information concerning the case has not been entered into the KPC data base. In such cases, even though complete information has been provided on the payment, the KPC system doesn't recognize the court order number or the person paying.

The KPC has worked very hard to reduce the percentage of payments entering unidentified status. The total number of receipts going into unidentified status has steadily decreased from 10% to 2% daily. The 2,123 payments in the unidentified category on February 1st, which belong to families, represented \$439,682.

As with any accounts receivable system, certain payments will always be unidentifiable. Although the daily percent of unidentified payments varies, the current rate is between 2% and 3%. Anecdotal information from several other states indicates that a 5% rate is fairly common. Of the total receipts processed less than 1% (.87) are currently in unidentified status. The primary focus of the KPC, SRS, and OJA has been to resolve questions so that payments can be disbursed as timely as possible.

The KPC deposits cashable checks into an account at the UMB bank located in Topeka, Kansas. This is the same bank used by the State of Kansas. Since payments must be processed quickly and placed in the mail within 48 hours of receipt, most money does not remain in an account long enough to generate significant earnings. As mentioned earlier, only a relatively small percent of cases go into an unidentified status. 98% of the dollars processed by the KPC are done so within 48 hours. Any earnings from funds deposited helps to offset service charges on several accounts maintained by Tier. These charges include: monthly maintenance fee, cleared check fee, deposit fee, outgoing wire transfer fee, NSF fee, on-line access fee, check copy fee and other special service fees. The total interest earned to date on accounts held by the KPC is \$101,499.25. The total bank charges to date for the KPC is \$112,690.29. All of the bidders interested in contracting with the State knew that some earnings could be generated with an

average daily balance in a bank account. This revenue source was taken into consideration by all when submitting bids for services offered.

A frequently raised concern is the mail process. Checks are mailed Pre-Sorted First Class from the US Postal Service hub in St. Louis. Tier receives a discounted mailing rate as the envelopes are sorted by zip code and bar coded. A mail delivery test began on Friday, November 3rd with a second test on Monday, November 6th. Checks were tracked to a number of locations throughout the state in order to assess the mail delivery process. Results of the Friday test reflected a check with a mailing date of Friday, November 3rd was received in Hays and Wichita on Monday, November 6th.

Today

Progress and improvement continues to be made in payment center operations. The Kansas Payment Center's (KPC) automation continues to function as designed. Tier Technologies has hired additional full and part-time staff for the KPC; some of the best Tier staff from other state operations have been borrowed pending the hiring and training of new permanent staff; the percent of payments going into unidentified status (resulting in distribution delays) continues to decrease; and the average "wait time" when customers call the KPC has been significantly reduced.

Overall, the volume of complaint calls made to the KPC, the Office of Judicial Administration (OJA), the Department of Social and Rehabilitation Services (SRS) and other public officials, has decreased as more effective services are provided. SRS continues to receive a steady but manageable number of calls from concerned customers but, due to the decrease in volume of calls, more time is available to assist the caller and resolve problems that may be impacting their case.

Since beginning operations on September 29, 2000, Tier has increased staffing at the KPC from 45 to 80 to meet communication and processing needs. Currently, 18 customer service staff are available to receive phone calls. In addition to talking personally with a customer service representative, customers have the option of obtaining payment information from an automated voice response system or from a KPC web site. The number of incoming phone lines to the KPC has been increased from 50 to 72 to accommodate callers who wish to obtain automated or personal information.

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Future

To ensure that our positive trend towards improved KPC services continues, SRS, OJA, and Tier

managers participate in frequent conference calls and meetings to discuss customer needs, problem resolution, and operational issues. Tier has responded to SRS and OJA requests for corrective action by involving their top managers in Kansas; by committing to the hiring of more permanent staff; and by providing more staff training.

In addition, Steve Patterson, Director of SRS Information Technology Services, and several of his staff have coordinated efforts with OJA and Tier to meet frequently with court trustees and other court personnel to discuss operational issues and ways to improve the informational flow between the courts and the KPC. These meetings have been held in Johnson County and Douglas County.

Additionally, our future focus will address the length of time a payment is in unidentified status, outreach to employers and parents concerning the benefits of EFT and direct deposit, and correction of payment histories to reflect case adjustments. We are confident that by continuing to pool resources and partner with the OJA, the courts, and Tier Technologies, centralized payment processing will become a positive and beneficial service for both employers and parents.

Proviso

SSUB 2513 Sec. 20 (m)

SRS - State Operations - State Payment Center

Fiscal year: June 30, 2001

In addition to the other purposes for which expenditures may be made by the department of social and rehabilitation services from any moneys appropriated from the state general fund or any special revenue fund for the fiscal year 2001, as authorized by this or other appropriation act of the 2000 regular session of the legislature, expenditures shall be made by the department of social and rehabilitation services from any such moneys appropriated for fiscal year 2001 for the receipt, crediting and disbursement of moneys received by the department of social and rehabilitation services for payments of support pursuant to a rule or administrative order issued by the Kansas supreme court, which is hereby authorized to be issued by the Kansas supreme court, directing payments of support, which are made pursuant to any court order entered in this state regardless of the date of the order, to be made to a central unit for the collection and disbursement of support payments, notwithstanding the provisions of any statute to the contrary.

Bill Section	Statute Amended and Topic	Explanation of Change
1.	K.S.A. 23-4,106(o) – Income withholding act; definition of "Title IV-D"	Updates the definition to include changes in the federal law enacted since May 1, 1997.
2.	K.S.A. 23-4,108(b) and (h) – Income withholding act; payor's duties	Adds the phrase "a copy of" to clarify that a copy, rather than the original court document, is served on the payor (employer) and triggers the payor's duties under the act.
3.	K.S.A. 23-4,118 – Income withholding act; designated income withholding agencies	<p>The text being deleted was adopted originally to meet a federal requirement for income withholding. The old requirement has been repealed because the new requirement for centralized collection and disbursement has rendered it obsolete.</p> <p>In subsection (a), the new text describes in general the responsibility of SRS, the role of the Supreme Court, and the function of the Kansas Payment Center.</p> <p>Subsection (b) provides an automatic transition for existing support orders and income withholding orders that require payments to be remitted to the local court. This eliminates the need for attorneys or agencies to modify those orders individually.</p> <p>Subsection (c) provides, for purposes of this section, that a child support order includes maintenance (alimony) when ordered in conjunction with a child support order. This is needed because income withholding orders served on payors do not separate child support from maintenance; the payor is directed to withhold a sum for "family support," which may or may not include maintenance. Insuring that this type of maintenance is included in the transition to the KPC protects employers from having to send the child support portion to the KPC and the maintenance portion to the local court.</p>

4.	K.S.A. 23-4,136 – Income withholding act; voluntary withholding orders	Deletes a sentence directing where payments are to be remitted. This subject is addressed in K.S.A. 23-4,108(c), which has general application to all income withholding orders and was amended in 1997 to allow for establishment of centralized collections through Supreme Court rule. Removing the duplicate language in K.S.A. 23-4,136 reduces the risk of creating conflicting or inconsistent provisions.
5.	K.S.A. 38-1121(c) – Parentage act; order determining parentage and order for support	Deletes a sentence directing that the judgment require payments to be made through the local court. This subject is addressed in K.S.A. 38-1123 of the parentage act (section 6 of the bill). Removing the duplicate language here eliminates an inconsistent provision and reduces the risk of creating conflicting or inconsistent provisions in the future.
6.	K.S.A. 38-1123 – Parentage act; order for support	<p>The first sentence in subsection (a) applies to paternity and support orders entered before the Kansas parentage act was enacted in 1985; in those cases, existing law gives the court discretion to order payments be made through the local court instead of directly between the parents. The second sentence applies to orders entered after enactment of the parentage act, which eliminated payments directly between parents in parentage cases.</p> <p>In both sentences, the amendment replaces the reference to the local court clerk or trustee with a reference to the Kansas Payment Center.</p> <p>In subsection (b), the limited reference to the income withholding act is replaced by a fuller, more descriptive cross-reference.</p>

7.	K.S.A. 60-1610(a)(1) and (b)(2) – Divorce code; child support order; maintenance order	<p>In subsection (a)(1), which covers child support orders, the amendment replaces the reference to the local court clerk or trustee with a reference to the Kansas Payment Center. No change is made in the court's discretion to order otherwise, for good cause shown.</p> <p>In subsection (b)(2), which covers maintenance (alimony) orders, the amendment clarifies that in a case with only a maintenance order, payments will still go through the local courts. No change is made in the court's discretion to order otherwise, for good cause shown. Because the income withholding act authorizes income withholding in a "maintenance only" case, the provision is made subject to the requirements of the income withholding act.</p> <p>"Maintenance only" transactions were not included in the volume and cost projections for the KPC. There is no federal mandate for their inclusion, nor are they likely to be added to the mandate in the future.</p>
8.	K.S.A. 60-2308(e) – Code of civil procedure; exemption from garnishment or attachment	<p>Existing law makes support money in the hands of the clerk of court, district court trustee, or SRS exempt from garnishment or attachment. The amendment adds the KPC to this list of offices which handle support payments.</p>

9.	K.S.A. 60-2803(c) – Code of civil procedure; satisfaction and release of judgments	<p>When a money judgment has been paid, this section generally requires the judgment creditor to file a satisfaction and release of the judgment upon demand. With the exception of support payments, most civil money judgments are paid directly from one party to the other rather than through the court, and there is no public record of the payments.</p> <p>The existing exception in subsection (c) recognizes that where a public record of payments does exist, the need for a formal satisfaction and release is not critical for such purposes as clearing title to real estate.</p> <p>Payment histories maintained by the KPC will be available in a manner similar to the payment histories maintained by the local clerks of court, so the amendment adds a reference to the KPC to subsection (c).</p>
10.	n/a	Sections repealed; only the sections described above are included.
11.	n/a	Effective upon publication in the <i>Kansas Register</i> . To meet federal requirements by September 30, 2000, many activities must be completed. An earlier effective date will ensure that the Supreme Court has adequate time to adopt a rule or order governing designation of the KPC and the transition period. It will also ensure that the KPC contractor can complete preparation of accounts and outreach to parents and employers in a timely manner.



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Testimony to the Senate Ways and Means Committee on SB 329

March 1, 2001

Kathy Porter

The Office of Judicial Administration (OJA) wishes to testify in support of Senate Bill 329. OJA has worked closely with the Kansas Department of Social and Rehabilitation Services (SRS) in the development and implementation of the Kansas Payment Center (KPC). Prior to implementation of the KPC, support-related payments were made to the local office of the clerk of the district court or the local court trustee. Cooperation between Tier Technologies (the vendor operating the KPC), SRS, and OJA was necessary to make the transition from the local systems to the centralized system as successful as possible.

SRS introduced Senate Bill 530 to the 2000 Legislature. This bill would have, in part, redirected payment of support from the local court locations to the KPC. SB 530 died in committee. Therefore, a proviso in the 2000 Omnibus budget bill was enacted which authorized the Kansas Supreme Court to issue an administrative order directing child support payments to be made to the KPC instead of to the district courts, at the time the KPC was ready to begin operations.

In September 2000, Secretary Schalansky and Tier President Jim Weaver both wrote letters to Kansas Supreme Court Chief Justice Kay McFarland, stating they believed the KPC was ready to begin statewide operation on September 29, 2000, and requested the Kansas Supreme Court to issue the administrative order authorized by the Legislature. SRS was facing the federal requirement to begin operation or to incur substantial federal monetary penalties. Therefore, the Supreme Court did issue Administrative Order No. 154, which directs that support payments be made to the KPC.

It is important to note that Administrative Order No. 154 is effective only through June 30, 2001. Therefore, continued operation of the KPC will require legislation this year. In current law, K.S.A. 2000 Supp. 60-1610 (a)(1) states, in part, "Every order requiring payment of child support under this section shall require that the support be paid through the clerk of the district court or the court trustee except for good cause shown." This is amended in the proposed legislation to redirect such payments to the Kansas Payment Center. Last year's proviso and subsequent Supreme Court Administrative Order have temporarily made that redirection occur.

Without legislative action, the statutory requirements that support payments be made through the clerk of the district court or the court trustee will again become effective on July 1, 2001. At that point in time, the KPC will have been in operation for nine months, and it will be nearly impossible for the system of receipting and disbursing these payments to be returned to the courts.

The Office of Judicial Administration requests three amendments to SB 329. On page 5, at lines 20-24, we would suggest the elimination of the last sentence which reads, "Upon designation by the Kansas supreme court, the central unit for collection and disbursement of support payments shall commence operations with respect to support orders entered in each county as provided in a schedule adopted or approved by the supreme court or the supreme court's designee." This language was part of the proposed bill from last session, but is not necessary in the present bill, as the KPC is already in operation.

The second amendment concerns Section 7(b)(2) on page 14 at lines 20 through 21. The language requiring payment of maintenance to the clerk of the district court or the court trustee should be amended to provide for payment through the "*central unit for collection and disbursement of support payments designated pursuant to K.S.A. 23-4,118, and amendments thereto,*" so that maintenance payments will be handled in the same manner as support payments. The "*except for good cause shown*" language that applies to child support payments should apply to maintenance payments, as well.

In addition, the Judicial Branch would like to include another cleanup item in House Bill No. 2508. We propose to eliminate the language in K.S.A. 2000 Supp. 23-4,111(e) which states, "If support payments are undeliverable to the obligee, any such payments shall be held in trust by the court until the payments can be delivered." This subsection addresses payments on income withholding orders. Those payments are currently made to the KPC, not to the district court. Therefore, this statute is no longer necessary. In addition, any such payments currently held by the court would be much more likely to reach the intended recipients if they were submitted by the court, as all other unidentifiable funds are, to the State Treasurer pursuant to the Unclaimed Property Act, K.S.A. 58-3934 et seq.

Thank you for the opportunity to testify on SB 329. I would be glad to try to answer any questions you might have.