REVISED

Approved: February 21, 2002
Date

MINUTES OF THE COMMITTEE ON SENATE WAYS AND MEANS.

The meeting was called to order by Chairperson Stephen Morris at 10:40 a.m. on February 5, 2002 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
- Leah Robinson, Kansas Legislative Research Department
- Deb Hollon, Kansas Legislative Research Department
- Audrey Nogle, Kansas Legislative Research Department
- Julian Efird, Kansas Legislative Research Department
- Michael Corrigan, Assistant Revisor of Statutes
- Judy Bromich, Assistant to the Chairman
- Mary Shaw, Committee Secretary

Conferees appearing before the committee:
- Jim Murphy, Fiscal Management, Kansas Department of Health and Environment
- Dr. Duane Boline, Director, Kansas Health and Environmental Laboratory, Department of Health and Environment
- Philip Bradley, Kansas Licensed Beverage Association
- Bobbi Mariani, Director, Division of Personnel Services, Kansas Department of Administration
- Janet Palmer, Personnel Director, Kansas Department of Human Resources
- Allen Humphrey, Chief of the Bureau of Personnel Services, Kansas Department of Transportation
- Betty M. Vines, President, Kansas Association of Public Employees (written)
- Pat Saville, Chairperson, Employee Award Board (written)
- Stephen S. Richards, Secretary, Kansas Department of Revenue

Others attending: See attached list

Chairman Morris announced that the Committee will proceed with consideration of the Governor's Budget since **SB 385** would not have enough votes to pass the Senate. Senator Salmans asked about flagging items in case something does happen or priority items in regard to the subcommittees. Chairman Morris mentioned that if there was something obvious, please call attention to it and explained that he will visit with each subcommittee chairperson about instructions. Committee questions and discussion followed.

Bill Introductions

Senator Salmans moved, with a second by Senator Jordan, to introduce a bill requested by the Department of Social and Rehabilitation Services regarding additions to the list of unclassified state employee positions (1rs1377). Motion carried on a voice vote.

Senator Salmans moved, with a second by Senator Jackson, to introduce a bill requested by the Emergency Medical Services Board concerning providing financial support; imposing a levy on certain home and automobile insurance business (1rs1932). Motion carried by a voice vote.

Chairman Morris introduced Alan Conroy, Chief Fiscal Analyst, Kansas Legislative Research Department, who updated the Committee on the State General Fund (SGF) Receipts, July through January, FY 2002 (Attachment 1). Mr. Conroy mentioned that this is the third month of experience under the revised estimate of SGF receipts in FY 2002 made by the Consensus Estimating Group on November 2, 2001. He also noted that receipts for January were negatively impacted by the ice storm, which closed state offices on January 29 and part of January 30. This caused tax remittance processing delays in the Department of Revenue. Information is detailed in Mr. Conroy's attachment. The next meeting of the Consensus Revenue Estimating Group to review, and if necessary, revise SGF estimates for FY 2002 and

FY 2003 is scheduled for March 8, 2002. The regular consensus estimating dates have been moved from April and November to March and October. The Chairman thanked Mr. Conroy for the update on the State General Fund Receipts.

Chairman Morris opened the public hearing on:

SB 416 – Expenditures from the driving under the influence equipment fund

Staff briefed the Committee on the bill.

Jim Murphy, Fiscal Management, Department of Health and Environment, introduced Dr. Duane Boline, who testified regarding **SB 416**.

Dr. Duane Boline, Director, Kansas Health and Environmental Laboratory, Department of Health and Environment, spoke in support of **SB 416** (Attachment 2). Dr. Boline discussed and explained in his testimony the utilization of the Department of Health and Environment's Breath Alcohol Program fund.

Philip Bradley, Kansas Licensed Beverage Association, spoke regarding what appears to be the intent of the bill taking out any possibility of these funds or resources used for driver's safety programs. They are always concerned and prefer prevention and safety over enforcement. He was concerned that it appears that the intent is that these funds are strictly for the enforcement. (No written testimony was submitted.) Chairman Morris noted that the Department of Health and Environment indicated that they intend to also have separate training for prevention and safety.

Committee questions and discussion followed. Chairman Morris thanked the conferees for appearing before the Committee. There being no further conferees to come before the Committee, the hearing was closed on **SB 416**.

Chairman Morris opened the public hearing on:

SB 429 – Establishing an employee award and recognition program

Staff briefed the Committee on the bill.

Bobbi Mariani, Director, Division of Personnel Services, Department of Administration, spoke in favor of **SB 429** (Attachment 3). Ms. Mariani explained that the bill consolidates the existing award and recognition programs for state employees including length of service pin awards, Kansas Quality Management (KQM), the Employee Suggestion Program (ESP), and the bonus portion of the Kansas Savings Incentive Program (KSIP) into one statewide program.

Janet Palmer, Personnel Director, Kansas Department of Human Resources, spoke in favor of **SB 429** (Attachment 4). Ms. Palmer mentioned that the Department is constantly striving to recruit and then retain exceptional employees. She noted that a meaningful recognition program gives them a way to recognize the contribution employees make to the success of the agency and state government through excellence in performance and service.

Allen Humphrey, Chief of the Bureau of Personnel Services, Kansas Department of Transportation, spoke in favor of **SB 429** (Attachment 5). Mr. Humphrey explained that the Department is fortunate in having a committed workforce and it is for that reason that they support **SB 429** because it provides a means to reward state employees and to acknowledge and demonstrate their appreciation of employee efforts.

Betty M. Vines, President, Kansas Association of Public Employees, submitted written testimony regarding **SB 429** (Attachment 6).

Pat Saville, Chairperson, Employee Award Board, submitted written testimony regarding **SB 429** (Attachment 7).

Committee questions and discussion followed. The Chairman thanked all 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 429**.

Chairman Morris called the Committee's attention to discussion of:

SB 416 – Expenditures from the driving under the influence equipment fund

Senator Feleciano moved, with a second by Senator Adkins, to recommend **SB 416** favorably for passage. Motion carried on a roll call vote.

SB 429 – Establishing an employee award and recognition program

Senator Feleciano moved, with a second by Senator Adkins, to recommend **SB 429** favorably for passage. Motion carried on a roll call vote.

Chairman Morris welcomed Stephen Richards, Secretary, Kansas Department of Revenue, who presented a briefing on:

- Progress that the Department of Revenue has made in its Collection Initiatives
- Corporate Income Tax Receipts not performing as expected
- Update regarding the Panhandle Eastern Pipeline Tax Court Case

Secretary Richards addressed the topics listed above in his written testimony (Attachment 8). Committee questions and discussion followed. The Chairman thanked Secretary Richards for his appearing before the Committee.

The meeting was adjourned at 12:00 noon. The next meeting is scheduled for February 6, 2002.

SENATE WAYS AND MEANS COMMITTEE
GUEST LIST
DATE February 5, 2002

NAME	REPRESENTING
Jack Glaves	Panhandle Eastern, Duke Energy, Williams
Jim Murphy	KDHE
Duane Baline	KDHE
Janet Palmer	KDHR
Allen Humphrey	KDOT
Richard Young	SRS
Brenda Owens	KDOC&H
Janice Magathan	DOA
Jeff Bottenberg	Kansas Peace Officers
Philip Bradley	KLBA.
[illegible] Frideaux	ABU
Robert Ehrlehner	KIOGA
Les Lauber	DofA
Susan Mahoney	Governor's Office
Karen Watney	Dep A
B. Mariani	DofA

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February 5, 2002

To: Legislative Budget Committee

STATE GENERAL FUND (SGF) RECEIPTS
July through January, FY 2002

This is the third month of experience under the revised estimate of SGF receipts in FY 2002 made by the Consensus Estimating Group on November 2, 2001. The figures in both the "Estimate" and "Actual" columns under FY 2002 on the following table include actual amounts received in July-October. That means that this report deals mainly with the difference between estimated and actual receipts in November through January.

Total receipts through January of FY 2002 were $97.6 million or 4.1 percent below the estimate.

The only taxes that exceeded the estimate by more than $1.0 million were estate ($5.6 million) and sales ($2.2 million). Taxes that fell below the estimate by more than $1.0 million were corporation income ($55.3 million), individual income ($35.0 million), compensating use ($5.6 million), liquor enforcement ($2.3 million), and financial institutions privilege ($1.4 million).

Receipts for January were negatively impacted by the ice storm, which closed state offices on January 29 and part of January 30. This caused tax remittance processing delays in the Department of Revenue. About $7.8 million in receipts were deposited during the final two days of the month, compared with approximately $50 million during the final two processing days of January 2001. Additional individual income, sales, and compensating use tax receipts likely will be processed during the first few days of February that otherwise would have been credited to the SGF at the end of January. However, the shortfall in individual income tax receipts appears not to be entirely a result of weather-related processing delays. Estimated payments for December and January (combined) were $16 million below the same two-month period from a year ago.

Recall also that, due to significantly larger than anticipated refunds, corporation income taxes through the end of December were $54.6 million below the estimate. An additional refund not contemplated by the current estimate is due because of a Kansas Supreme Court opinion in *In re Tax Appeal of Panhandle Eastern Pipeline Co.* (January 25, 2002). That refund, likely to be in excess of $26 million, had not been paid by the end of January.

Senate Ways and Means
2-5-02
Attachment 1

Interest and agency earnings exceeded the estimate by $1.6 million and $1.9 million, respectively. Transfers from the SGF exceeded the estimate by $8.4 million. On January 18, the Department of Revenue transferred $9.2 million from the SGF for the final payment to a vendor for the Department's Project 2000. The transfer and subsequent payment, while included in the FY 2002 SGF projections, had not been anticipated for January.

Total taxes for FY 2002 to date fell below last year's collection by $34.3 million or 1.4 percent.

This report excludes the deposit to the SGF of $350.0 million due to issuance of certificates of indebtedness in September and December. These certificates will be discharged prior to the end of the fiscal year.

The next meeting of the Consensus Revenue Estimating Group to review and, if necessary, revise SGF estimates for FY 2002 and FY 2003 is scheduled for March 8, 2002. Normally, this meeting would be held on or a day or two before April 4, but is being held earlier this year at the request of the President of the Senate and Speaker of the House in view of the unusually difficult state budget issues with which the Legislature must contend.

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STATE GENERAL FUND RECEIPTS
July-January, FY 2002
(dollar amounts in thousands)

	Actual FY 2001	FY 2002 Estimate*	FY 2002 Actual	FY 2002 Difference	Percent Increase-- FY 2002 Over FY 2001	Percent Increase-- FY 2002 Over Estimate
Property Tax:						
Motor Carriers	$ 10,925	$ 11,390	$ 11,829	$ 439	8.3 %	3.9 %
Income Taxes:						
Individual	$ 1,095,579	$ 1,128,000	$ 1,092,957	$ (35,043)	(0.2) %	(3.1) %
Corporation	101,494	90,000	34,713	(55,287)	(65.8)	(61.4)
Financial Inst.	13,194	14,800	13,392	(1,408)	1.5	(9.5)
Total	$ 1,210,268	$ 1,232,800	$ 1,141,063	$ (91,737)	(5.7) %	(7.4) %
Estate Tax	$ 22,378	$ 27,400	$ 32,958	$ 5,558	47.3 %	20.3 %
Excise Taxes:						
Retail Sales	$ 848,262	$ 874,500	$ 876,707	$ 2,207	3.4 %	0.3 %
Comp. Use	133,084	148,000	142,395	(5,605)	7.0	(3.8)
Cigarette	28,733	29,100	28,470	(630)	(0.9)	(2.2)
Tobacco Prod.	2,410	2,500	2,500	(0)	3.7	(0.0)
Cereal Malt Bev.	1,451	1,475	1,420	(55)	(2.1)	(3.7)
Liquor Gallonage	8,689	8,500	8,589	89	(1.2)	1.0
Liquor Enforce.	20,844	22,200	19,936	(2,264)	(4.4)	(10.2)
Liquor Dr. Places	3,613	3,900	3,504	(396)	(3.0)	(10.2)
Corp. Franchise	6,732	7,025	6,933	(92)	3.0	(1.3)
Severance	50,269	37,100	36,693	(407)	(27.0)	(1.1)
Gas	42,427	28,000	27,822	(178)	(34.4)	(0.6)
Oil	7,842	9,100	8,871	(229)	13.1	(2.5)
Total	$ 1,104,087	$ 1,134,300	$ 1,127,148	$ (7,152)	2.1 %	(0.6) %
Other Taxes:						
Insurance Prem.	$ 24,615	$ 24,650	$ 25,059	$ 409	1.8 %	1.7 %
Miscellaneous	694	750	583	(167)	(16.0)	(22.3)
Total	$ 25,309	$ 25,400	$ 25,642	$ 242	1.3 %	1.0 %
Total Taxes	$ 2,372,967	$ 2,431,290	$ 2,338,639	$ (92,651)	(1.4) %	(3.8) %
Other Revenue:						
Interest	$ 53,015	$ 26,500	$ 28,096	$ 1,596	(47.0) %	6.0 %
Transfers (net) **	52,694	(103,700)	(112,073)	(8,373)	--	(8.1)
Agency Earnings and Misc.	27,351	29,500	31,378	1,878	14.7	6.4
Total	$ 133,061	$ (47,700)	$ (52,599)	$ (4,899)	-- %	10.3 %
TOTAL RECEIPTS***	$ 2,506,028	$ 2,383,590	$ 2,286,040	$ (97,550)	(8.8) %	(4.1) %

* Consensus estimate as of November 2, 2001.

** Estimates include transfers out attributable to Project 2000 of the Dept. of Revenue.

*** Does not include the $350.0 million to the SGF from issuance of the Certificate of Indebtedness.

NOTE: Details may not add to totals due to rounding.

Kansas Legislative Research Department February 5, 2002

KANSAS
DEPARTMENT OF HEALTH & ENVIRONMENT
BILL GRAVES, GOVERNOR
Clyde D. Graeber, Secretary

Testimony on Breath Alcohol Program Fund Utilization
to
Senate Ways and Means Committee
Presented by Dr. Duane Boline, Laboratory Director

February 5, 2002

Chairman Morris and members of the Senate Ways and Means Committee, I am pleased to appear before you today to discuss the utilization of the Department of Health and Environment's Breath Alcohol Program fund.

Chapter 75, Article 56, section (b) states: "Moneys in the driving under the influence equipment fund shall be used by the department of health and environment only for the purpose of purchasing blood or breath alcohol concentration testing equipment and maintaining drivers' safety programs."

This initiative seeks clarification of the intent of the phrase "maintaining drivers' safety programs." The statute clearly authorizes the use of these funds for the purchase of breath alcohol testing equipment. There are currently 211 instruments in service located at 130 law enforcement agencies in the state of Kansas. A replacement program for these instruments is scheduled to begin in fiscal year 2003. Statute 65-1,107 requires the KDHE to provide training for law enforcement personnel and certification of this training. This statute also requires periodic inspection of the testing equipment. The performance of the testing equipment is validated and certified annually. KDHE personnel are frequently subject to subpoena for providing testimony in DUI cases where breath alcohol testing issues related to certification of instruments and personnel are presented. The revisions to DUI legislation that became effective July 1, 2001, have resulted in an increased number of subpoenas for testimony by KDHE personnel.

The expenses incurred for travel, supplies, instrument service, and repair are a part of the driver safety program as supported by the KDHE. The agency needs to relocate the laboratory to the first floor in building 740 Forbes to enhance efficiency, provide convenient access for law enforcement personnel, and improve security for the laboratories providing testing related to bio-terrorism events. This relocation will enable the support person assigned to this laboratory to provide services for other sections of the Laboratory Improvement Office and improve operational efficiency for the office. The development of a computerized database is planned to provide a more efficient means for scheduling, tracking, and documentation of the services provided. These enhancements will enable the laboratory to provide the services required to support the breath alcohol program in a cost effective manner.

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Senate Ways and Means
2-5-02
Attachment 2

This revision provides for the use of moneys from this fund for these expenses. Utilization of these moneys will minimize the need for additional state general funds for support of this program. However, these funds are dependent upon factors outside the control of KDHE and should be used only as a supplement to the state general funds.

I would like to recommend that the wording in Chapter 75, Article 56, section (b) state: Moneys in the driving under the influence equipment fund shall be used by the department of health and environment only for the purpose of purchasing breath alcohol concentration testing equipment, including but not limited to, laboratory enhancement and for purposes relating to presentation of evidence in prosecution in cases involving driving under the influence.

I thank you for the opportunity to appear before the Senate Ways and Means Committee and will gladly stand for questions the committee may have on this topic.

Testimony to the
Senate Ways and Means Committee
By
Bobbi Mariani, Division of Personnel Services

February 5, 2002
SB 429 - Statewide Award and Recognition Program

Thank you for the opportunity to speak to you in support of Senate Bill 429. This bill consolidates the existing award and recognition programs for state employees including length of service pin awards, Kansas Quality Management (KQM), the Employee Suggestion Program (ESP), and the bonus portion of the Kansas Savings Incentive Program (KSIP) into one statewide program. These programs were implemented at different times and have unique requirements, types of recognition and funding sources, but there has still been overlap and confusion on the part of agencies and employees. The existing Employee Award Program, and the Employee Award Board, would be abolished since employee awards would be administered at the agency level.

This bill provides a coordinated employee award and recognition system that recognizes an employee's contribution to the agency and state government through excellence in performance and service. Award categories would include distinguished accomplishment, meritorious service, innovation, Kansas Quality Management, volunteerism, and length of service. This proposal would not impact the longevity bonus program. Employees may be nominated for awards individually or as part of a group under each category. All classified and unclassified employees would be eligible to receive an award.

Agencies could provide monetary and non-monetary awards to employees. The total gross value of monetary awards to a single employee during a fiscal year cannot exceed $3,500. The award would be a discretionary bonus and therefore not considered pay for overtime calculations. This program would not require additional funding. Agencies would have to fund this program from current operating resources or from funds authorized by the KSIP program if appropriated. Even though some agencies may not have funds available for monetary awards, the real emphasis of the program should be meaningful recognition.

Senate Bill 429 provides agencies maximum flexibility to establish award and recognition programs that support the agency mission, goals and objectives within their available resources. Agencies that choose to implement the program should develop a plan to guide them in the administration of the program and to ensure consistent application. Because some agencies currently have award and recognition programs in place, Senate Bill 429 would also provide consistent statewide application of award and recognition programs for employees.

An award and recognition program supports the move toward a more contemporary program for state employees by rewarding the individual employee's contribution to the agency mission and public service. As such, it also serves as an effective recruitment and retention tool and gives us a competitive edge with the private sector. This type of program is one way to provide motivation and recognition to state employees for their service and performance.

Senate Ways and Means
2-5-02
Attachment 3

The state employee retention survey revealed that 71% of employees did not feel that hard work was rewarded at their agency. The survey also concluded that most employees do not see a connection between their effort or effectiveness and the rewards they receive. It is vital that employees see this connection or there is less incentive to work hard and put extra effort in the performance of their jobs.

With the current budget issues the state is facing, the outlook for state employees to receive a significant pay increase during fiscal year 2003 appears unlikely. We should consider alternative perks and benefits that are visible and demonstrate to employees that they are valued in the workplace. The use of awards as an effective tool for this purpose is documented. A recent survey conducted by World at Work and the National Association of Employee Recognition revealed that even though we are in an economic slowdown, organizations are not overlooking employee recognition. Eighty-six percent of the respondents had a recognition program in place. Organizations responding to the survey hope by officially rewarding employees for their achievements and efforts during good times and bad will improve employee morale and ensure employees know they are a vital part of the organization. We need to convey that message to our state employees through the proposed program.

I request your favorable consideration of Senate Bill 429. Thank you.

Testimony – SB 429 – Employee Award & Recognition

Good morning and thank you for this opportunity to speak on behalf of Senate Bill 429. My name is Janet Palmer and I am the Personnel Director for the Kansas Department of Human Resources.

KDHR, along with other state agencies, is constantly striving to recruit and then retain exceptional employees. A meaningful recognition program gives us a way to recognize the contribution employees make to the success of the agency and state government through excellence in performance and service.

By combining several programs into one umbrella program, we would have the flexibility to establish award and recognition programs that support KDHR's mission and strategic plan, within available resources. Our employees exceed expectations every day; the work they do directly affects the lives of Kansas across the state. With the current budget issues facing the State, we simply must find alternative ways to demonstrate to our employees that we value the exceptional work they do and the contributions they make.

The proposal before you would allow us to select from several award categories. In addition to the specific work-related areas, the volunteerism category would provide us with the opportunity to acknowledge and recognize the valuable contributions many of our employees make to their communities <u>after</u> working hours. Other than a heartfelt "thank you", we currently have no way to provide any tangible award in recognition of exceptional community service.

Senate Ways and Means
2-5-02
Attachment 4

Another category that would be of particular interest to us is that of meritorious service. Occasionally, we have an employee who consistently performs the duties of his or her position at a level far above what would normally be expected. We would like to be able to reward and recognize the exemplary service that employee provides. Again, there is no current mechanism in place to be able to do that.

Your support of this bill will help us recognize the outstanding achievements of our employees and move towards becoming an employer of choice in the communities we serve.

STATE OF KANSAS

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E. Dean Carlson
Secretary of Transportation

Bill Graves
Governor

TESTIMONY BEFORE
SENATE WAYS AND MEANS COMMITTEE

REGARDING SENATE BILL 429
EMPLOYEE REWARD AND RECOGNITION PROGRAM

February 5, 2002

Mr. Chairman and Members of the Committee:

Good morning, my name is Allen Humphrey, Chief of the Bureau of Personnel Services. On behalf of the Kansas Department of Transportation (KDOT), I appreciate the opportunity to testify on Senate Bill 429.

There is no need to describe the budget issues facing the legislature this year. Yet, even in lean times, we must remember the committed employees who serve the citizens of Kansas and perform critical services that result in tangible benefits.

We at KDOT are fortunate in having a committed workforce. It is for this reason that KDOT supports Senate Bill 429. It provides a means to reward state employees and to acknowledge and demonstrate our appreciation of their efforts. The bill allows state agencies additional flexibility in developing programs that are proactive and tailored to individual agency needs. As an example the bill provides a way to reward employees for meritorious service.

In summary, KDOT supports Senate Bill 429. As we constantly seek methods to increase our effectiveness in the areas of recruitment and retention, we cannot and should not ignore the proven benefits of awards and recognition.

Senate Ways and Means
2-5-02
Attachment 5

KAPE
FPE / AFT / AFL-CIO

The Kansas Association of Public Employees

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February 5, 2002

The Honorable Stephen Morris
Kansas Senate
Capitol Building, Room 120-S
Topeka, KS 66612

Dear Senator Morris,

The Department of Administration, Division of Personnel Services has proposed legislation that would combine the current award and recognition programs for state employees into one statewide program. Senate Bill 429 consolidates current legislative award programs including Length of Service (Service Pin Awards), Kansas Quality Management (KQM), Employee Suggestion Program, and the bonus portion of the Kansas Savings Incentive Award Program (KSIP) into one statewide program. KAPE feels that having all statewide award and recognition programs under the umbrella of one program would help to minimize the overlap and confusion on the part of the agencies and employees. The proposal gives agencies flexibility to develop a reward and recognition program that is tailored to their needs and resources.

KAPE believes that by consolidation of the programs listed above, it will simplify a concept that will be easy for both current employees and potential employees to understand. Awards are another way to recognize employees for their unique service or performance to state government. While this is not a benefit that every employee will be able to benefit from, an award and recognition program can be a handy tool in the retention and recruitment of quality employees.

KAPE supports this bill and we encourage your committee's favorable consideration.

Sincerely,

Betty M. Vines

Betty M. Vines, President
Kansas Association of Public Employees

Senate Ways and Means
2-5-02
Attachment 6

STATE OF KANSAS

http://da.state.ks.us

DEPARTMENT OF ADMINISTRATION
Division of Personnel Services

BILL GRAVES
Governor

JOYCE H. GLASSCOCK
Acting Secretary of Administration

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February 5, 2002

Senator Steve Morris
Chairperson, Ways and Means
Capitol Building, Room 120-S
Topeka, Kansas 66612

Dear Senator Morris:

The Department of Administration, Division of Personnel Services has proposed legislation that would combine the current award and recognition programs for state employees into one statewide program. Senate Bill 429 consolidates current legislative award programs including Length of Service (Service Pin Awards), Kansas Quality Management (KQM), Employee Suggestion Program (ESP), and the bonus portion of the Kansas Savings Incentive Program (KSIP) into one statewide program. The proposal gives agencies the flexibility to develop a reward and recognition program that is tailored to their needs and resources. The program would allow agencies to use monetary and non-monetary awards.

The Employee Award Board feels that having all statewide award and recognition programs under the umbrella of one program would help to minimize the overlap and confusion on the part of agencies and employees. Often, the Board receives suggestions that are worthy of recognition, but fall outside the Board's scope of authority. The bill would provide an avenue for agencies to reward and recognize employees for suggestions or achievements that currently do not meet the criteria for the Employee Suggestion Program.

SB 429 would eliminate the Employee Suggestion Program and abolish the Employee Award Board, but we believe it will strengthen and enhance the award program and benefit more agencies and employees.

Sincerely,

Pat Saville

Pat Saville, Chairperson
Employee Award Board

Senate Ways and Means
2-5-02
Attachment 7

ATE OF KANSAS
Bill Graves, Governor

DEPARTMENT OF RE UE
Stephen S. Richards, Secretary

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Office of the Secretary

Secretary Stephen Richards
Senate Ways & Means Committee

February 5, 2002

Mr. Chairman and members of the Committee:

I want to thank you for the opportunity to appear before you today and share with you the progress the Department of Revenue has made in its Collection Initiatives, report on our analysis of corporate tax receipts and the Panhandle Eastern tax case.

I would like to begin with the good news. Last session, the legislature recognized the need to improve the collections of our accounts receivable and was gracious enough to provide the necessary resources to begin the task of improving tax collections. We established, with the legislature help, some sizable goals for the Department. Those goals, we believe, are still within our reach.

Before I share the results of our collections, let me begin with my story of the file cabinet. **(slide 1)** When I became Secretary, I recognized the need to improve our collections of account receivables. The level of receivables and the method employed were alarming.

However, when I opened the file cabinet that contained the tax accounts, we discovered several additional concerns. Not only were there collections dating back several years, but the Department had not adequately notified taxpayers of balances due.

Senate Ways and Means
2-5-02
Attachment 8

As we looked deeper into the file cabinet, we recognized that a significant number of taxpayers had unfiled returns, we were not matching IRS data with Kansas returns, had not fully participated in the IRS tax refund offset program and needed to continue notifying taxpayers of changes in sales tax filing frequency. These compliance programs needed immediate attention.

I also discovered that we had 100,000 unanswered letters from taxpayers and 134,000 tax returns needing additional information. Tax returns had to be worked and taxpayer correspondence had to be answered before we could correctly bill and collect delinquent amounts. Our file cabinet was full and required work beyond tax collections.

I instituted a strategy that simultaneously re-instituted tax billings, began compliance initiatives focused on tax filings, attacked the backlog of tax returns and correspondence and began tax collections. This strategy worked, but not without criticism. Taxpayers and tax-preparers are hearing from the Department, in some cases after a long time. We have sent out over 250,000 notices covering delinquent balances, unfiled returns, unpaid 1999 and 2000 taxes, and changes in filing frequency. At the same time we have resolved taxpayer correspondence and work over 100,000 tax returns. **Slide 2** shows the significant reduction in our backlogs from over 238,000 items to 82,000 items today. This is a major accomplishment for the Department and positions us to respond to taxpayers inquires within 30-45 days.

What has all this meant to collections?
I am please to report that in addition to our compliance efforts, collections are ahead of the goals set at the end of last session. We are two positions short of our staffing plan, yet all new associates have received appropriate training.

As you can see, **(slide 3)** we have progressively increased our collections over last year. Through January 15th, we had collected \$22.1 million in FY01. The same period this fiscal year, we have collected \$41.1 million compared to our goal of \$38.1 million. We are on target - on schedule - to finish this year in meeting our goal of \$48 million in increase collections. While these compliance initiatives contribute to more accounts receivables, they are a critical component to increasing tax collections and ensure all taxpayers pay their fair share.

Mr. Chairman, I will now shift to the not so good news. It is becoming painfully known that our corporate income tax receipts are not performing as expected. Through January, receipts are $55 million below consensus revenue estimates. It is $66 million below last year. The Department has prepared a detailed analysis of the decline in receipts. If the committee has not already received a copy, I will be happy to provide them. Let me summarize the findings. Generally speaking we did not find a smoking gun. We believe the deterring economic condition is the contributing factor.

1. Economic recession hit the corporate world earlier than expected and earlier than the retail market. Economic forecasters predicted growth in 2000 to continue at 4%, with some projecting this level into 2001. Yet real growth, GDP, was only at 2%.

2. Corporate profit exceptions for 2000 provided continue levels of estimated tax payments in late 2000 and early 2001. When corporate returns were finalized in summer and fall of 2001, large overpayments were realized from smaller profit levels. This triggered the significant increase in refund requests: $40mm in Nov. and $18mm in December

3. When declining profits and economic recession were realized in mid-late 2001, corporate estimated payments were adjusted downwards for the 2001 tax year. Reducing receipts further.

4. When we combine the refunds of prior years overpayments with lower estimated payments for the current tax year, Kansas has been hit hard.

5. While it is no relief, Kansas is not alone. Other states have experienced 24-45% declines in corporate tax receipts.

The other question answered in our analysis is trends in tax credits claimed by corporate taxpayers. **(slide 4)** As the committee can see we have experienced a shift in credits away from business & job development credits to high performance incentives and business machinery & equipment credits. However, total credits claimed have not significantly changed and therefore would not contribute to the declining tax receipts.

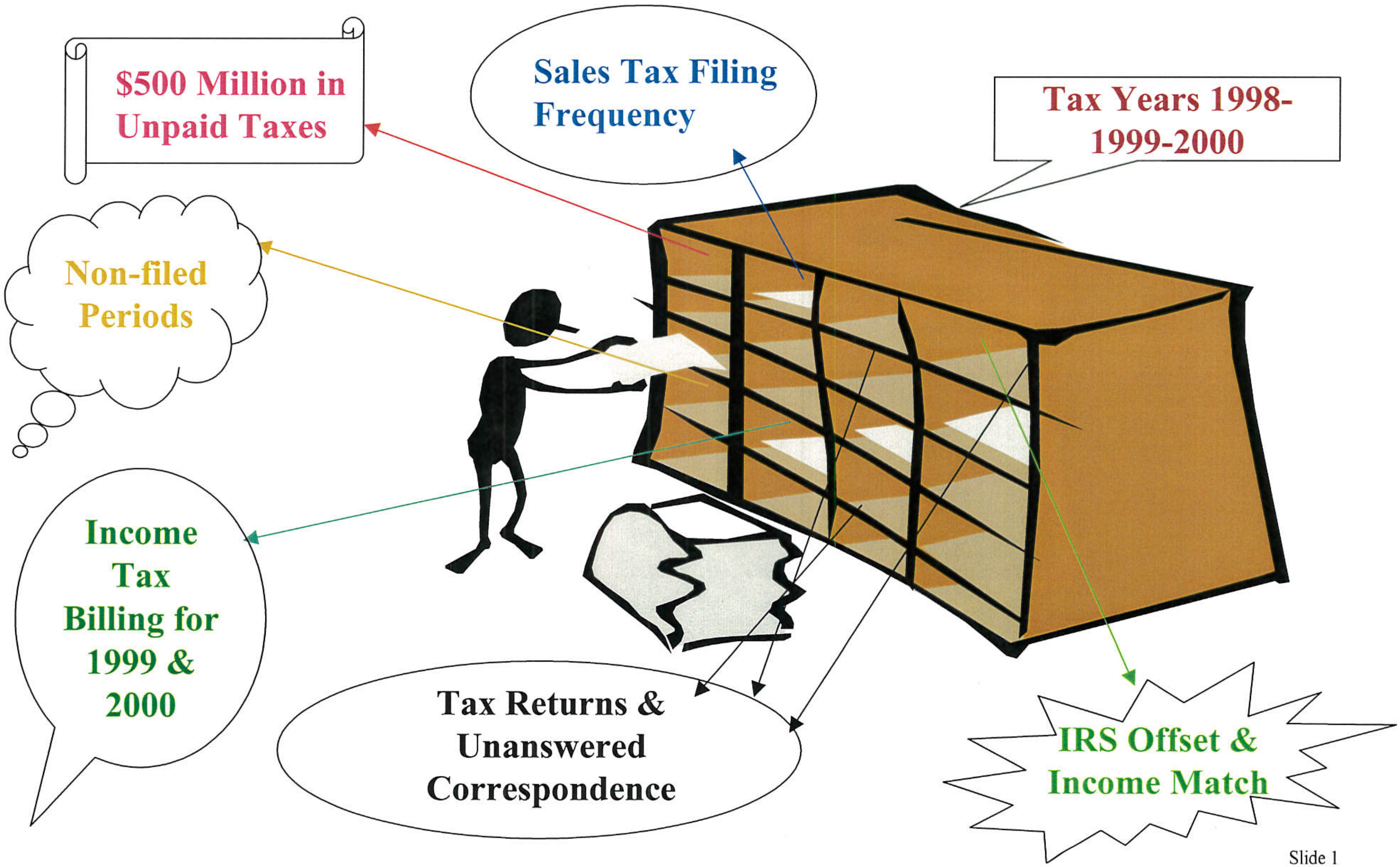
Finally, let me turn your attention to the recent Kansas Supreme Court case on Panhandle Eastern.

- The question in this case was whether two corporations, Panhandle Eastern and National Helium, should be allowed to file a combined return for tax years 1981-1984.
- The Department denied the combined reporting on the fact that Panhandle did not own directly 50% of National Helium. The Department considered this brightline test a controlling factor.
- The Kansas Supreme Court agreed with Panhandle and ruled that we may not impose a strict 50% ownership test in combined tax reporting.
- With the Departments longstanding requirement being struck down, we will need to formulate a new interpretation that conforms to the statue and the direction of the court. This new interpretation will be developed with input for all interested parties and be adopted by regulation.
- The fiscal implication of the decision is that the state must pay Panhandle approximately $26 million as soon as both parties have agreed to final interest calculations. It is not possible to say how corporate tax receipts will be impacted by this decision in the long run.

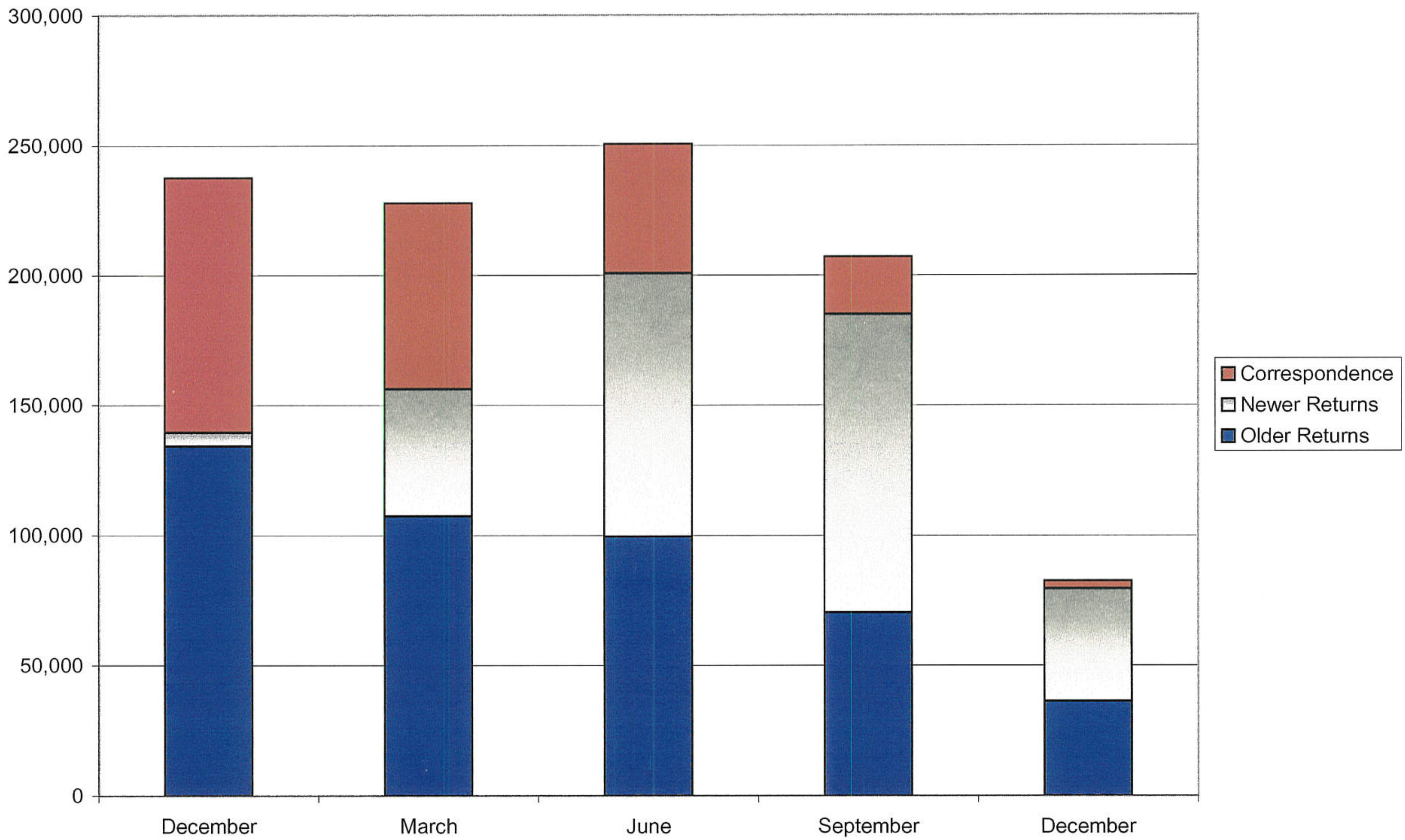
Mr. Chairman, I will be happy to stand for any questions.

8-5

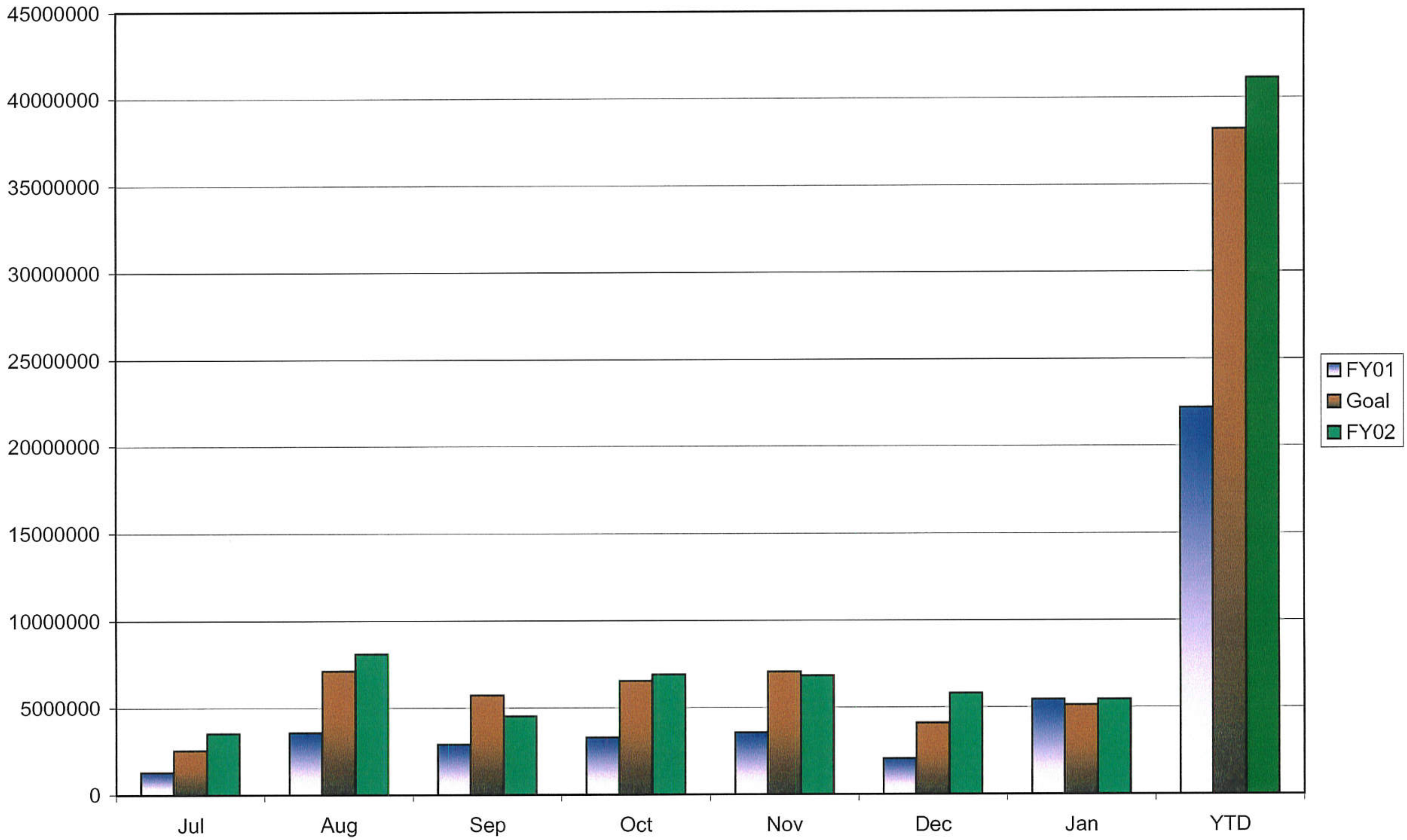
Department of Revenue Compliance File Cabinet



Department of Revenue Worklisted Returns

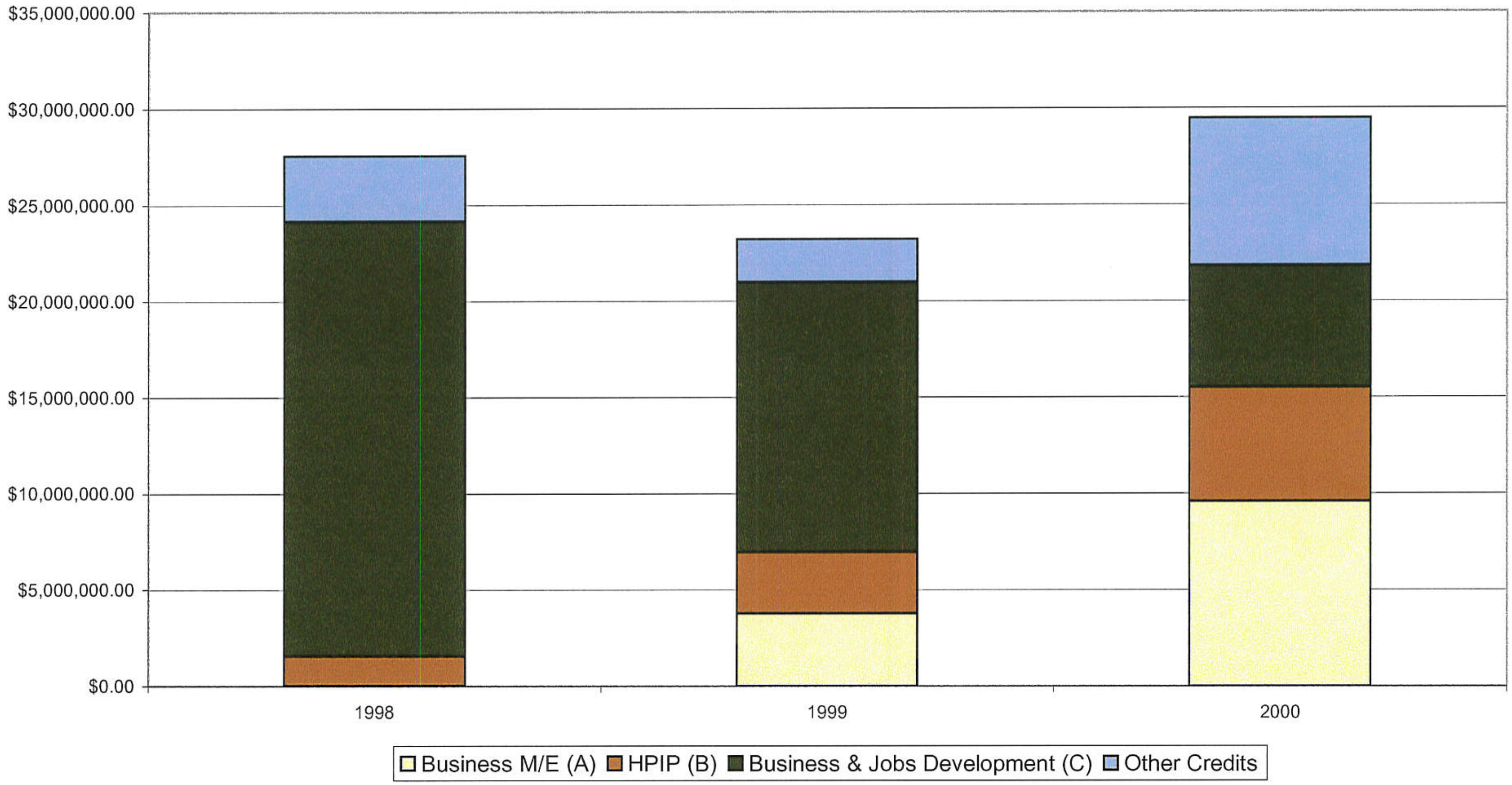


Accounts Receivable



January totals -- as of January 15, 2002

Tax Credits Claimed
Corporate Taxpayers



A) 15% of personal property tax on Business M/E

(B) 10% investment tax credit on qualified business facility investment and training and education credit

(C) Credit up to $1,000 for every new employee and up to $2,500 for every $100,000 of investment made

8-8