

MINUTES OF THE COMMERCE AND LABOR.

The joint meeting of the House and Senate Commerce and Labor Committee was called to order by Chairperson Donald Dahl at 8:30 a.m. on January 21 in Room 123-S of the Capitol.

All members were present except: Representative Doug Patterson, Unexcused
Representative Rick Rehorn, Unexcused
Representative Dale Swenson, Excused

Committee staff present: Jerry Ann Donaldson, Kansas Legislative Research Department
Renea Jefferies, Revisors of Statutes Office
June Evans, Secretary

Conferees appearing before the committee: James Garner, Acting Secretary, Kansas Department of Human Resources
Philip S. Harness, Acting Director of Workers Compensation, KDHR
Bill Layes, Chief of Labor Market Information Services, KDHR

Others attending: See Attached Sheet

Chairman Dahl opened the meeting and welcomed everyone to the joint committee. The House accommodated the Senate by meeting at 8:30 a.m. Mr. James Garner was introduced and welcomed back to the Statehouse in his new capacity as Acting Secretary of KDHR.

Secretary James Garner stated he and his staff appreciated the opportunity to appear before the committee. This is Mr. Garner's 4th full day on the job, is still on a very fast learning curve, but has some really good people that know their stuff who will be briefing the committee today. Claude Lee is Deputy Secretary of KDHR and has many years of experience and knowledge. Philip Harness from the Division of Workers Compensation will share information about data that division collects; then Bill Layes, Chief, Labor Market Information Services will review the Reed Act and the Kansas Employment Security Advisory Council. Secretary Garner also mentioned that Marge Baker, Chief, Benefits Unemployment Insurance, was in the audience and has provided some pamphlets on how the unemployment insurance process works. KDHR could later do a presentation on the agency website if we can find a DSL hookup in the building. Secretary Garner offered having someone from the Appeals Division discuss the backlog of appeals cases that the agency presently has.

Philip S. Harness, Acting Director of Workers Compensation, KDHR, gave an overview of why the Division is required to collect data and what the Division has done to meet this requirement. Pursuant to the statute, the Director shall compile and publish statistics to determine the causation of compensable disabilities in the state of Kansas, and compile and maintain a data base of information on claim characteristics and costs related to open and closed claims. The requirements of the statute were discussed in a 1999 Legislative Post Audit report. EDI is a computer-to-computer filing procedure that uses a standard universal format. This eliminates time spent in "telephone tag," paper handling, filing, storage and mailing costs. The strategic benefits include: (1) improved quality and speed of operations, (2) reduced operating costs, and (3) improved trading partner relations by assisting in reduction of costs and improved operations, timeliness of reporting, and more productive business activities (See Attachment #1). (NOTE: Workers Compensation 28th Annual Report is filed in the Chairman's office)

Bill Layes, Chief of Labor Market Information Services, KDHR, reviewed the Kansas unemployment rates, the status of the Kansas Unemployment Insurance Trust Fund and the Reed Act distribution. The unemployment rate for November 2002 was 4.5 percent. It is estimated the annual average unemployment rate for CY 2002 will be 4.5 percent compared to 4.3 percent for calendar year 2001. The estimated annual average unemployment rate for the Wichita area is 5.6 percent. The Kansas Unemployment Insurance Trust Fund (UITF) is solvent and in no immediate danger. On December 31, 2002, the Kansas UITF totaled \$410.9M; this includes a \$78.2M Reed Act distribution from the federal government. The December 2001 figure was \$466.0M. The year-end trust fund balance peaked in 1994 at \$723.8M. The Unemployment Insurance tax moratorium, in effect from 1995-1999, produced declining reserves through 1999. The fund

rose in 2000 with the return to taxation, but declined in 2001 with the downturn in the economy and accompanying increase in benefit payments. During CY2002, KDHR paid \$359.8M in benefits – nearly double the \$182.4M received in contributions. Barring a marked improvement in the Kansas economy, or legislative intervention to bolster revenues, the fund is not expected to grow.

Reed Act Distribution. In March 2002, a federal Reed Act distribution of \$8.0B was made to the states. This distribution was a result of the economic stimulus package adopted by Congress (Public Law 107-147) and signed by President Bush on March 9, 2002. Kansas received approximately \$78.2M; these funds rest in the Kansas Unemployment Insurance trust fund. There are federal guidelines for using Reed Act funds (See Attachment 2).

The Chairman thanked the Secretary and staff for their reviews. The meeting adjourned at 9:30 a.m. The next meeting will be January 22, 2003.

COMMERCE AND LABOR

DATE January 21, 2003

NAME	REPRESENTING
Phil Harber	KDHR - Workforce Comp.
Mit Kottlos	Ks. Governmental Consulting
Jim Garner	KDHR
Scott Heider	KSIA
Tom Slattery	KILA
Tom Slattery	AGC / Ks
Kevin Davis	Am Family Ins.
John Petersen	Ks. Govnt'l Consult'n
Harry Boser	Dept of Admin
Barb Reeves	Workforce Network of Kansas
Steve Jod	KDHR
WAYNE ISAAC	WORKFORCE ALLIANCE of SouthCentral KS
Nigelia Bright	REAP
Mary Ellen Orlie	REAP
Therese Ann Power	The Alliance of Am. Bus. Co's
Elaine Frisbre	Div. of the Budget
Amber Kjelskus	Sen. Brungart - intern
Toby Dougherty	Sen Umbarger
Bill Schopf	Budget Director - KDHR
Gail Schneider	KDHR
PAUL BICKNELL	KDHR
Mary Beth	KDHR
Orin W. Egan	KDHR
Bill Hayes	"
J.P. SMALL	KOCH INDUSTRIES, INC

SENATE COMMERCE COMMITTEE

GUEST LIST

DATE: Tuesday, Jan. 21, 2003

NAME	REPRESENTING
Bill Curtis	Ks Assoc of School Bds
CLAUDE LEE	KDHR
Charles Heath	Senator Emler
Tom Whitaker	KS Motor (ARRIVERS ASSN)
	KS AFL-CTO
Jim McHaff	KS AFL-CTO
Hue Hudson	NFIB/KS
Barb Covert	KTRF

**TESTIMONY BEFORE THE JOINT MEETING OF THE
SENATE COMMERCE COMMITTEE AND THE
HOUSE BUSINESS, COMMERCE AND LABOR COMMITTEE**

January 21, 2003 – 8:30 a.m.

by Philip S. Harness, Acting Director of Workers Compensation

The purpose of today's briefing is to: (1) briefly review why the Division is required to collect data, and (2) what the Division has done to meet this requirement.

The requirement to collect the data is contained in K.S.A. 44-557a. Pursuant to that statute, the Director shall compile and publish statistics to determine the causation of compensable disabilities in the state of Kansas, and compile and maintain a database of information on claim characteristics and costs related to open and closed claims. The requirements of the statute were discussed in 1999 in a Legislative Post Audit report.

In that report, Legislative Post Audit indicated the Division needed to upgrade its mainframe computer system to a modern system. The old mainframe made it difficult to identify and correct data entry errors, identify and correct duplicate reports, and place or receive data on the Internet. The audit report also concluded that the Division needed to implement subsequent reporting in order to obtain meaningful cost data, such as the number of active claims, the average cost per claim, legal costs, which injuries are the most costly, and which health care providers are the most costly. The report also concluded that the Division needed to work toward having more data submitted electronically through electronic data interchange (EDI).

Simply put, EDI is a computer-to-computer filing procedure using a standard, universal format. The International Association of Industrial Accident Boards and Commissions (IAIABC) began standardization of workers compensation forms in the 1950s, began researching electronic transmission during the 1980s, and developed EDI reporting standards in the 1990s. EDI eliminates delays and errors due to re-keying data, eliminates time spent in "telephone tag," and eliminates paper handling, filing, storage and mailing costs. The strategic benefits include improved quality and speed of operations, reduced operating costs, improved trading partner relations by assisting in reduction of costs and improved operations, timeliness of reporting, and more productive business activities.

The Division signed a contract with a vendor, Biltmore Technology, in November 2000, whose representatives met with staff, designed screens and reports, and created a relational database accessed through the Internet. The Division went "live" onto the new database system in November 2001. The database is relational – which means that important data are verified from official sources before being entered into various tables and is keyed to other data. Arrangements have been made with the Social Security Administration, and are pending with the Kansas Department of Revenue, to verify such data as names, addresses and social security numbers. The Division has a Verification Section whose duty it is to process, establish and validate the identity of each claimant, employer, and insurance carrier.

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The Open and Closed Claim (OCC) study began in 1999. It involves the stratified sampling of about 40 organizations out of approximately 600 organizations with paid losses in the most complete recent year. This claims sampling was devised by a Washburn University professor of statistics and is designed to show measures of central tendency in claim costs and characteristics. The study contains 86 potential fields of data in original reports and eight fields in payment reports and was developed using a model based on a standard national claims-collecting package from NCCI called Detailed Claim Information (DCI). This information is then compiled and published in the Division's Annual Statistical Report and furnished to those requesting it.

The 2002 Legislature mandated that, as of January 1, 2004, any organization providing EDI Release 1 first reports of injury and subsequent reports will be exempt from participating in the OCC study. The Division has contracted with a vendor to implement electronic data interchange (EDI) in Kansas. The vendor will receive EDI information from self-insured employers, group pools, and insurance carriers, "clean up" the data, and forward it to the Division in a program that the Division is capable of receiving. The vendor will be paid by the Division, but each carrier/employer sending information to the vendor will be charged a per-transmission fee by a value added network of their choosing or re-keying the information under the "free option." With EDI, this information can be received and then put into statistically useful information as required by the statute. Self-insured employers, insurance carriers and group pools are still required to submit the information set out in K.S.A. 44-557a, but with EDI, the "extra" filings of the open and closed claim study would be eliminated.

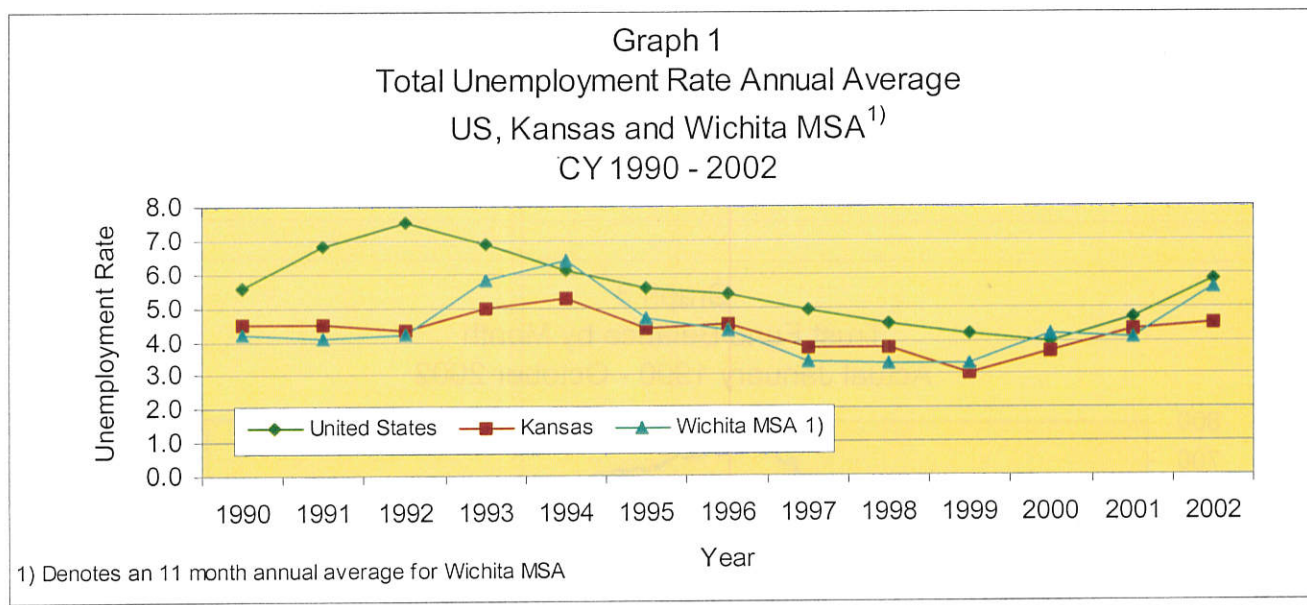
I will be happy to answer any questions you may have.

TESTIMONY
SENATE COMMERCE COMMITTEE AND
HOUSE COMMERCE AND LABOR COMMITTEE
January 21, 2003 – 8:30 a.m.
by Bill Layes, Chief of Labor Market Information Services

Good morning Chairpersons Brownlee and Dahl and members of the Committees. My name is Bill Layes. I am Chief of Labor Market Information Services, Kansas Department of Human Resources. I appear before you today to present testimony on Kansas unemployment rates, the status of the Kansas Unemployment Insurance Trust Fund and the Reed Act distribution.

Kansas Unemployment Rates

The Kansas unemployment rate for November 2002 was 4.5 percent; the rate for October 2002 was 4.6 percent; and the unemployment rate for November 2001 was 4.4 percent. We estimate the annual average unemployment rate for CY2002 will be 4.5 percent and compares to 4.3 percent for calendar year 2001. The estimated annual average unemployment rate for the Wichita area is 5.6 percent. The Wichita area averaged 4.1 percent for CY2001.

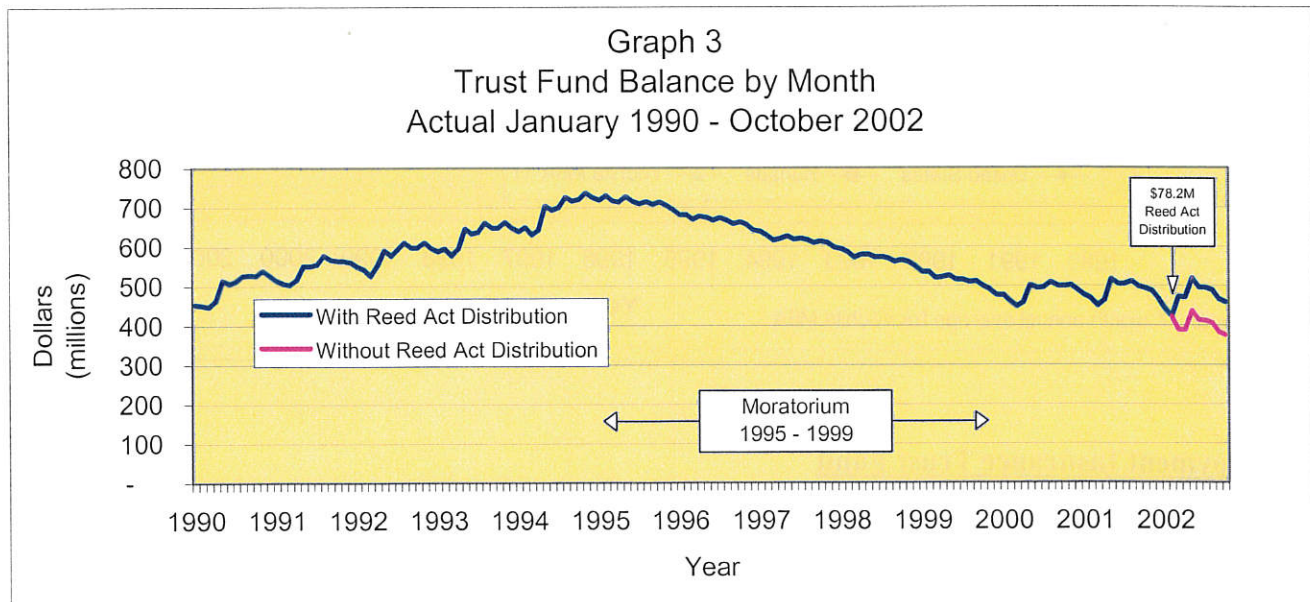
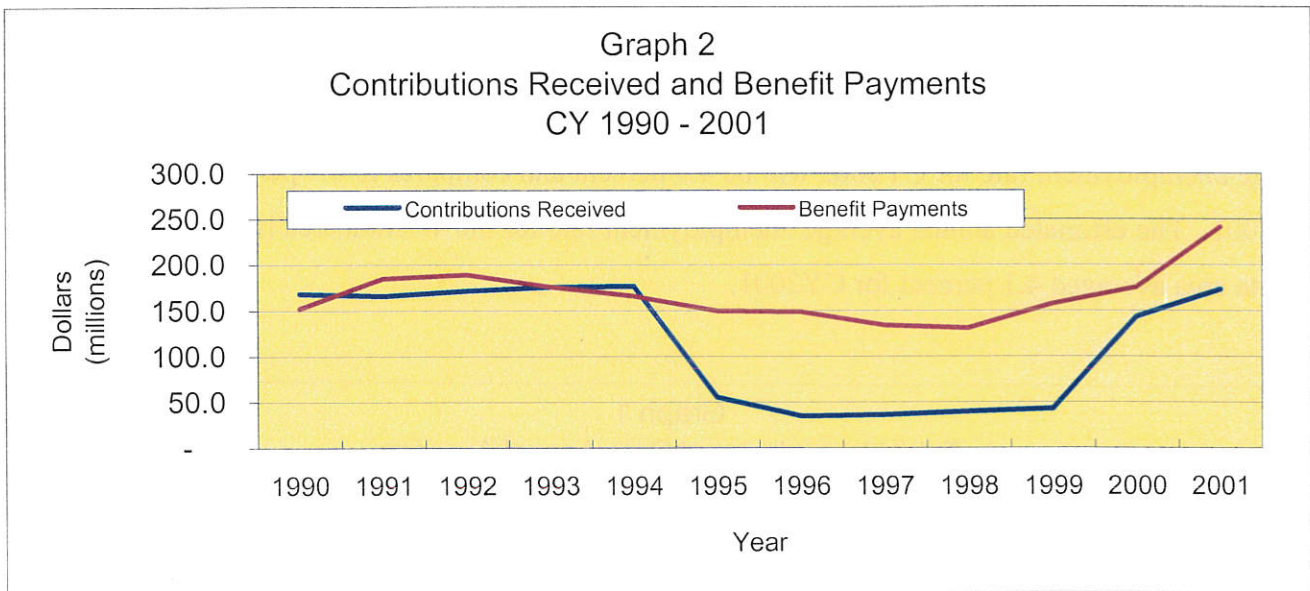


Unemployment Insurance Trust Fund

At present, the Kansas UI trust fund is solvent and in no immediate danger. On December 31, 2002, the Kansas UI trust fund totaled \$410.9M. This total includes a \$78.2M Reed Act distribution from the federal government. The December 2001 figure was \$466.0M. The year-end trust fund balance peaked

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in 1994 at \$723.8M. The Unemployment Insurance tax moratorium, in effect from 1995-1999, produced declining reserves through 1999. The fund rose in 2000 with the return to taxation, but declined in 2001 with the downturn in the economy and accompanying increase in benefit payments. During CY2002, KDHR paid \$359.8M in benefits – nearly double the \$182.4M received in contributions. The prior year benefit payments and contributions totaled \$240.8M and \$172.9M, respectively – a difference of \$67.9M. Barring a marked improvement in the Kansas economy, or legislative intervention to bolster revenues, the fund is not expected to grow. Actuarial measures used to gauge trust fund adequacy are currently below suggested USDOL minimums. Without legislative action, further declines in these measures are anticipated, raising near and long-term concerns about fund solvency.



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Reed Act Distribution

In March 2002, a federal Reed Act distribution of \$8.0B was made to the states. This distribution was a result of the economic stimulus package adopted by Congress (Public Law 107-147) and signed by President Bush on March 9, 2002. Kansas received approximately \$78.2M, and these funds rest in the Kansas Unemployment Insurance trust fund. In accordance with federal guidelines, the following are permissible uses of the Reed Act distribution.

- Start-up costs for state takeover of the Unemployment Insurance program over the next six years
- Administration of state Unemployment Insurance law and the Public Employment Service
- One-Stop operations
- Labor market information and career guidance materials
- Special additional compensation program
- Payment to individuals not otherwise eligible for regular compensation. (includes part-time workers and those who qualify under alternative base periods)
- Employer tax relief

I appreciate this opportunity to appear before you. I will attempt to answer any questions you may have.

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