

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairman Dwayne Umbarger at 10:30 A.M. on February 9, 2005 in Room 123-S of the Capitol.

All members were present except:

Senator Donald Betts- excused

Committee staff present:

Norman Furse, Revisor of Statutes
Alan Conroy, Director, Kansas Legislative Research Department
J. G. Scott, Kansas Legislative Research Department
Susan Kannarr, Kansas Legislative Research Department
Matt Spurgin, Kansas Legislative Research Department
Carolyn Rampey, Kansas Legislative Research Department
Judy Bromich, Administrative Analyst
Mary Shaw, Committee Secretary

Conferees appearing before the committee:

Peggy Hanna, Deputy Assistant State Treasurer
Jim Garner, Secretary, Kansas Department of Labor
Reginald Robinson, President and CEO, Kansas Board of Regents (written)

Others attending:

See attached list.

Bill Introductions

Senator Morris moved, with a second by Senator Steineger, to introduce a bill concerning school districts; establishing the 2010 commission (5rs0797). Motion carried on a voice vote.

Senator Schodorf moved, with a second by Senator Teichman, to introduce two bills, the first bill concerning school districts; relating to school finance (5rs0935) and the second bill concerning school districts; concerning audits by the division of legislative post audit (5rs0937). Motion carried on a voice vote.

Chairman Umbarger explained two bills requested by Senator Derek Schmidt regarding private prisons. Senator Umbarger moved, with a second by Senator Barone, to introduce a bill concerning correctional facilities; relating to construction by private companies (5rs0738) and the second bill concerning the placement of inmates; prohibiting contracts with private contract prisons outside of Kansas (5rs0694). Motion carried on a voice vote.

Chairman Umbarger opened the public hearing on:

SB 123--State treasurer authorized to charge certain fees

Staff briefed the committee on the bill.

The Chairman welcomed Peggy Hanna, Deputy Assistant State Treasurer, who testified in support of the bill (Attachment 1). Ms. Hanna explained that two years ago after the Governor eliminated the State General Fund as a funding source for the Treasurer's office budget, they worked with the Senate Ways and Means committee to arrive at a compromise to their funding situation. The solution was to have the Treasurer's office bill state agencies for cash management services provided by their office. Committee discussion followed.

Chairman Umbarger welcomed Jim Garner, Secretary, Kansas Department of Labor, who spoke in opposition to **SB 123** (Attachment 2). Secretary Garner explained that the bill would create a new law imposing fees on

CONTINUATION SHEET

MINUTES OF THE Senate Ways and Means Committee at 10:30 A.M. on February 9, 2005 in Room 123-S of the Capitol.

state agencies to fund the State Treasurer's Office. He noted that fees would be imposed on each voucher, warrant, or direct deposit issued by the agency. Secretary Garner mentioned that the FY 2005 Budget authorizes the Kansas Department of Labor to transfer \$451,000 to the State Treasurer to pay for fees in FY 2004 on the 1,454,839 unemployment insurance payments that the Kansas Department of Labor issued on an average of \$.31 per warrant. He explained that the Unemployment Insurance Trust Funds were never intended to fund the operations of the State Treasurer's Office. Committee questions and discussion followed.

Written testimony was submitted by Reginald Robinson, President and CEO, Kansas Board of Regents, expressing the Board's opposition to **SB 123** (Attachment 3).

There being no further conferees to appear before the committee, the Chairman closed the public hearing on **SB 123**.

Chairman Umbarger opened the public hearing on:

SB 125--Unclaimed property, effect when interest bearing

Staff briefed the committee on the bill.

Chairman Umbarger welcomed Peggy Hanna, Deputy Assistant State Treasurer, who testified in support of **SB 125** (Attachment 4). Ms. Hanna explained that the bill would amend the Unclaimed Property Act to allow the Treasurer's office to pay interest on property claimed that was originally reported to their office as an interest-bearing account, such as a savings account or a certificate of deposit. She noted that Treasurer Jenkins believes strongly that both the principal and interest should be returned to the owners, or their heirs. Committee questions and discussion followed.

There being no further conferees to appear before the committee, the Chairman closed the public hearing on **SB 125**.

The meeting adjourned at 11:30 a.m. The next meeting is scheduled for February 10, 2005.

**SENATE WAYS AND MEANS
GUEST LIST**

Date February 9, 2005

NAME	REPRESENTING
Karen L. Hayes	Ft. Leavenworth Schools - KNEA
Ada Shea	Ft. Leavenworth Schools & KNEA
Beggy Nayma	Treasurer's Office
India Finn	Treasurer's office
Jeff Waramen	Treasurer's office
Mike Huttles	KGC
MARK DESSETT	KNEA
Dodie Wellshear Johnson	Patrick Hurley & Co
Bob Vancrum	USD 229 Blue Valley
Kos Mealy	HEIN Law Firm
Jim Conant	KBOR
Step Solomon	The Farm, Inc
Al Kendeaux	FASU
Shannon Bell	KBOR
Daniel Lewin	SRS
Sandra Braden	Civic Council of KC
Kathleen Rivard	Civic Council of OKC
John Scott	Civic Council of Lethbridge & C
TERRY FORSYTH	KNEA
Andy Shaw	Kearney + Associates



STATE OF KANSAS

Lynn Jenkins, CPA

TREASURER

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February 9, 2005

Testimony on Senate Bill 123

Senator Dwayne Umbarger, Chairperson and Members
Senate Ways and Means Committee

My name is Peggy Hanna of the State Treasurer's Office. Thank you for the opportunity to discuss Senate Bill 123.

Two years ago after the Governor eliminated the state general fund as a funding source for the Treasurer's office budget, we worked with this committee to arrive at a compromise solution to our funding situation. The solution we have been using is to bill state agencies for cash management services provided by our office. Our agency spent over \$20,000 in staff time developing and implementing a tracking system to handle the billings to the agencies. Billing for fees started July 1, 2003. That process has worked smoothly.

The current mechanism has three components: (1) pass-through of the actual banking service fees from our contractor banks – estimated last year at \$340,000 but will actually be somewhat higher due to the new banking contract that began in September 2003; (2) \$180,000 in fees prorated by transaction lines in the SOKI system at a rate of \$15,000 per month; and (3) up to \$979,505 in issuance fees for non-payroll paper and electronic warrants – prorated at \$81,625 per month. By prorating the second and third fee types, we are allowed to collect the entire amount needed to fund the budget without worrying about the number of transactions the agencies process. We have lowered the third fee to \$829,303 for FY 2005 since we had a carry forward balance from FY 2004 and our budgeted needs were less.

According to Federal government guidelines, state agencies with access to Federal program money have been able to draw down funds to pay for 100% of their costs for the first and second types of fees. They are able to draw down 50% of their costs for the third type of fees. By doing this, "new" money has been drawn into the state system to fund our agency.

These charges were authorized by the Legislature via a proviso last session. This bill would make the fee structure permanent effective in fiscal year 2006.

*Senate Ways and Means
2-09-05
Attachment 1*



KANSAS

DEPARTMENT OF LABOR
Jim Garner, Secretary

KATHLEEN SEBELIUS, Governor

**Testimony before the
Senate Ways and Means
In Opposition to S.B. 123
Secretary Jim Garner, Kansas Department of Labor
9 February 2005**

Chairman Umbarger and Members of the Committee:

Thank you for the opportunity to appear today to testify in opposition to Senate Bill 123. The bill will create a new law imposing fees on state agencies to fund the state treasurer's office. Fees would be imposed on each voucher, warrant, or direct deposit issued by the agency.

This method of funding the state treasurer's office is currently being used pursuant to a proviso in the FY 2005 budget. For the period July 1, 2004 to January 31, 2005, KDOL has issued 464,711 unemployment insurance payments (paper warrants and electronic transfers) to unemployed individuals. We have paid \$138,759 in fees to the state treasurer's office, an average of \$.30 per warrant. In Fiscal Year 2004, KDOL issued 1,454,839 unemployment insurance payments and paid \$451,000 in fees to the state treasurer's office, an average of \$.31 per warrant. The FY 2005 Budget authorizes KDOL to transfer \$451,000 to the State Treasurer to pay for these fees. These are funds from the Unemployment Insurance Trust fund, which represents the only sustainable funding source for the agency to pay this fee.

These UI Trust Funds were never intended to fund the operations of the state treasurer's office. These are funds raised by taxes on employers to fund the UI system. I do not believe that it is appropriate to use these funds as an ongoing, year-to-year revenue source for another state agency.

These funds can be used for reasonable costs in the administration of the Unemployment Insurance program. In the last year, KDOL has experienced a cut of over \$2.5 million in our federal administrative UI grant from the federal government. We have had to lay off employees and reduce work hours in our call centers. Yet, we must spend \$451,000 to fund the state treasurer's office.

In addition, KDOL has critical IT needs that are begging to be addressed. On January 19, 2005, all three of our call centers were out of operation for about four hours. A critical component of our system that routes all inbound calls failed. It is old and no longer supported by the original vendor. Fortunately, our IT staff was able to get the system up and running again. But the fact remains this router system is on borrowed time and will ultimately fail. It would be a much more justifiable use of the UI Trust funds for a one-time expenditure to keep the call centers operational than to use these funds for ongoing re-occurring annual contributions to fund another state agency.

I also want the committee to be aware that the charges imposed by the State Treasurer are ridiculously high. This is because the purpose for the fees is not to recoup actual costs in delivering a service, but to artificially subsidize the state treasurer's office. Our staff has contacted some neighboring states to learn what they pay for banking services. Missouri reports that it pays \$0.06 per UI warrant and Oklahoma reports spending \$0.03 per warrant. Colorado spends a total of \$69,000 for this service. The Kansas charge of \$0.27 or more per warrant (over \$450,000 per year) is based only on the needs of the state treasurer to fund the office – it is not based on actual work performed. There was no such fee imposed on agencies until 2004.

Finally, I have a serious concern that codifying this funding mechanism into state law will prevent agencies from exploring possible efforts to privatize this service. Would KDOL be prohibited from looking to private banks or other management companies to perform this service at lower costs? Moreover, codifying this into law will eliminate any pressure on the state treasurer to find any alternative funding source or mechanism to fund the office. At the very least, leave this funding source as a budget proviso and allow for further exploration of an alternative funding source for the State Treasurer's office.

I strongly oppose this effort to codify these fees as a permanent funding mechanism. I hope the state treasurer will continue to explore other, more appropriate, funding options.

Again, thank you for the opportunity to appear and express my opposition to SB 123. I will be glad to stand for any questions you may have.



KANSAS BOARD OF REGENTS

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February 9, 2005

Senator Dwayne Umbarger
Chairman
Senate Ways & Means Committee
Statehouse, Room 120-S
Topeka, KS 66612

Senator Jim Barone
Ranking Member
Senate Ways & Means Committee
Statehouse, Room 504-N
Topeka, KS 66612

Dear Chairman Umbarger and Ranking Member Barone:

On behalf of the Board of Regents, I write to you to express the Board's opposition to including the state universities and the Board of Regents' office in Senate Bill 123.

As you may know, Senate Bill 123 authorizes the State Treasurer to charge the state universities, and other state agencies, cash management fees, banking service fees and fees for processing warrants. The State Treasurer's Office currently assesses these fees through an appropriations proviso, and, in Fiscal Year 2004, the state universities and Board of Regents' office were billed almost \$180,000 for such fees.

For the past three years, the Board has worked successfully with Governor and the Legislature in moving to the block grant/tuition ownership and accountability budget model for the state universities. Previous administrations and legislatures have recognized that the universities need additional management flexibility, and they have embraced this budget model as a means of providing that additional flexibility. Governor Sebelius has recognized the block grant in its purest form by recommending increased block grant funding to be allocated by the Board of Regents.

Previous administrations and legislatures have embraced full tuition ownership and accountability for the Board and the state universities by removing any restrictions on the general fees funds, and by acknowledging the Board's authority to set tuition rates at the universities. During the 2005 Session, the Board is hopeful that the legislature will go a step further by allowing the universities to retain the interest earned on tuition revenues and other non-general fund revenues. This will not only further increase resource management flexibility, but will also give full meaning to the concept of tuition ownership.

The Board and the universities have worked closely and successfully with the Department of Administration to enhance management flexibility by obtaining relief from burdensome state-level administrative requirements. The universities have made great strides in obtaining management flexibility relative to purchasing, printing, and disposal of surplus property. We have worked with the Department and the Legislature to improve the universities' relationships

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Attachment 3

Chairman Umbarger and Ranking Member Barone

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with the Division of Facilities Management (DFM) by eliminating fees and redesigning the DFM fee structure to add value to university projects. The Board has worked with the Legislature to amend legislation related to sealed bids for insurance purposes, and we are currently working to allow the universities to purchase insurance through the Midwestern Higher Education Compact and thereby achieving meaningful savings.

All of the efforts described above have served to assist the universities in their quest to educate and serve the people of Kansas. Subjecting the universities to the fee charges proposed in Senate Bill 123 represents a step backwards from the accomplishments to date. And, it is important to note that no other sector of Kansas postsecondary education (Washburn University, the community colleges, and the technical colleges and schools) is subjected to the fees outlined in Senate Bill 123. Certainly, the Legislature must determine how best to finance the State Treasurer's operations. However, we respectfully submit that assessing fees to the state universities is not consistent with the new budget model that the universities, the Governor, and the Legislature have worked so hard to achieve.

In conclusion, the Board respectfully requests that the state universities and the Board of Regents' office be exempted from the provisions of Senate Bill 123. Thank you for your consideration.

Sincerely,



Reginald L. Robinson
President and CEO



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February 9, 2005

Testimony on Senate Bill 125

Senator Dwayne Umbarger, Chairperson and Members
Senate Ways and Means Committee

My name is Peggy Hanna of the State Treasurer's Office. Thank you for the opportunity to discuss Senate Bill 125.

This legislation would amend the Unclaimed Property Act to allow the Treasurer's office to pay interest on property claimed that was originally reported to our office as an interest-bearing account, such as a savings account or a certificate of deposit. Currently the interest earned on those funds is retained by the State and becomes a part of the state general fund.

The Unclaimed Property program administered by the Treasurer's office has been in existence since 1979. During that time we have taken in over \$227 million and paid out over \$73 million – leaving \$154.7 million in outstanding balance due Kansans or their heirs. The funds are held in the state general fund and are used to meet the cash flow needs of agencies. The outstanding balances are invested, mostly by KPERS, with any interest income or gains being credited to the state general fund.

Unclaimed property includes financial assets such as savings and checking accounts, stocks, utility deposits, rental deposits, insurance proceeds, and dividends. The only tangible property we receive is safe deposit box contents from banks and patient and inmate property from state facilities. Savings accounts and certificates of deposit are considered interest-bearing accounts and are reported as such. These types of accounts make up less than four percent of the outstanding balance of \$154.7 million or approximately \$5.5 million.

Each year we receive between \$12 and \$15 million in new assets of all types. Conversely, between \$6.5 and \$8 million dollars is paid to owners or their heirs each year. Less than five percent of the dollars paid out would be considered "interest-bearing". Therefore, the fiscal impact of this legislative change would be under \$100,000 per year, based on interest rates not exceeding 7% per annum.

Currently, 18 states pay some type of interest on claims such as this. The Treasurer is mindful of the financial challenges that you as lawmakers are facing this session. She also understands the financial challenges our citizens are facing. Reuniting unclaimed property owners or their heirs not only with the principal but also with a reasonable amount of interest on their property is, very simply, the right thing to do for Kansans. We work hard to reunite people with all of their money at the Treasurer's office and Treasurer Jenkins believes strongly that we should return both the principal and interest to the owners or their heirs. Senate Bill 125 is the right thing to do.

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2-9-05
Attachment 4