

Approved: 3/1/07
Date

MINUTES OF THE HOUSE COMMERCE AND LABOR COMMITTEE

The meeting was called to order by Chairman Steve Brunk at 9:03 A.M. on January 25, 2007 in Room 231-N of the Capitol.

All members were present except:
Brenda Landwehr- excused
Candy Ruff- excused

Committee staff present:
Jerry Ann Donaldson, Kansas Legislative Research Department
Dustin Slinkard, Office of Revisor of Statutes
Stephen Bainum, Committee Assistant

Conferees appearing before the committee:
Jim Garner, Secretary, Department of Labor

Others attending:
See attached list.

The Chairman asked for new bill Introductions. Representative Grant introduced a bill about Out of State Vending Machines. It was approved by the committee.

The Chairman introduced the guest speaker, Jim Garner, Secretary, Department of Labor.

Jim distributed his testimony to the committee members. He gave a brief update of the Department's oversight of the unemployment insurance program, the worker's compensation system, the Industrial Safety and Health division, the enforcement of the employment laws, the Public Employers and Employees Relations Act and the Public Negotiations Act (Attachment 1).

During his presentation he introduced several other people in his Department. Paula Greathouse was introduced as the Director of the Division of Workers Compensation. Steve Zink is the Director of KDOL's Division of Industrial Safety and Health. Dorthy Stites is the Director of the Labor Market Information Division. KDOL's Chief Counsel, A.J. Kotich who is responsible for enforcing Kansas employment laws was introduced.

Jim told the committee about the modernization of their Unemployment Insurance computer system. They are currently evaluating project proposals and hope to have the system operational in 18 months.

The Chairman again asked if there were any bill introductions. A bill was introduced having to do with the Grievance Process.

The committee was adjourned at 9:59 A.M.

**Testimony before the
House Commerce and Labor Committee
Jim Garner
Secretary of Labor
25 January 2007**

Chairman Brunk and Members of the Committee:

Thank you for the opportunity to appear today and provide a brief update of activities within the Kansas Department of Labor during the last several months. The agency has many responsibilities. It administers the unemployment insurance program -- processing claims for benefits and collecting unemployment taxes to fund the system. The agency operates the state's workers compensation system. Our Industrial Safety and Health division offers workplace safety consultations for private employers and oversees job safety involving public employees. We enforce the employment laws for Kansas -- including Child Labor laws and the Wage Payment Act. The agency's Labor Market Information Services is the research unit which compiles awesome data on the workforce in Kansas. The agency also oversees the Public Employers and Employees Relations Act and the Public Negotiations Act.

KDOL Strategic Plan

In 2005, the Kansas Department of Labor developed a strategic plan to define a new vision and direction for the agency focused on two key concepts: customer-focused assisted self-service and integrated operations. KDOL is focused on providing high quality, efficient services to our customers. Our customers are the 70,000 employers and the 1.4 million workers in Kansas. Over the past two years, KDOL has embarked on numerous initiatives to advance these objectives in our strategic plan.

Unemployment Insurance Modernization Project

The 2004 Legislature approved funding to rewrite our unemployment insurance system. This project is an opportunity to make our operations simpler and more competitive, a key part of our strategic plan. At more than 30 years old, the current UI computer system, which maintains information about collections from employers and payments to unemployed workers, has reached the limit of its ability to be modified to meet changing requirements. As part of this project, KDOL will redefine how we serve our customers, begin using new tools that will allow us to respond to our customers changing needs quickly and efficiently and our staff will be empowered to make more accurate, timely decisions using the latest information technology tools.

H Commerce + Labor
(Attach 1)

On August 4, KDOL successfully completed the first phase of this project on time and under budget. During the first part of the project, we carefully examined our current unemployment system to learn more about its multiple processes and business uses. We created detailed explanations and diagrams for each process we have. We identified problem areas and inefficiencies, so we could develop ways to improve. From there, we worked with our vendor to develop ideas for how we could do each process differently and more efficiently. All these ideas have been combined into a Request for Proposal (RFP), asking vendors to tell us how they can help build a new system to efficiently accomplish all these processes. We also are asking vendors to assist us with communications and organizational restructuring and planning. Vendors submitted responses to the RFP on January 5, 2007, and we are currently evaluating those proposals.

KDOL employees also have begun work on a series of other tasks we can accomplish without vendor assistance. These projects will help us make improvements to our unemployment system in the immediate future.

Unemployment Insurance

Wayne Maichel serves as the Director of Unemployment Insurance and Employment Security. During CY 2006, the agency processed 128,815 initial claims for unemployment benefits. The total amount of unemployment benefits paid in 2006 declined \$34 million to \$221.5 million. Included with my testimony are charts showing the number of initial claims over the past five years, the amount paid in benefits over the last five years, and the amount of contributions paid into the Trust Fund over the past five years.

The UI division continues its efforts to improve customer service and to promote online filing of unemployment insurance taxes for Kansas employers. We continue to increase the number of employers filing tax reports online. In 2006, more than 25,000 employer tax reports were filed electronically.

We currently are working to make improvements to our online tax filing system. We are developing several new features for our Web site that will make filing tax reports easier for employers. Employers will be able to send their tax reports directly from their accounting software to the KDOL Web site. Accounting firms will be able to send information for multiple employers at the same time. These new services will be available in May. We are confident the improvements in our system will increase the number of employers using our Web site.

The Unemployment Insurance Trust fund is solvent. At the end of CY 2006, the trust fund balance stood at \$604 million, up 35 percent from the 2005 year-ending balance of \$448 million. In 2006, employers contributed \$328 million to the fund. I have included a chart in your packet that shows the year-end Trust Fund balance since 1992.

The healthy Trust Fund balance is another signal of the economic progress Kansas has made in the last three years. The Trust Fund balance also signals an opportunity to provide tax relief. On December 1, 2006, Governor Sebelius requested the Employment Security Advisory Council develop recommendations on reducing unemployment tax rates. The Council met on January 4 and has submitted a recommendation to reduce tax rates for all positive balance employers. For your information, I have enclosed a list of the members of the Council. The proposed reduction in tax rates would save employers more than \$170 million during the next two years. As they examined the unemployment tax structure, the Council was careful to protect the future integrity of the Trust Fund. The ESAC endorsed proposal is found in 2007 SB 83. *hearings this week*

Another major project underway in our agency is the consolidation of our unemployment insurance call centers. This effort began in September 2005 when KDOL purchased the Eastman building on the former Topeka State Hospital grounds. Over the past year, work has been underway to convert the Eastman building into a new call center for unemployment benefit claims. Enclosed are some photos showing progress on this project. In late spring 2007, personnel from our three existing call centers in Kansas City, Topeka and Wichita will begin moving to the new location. This consolidation will make our operations more efficient by reducing our operating costs. More important, the new technology we have implemented as part of this project will allow us to provide better service to our customers.

As you may already know, this past summer the U.S. Department of Labor reported a high technical overpayment rate for the Kansas unemployment program. The U.S. Department of Labor examines two kinds of overpayments: operational (fraudulent) and technical. Kansas has successfully focused our efforts on enforcement and detection of fraudulent overpayments – such as those who are working and claiming UI benefits or those not able to work and seeking UI benefits. We are doing quite well in these efforts. Kansas is the 16th best state in detecting fraudulent overpayments.

In addition, KDOL is currently engaged in many efforts to enhance our enforcement operations. We are implementing programs to perform a cross match of claimants to a listing of state employees as well as cross matching claimants with Vital Statistics' listing of deceased individuals. In addition, we recently received a federal grant to implement a cross match of claimants to the National Directory of New Hires. These efforts will help us detect fraudulent claimants earlier and prevent overpayments.

Unfortunately, we have experienced a high technical overpayment rate due to a state requirement that nearly all unemployment claimants register for work with a public Workforce Center. On November 3, 2006, a new administrative regulation requires only those unemployed workers identified as most likely to exhaust their UI benefits and in need of re-employment services to register with the public Workforce Centers. This new regulation ensures UI claimants most in need of help finding a new job will get the services they need. The new regulation was reviewed by the United States Department of Labor and the Joint Committee on Administrative Rules and Regulations.

The work registration requirement was written in Kansas law 70 years ago. The state has had a law in place that has not kept up with dramatic changes in the unemployment process.

Today, people file claims through the use of technology – by phone or by Internet. They do not enter public workforce centers to file claims. The process to register for work has changed. The new regulation adopted in November reflects these realities and focuses resources on those claimants most in need of assistance in finding a new job.

Workers Compensation

The state of Oregon regularly publishes a study ranking workers compensation insurance premiums throughout the country. I am pleased to report that the most recent premium rankings in the 2006 Oregon Study shows Kansas ninth lowest in the country in work comp premium rates. I have enclosed a copy of the report. Rate filings for Kansas workers comp insurance premiums have significantly declined since 1993. And, Kansas's average loss cost is the lowest in our region. According to recent NCCI information, Kansas ranks as the 13th most profitable state for Workers Compensation insurance underwriters. These indicators demonstrate that the workers compensation system in Kansas is stable. In contrast, benefits paid to injured workers remain among the lowest in the nation.

Paula Greathouse is the Director of the Division of Workers Compensation. You recently received the annual statistical report from KDOL's Division of Workers Compensation. As a brief review, I would share that in FY2006 KDOL processed 66,469 reports of job related accidents and 16,185 applications for hearings. Our Fraud and Abuse unit has stepped up their efforts, collecting more than \$231,000 in fines and restitution in FY 2006. The unit collected \$139,750 in the previous fiscal year.

Imaging Project

The Workers Compensation division has begun a project to create electronic images of more than 500,000 documents including accident reports, undocketed settlements and elections. The new electronic imaging system replaced the division's microfilm documents. This new system will allow KDOL staff to quickly retrieve documents. In the past, employees had to make a request for a document and wait for the processing unit to retrieve and send it. Besides greatly improving our customer service, the imaging project has reduced the costs for supplies to provide hard copy documents (paper, postage, faxing, envelopes, toner, film cartridges and duplicate cartridges). We hope to expand this project to include more documents in the near future.

Electronic Data Interchange

Launched three years ago, Electronic Data Interchange (EDI) allows transmission of workers compensation claims and/or coverage information from insurers to the state. Insurance carriers, self-insured employers and group-funded insurance pools can stop sending paper forms to KDOL and send the information electronically.

Before EDI, accident reports on work-related injuries and illnesses were made on paper and stored on microfilm. EDI provides faster reporting of data, is more cost-effective for

all participants and assures more accurate data by eliminating data re-entry errors. EDI is a major step toward adopting a more efficient, paperless business environment. About one-third of all accident reports now are filed electronically.

Mediation Project

KDOL launched an alternative dispute resolution pilot program in the Workers Compensation division this year in Pittsburg and Independence. The program is designed to improve communication between the parties involved in a work comp dispute, leading to a quicker resolution for everyone involved. It also will conserve resources within our department. As part of our pilot program, a work comp judge contacts the parties involved in a dispute prior to scheduling a hearing. The judge helps the parties exchange information, often resolving issues without the need for a hearing. When a hearing is held, the parties are more prepared and the process is much more efficient. The program has been very successful. We've received positive feedback from a variety of stakeholders.

Workplace safety and health programs

Steve Zink is the Director of KDOL's Division of Industrial Safety and Health. Last year, the Division conducted 1,155 workplace safety consultations and the Boiler Safety unit conducted 3,954 inspections.

KDOL is committed to making workplace safety a priority for the State of Kansas. Workplace safety programs will help make safe jobs a reality for all Kansas workers. Safer workplaces also benefit Kansas businesses by decreasing workers compensation premiums and increasing worker productivity. I feel it is important for employers to have a variety of services available to them to prevent injuries and illnesses in the workplace.

In 2006, KDOL introduced a new safety award program, called KSafe. This program recognizes private employers across the state who are dedicated to providing safe work environments for their employees. The awards are given based on the number of hours an employer has avoided a workplace injury. We recognized two companies this year for reaching more than 1 million work hours without a lost-time accident: Orval Kent Foods in Baxter Springs and Rubbermaid in Winfield. Twenty-two other companies were recognized for achieving 500,000 and 100,000 hour safety milestones. Enclosed is a list of the companies honored last year in this new program.

This year, Kansas also recognized more businesses as part of the SHARP program. The Safety and Health Achievement Recognition Program is a partnership with OSHA designed to recognize businesses that have worked with KDOL to develop exemplary safety programs. Companies that achieve the SHARP designation are exempt from OSHA inspections for two years. In 2006, Kansas had 58 companies participating in the SHARP program. Nationwide, only three states have more SHARP sites than Kansas. A chart from OSHA depicting state SHARP sites is included with my testimony.

Our Safety and Health division has been working to modernize our safety operations as well. KDOL safety staff are scattered throughout the state and many of them work from home offices. There are numerous reports required of our safety staff.

This year, we implemented a system to standardize all reports and we placed them on a secure, stand-alone server for easy access. This report uniformity and improved data transfer has significantly improved our reporting turnaround time.

In addition to these upgrades, we also are providing some new technology for our boiler inspection unit. In the next few months, our boiler inspection staff will begin using handheld devices (PDAs) to collect and record data on boilers. This will not only increase the speed of the data collection, it will allow us to provide "real time" data to our staff in the field, improving trip planning.

Labor Market Information Services

Job growth is an important component of a healthy economy. In 2006, steady growth and a declining unemployment rate characterized the state's labor market. Not only is Kansas adding jobs, but the state has had consistent growth in key sectors that create good paying, highly skilled jobs. In particular, we continue to see steady additions of manufacturing jobs. These are all positive signs as the Kansas economy continues to move in the right direction.

Our Labor Market Information Division, under the supervision of Director Dorothy Stites, operates pursuant to a cooperative agreement with the U.S. Bureau of Labor Statistics and in accordance with BLS guidelines, compiles statistics on the labor market in Kansas, estimates on the labor force, employment levels, unemployment rates, wages paid, and projections of future occupation trends.

KDOL hired a labor economist this year. Inayat Noormohmad will help us provide more research, analysis and interpretation of labor market and economic data to assist in policy decisions, business incentives and economic development. Inayat is highly qualified for this position, with a master's degree in public financial policy from the London School of Economics.

To ensure efficient use of our funding, we are moving to electronic distribution of many of our labor market publications. This includes our annual Job Vacancy Survey and the annual Wage Survey. These publications and other valuable labor market information are available on our Web site at www.dol.ks.gov. I encourage you to visit the website and look at these publications. I have enclosed a copy of our Job Vacancy Survey "At a Glance" brochure.

Employment Standards

KDOL's Chief Counsel, A.J. Kotich, oversees the Employment Standards unit. KDOL is responsible for enforcing Kansas employment laws, including helping recover unpaid wages that are owed to Kansas employees. In 2006, the agency processed 1,411 wage claims and collected a record \$1,930,000. This includes 166 former employees of A.O. Smith Corporation's Parsons manufacturing plant who received a total of more than \$950,000 in back wages and benefits, penalty and interest. This is the largest single wage recovery since the enactment of the Kansas Wage Payment Act.

Worker Misclassification

In 2006, the Legislature passed HB 2772 authorizing much greater cooperation and sharing of information between the Kansas Department of Revenue and KDOL in pursuing enforcement of intentional misclassification of workers as independent contractors to avoid state withholding taxes or unemployment taxes

Revenue and Labor launched an education campaign last summer, which included a series of public meetings and a new Web site (www.kdor.org/misclass) with information about misclassification. Enclosed are some of the materials prepared by the agencies to educate employers and the public about this issue. Since March of 2006, KDOL identified 136 employers misclassifying 1,363 workers. Unemployment taxes owed by these employers totaled more than \$171,000.

Conclusion

This is a brief, yet thorough, account of some of the activities within the Kansas Department of Labor since the end of the last legislative session. I hope you find this informative and helpful.

Again, Mr. Chairman, thank you for the opportunity to appear and share this information with you and the members of the committee. If you have any questions, I would be glad to respond.