

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Karin Brownlee at 8:20 A.M. on February 1, 2007 in Room 123-S of the Capitol.

All members were present.

Committee staff present:

Amy Deckard, Kansas Legislative Research Department  
Kathie Sparks, Kansas Legislative Research Department  
Norm Furse, Revisor of Statutes  
Jackie Lunn, Committee Assistant

Conferees appearing before the committee:

Bud Burke  
Ken Daniel, Kansas Small Business.com  
Derrick Sontag, State Director, NFIB  
Jeff Glendenning, KCCI  
Senator Terry Bruce  
Dave Kerr, President, Reno County Chamber of Commerce  
John Deardoff, City Manager, Hutchinson, Kansas  
Larry Sharp, Reno County Commissioner  
Mark Love, International Association of Machinists & Aerospace Workers

Others attending:

See attached list.

**SB 83-Employment security law; contribution rates**

**SB 164-Establishing the qualified industrial act**

Chairperson Brownlee introduced Bud Burke for a bill introduction. Mr. Burke referred the Committee to written copy entitled "Notice to Contractors" (Attachment 1) and stated he would like to repeal K.S.A. 44-717 (b)(3) which states contractors who hire subcontractors will be held liable for such contributions, penalties and interest due from the subcontractor and the Secretary of Labor shall have all of the remedies of collection against the contractor. He stated that contractors should not be responsible for subcontractors bills or responsibilities.

**Senator Emler moved to introduce a bill to amend K.S.A. 44-717 (b)(3). Senator Schodorf seconded. Motion carried.**

Chairperson Brownlee recognized Senator Jordan to introduce two bills. Senator Jordan stated he would like to introduce an bill with adjustments to the Angel Investor Tax Credit Act.

**Senator Emler moved to introduce the bill regarding the Angel Tax Credit Act. Senator Reitz seconded. Motion carried.**

Senator Jordan stated the other bill to introduce would allow communities more flexibility regarding wet lab facilities.

**Senator Emler moved to introduce a bill regarding wet lab facilities. Senator Teichmen seconded. Motion carried.**

Chairperson Brownlee recognized Senator Emler to introduce a bill.

**Senator Emler made a motion introduced a conceptual bill regarding transfer of land located in Manhattan regarding a new facility at K-State. Senator Jordan seconded. Motion carried.**

Chairperson Brownlee stated she would like introduced a conceptual bill regarding changes in tax policy involving economic development incentives; a break out of SB 213, page 14.

CONTINUATION SHEET

MINUTES OF THE Senate Commerce Committee at 8:20 A.M. on February 1, 2007 in Room 123-S of the Capitol.

**Senator Jordan made a motion to introduce a conceptual bill. Senator Emler seconded. Motion carried.**

Chairperson Brownlee introduced Kathie Sparks, Legislative Services to review "Timeline for Receiving Unemployment Benefits" she prepared. (Attachment 2) In Ms. Sparks' review she stated the timeline was based on an employee of the state. If an employee was laid off on January 23rd and filed for unemployment on that same day, the first unemployment check would be issued on February 7<sup>th</sup> and the final employment check would be deposited on February 9<sup>th</sup>. She also reviewed a section "if fired or leaving status is in question".

Chairperson Brownlee continued the hearing on **SB 83** and introduced Ken Daniel, to give his testimony as a proponent of **SB 83**. Mr. Daniel gave a review of his written testimony. (Attachment 3) He stated that leaving \$170 million in unneeded unemployment tax money in the hands of Kansas businesses is an excellent idea. He is in favor of the bill with changes. He feels that any reductions should be the same percentage across the board for all positive balance employers. The proposed scheme rewards big businesses at the expense of small businesses and rewards old businesses at the expense of new businesses. It rewards businesses that have shrunk in size at the expense of those who have grown in size. In closing, he stated the U.I. rates should be cut, but the cuts should be fair to the one who are paying in the most of the surplus funds. The rate reduction should be given to all positive balance employers.

Chairperson Brownlee introduced Derrick Sontag, State Director, NFIB to give his testimony as a proponent of **SB 83**. Mr. Sontag presented written copy which he reviewed for the Committee. (Attachment 4) He stated NFIB has balloted more than 5,400 NFIB members in Kansas and they are in strong support of a rate reduction with the Unemployment Compensation Fund. He also added that he felt that, as in Mr. Daniels testimony, the reduction rate could be equal for positive balance employers.

Brief questions and answers followed.

Upon the conclusion of the questions Chairperson Brownlee introduced Jeff Glendening, KCCI, to give his testimony as a proponent of **SB 83**. Mr. Glendening reviewed his written testimony. (Attachment 5) Mr. Glendening stated the bill will allow Unemployment Compensation Tax relief for positive balance employers without jeopardizing the integrity of the unemployment compensation trust fund.

Questions and answers followed. It was noted that KCCI would not oppose an equal rate reduction for all positive balance employers.

Ashley Sherard, Vice President, Lenexa Chamber of Commerce, presented written only testimony. (Attachment 6)

With no further testimony or questions on **SB 83**, Chairperson Brownlee closed the hearing on **SB 83**.

Chairperson Brownlee introduced Kathie Sparks, Legislative Research, to explain **SB 164**. Ms. Sparks stated that **SB 164** is very close to the Innovia bill which was done a few years ago. This bill is regarding a hydraulics company in Reno County. In the first three years of the program 90% of the qualified industrial manufacturer's Kansas payroll withholding taxes shall be paid out. In the remaining seven years of the agreement 40% shall be paid out. The company would not be allowed to participate in IMPACT. The Secretary of Commerce will oversee the program. If at anytime the company fails to meet the requirements of the program, it will be cancelled.

Chairperson Brownlee opened the hearing on **SB 164** and introduced Senator Terry Bruce to give his testimony as a proponent on **SB 164**. Senator Bruce reviewed his written testimony. (Attachment 7) Senator Bruce stated the bill was very important for Reno County and the surrounding communities. He stated Eaton Corporation is a large manufacturing employer in the Hutchinson region and the loss of this company would be disastrous to the local and surrounding economy. He stated that the City of Hutchinson, Reno County, and the Reno County Chamber of Commerce has invested in Eaton's continued presence in Reno County. **SB 164**

## CONTINUATION SHEET

MINUTES OF THE Senate Commerce Committee at 8:20 A.M. on February 1, 2007 in Room 123-S of the Capitol.

gives the final piece to the puzzle of incentives for Eaton to stay in Kansas by providing payroll relief.

Upon the conclusion of Senator Bruce's testimony he introduced former Senate President, Dave Kerr, President, Reno County Chamber of Commerce, to give his testimony in favor of **SB 164**. Mr. Kerr presented written testimony which he reviewed with the Committee. (Attachment 8) He stated that with the news of the Eaton Corporation closing their operation in Reno County an aggressive and creative plan was pulled together with a partnership of the local and county leaders. Mr. Kerr closed stating he would give a wrap up at the end of all the testimony.

Chairperson Brownlee introduced John Deardoff, City Manager, Hutchinson, Kansas to give his testimony as a proponent of **SB 164**. He reviewed his written testimony with the Committee. (Attachment 9) He stated that instead of accepting the Eaton Corporation's decision, the community decided to act. They formed a Rapid Response Team made up of local and community leaders to decide what could be done. The Rapid Response Team came up with a proposal and presented it to the Eaton Corporation. Eaton is interested in the proposal. **SB 164** is the last missing component to their proposal. He urged the Committee to support the bill.

Chairperson Brownlee introduced Mark Love, with the International Association of Machinists and Aerospace Workers, to give his testimony. (Attachment 10) Mr. Love reviewed his testimony with the Committee. He stated the International Association of Machinists and Aerospace Workers represent the employees of the Eaton Corporation. Their bargaining unit team acknowledged that they would need to consider certain concessions that would show Eaton a good faith effort and commitment to keep the Eaton Plant in Reno County open. In closing he urged the Committee to support the bill which is the last part of the incentive plan to keep the Eaton Corporation in Reno County and save the jobs for 300 workers at that location.

Chairperson Brownlee introduced Larry Sharp, County Commissioner, Reno County to give his testimony as a proponent for **SB 164**. Mr. Sharp reviewed his testimony for the Committee. (Attachment 11) Mr. Sharp commended KDOT for the fine job they do on keeping the roads clear during bad weather. He drove up from Hutchinson the day before in the snow. He told the Committee that the passage of **SB 164** is the final piece in a grass roots community effort to retain 300 good paying jobs in the Hutchinson, Kansas and Reno County community. He stated that the collective package will provide a solid return on investment that will positively impact their community and the entire state of Kansas for years to come.

Chairperson Brownlee called on Mr. Kerr, President, Reno County Chamber of Commerce, to complete his testimony. Mr. Kerr called the Committee's attention to a letter from the Eaton Corporation, the written only testimony of Mr. Scott Krueger, General Manager. (Attachment 12) Mr. Kerr also called the Committee's attention to his written testimony which included a letter supporting **SB 164** from the Governor. In closing, Mr. Kerr stated that the community came together and put a total package of incentives of almost \$4 million dollars not including the concessions the workers are making. With the \$2 million of captured payroll taxes over 10 years envisioned in **SB 164**, 300 good jobs in Kansas will be saved.

Questions and answers followed. The Committee was impressed and appreciated all the joint efforts involved in putting this incentive package together before coming before the Committee.

Chairperson Brownlee stated if the Committee was in agreement they would work the bill today.

Chairperson Brownlee recognized Norm Furse, Revisors Office . Mr. Furse suggested minor language changes in **SB 164**.

**Senator Jordan made a motion to accept the changes. Senator Emler seconded. Motion carried.**

**Senator Teichman made a motion to pass the bill out favorably as amended. Senator Reitz seconded. Motion carried.**

CONTINUATION SHEET

MINUTES OF THE Senate Commerce Committee at 8:20 A.M. on February 1, 2007 in Room 123-S of the Capitol.

Chairperson Brownlee adjourned the meeting at 9:25 a.m. with the next meeting scheduled for February 6, 2007 at 8:30 a.m. in room 123S.



# Notice to Contractors

Kansas employers engaged in the construction trades in Kansas are required to report wages and pay unemployment contributions to the Kansas Department of Labor. Additionally, if any subcontractor in the building trades fails to correctly report wages paid or pay the Kansas unemployment contribution correctly, the prime contractor can be held directly liable for the unemployment contribution, penalty and interest due from the subcontractor.

## **K.S.A. 44-717(b)(3)**


*"Any contractor, who is or becomes an employer under the provisions of this act, who contracts with any subcontractor, who also is or becomes an employer under the provisions of this act, shall be directly liable for such contributions, penalties and interest due from the subcontractor and the Secretary of Labor shall have all of the remedies of collection against the contractor under the provisions of this act as though the services in question were performed directly for the contractor, unless the contractor requires the subcontractor to provide a good and sufficient bond guaranteeing payment of all contributions, penalties and*

*interest due or to become due with respect to wages paid for employment on the contract."*

Besides the bond requirement in K.S.A. 44-717(b)(3), a prime contractor may also be resolved from liability by submitting a K-CNS 222, "**Prime Contractor's Release of Liability Application**" and receiving a certification from the Kansas Department of Labor that the subcontractor has paid all contributions, penalty and interest due or that the subcontractor is not liable to Kansas for taxes on wages paid during the referenced subcontract. The K-CNS 222 may be obtained online at **[www.uitax.dol.ks.gov](http://www.uitax.dol.ks.gov)** (select Forms).

## **Worker Misclassification**

Intentional misclassification of workers is illegal and constitutes tax and insurance evasion. Misclassifying employment in Kansas harms workers, the business community and Kansas taxpayers. Employers that intentionally classify a worker as an independent contractor to avoid paying these taxes are subject to severe penalties in Kansas.



If you are unsure whether people working for your business should be classified as an employee or an independent contractor, you can contact the Kansas Department of Labor for help:

**Call 785-368-8313 or go online at [www.uitax.dol.ks.gov](http://www.uitax.dol.ks.gov)**

Senate Commerce Committee

*February 1, 2007*

# KANSAS LEGISLATIVE RESEARCH DEPARTMENT

545N-Statehouse, 300 SW 10<sup>th</sup> Ave.  
Topeka, Kansas 66612-1504  
(785) 296-3181 ♦ FAX (785) 296-3824

kslegres@klrd.state.ks.us

<http://www.kslegislature.org/klrd>

January 26, 2007

**To:** Senate Committee on Commerce  
**From:** Kathie Sparks, Principal Analyst  
**Re:** SB 78 and Timeline for Receiving Unemployment Benefits

Per the Chairperson's request, the following will outline the timeline for a worker receiving unemployment benefits after being fired or laid off on January 23, 2007.

## Laid Off

January 23, 2007	Laid off and filed for unemployment benefits on this date.
January 21, 2007	Claim is effective on the Sunday of the week it is filed.
January 21-27, 2007	Waiting week for the claim.
January 28-February 3, 2007	1 <sup>st</sup> payable week, however, no check is made available to the individual this week.
February 4 or 5, 2007	Must file a weekly claim for 26 weeks for each prior week of claimed benefits.
February 7, 2007	Check is issued or a direct deposit is made; the majority of benefit checks are mailed on Tuesday; however, if the direct deposit option is used, the funds would be available on Wednesday.
February 9, 2007	State of Kansas employer, the final paycheck would be deposited on this date, including accrued vacation.

## Fired or Leaving Status is in Question

January 23, 2007	Fired from employment; a code is placed on file and no check is mailed or deposited until resolution of eligibility.
January 24, 2007	Letter to employer; employer has 10 days to respond.
February 5, 2007	Would be the 10 <sup>th</sup> day for employer's response to be postmarked.

- February 8, 2007 Three days for the Department of Labor to consider employer's response; and Department contacts claimant for a statement concerning separation from work.
- February 9, 2007 State of Kansas employer, the final paycheck would be deposited on this date, including accrued vacation.
- February 11-17, 2007 The Department reviews claim, each parties' filed paperwork, and makes a determination.
- February 15, 2007 If determination is that the employee is eligible, the employee receives a check or direct deposit for the two prior weeks' benefits;
- If determination is that the employee is not eligible, no check or deposit is made;
- Notice give to all parties of determination of not eligible;
- Employee can appeal to the Department; and
- Hearing scheduled, if requested by the employee, approximately 2 to 3 weeks after determination that the employee is not eligible.
- February 14 - March 7, 2007 Hearing would be held.
- March 14, 2007 Hearing determination is made and if the employee is determined to be eligible, that night funds would be released for all prior weeks due the employee; and
- Hearing determination is made and if the employee is determined not eligible, no funds are released, and the employee has the right to file an appeal to the Board of Review within the Department of Labor.
- April 4 - April 11, 2007 Hearing with Board of Review, this is an administrative review and determination is made within a week of review.
- April 18, 2007 If employee is deemed eligible, moneys released that night; and
- If not eligible, the next appeal is district court.

This information was provided by Bob Lierz, Chief of Benefits, Kansas Department of Labor.



# KSSmallBiz.com

ADVOCATES FOR KANSAS SMALL BUSINESS

P.O. BOX 1246 • TOPEKA, KS 66601-1246 • 785.232.4590. x205

www.KSSmallBiz.com

**Presentation to the Senate Commerce Committee  
February 1, 2007  
SENATE BILL 83**

*Kenneth L. Daniel is an unpaid volunteer lobbyist who advocates for Kansas small businesses. He is publisher of KsSmallBiz.com, a small business e-newsletter and website. He is C.E.O. of Midway Wholesale, a business he founded in 1970. Midway has seven Kansas locations and 110 employees.*

Madame Chairwoman and Mister Chairman and Members of the Committee:

My name is Ken Daniel. I am a volunteer lobbyist for small business and publisher of KsSmallBiz.com.

I speak today in favor of Senate Bill 83. Leaving \$170 million in unneeded unemployment tax money in the hands of Kansas businesses is an excellent idea.

The U.I. Trust Fund money can only be used for unemployment benefits purposes, but the Fund has plenty of money already. The tax rates need to be adjusted to leave money in the hands of Kansas businesses so it can be used to grow Kansas economy.

I would ask you to correct one major flaw in the current bill.

The law goes to great lengths to make sure employers pay their fair share into the trust fund. It is only right that you make sure that all employers get their fair share of any reductions. The current bill does not do that.

The unequal reductions in the current bill throw out the "fair share" concept, unnecessarily creating winners and losers. Any reductions should be the same percentage across-the-board for ALL positive balance employers. A

Senate Commerce Committee

February 1, 2007

Attachment 3-1

40% or 50% across-the-board reduction will result in the same \$170 million in tax reductions for the next two years.

(SEE EXHIBIT "A" ATTACHED) Since the Trust fund bottomed out at \$293.9 million in 2003, positive-balance employers have paid in an excess \$307.5 million. In fact, they have paid in a lot more, but negative-balance employers have used up the rest. Also note that the Fund is very likely to continue to grow, even though it is already bloated.

(SEE EXHIBIT "B" ATTACHED) This chart shows who paid in the \$307 million. Groups 1-10 paid in about 5.5% of it, while groups 31 through 51 paid in about 64.3% of it. For 2007, if you adopt the current version of SB83, groups 1-10 will pay nothing, while groups 31 through 51 will pay 79% of all new funds going into the Trust Fund.

(SEE EXHIBIT "C" ATTACHED) This chart breaks down the 2007 premiums for all 51 positive-balance groups under the current law, under a 40% across-the-board reduction, and under the current scheme in SB83. Remember, all positive balance employers pay in their fair share based on their own history. Note that under the current law, Group 1 employers will pay \$4.80 per employee, while group 51 will pay \$384.80, eighty times as much. The point is that groups 31 to 51 ARE paying their fair share, and that share is extremely expensive to them.

Exhibit "C" also clearly demonstrates other very unfair features of the current scheme in SB 83:

- For 2007, a jump down from Group 10 to Group 11 would cost an employer an extra \$8.80 per year per employee. Under this plan, that jump will be \$22.60 per employee.
- For 2007, a jump down from Group 20 to Group 21 should cost an employer an extra \$9.60 per year per employee. Under this plan, that jump will be \$47.80 per employee.
- For 2007, a jump down from Group 30 to Group 31 should cost an employer an extra \$8.80 per year per employee. Under this plan, that jump will be \$80.80 per employee.

**OTHER IMPORTANT POINTS:**

The proposed scheme rewards big businesses at the expense of small businesses. It rewards older businesses at the expense of newer businesses. It rewards businesses that have shrunk in size at the expense of those who have grown in size. It rewards businesses that are paying in \$5 per year per employee at the expense of those who are paying in \$384 per year per employee.

In 2006, the fund grew by about \$148 million. With no changes, it should grow by another \$120 million in 2007. With a \$90 million reduction, the fund will grow again, to about \$630 million. The proposed SB83 plan sets up a scenario where groups 31 through 51 will grossly overpay while groups 1 through 10 pay nothing and 11 through 30 grossly underpay. Some employers may escape taxes for years under this scheme.

In general, the proposed plan takes money from small businesses, especially contractors, small service businesses, and small retailers, and, in general, gives it to manufacturers, professional businesses, and large service and retail businesses.

Premiums for employers who are growing and thriving automatically increase without any change in layoff experience. (Previous account balance is less of a percentage of their new payroll.) Premiums for employers who are shrinking automatically decrease without any change in layoff experience. (Previous account balance is more of a percentage of their new payroll.) THE PROPOSED PLAN REWARDS BUSINESSES WHO ARE LAYING OFF AT THE EXPENSE OF BUSINESSES THAT ARE GROWING!

The many billions in employer accounts are a history, not real money. The longer a business exists, the more builds up in the account. When the business ceases to exist, the account ceases to exist. The money can never be accessed. The balance is only used to determine next year's tax rate. If the balance falls, which is rare, it triggers tax increases on the employer.

Only the negative balance employers are not paying in their fair share. This bill proposes no relief for them. No other employers deserve to be penalized in any rate reduction, because they are all paying their fair share.

Many employers have paid in extra cash above what they were required to pay in order to move into a lower rate. That money is part of what built the big surplus in the fund. The proposed plan is a slap in the face to those who voluntarily paid in.

### **MIDWAY WHOLESALE'S ACTUAL BILLINGS**

So the committee can see the real thing, I am attaching Midway Wholesale's actual U.I. billings for 2006 and 2007.

(2006: SEE EXHIBIT "E" ATTACHED)

We were in group 19, down from group 21 because we paid in \$1,027 extra. We paid in 6 times as much as our claims were, and our account balance would cover 17 years of payments at that level of claims. We grew by about 10 employees, hurting our reserve ratio.

(2007: SEE EXHIBIT "F" ATTACHED)

We are in group 23, down from group 19, even though we paid in extra in 2006, we paid in 4 times as much as our claims were, and our account balance would cover 19 years of payments at that level of claims. We grew by about 20 employees, hurting our reserve ratio.

(EXHIBITS "G" AND "H" ARE THE RATE CHARTS FOR 2006 AND 2007, ON WHICH A LOT OF MY PREVIOUS CALCULATION ARE BASED.)

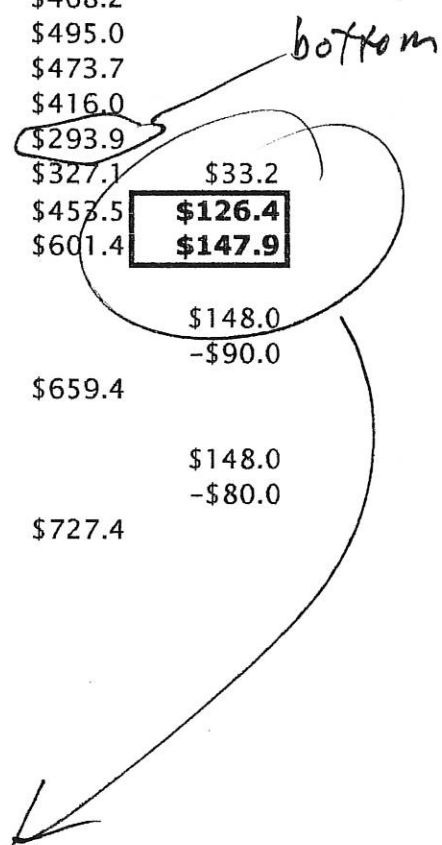
### **CONCLUSION:**

**The U.I. rates should definitely be cut, but the cuts should be fair to the ones who are paying in most of the surplus funds we are seeing. Whether the rate reduction is 40%, 50%, or 100%, it should be given to ALL positive balance employers.**

A

**ANALYSIS OF UNEMPLOYMENT TRUST FUND AND PROPOSED REDUCTIONS**

	CY SUTA Collected in Millions	Total Trust Fund in Millions	Fund Annual Increase
7/31/1994			\$729.8
7/31/1995 Moratorium Starts			\$675.4
7/31/1996 Continues	34.348		\$621.4
12/31/1997 Continues	36.979		\$606.7
12/31/1998 Continues	39.427		\$558.3
12/31/1999 Moratorium Ends	42.625		\$468.2
12/31/2000 No Moratorium	147.137		\$495.0
12/31/2001 Sept. 11	177.789		\$473.7
12/31/2002 Airplane Layoffs	187.971		\$416.0
12/31/2003 Airplane Layoffs	233.343		\$293.9
12/31/2004	308.831		\$327.1
12/31/2005	351.669		\$453.5
12/23/2006			\$601.4
Assume \$148M increase for '07			\$148.0
Less: \$90 million reduction			-\$90.0
12/31/2007 Estimate		\$659.4	
Assume \$148M increase for '08			\$148.0
Less: \$80 million reduction			-\$80.0
12/31/2008 Estimate		\$727.4	



Excess paid in since bottom -  
 \$307.5 million. ALL OF THIS  
AND MUCH MORE WAS PAID IN  
BY THE POSITIVE - BALANCE  
EMPLOYERS.

2

### COMPARISON OF POSITIVE-BALANCE EMPLOYER PAYMENTS UNDER VARIOUS PLANS

Groups 1 thru 10	Groups 11 thru 20	Groups 21 thru 30	Groups 31 thru 51
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#### 2006 -- \$126.4 Million in Excess Paid In For 2005

2006 Average Rate for Group	0.52%	1.64%	2.88%	4.49%
2006 Average PER EMPLOYEE	\$41.60	\$131.20	\$230.40	\$358.80
Excess Portion Paid in Millions	\$6.90	\$21.76	\$38.22	\$80.93
Excess Portion Paid in %	5.46%	17.22%	30.24%	64.03%

#### 2007 Under Present Law (\$147.9 Million in Excess Paid In For 2006)

2007 Average Rate for Group	0.44%	1.40%	2.36%	3.83%
2007 Average PER EMPLOYEE	\$35.20	\$112.00	\$188.80	\$306.00
Excess Portion Paid in Millions	\$8.11	\$25.80	\$43.49	\$95.48
Excess Portion Paid in %	5.48%	17.45%	29.41%	64.56%

#### 2007 if Department of Labor/Kansas Chamber Plan

2007 Average Rate for Group	0.00%	0.35%	1.18%	2.87%
2007 Average PER EMPLOYEE	\$0.00	\$28.00	\$94.40	\$229.60
Excess Portion Paid in Millions	\$0.00	\$28.48	\$96.01	\$282.66
Excess Portion Paid in %	0.00%	7.95%	26.82%	78.95%

#### 2007 if House Republican Leadership Plan -- 40% Across the Board

2007 Average Rate for Group	0.18%	0.56%	0.94%	1.53%
2007 Average PER EMPLOYEE	\$14.08	\$44.80	\$75.52	\$122.40
Excess Portion Paid in Millions	\$19.63	\$62.45	\$105.28	\$231.11
Excess Portion Paid in %	5.48%	17.45%	29.41%	64.56%

2005 and 2006:  
 Groups 1-10 paid in about 5 1/2% of the  
 \$307 million, while groups 31-51  
 paid in about 64%.

If the Chamber Plan (SB83) is not  
 modified, groups 1-10 will pay in  
0% next year, while 31-51 will pay in  
79%.

COMPARISON OF UNEMPLOYMENT RATE REDUCTION PROPOSALS

2

Group	2007 Rate Current Law	2007 Cost per Employee Current Law	2007 Cost per Employee House Plan	Savings	2007 Cost per Employee Senate Bill 83	Savings
1	0.06	\$4.80	\$2.88	-40.0%	0	-100.0%
2	0.10	\$8.00	\$4.80	-40.0%	0	-100.0%
3	0.19	\$15.20	\$9.12	-40.0%	0	-100.0%
4	0.29	\$23.20	\$13.92	-40.0%	0	-100.0%
5	0.38	\$30.40	\$18.24	-40.0%	0	-100.0%
6	0.48	\$38.40	\$23.04	-40.0%	0	-100.0%
7	0.58	\$46.40	\$27.84	-40.0%	0	-100.0%
8	0.67	\$53.60	\$32.16	-40.0%	0	-100.0%
9	0.77	\$61.60	\$36.96	-40.0%	0	-100.0%
10	0.87	\$69.60	\$41.76	-40.0%	<b>0</b>	-100.0%
11	0.96	\$76.80	\$46.08	-40.0%	<b>\$19.20</b>	-75.0%
12	1.06	\$84.80	\$50.88	-40.0%	\$21.20	-75.0%
13	1.15	\$92.00	\$55.20	-40.0%	\$23.00	-75.0%
14	1.25	\$100.00	\$60.00	-40.0%	\$25.00	-75.0%
15	1.35	\$108.00	\$64.80	-40.0%	\$27.00	-75.0%
16	1.44	\$115.20	\$69.12	-40.0%	\$28.80	-75.0%
17	1.54	\$123.20	\$73.92	-40.0%	\$30.80	-75.0%
18	1.64	\$131.20	\$78.72	-40.0%	\$32.80	-75.0%
19	1.73	\$138.40	\$83.04	-40.0%	\$34.60	-75.0%
20	1.83	\$146.40	\$87.84	-40.0%	<b>\$36.60</b>	-75.0%
21	1.92	\$153.60	\$92.16	-40.0%	<b>\$76.80</b>	-50.0%
22	2.02	\$161.60	\$96.96	-40.0%	\$80.80	-50.0%
23	2.12	\$169.60	\$101.76	-40.0%	\$84.80	-50.0%
24	2.21	\$176.80	\$106.08	-40.0%	\$88.40	-50.0%
25	2.31	\$184.80	\$110.88	-40.0%	\$92.40	-50.0%
26	2.41	\$192.80	\$115.68	-40.0%	\$96.40	-50.0%
27	2.50	\$200.00	\$120.00	-40.0%	\$100.00	-50.0%
28	2.60	\$208.00	\$124.80	-40.0%	\$104.00	-50.0%
29	2.69	\$215.20	\$129.12	-40.0%	\$107.60	-50.0%
30	2.79	\$223.20	\$133.92	-40.0%	<b>\$111.60</b>	-50.0%
31	2.89	\$231.20	\$138.72	-40.0%	<b>\$173.40</b>	-25.0%
32	2.98	\$238.40	\$143.04	-40.0%	\$178.80	-25.0%
33	3.08	\$246.40	\$147.84	-40.0%	\$184.80	-25.0%
34	3.18	\$254.40	\$152.64	-40.0%	\$190.80	-25.0%
35	3.27	\$261.60	\$156.96	-40.0%	\$196.20	-25.0%
36	3.37	\$269.60	\$161.76	-40.0%	\$202.20	-25.0%
37	3.46	\$276.80	\$166.08	-40.0%	\$207.60	-25.0%
38	3.56	\$284.80	\$170.88	-40.0%	\$213.60	-25.0%
39	3.66	\$292.80	\$175.68	-40.0%	\$219.60	-25.0%
40	3.75	\$300.00	\$180.00	-40.0%	\$225.00	-25.0%
41	3.85	\$308.00	\$184.80	-40.0%	\$231.00	-25.0%
42	3.95	\$316.00	\$189.60	-40.0%	\$237.00	-25.0%
43	4.04	\$323.20	\$193.92	-40.0%	\$242.40	-25.0%
44	4.14	\$331.20	\$198.72	-40.0%	\$248.40	-25.0%
45	4.23	\$338.40	\$203.04	-40.0%	\$253.80	-25.0%
46	4.33	\$346.40	\$207.84	-40.0%	\$259.80	-25.0%
47	4.43	\$354.40	\$212.64	-40.0%	\$265.80	-25.0%
48	4.52	\$361.60	\$216.96	-40.0%	\$271.20	-25.0%
49	4.62	\$369.60	\$221.76	-40.0%	\$277.20	-25.0%
50	4.72	\$377.60	\$226.56	-40.0%	\$283.20	-25.0%
51	4.81	\$384.80	\$230.88	-40.0%	\$288.60	-25.0%

**KANSAS DEPARTMENT OF LABOR**

401 S.W. Topeka Boulevard  
Topeka, Kansas 66603-3182

**2006  
EXPERIENCE RATING  
NOTICE**



\*\*\* AMENDED \*\*\*

DATE MAILED: 03-17-2006

ACCOUNT NO.: 112997

201  
MIDWAY SALES-DISTRIBUTING INC  
PO BOX 1246  
TOPEKA KS 66601-1246

YOUR 2006 EXPERIENCE RATE  
HAS BEEN CHANGED AS A RESULT  
OF YOUR VOLUNTARY CONTRIBUTION

2006 TAXABLE  
WAGE BASE: 8,000.00

	CONTRIBUTIONS PAID	BENEFITS CHARGED	TAXABLE PAYROLL	
FOR YEARS			2002	729,693.47
THRU JUNE 30, 2004	130,860.75	57,896.50	2003	725,763.54
FOR FISCAL YEAR			2004	739,765.80
ENDED JUNE 30, 2005	35,669.02	6,013.24	<b>TOTAL</b>	<b>2,195,222.81</b>
TOTALS	<u>166,529.77</u>	<u>63,909.74</u>		

*2005 CONTRIBUTIONS = 593% OF CLAIMS*

Average of Taxable Payrolls Shown is → 731,740.93

ACCOUNT BALANCE IS: 102,620.03 (Contributions Paid Less Benefits Charged)

$\frac{102,620}{6,013} = 17 \text{ YRS @ CURRENT RATE COMPUTATION}$

ACCOUNT BALANCE ÷ AVERAGE ANNUAL TAXABLE PAYROLL = RESERVE RATIO

102,620. ÷ 731,740. = 14.024

**RATE GROUP**  
19

YOUR CONTRIBUTION RATE FOR  
2006 IS 2.04 %

IF YOU HAVE ANY QUESTIONS REGARDING YOUR 2006 CONTRIBUTION RATE COMPUTATION SHOWN ABOVE OR THE VOLUNTARY CONTRIBUTION COMPUTATION SHOWN BELOW, CONTACT: MIKE MAHAN PHONE: 785-296-1798 EXT 000

If you desire to make a voluntary contribution to reduce your tax rate, cut off this portion and return it with your remittance

**VOLUNTARY CONTRIBUTION COMPUTATION**

OPTION	Lower Reserve Ratio Is	Average Annual Taxable Payroll	=	Account Balance Required to Lower Rate	-	Present Account Balance	IS	Amount of Voluntary Contribution Required to Lower Tax Rate	If you select this option your New Rate is:
OPTION I:	NOT APPLICABLE								%
	FOR RATE GROUP								%
OPTION II:	NOT APPLICABLE								%
	FOR RATE GROUP								%
OPTION III:	NOT APPLICABLE								%
	FOR RATE GROUP								%
OPTION IV:	NOT APPLICABLE								%
	FOR RATE GROUP								%
OPTION V:	NOT APPLICABLE								%
	FOR RATE GROUP								%

*This is after we voluntarily contributed an extra \$1,027*

ACCOUNT NO. 112997 FILL IN YOUR OPTION AND AMOUNT OF PAYMENT: OPTION \_\_\_\_\_ \$ \_\_\_\_\_  
Your voluntary contribution must be postmarked by:

>OVER<





# KANSAS DEPARTMENT OF LABOR

401 S.W. Topeka Boulevard  
Topeka, Kansas 66603-3182

# 2007 EXPERIENCE RATING NOTICE

F

DATE MAILED: 12-13-2006

ACCOUNT NO.: 112997

201  
MIDWAY SALES-DISTRIBUTING INC  
PO BOX 1246  
TOPEKA KS 66601-1246

2007 TAXABLE  
WAGE BASE: 8,000.00

	CONTRIBUTIONS PAID	BENEFITS CHARGED	TAXABLE PAYROLL	
PRIOR YEARS THRU JUNE 30, 2005	166,529.77	63,909.74	2003	725,763.54
FOR FISCAL YEAR ENDED JUNE 30, 2006	<u>24,557.02</u>	<u>6,341.00</u>	2004	739,765.80
TOTALS	<u>191,086.79</u>	<u>70,250.74</u>	2005	928,158.47
			<b>TOTAL</b>	<u>2,393,687.81</u>

*2006 CONTRIBUTIONS = 38700 OF 2006 CLAIMS*

ACCOUNT BALANCE IS: 120,836.05 (Contributions Paid Less Benefits Charged)

Average of Taxable Payrolls Shown is → 797,895.93

$\frac{120,836}{6,341} = 19 \text{ YRS @ CURRENT USAGE}$

### RATE COMPUTATION

ACCOUNT BALANCE	÷	AVERAGE ANNUAL TAXABLE PAYROLL	=	RESERVE RATIO
120,836.		797,895.		15.144

**RATE GROUP 23**

YOUR CONTRIBUTION RATE FOR	
2007	IS 2.12

IF YOU HAVE ANY QUESTIONS REGARDING YOUR 2007 CONTRIBUTION RATE COMPUTATION SHOWN ABOVE or the VOLUNTARY CONTRIBUTION COMPUTATION SHOWN BELOW, CONTACT: MIKE MAHAN PHONE: 785-296-1798

If you desire to make a voluntary contribution to reduce your tax rate, cut off this portion and return it with your remittance

### VOLUNTARY CONTRIBUTION COMPUTATION

OPTION	Lower Reserve Ratio Is	X	Average Annual Taxable Payroll	=	Account Balance Required to Lower Rate	-	Present Account Balance	IS	Amount of Voluntary Contribution Required to Lower Tax Rate	If you select this option, New Rate is
OPTION I:	.15252		797,895.		121,696.		120,836.		860.	2.02
	FOR RATE GROUP 22									
OPTION II:	.15388		797,895.		122,781.		120,836.		1,945.	1.92
	FOR RATE GROUP 21									
OPTION III:	.15516		797,895.		123,802.		120,836.		2,966.	1.83
	FOR RATE GROUP 20									
OPTION IV:	.15580		797,895.		124,313.		120,836.		3,477.	1.73
	FOR RATE GROUP 19									
OPTION V:	.15678		797,895.		125,095.		120,836.		4,259.	1.64
	FOR RATE GROUP 18									

FILL IN YOUR OPTION AND AMOUNT OF PAYMENT: OPTION \_\_\_\_\_ \$ \_\_\_\_\_

ACCOUNT NO. 112997 Your voluntary contribution must be postmarked by: 01-12-2007

3-9

# CONTRIBUTION RATES EFFECTIVE FOR CALENDAR YEAR 2006 FOR EMPLOYERS WITH A POSITIVE ACCOUNT BALANCE

3

Rate Group	Upper & Lower Reserve Ratio (In percent)		2006 Rate (In percent)	Rate Group	Upper & Lower Reserve Ratio (In percent)		2006 Rate (In percent)
	Upper	Lower			Upper	Lower	
1	11567.299	30.377	0.07	26	13.274	13.201	2.83
2	30.376	22.633	0.11	27	13.200	13.138	2.95
3	22.632	19.814	0.23	28	13.137	12.997	3.06
4	19.813	18.487	0.34	29	12.996	12.823	3.17
5	18.486	17.553	0.45	30	12.822	12.678	3.29
6	17.552	17.077	0.57	31	12.677	12.459	3.40
7	17.076	16.777	0.68	32	12.458	12.217	3.51
8	16.776	16.257	0.79	33	12.216	11.961	3.63
9	16.256	15.986	0.91	34	11.960	11.721	3.74
10	15.985	15.627	1.02	35	11.720	11.399	3.85
11	15.626	15.327	1.13	36	11.398	11.063	3.97
12	15.326	15.111	1.25	37	11.062	10.716	4.08
13	15.110	14.918	1.36	38	10.715	10.332	4.19
14	14.917	14.762	1.47	39	10.331	10.038	4.31
15	14.761	14.613	1.59	40	10.037	09.586	4.42
16	14.612	14.444	1.70	41	09.585	09.063	4.53
17	14.443	14.290	1.81	42	09.062	08.501	4.65
18	14.289	14.171	1.93	43	08.500	07.846	4.76
19	14.170	14.024	2.04	44	07.845	07.163	4.87
20	14.023	13.968	2.15	45	07.162	06.208	4.99
21	13.967	13.874	2.27	46	06.207	05.334	5.10
22	13.873	13.714	2.38	47	05.333	04.083	5.21
23	13.713	13.572	2.49	48	04.082	03.401	5.33
24	13.571	13.419	2.61	49	03.400	01.793	5.40
25	13.418	13.275	3.72	50	01.792	00.822	5.40
				51	00.821	00.000	5.40

AVG.  
5.2%

AVG  
1.64%

AVG  
2.88%

Combined AVG 4.49%

AVG

3.91%

AVG

5.06%

## SURCHARGE ON NEGATIVE ACCOUNTS

K.S.A. 44-710a provides that negative balance employers shall pay contributions at the assigned rate of 5.40% and in addition shall pay a surcharge based on the size of the employer's negative reserve ratio. The schedule shown below provides the amount of surcharge that will be added to the assigned rate for calendar year 2006. Contribution payments made as a result of this surcharge shall be credited to the experience rating account of such negative balance employers.

Upper & Lower Negative Reserve Ratio (In Percent)		Assigned Rate	Surcharge (In Percent)	2006 Rate (In Percent)
Upper	Lower			
-0.001	-1.999	5.40	.20	5.60
-2.000	-3.999	5.40	.40	5.80
-4.000	-5.999	5.40	.60	6.00
-6.000	-7.999	5.40	.80	6.20
-8.000	-9.999	5.40	1.00	6.40
-10.000	-11.999	5.40	1.20	6.60
-12.000	-13.999	5.40	1.40	6.80
-14.000	-15.999	5.40	1.60	7.00
-16.000	-17.999	5.40	1.80	7.20
-18.000	and over	5.40	2.00	7.40

# CONTRIBUTION RATES EFFECTIVE FOR CALENDAR YEAR 2007 FOR EMPLOYERS WITH A POSITIVE ACCOUNT BALANCE

Rate Group	Upper & Lower Reserve Ratio (In percent)		2007 Rate (In percent)	Rate Group	Upper & Lower Reserve Ratio (In percent)		2007 Rate (In percent)
	Upper	Lower			Upper	Lower	
1	6083.531	29.870	0.06	26	14.997	14.860	2.41
2	29.869	22.731	0.10	27	14.859	14.690	2.50
3	22.730	20.298	0.19	28	14.689	14.553	2.60
4	20.297	19.016	0.29	29	14.552	14.389	2.69
5	19.015	18.261	0.38	30	14.388	14.205	2.79
6	18.260	17.790	0.48	31	14.204	14.021	2.89
7	17.789	17.547	0.58	32	14.020	13.869	2.98
8	17.546	17.224	0.67	33	13.868	13.636	3.08
9	17.223	16.970	0.77	34	13.635	13.362	3.18
10	16.969	16.728	0.87	35	13.361	13.070	3.27
11	16.727	16.618	0.96	36	13.069	12.843	3.37
12	16.617	16.397	1.06	37	12.842	12.541	3.46
13	16.396	16.257	1.15	38	12.540	12.225	3.56
14	16.256	16.118	1.25	39	12.224	11.930	3.66
15	16.117	16.008	1.35	40	11.929	11.527	3.75
16	16.007	15.889	1.44	41	11.526	11.100	3.85
17	15.888	15.796	1.54	42	11.099	10.571	3.95
18	15.795	15.678	1.64	43	10.570	10.035	4.04
19	15.677	15.580	1.73	44	10.034	09.387	4.14
20	15.579	15.516	1.83	45	09.386	08.624	4.23
21	15.515	15.388	1.92	46	08.623	07.771	4.33
22	15.387	15.252	2.02	47	07.770	06.501	4.43
23	15.251	15.121	2.12	48	06.500	05.125	4.52
24	15.120	15.012	2.21	49	05.124	04.226	4.62
25	15.011	14.998	2.31	50	04.225	02.305	4.72
				51	02.304	00.000	4.81

*Handwritten notes:*  
 - "PROPOSED" written above groups 26-51.  
 - "AVG 1.44%" written next to groups 1-10.  
 - "AVG 1.40%" written next to groups 11-20.  
 - "AVG 2.36%" written next to groups 21-25.  
 - "Combined AVG 3.83%" written vertically next to groups 26-51.  
 - "AVG 3.32%" written next to groups 31-40.  
 - "AVG 4.33%" written next to groups 41-51.  
 - "0.2400", ".2650", ".2975", ".3125", ".3375", ".3600", ".3850", ".4100", ".4325", ".4575" written next to groups 11-20.  
 - "1.96", "1.01", "1.06", "1.105", "1.155" written next to groups 21-25.

## SURCHARGE ON NEGATIVE ACCOUNTS

K.S.A. 44-710a provides that negative balance employers shall pay contributions at the assigned rate of 5.40% and in addition shall pay a surcharge based on the size of the employer's negative reserve ratio. The schedule shown below provides the amount of surcharge that will be added to the assigned rate for calendar year 2006. Contribution payments made as a result of this surcharge shall be credited to the experience rating account of such negative balance employers.

Upper & Lower Negative Reserve Ratio (In Percent)		Assigned Rate	Surcharge (In Percent)	2007 Rate (In Percent)
Upper	Lower			
-.001	-1.999	5.40	.20	5.60
-2.000	-3.999	5.40	.40	5.80
-4.000	-5.999	5.40	.60	6.00
-6.000	-7.999	5.40	.80	6.20
-8.000	-9.999	5.40	1.00	6.40
-10.000	-11.999	5.40	1.20	6.60
-12.000	-13.999	5.40	1.40	6.80
-14.000	-15.999	5.40	1.60	7.00
-16.000	-17.999	5.40	1.80	7.20
-18.000	and over	5.40	2.00	7.40

*Handwritten notes:*  
 - "CURRENTLY, GROUP 51 PAYS 80 TIMES AS MUCH PER EMPLOYEE AS GROUP 1"  
 - "GOVERNOR'S PROPOSAL - GROUP 51 15 TIMES AS MUCH AS GROUP 1"  
 - "GROUP ONE DOESN'T PAY AT ALL"  
 - "5 TIMES", "10 TIMES", "15 TIMES" written vertically next to the above text.

### **New Business Startups**

In the eleven years from 1995 through 2005, an average of 6,975 new businesses with employees started up in Kansas each year<sup>26</sup>. Beginning in 1999, the rate of startups is ranked compared to other states.

7,600 in 1995

6,693 in 1996

7,243 in 1997

7,758 in 1998

5,755 in 1999 49<sup>th</sup> in the U.S.

7,026 in 2000 38<sup>th</sup> in the U.S.

6,483 in 2001 46<sup>th</sup> in the U.S.

6,703 in 2002 41<sup>st</sup> in the U.S.

7,625 in 2003 30<sup>th</sup> in the U.S.

6,742 in 2004 46<sup>th</sup> in the U.S.

7,095 in 2005 42<sup>nd</sup> in the U.S.



The Voice of Small Business®

**Legislative Testimony**  
**Derrick Sontag, NFIB State Director**  
**Senate Bill 83**  
**February 1, 2007**

Madam Chair and Mister Chair and members of the committee:

Thank you for the opportunity to appear before you in support of Senate Bill 83. The members of NFIB would like to thank the Governor and legislators for acknowledging that tax relief is needed for Kansas businesses.

As many of you may know, NFIB/KS determines its' legislative agenda by balloting the more than 5,400 NFIB members in Kansas. A large majority of those balloted must respond on the prevailing side, in order for NFIB to support or oppose the issue in question. This process allows the organization's legislative agenda to be determined by the thousands of Kansans who are operating small and independent businesses on a daily basis.

Specific to this issue, the members of NFIB have strongly support a rate reduction within the Unemployment Compensation Fund. SB 83 would provide \$90 million in much needed tax relief for positive-balanced small businesses throughout the state. Instead of sitting in a fund that is in excess of \$600 million, the money would be directly invested in the Kansas economy by Kansas businesses.

It is estimated that by next year, the Unemployment Compensation Fund will grow to a level that exceeds the amount it had when the previous five-year moratorium was enacted by the Legislature. The membership of NFIB remains grateful for that tax relief, albeit on a temporary basis. It is the hope of NFIB that a more long-term approach is enacted, that maintains fund solvency for claimants and balances the desire of small businesses to act within a system that provides more stability for budgetary purposes.

SB 83, if enacted, would change the rate structure to what's called a "*graduated rate approach*". This approach would certainly provide tax relief to small businesses and if enacted, would be welcomed and appreciated by the sole contributors to this fund, the businesses themselves. However, there is one other approach for reducing the rates that may provide a more fair and equitable playing field for the positive-balanced employers. This approach is commonly referred to as the "*equal rate reduction*".

The "equal rate reduction" approach calls for an across the board percentage cut that is equal in size for all positive-balanced rate groups. It is estimated that a 40% cut would result in the same amount of tax relief as would the approach entailed in SB 83.

All positive-balanced employers have done more than their fair share in maintaining a solvent fund for unemployment claimants. In some cases, employers have made a strategic business decision to pay even more than what was required in order to move into a rate group that has a lower rate. These types of business decisions resulting in voluntary payments have played a factor in the fund growing to the level that it stands at now.

Under the graduated rate approach, a drop from one rate group to another would significantly reduce the amount of tax relief for the positive-balanced employer. In addition, the 31 to 51 rate group would ultimately be overpaying to make up for the larger tax relief provided to groups 1 to 30. The equal rate approach would minimize the severe swings from one rate group to another.

Under the graduated rate approach, a business that grows in terms of new net employees and as a result moves into a higher dollar per employee rate group would be penalized for simply, growing their business. On the flip side if a business is laying off employees, then it could move into a lower dollar per employee rate group.

It is the hope of NFIB that any tax relief provided to small business through a reduction in the Unemployment Compensation Fund would be done in an equitable manner.

Thank you for your consideration of this important matter.

Derrick Sontag  
Kansas State Director  
National Federation of Independent Business  
785-213-9769  
Derrick.sontag@nfib.org

# Legislative Testimony

SB 83

January 23, 2007

Testimony before the Kansas Senate Commerce Committee  
By Jeff Glendening, Vice President of Political Affairs

Thank you Madame Chair, Mr. Chairman and members of the committee for this opportunity to testify in support of SB 83. My name is Jeff Glendening, and I am representing the over 10,000 member businesses of The Kansas Chamber.

The Kansas Employment Security Trust Fund balance is currently high, with over \$600 million. This bill will allow Unemployment Compensation Tax relief for positive balance employers without jeopardizing the integrity of the unemployment compensation trust fund, which is where unemployment compensation benefits are paid equal to qualified workers who lose their jobs through no fault of their own.

The 51,829 employers who contribute more to the fund than they are charged deserve this relief. It is also important to note that employers are the sole contributors to this fund.

Tax relief for specified rate groups is as follows:

<u>Rate Group</u>	<u>Tax Relief</u>
1-10	100%
11-20	75%
21-30	50%
31-51	25%

Although the tax relief will benefit businesses of all sizes, small businesses, which constitute over 75% of our membership, will be given the greatest amount of relief.

As a measure of security for the employees of Kansas businesses, the tax will be re-instated if the fund falls below a threshold designed to provide a comfortable cushion against a worst case scenario of unemployment.

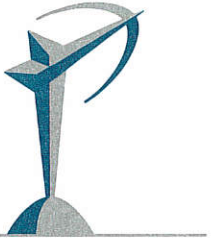
This tax relief will no doubt allow employers to invest in their businesses, creating new jobs and in the end, stimulate the Kansas economy.

Thank you again for the opportunity to voice our endorsement of this needed legislation.

Senate Commerce Committee

February 1, 2007

Attachment 5



**THE KANSAS  
CHAMBER**

The Force for Business

835 SW Topeka Blvd.

Topeka, KS 66612-1671

785-357-6321

Fax: 785-357-4732

E-mail: [info@kansaschamber.org](mailto:info@kansaschamber.org)

[www.kansaschamber.org](http://www.kansaschamber.org)

*The Kansas Chamber, with headquarters in Topeka, is the statewide business advocacy group moving Kansas towards becoming the best state in America to do business. The Kansas Chamber and its affiliate organization, The Kansas Chamber Federation, have more than 10,000 member businesses, including local and regional chambers of commerce and trade organizations. The Chamber represents small, medium and large employers all across Kansas.*



TO: Senator Karin Brownlee, Chairperson  
Senator Nick Jordan, Chairperson  
Members, Senate Commerce Committee

FROM: Ashley Sherard, Vice-President  
Lenexa Chamber of Commerce

DATE: January 23, 2007

RE: **Support for SB 83—Tiered Reductions in Unemployment  
Compensation Contribution Rates**

*The Historic Lackman-Thompson Estate*

11180 Lackman Road  
Lenexa, KS 66219-1236  
913.888.1414  
Fax 913.888.3770

-----  
The Lenexa Chamber of Commerce would like to express its strong support for Senate Bill 83, which would revise unemployment compensation contribution rates to include implementing tiered reductions in rate years 2007 and 2008 ranging from a 25% reduction up to a 100% reduction based on an employer's claims experience rating.

Businesses sometimes face economic challenges that force employers to make difficult choices, resulting in workers losing their jobs. To assist these workers, Kansas employers pay unemployment compensation taxes each year -- taxes that are paid at rates both high for our region and above the U.S. national average.

Since the unemployment compensation moratorium ended in 1999, Kansas employers have experienced significant annual increases in their unemployment compensation costs. For example, unemployment taxes paid by employers in FY 2005 increased nearly \$60 million over collections in FY 2004 -- a year-to-year increase of more than 20%! (In fact, unemployment compensation taxes accounted for 3.4% of all state and local taxes collected in FY 2005 -- behind only property, sales and use, income, and motor fuels taxes.) As a result, unemployment compensation taxes have become one of the business community's fastest growing expenses.

Because of the improving economy and fewer unemployment claims, the unemployment compensation reserve fund has now reached solvency levels exceeding legal requirements -- the point at which unemployment compensation tax reductions have been approved by the legislature in the past.

Accordingly, we strongly support enacting another such measure, and SB 83 represents one possible means of striking a balance between protecting the reserve fund to ensure unemployed workers continue to receive assistance and equitably allowing Kansas employers to retain millions of dollars a year to be reinvested in the business and economic growth that provides jobs -- the best long-term solution to unemployment.

For these reasons, the Lenexa Chamber of Commerce strongly urges the committee to recommend SB 83 favorable for passage. Thank you for your time and attention to this important issue.

Senate Commerce Committee

February 1, 2007

Attachment 6



TERRY BRUCE  
STATE SENATOR  
34TH DISTRICT  
RENO COUNTY



TOPEKA

SENATE CHAMBER

COMMITTEE ASSIGNMENTS  
VICE CHAIR: JUDICIARY  
MEMBER: JOINT COMMITTEE ON SPECIAL  
CLAIMS AGAINST THE STATE  
AGRICULTURE  
ASSESSMENT & TAXATION  
NATURAL RESOURCES

Madam Chair and Committee Members,

Thank you for allowing me to address this committee on Senate Bill 164 (SB 164). I would like to take this opportunity to stress the importance of this bill on Reno County and the surrounding communities. Eaton Corporation is a large manufacturing employer in the Hutchinson region and the loss of this company to our economic base would be disastrous to the local economy.

Although the City of Hutchinson, Reno County and the Reno County Chamber of Commerce has invested in Eaton's continued presence in our community, SB 164 gives a much needed incentive for Eaton to stay in Kansas by providing payroll relief by:

1. Allowing 90% of Eaton's payroll taxes to be returned to the company for the first three years of its contract with the Department of Commerce.
2. Allowing 30% of Eaton's payroll taxes to be returned to the company for the remaining seven years of its contract with the Department of Commerce.
3. Allowing for a maximum of \$2,000,000 of Eaton's payroll taxes to be returned to the company during a 10 year period.

The structure of this bill gives Eaton a great incentive to stay. The more the company pays to the state in payroll taxes, the more the company is eligible to receive. It is extremely important to note that if Eaton would leave the state, Kansas would not receive any revenue at all.

Upon further indulgence from the committee, I would like to introduce the individuals who worked extremely hard to keep Eaton Corporation a productive member of Kansas' economy. These people can tell the committee far more about the work involved in this saga to avert economic ruin.

  
Terry Bruce,  
Reno County State Senator

Senate Commerce Committee  
February 1, 2007  
Attachment 7

Testimony in favor of SB 164  
Senate Commerce Committee  
8:15 a.m., February 1, 2007, Room 123-S

Dave Kerr  
Hutchinson/Reno County Chamber of Commerce

Part I – Introduction

Madam Chair and members of the committee. Last June 22<sup>nd</sup>, Hutchinson officials and union representatives were called to meetings with Eaton Corporation executives who said that as part of a realignment of their North American manufacturing capability, they expected to close the Hutchinson hydraulics manufacturing facility. Some older products would be terminated, newer products would go to other U.S. plants and lower skilled assembly jobs would move to Mexico. After more than 50 years in business, first as a division of Cessna and, since 1988 as Eaton, 450 jobs and more than \$16 million in payroll would be gone in less than a year.

Community leaders poured over company statements and comments made in meetings with Eaton executives. By so doing, we felt we had a pretty clear picture of the reasoning behind the move and determined that we should pull out every piece of economic development ammo we could muster to address the key issues.

It was truly a partnership effort with City and County leaders working side by side with union representatives, chamber of commerce leaders, and strong representation from the Kansas Department of Commerce.

An aggressive and creative plan was pulled together which clearly surprised Eaton executives. I would like to now call upon others to describe the various parts of the plan and the financial promises made so that you can see that the local community is fully committed to the plan of which SB 164 is part.

Part II – Summary

Hopefully, it is clear that each part of this plan played an important role in turning what was going to be a devastating blow to the community into what is generally viewed as a positive outcome. It's true

Senate Commerce Committee  
February 1, 2007  
Attachment 8-1

we are losing 150 jobs, but we believe we are stabilizing 300 high-skill jobs and will have a modern and efficient plant capable of taking on an updated product line and potential expansion.

The total package of incentives is almost \$4 million dollars not including worker concessions. Even the Chamber of Commerce is providing \$100,000 of direct cash investment. State assistance in addition to the \$2 million of captured payroll taxes over 10 years envisioned in SB 164 would be \$150,000 of KEOIF funding and \$120,000 of Workforce Investment Act funds.

In my opinion, there would have been no deal if the Governor and your legislative leaders had not responded so convincingly that this special legislation could be passed promptly in the 2007 session. Please note the letter of support from these people of which you have a copy.

Thank you for you attention and we ask for your support of SB 164. We would be pleased to stand for questions.

# KANSAS

OFFICE OF THE GOVERNOR

KATHLEEN SEBELIUS, GOVERNOR

July 20, 2006

Mr. Scott Krueger  
Vice President & General Manager, Hydraulics Division

Mr. Malcolm D. Moore  
Manager- Employee Relations

Eaton Corporation  
14615 Lone Oak Road  
Eden Prairie, MN 55344-2287

Dear Mr. Krueger and Mr. Moore,

Eaton is an important part of the community of Hutchinson, and of Kansas as a whole, which is why we want to do everything in our power to keep Eaton and its 450 employees in Kansas. That includes working with community leaders to add state incentives that will help Eaton improve the Hutchinson facility's competitiveness in the global marketplace.

Governor Sebelius is committed to working with the Kansas Legislature on creative ways to retain Eaton's presence in Hutchinson. In 2005, for example, legislators and the governor worked together to overwhelmingly pass a bill that provided direct financial assistance to a Topeka manufacturing facility threatened by global market forces. We fully support pursuing similar legislation for Eaton Corporation.

The 2007 Legislative Session begins in mid-January. We are prepared to work with you on legislation that will substantially enhance the incentive offer outlined in the attached proposal, which already would provide \$1,398,000 in direct financial assistance through the Kansas Department of Commerce.

The legislation we would support would add approximately \$1,000,000 to that amount, resulting in a total direct state incentive of \$2,400,000 to the Eaton Corporation. These additional resources could be used by Eaton to further modernize the Hutchinson facility, upgrade the plant's product line, and make it more competitive.

Eaton's Hutchinson facility has been a valuable contributor to the South Central Kansas economy for many years. We believe the facility's skilled labor force, and the total state and

Capitol, 300 SW 10th Ave., Ste. 2125, Topeka, KS 66612-1590

Voice 785-296-3232 Fax 785-296-7973 [www.ks.gov/governor.org](http://www.ks.gov/governor.org) [governor@state.ks.us](mailto:governor@state.ks.us)

Letter Re: Eaton Hutchinson facility  
July 20, 2006  
Page 2 of 2.

local financial package, can ensure the facility will continue to be an important part of the Fluid Power Group's long-term success.

We look forward to discussing our proposal with both of you and outlining how this special legislative action can be achieved.

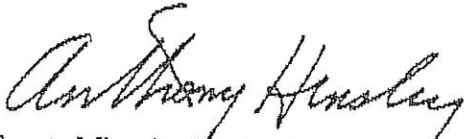
Sincerely,



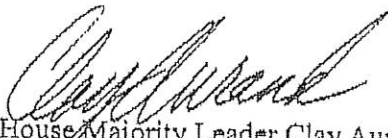
Kathleen Sebelius  
Governor of the State of Kansas



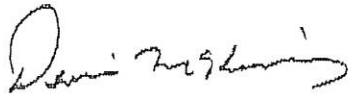
Senate President Stephen Morris  
Kansas State Senate



Senate Minority Leader Anthony Hensley  
Kansas State Senate



House Majority Leader Clay Aurand  
Kansas State House of Representatives



House Minority Leader Dennis McKinney  
Kansas State House of Representatives



OFFICE OF THE MAYOR

Thursday, February 1, 2007  
8:30 a.m. – Room 123-S

TESTIMONY ON SB 164

John Deardoff, City Manager

HUTCHINSON, KANSAS

620-694-2610, [john.d@hutchgov.com](mailto:john.d@hutchgov.com)

Good morning-Madam Chair and members of the Committee. I am here today on behalf of the City of Hutchinson and the Hutchinson community asking for your support of SB 164. This past summer our community was notified by corporate officials from the Eaton Corporation that they would be closing the Hutchinson facility along with several other plants within the company. Eaton has been the foundation of our manufacturing base for over 40 years. News of the Eaton closure spread quickly throughout the community and created a great amount of discussion and concern for our future and the loss of an estimated 450 jobs. The easy decision and one that probably would have been accepted by some communities was to live with the Eaton announcement and move on to other possible projects. After all, business closures, consolidations, and job outsourcing are common in today's business environment. The resulting employment layoffs, business closures, and relocations are just the collateral damage of the search for maximum efficiency and profitability.

Rather than accept the company's decision, our community decided to act. We convened what is now called our Rapid Response Team to talk about the closure and what our next step might be. Included in the initial meetings were city, county, chamber, state and Eaton management and Eaton labor union officials. Our first step was to open up communications with Eaton Corporate officials which would enable us to learn more about what went in to the closure decision. After our first meeting with Eaton officials we quickly began putting together a proposal that would address the issues raised by Eaton officials during our initial meeting. Within the next two weeks we had a financial package put together and in the hands of Eaton officials. The creative proposal apparently

CITY OF HUTCHINSON, P.O. BOX 1567, HUTCHINSON, KS 67504-1567

TELEPHONE: (620) 694-2611 FAX: (620) 694-2673 TDD: (620) 694-2628



Senate Commerce Committee

February 1, 2007

Attachment 9-1

caught someone's eye within the Eaton corporate structure and we were notified by Eaton that they would like to discuss the possibilities further.

Although we stand to lose an estimated 150 assembly jobs, our proposal reversed a closure decision, and we were able to save 300 high skilled manufacturing jobs for our community and the State of Kansas. The City committed \$1,000,000 in cash from our Economic Opportunity Fund to the project, which was not an easy decision for us. As we looked at the situation, it was apparent how important it was to save these jobs. In addition to saving jobs, we also saw an opportunity for future growth in the Hutchinson Eaton plant. It was particularly difficult to offer a company funds to demolish several hundred thousand square feet of their facility, but the more we listened to their logic, the more we realized it made sense and we should help. An upgraded and modernized facility could create an environment attractive for future product development within the Eaton Corporation or consolidation of other Eaton facilities into the Hutchinson facility. Not only are we saving jobs with this project, but we are investing for future job growth possibilities as well.

This project is an excellent example of collaboration and partnership between business and state and local government, working together to make a difference for our community and the State of Kansas. The last missing component to our plan is approval of SB 164. On behalf of the City of Hutchinson and the community, I ask for your support of SB 164.

AFL-CIO



DISTRICT LODGE  
No. 70

STEVE ROONEY  
PRESIDENT &  
DIRECTING  
BUSINESS REPRESENTATIVE

JUDY PIERCE  
SECRETARY TREASURER

RITA ROGERS  
ASSISTANT DIRECTING  
BUSINESS REPRESENTATIVE

BUSINESS REPRESENTATIVES  
MARK LOVE  
TERRY CARRINGTON  
MICHAEL E. BURLEIGH  
GARLAND "BEAR" MOORE  
FRANK A. MOLINA, JR.  
STEVE GROOM

**INTERNATIONAL ASSOCIATION of MACHINISTS  
and AEROSPACE WORKERS**

3830 S. MERIDIAN • WICHITA, KANSAS 67217 • PHONE 316-522-1591  
FAX 316-522-7989

LEGISLATIVE TESTIMONY

Mark Love  
Business Representative  
International Association of Machinists  
AFL-CIO

- The Machinists Union is proud to have been part of the effort to keep the Hutchinson Eaton plant open. When the announcement came our members never gave up hope that we could make a case to Eaton Corporation that would reverse their decision.
- With the long standing working relationship we have with Eaton management, we both vowed to keep the lines of communication open. On June 22, 2006, Eaton met with the IAM and stated we are seeking input and suggestions from the Union as other alternatives that we might take under consideration. We will consider all Union input/recommendations in good faith, thus we knew we had to be creative in our discussions.
- Our bargaining unit team acknowledged that we would need to consider certain concessions that would show Eaton a good faith effort to do our part. The concession plan was overwhelmingly accepted by our membership and thus demonstrated to Eaton the commitment we were prepared to make to keep the plant open. We knew the exceptional machining skills of the Hutchinson workforce was a real strength and that Eaton management recognized that as well. We built upon the skills of the workforce coupled with a modernized, downsized plant to convince Eaton to keep the plant open.
- On behalf of our members I want to take this opportunity to

"Proud to be Union"

Senate Commerce Committee

February 1, 2007

Attachment 10-1



thank Governor Sebelius, the Legislative Leadership, the Kansas Department of Commerce, the city of Hutchinson, Reno County, the Chamber, and the community at large for their unified efforts to putting this package together. We now ask this committee for your favorable support of SB 164 and ultimately the approval of the Kansas Legislature that will save 300 good paying jobs in Hutchinson at the Eaton plant. Thank you for your time.



Board of  
Reno County Commissioners

RENO COUNTY  
206 West First Ave.  
Hutchinson, Kansas 67501-5245  
620-694-2929  
Fax: (620) 694-2928

LEGISLATIVE TESTIMONY  
Larry Sharp  
County Commissioner  
Reno County

“Job One” for communities today is to do all we can to retain and grow our existing businesses and the jobs they provide to our citizens. When Reno County heard about Eaton’s planned exit, we responded along with the City, the Chamber, the State, and the Local Labor Union to provide a creative package that included \$500,000 from Reno County. The Eaton project is a classic “case study” of how business, government, and a labor union can collaborate to save a plant.

Today, the future of the Hutchinson Eaton plant is quite promising and includes modernizing the plant into a facility with improved efficiencies. This plant, headquartered in Reno County, could become the model for all the Eaton plants. One would anticipate that the workforce can grow and new, highly skilled jobs could be created.

The legislation proposed in SB 164 is not unprecedented. Similar legislation was adopted by the Kansas Legislature to retain a Topeka-based company, Innovia Inc. This legislation shows the State of Kansas’ great foresight in being a part of the creative solution to save these important jobs in our communities.

Passage of SB 164 is the final piece in a grass roots community effort to retain 300 good paying jobs and \$12.5 million annual payroll in the Hutchinson/Reno County community. The collective package will provide a solid return on investment that will positively impact our community and the entire State of Kansas for years to come.

Handwritten signature of Frances Garcia in cursive.

Frances Garcia  
District 1

Handwritten signature of Francis "Shep" Schoepf in cursive.

Francis “Shep” Schoepf  
District 2

Handwritten signature of Larry Sharp in cursive.

Senate Commerce Committee  
February 11, 2007 Larry Sharp  
District 3



Eaton Hydraulics Inc  
14615 Lone Oak Road  
Eden Prairie, MN. 55344-2287  
tel: 952-937-7370  
fax: 952-294-3288

January 30, 2007

Senator Karin Brownlee, Chairperson  
Senate Commerce Committee  
State Capitol Building  
Topeka, KS 66612


Dear Chairperson Brownlee and Members of the Committee:

Last summer, during a realignment of our North American manufacturing operations, Eaton Corporation announced its plans to close the hydraulics component manufacturing facility in Hutchinson. After a tremendous and creative effort by community leaders, local government, Eaton employees, the Governor and legislative leaders, the decision was tentatively reversed pending the passage of the special legislation before you today.

Senate Bill 164, together with Eaton's own investment and incentives provided by local government, will allow the company to reconfigure its too-large facility into a more modern plant capable of operating more efficiently and profitably. Much of the current 700,000 sq ft. facility was built in the 1940's and since it was purchased by Eaton in 1988, we have utilized only about two-thirds of the available space. Reducing our overall footprint by about 300,000 sq. ft. of obsolete space will deliver a significant savings in maintenance, utilities and taxes.

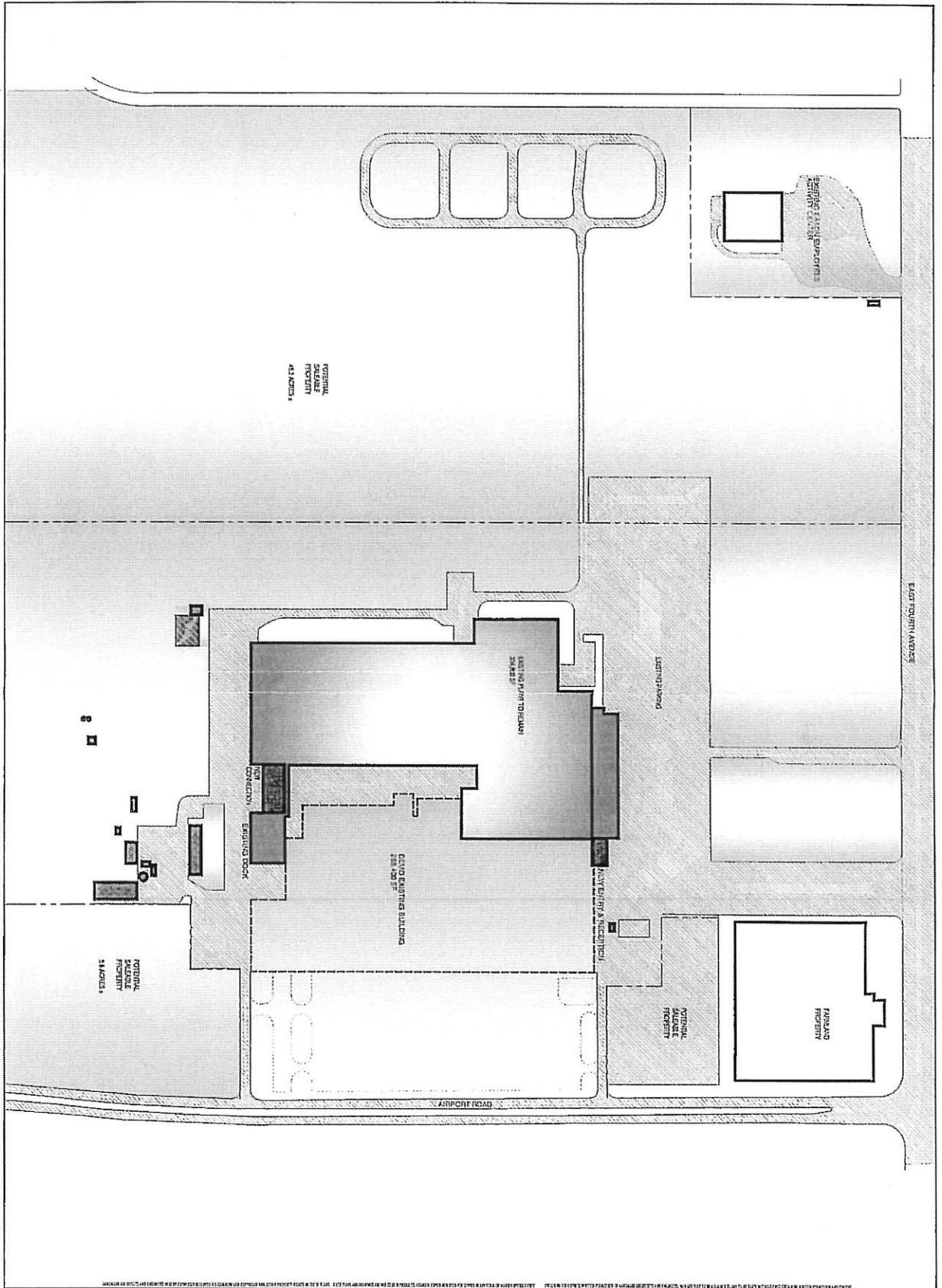
We recognize and appreciate the remarkable effort made by the community, our employees, the Governor and legislative leaders to keep the Hutchinson plant open. Their teamwork played a critical role in our revised decision. However, we were very clear at the August 22<sup>nd</sup> press conference and with our employees, that passage of this special legislation is an essential component of our plant rehabilitation plan. If not ratified, Eaton will not achieve the kind of plant renovation cost savings that are required to keep the plant open. We ask for your support of Senate Bill 164 to help keep these highly skilled machining jobs in Hutchinson. These jobs are estimated to deliver more than \$12 million in annual payroll to the Hutchinson community. On behalf of the Eaton Corporation and our many hard-working employees, we thank you for your consideration and support.

Sincerely,

  
Scott Krueger  
General Mgr - Americas

  
Steve Pilotti  
Director - Human Resources

Senate Commerce Committee  
February 1, 2007  
Attachment 12-1



SHEET 1 of 1	DATE: JAN 2006	DRAWN: L. CH	<b>EATON CORPORATION</b> HUTCHINSON PLANT 3401 EAST FOURTH AVENUE HUTCHINSON, KANSAS 67501	<b>LANDMARK</b> ARCHITECTS • ENGINEERS 1020 NORTH JACK, HUTCHINSON, KANSAS 67501 620-633-5400 FAX 620-633-1817	
	DATE: JAN 2006	DRAWN: L. CH			
	DATE: JAN 2006	DRAWN: L. CH			
	DATE: JAN 2006	DRAWN: L. CH			