

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairman Dwayne Umbarger at 10:40 A.M. on January 18, 2007, in Room 123-S of the Capitol.

All members were present.

Committee staff present:

Jill Wolters, Senior Assistant, Revisor of Statutes
Alan Conroy, Director, Kansas Legislative Research Department
J. G. Scott, Kansas Legislative Research Department
Amy Deckard, Kansas Legislative Research Department
Julian Efird, Kansas Legislative Research Department
Michael Steiner, Kansas Legislative Research Department
Melinda Gaul, Chief of Staff, Senate Ways & Means
Mary Shaw, Committee Assistant

Conferees appearing before the committee:

Marilyn Jacobson, Interim Director, Division of Facilities Management, Kansas Department of Administration
Joan Wagon, Secretary, Kansas Department of Revenue

Others attending:

See attached list.

Bill Introductions

Senator McGinn moved, with a second by Senator Emler, to introduce a bill concerning establishment of upper Arkansas river conservation reserve enhancement program (7rs0580). Motion carried on a voice vote.

Senator Barone moved, with a second by Senator Emler, to introduce a bill concerning insurance; subsidence insurance (7rs0560). Motion carried on a voice vote.

Chairman Umbarger welcomed Marilyn Jacobson, Interim Director, Division of Facilities Management, Kansas Department of Administration, who presented an update on the state building assessment (Attachment 1). Ms. Jacobson addressed the most significant building assets managed, their respective gross square footages and construction dates in her testimony. She noted that using the current Building Condition Index (BCI) scores, there is little doubt that the majority of the existing State owned/managed office space in the capitol complex is either in or near a very critical condition of disrepair. Ms. Jacobson provided details in her written and oral testimony regarding several options:

- Reconstruction of Docking (Attachment A)
 - Phased Reconstruction of Docking
- Build a new Building (Attachment B)
 - Demolish Docking
 - Parking Garage
- Repair Docking (Attachment C)
- Reconstruction of Landon (Attachment D)
- Repair Landon (Attachment E)
- Renovation of Dillon House (Attachment F)

There was committee discussion with questions.

Chairman Umbarger welcomed Joan Wagon, Secretary, Kansas Department of Revenue, who provided an overview of the agency (Attachment 2). Secretary Wagon explained that the agency has been engaged in numerous compliance initiatives which have dramatically increased revenue collections in the past several years. She noted that some of the higher profile initiatives include tax clearances for all state employees,

CONTINUATION SHEET

MINUTES OF THE Senate Ways and Means Committee at 10:40 A.M. on January 18, 2007, in Room 123-S of the Capitol.

appointees to boards and commissions and licensees holding state licenses; expansion of collection staff and enhanced collections processes; and the mis-classification of workers project. Secretary Wagnon mentioned that they have requested membership lists for discovery matching from 20 of the 29 licensing agencies to date. All have provided complete information including Social Security Numbers except the Kansas State Board of Technical Professions with their 14,494 licenses. Secretary Wagnon noted that cooperation has been great. Without the Social Security Number it is difficult to complete the match and she explained that currently a bill is pending in the Senate Taxation Committee that would require all licensing agencies to obtain Social Security Numbers on their licenses and to transmit that information to the Kansas Department of Revenue on request. Secretary Wagnon noted that it was important to note that the department does not have the authority to withhold the license if a delinquency exists.

Committee questions and discussion followed. Due to time constraint, Chairman Umbarger asked that Secretary Wagnon return to the Committee for the remainder of her overview of the Kansas Department of Revenue.

The meeting adjourned at 12:00 p.m. The next meeting is scheduled for January 19, 2007.

**SENATE WAYS AND MEANS COMMITTEE
GUEST LIST**

Date January 18, 2007

Name	Representing
George North	DFM DoFA
RANDU RIVELAND	DFM - DoFA
Jeff Scott	KDOR
Jim Conant	KWR
Shi Faust	KQHE
Liz Douglas	Hein Law Firm
MARK BOZANYSK	CAPITOL STRATEGIES
Dan Gelsb	DFM
Debbie Manuel	DFM
Richard Hunt	DFM
Willie E. Steharske	TOPEKANAACT
Joe Furd	KWO
Julia Thomas	DOE
JSP Hpn	Division of the Budget

**Kansas Department of Administration
Duane A. Goossen, Secretary
Carol L. Foreman, Deputy Secretary
1000 S.W. Jackson, Suite 500
(785) 296-3011**

**Senate Ways and Means Committee
Capitol Complex Buildings**

**Marilyn L. Jacobson, Interim Director
Division of Facilities Management
January 17, 2007**

Thank you for the opportunity to brief you on the Department of Administration's managed buildings in the Capitol Complex. I would like to start out by providing background on the scope of buildings overseen by the Department of Administration (DOA).

DOA manages 64 buildings/land assets in Shawnee County including 3.2m gross square feet of space on 437.63 acres. The most significant building assets managed, their respective gross square footages and construction dates include:

Docking State Office Building	564,138 sq. ft.	1956
Landon State Office Building	362,627 sq. ft.	1912
Curtis State Office Building	320,721 sq. ft.	2001
Capitol Building	317,146 sq. ft.	1866-1903
Eisenhower State Office Building	300,809 sq. ft.	1965
Capitol Parking Garage	216,000 sq. ft.	2004
Curtis Parking Garage	200,000 sq. ft.	2001
Judicial Center	168,096 sq. ft.	1978
Memorial Hall	94,136 sq. ft.	1914
Forbes Building 740	72,399 sq. ft.	1955
Dillon House	12,362 sq. ft.	1914
Cedar Crest	9,359 sq. ft.	1928

Working to enhance the quality of services provided to the State, the Department of Administration has incorporated a more structured approach to our Capital Improvement Planning process. The overall objective has been to qualify Capital Improvement Project Requests that best balance an appreciation for limited funding, business continuity and life/work safety considerations, against the continued aging of buildings and key building systems, and long-term property ownership considerations.

Building Condition Assessments

The Building Condition Assessment process used by DOA provides a score to establish relative rankings of the condition of specific key building systems to guide and enable more informed decisions during the capital improvement prioritization process.

Building Systems

Exterior Components – Foundation/Structure, Walls, Roof, Windows/Doors

Interior Components – Floors, Partitions, Ceilings, Fixed Equipment, Doors, Interior Finish/Trim, Elevators

Engineered Systems – Electrical, Plumbing, Heating/Ventilation/AC, IT Voice/Data, Lighting, Fire Alarm Systems, Emergency Lighting

Each building's major system component is rated according to the following classification system:

Excellent – New or near new condition as a result of recent installation, repair and/or replacement; typically less than 5 years of depreciation

Good – No obvious deficiencies in condition or performance, serviceable with basic maintenance; typically less than 10 years of depreciation

Deficient – Need for minor repair and limited replacement of components based on age and/or performance

Poor – Failure of primary components and multiple systems evident; major repair or replacement required

Unsatisfactory – Components or systems unusable, code deficient and/or not suited for current use; complete replacement required

A sum total for the building is calculated yielding an overall building condition rating as follows:

Excellent	(90-100)
Good	(80-89)
Deficient	(60-79)
Poor	(30-59)
Unsatisfactory	(0-29)

The established standard goal for each facility is a score of 90.

Using the current Building Condition Index (BCI) scores, there is little doubt that the majority of the existing State owned/managed office space in the Capitol Complex is either in or near a very critical condition of disrepair. A BCI of less than 80 is considered to be deficient. Based on current BCI scores and FTE counts for buildings, approximately 71% of the State workforce in State owned/managed facilities in the Capitol Complex (excluding the Statehouse and Judicial Center) works in sub-optimal office space.

Building	BCI	FTE	Percentage of FTE
Curtis	89.3	944	25
Memorial Hall	80.7	147	4
Eisenhower	68.9	740	20
Landon	68.2	808	21
Docking	53	1128*	30

* Legislature will continue to occupy until December, 2011.

There is no one perfect solution to the issues facing the Capitol Complex buildings and in particular, Docking, Landon and the Dillon House. However, there are several options depending on ownership choices such as maximizing FTE, cost, or aesthetic value. In previous reviews of the Capitol Complex, an underlying theme has been to improve the overall integrity of the complex by leveraging opportunities that ensure newly constructed or reconstructed buildings do not significantly change the view of the Capitol and are with architectural designs and materials that easily blend in with the other monumental buildings.

CAPITOL COMPLEX OPTIONS

- Reconstruction of Docking (Attachment A)
 - Phased Reconstruction of Docking
- Build a new Building (Attachment B)
 - Demolish Docking
 - Parking Garage
- Repair Docking (Attachment C)
- Reconstruction of Landon (Attachment D)
- Repair Landon (Attachment E)
- Renovation of Dillon House (Attachment F)

Thank you for the opportunity to provide you with this information regarding Capitol Complex Building issues.

Reconstruction of Docking

Description

Occupants will be moved out of the Docking Building into lease space. The Docking Building will then be reconstructed by taking it down to its base structure and rebuilding it. The heat plant will be kept operational along with the Statehouse chilled water system. The existing heat plant located in DSOB scores very high on the BCI scale, has an estimated useful life of at least 20 years and has enough capacity to sustain the existing infrastructure, which includes most of the complex buildings. The new cooling towers will also stay and be used to support a new chilled water plant built in the Docking building basement which will be sized to serve both the Statehouse and a reconstructed Docking Building.

Capacity

Current seat capacity: 1,551

New seat capacity: 1,920

Square Footage

Current Usable: 356,651 Gross: 564,138

New Usable: 384,000 Gross: 575,040

Condition

Year Built: 1956

2006 Building Condition Value: 53 (poor)

Life Cycle Information: A majority of the building is heated and air conditioned by a perimeter fan coil system that was installed in 1955. This equipment should have been replaced in 1975 given the typical service life of fan coils is 20 years. All the electrical distribution, transformer and panel boards were installed in 1955. This equipment should have been replaced in 1985 given the typical service life of this electrical equipment is 30 years. A majority of the light fixtures were installed in 1955 and also should have been replaced in 1985.

Assumptions and Considerations*

- Construction estimate to reconstruct Docking: **\$77,426,276.**
- Utility costs should be added to the cost of construction during time of construction (unknown expense).
- Furnishing costs of \$5,000 per seat for new system furniture or \$1,600 per person using existing system furniture.
- Rent rates will increase 14% from current rate of \$15.93 for remaining tenants in complex during construction.
- Moving costs of \$200 per person.
- Central Monitoring to relocate (\$439,200).
- Central Mail to relocate elsewhere (\$1,915,705).
- Capitol Complex Data Centers to relocate elsewhere (\$5,856,000).

*All numbers above are estimates taken in today's dollars and are not reflective of true cost of construction. Inflation to middle of construction should be considered at a rate of 5% per year.

Phased Reconstruction of Docking

Description

The building would be reconstructed in two phases. Approximately half of the occupants will be moved out of the building into lease space while the other half remain in the building during reconstruction. Once the vacant space is renovated, then the occupants remaining in the building will move into the newly reconstructed space and the space that they vacate will be reconstructed. The heat plant will be kept operational along with the Statehouse chilled water system. The new cooling towers will also stay and be used to support a new chilled water plant built in the Docking building basement which will be sized to serve both the Statehouse and a reconstructed Docking Building.

Capacity

Current seat capacity: 1,551

New seat capacity: 1,920

Square Footage

Current Usable: 356,651 Gross: 564,138

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Assumptions and Considerations*

- Additional premium to reconstruct Docking in phases: **\$9,241,153**
- Two wings and approximately 50% of the building would be reconstructed in each phase. A report by GLPM/Turner in 2004 recommended wing by wing phasing due to difficulties installing the curtain wall on a floor by floor basis. Other issues included the difficulties of sound isolation for occupants working above and below the floors under construction; solvents being used to remove hazardous materials could potentially leak into floors below; and the wing by wing will allow for a new chilled/hot water and electrical infrastructure to be installed while the existing infrastructure is being used on the occupied wing.
- Phasing requires restaging of trades, additional protection of occupants, and the cost to keep existing electrical, mechanical, life safety, and plumbing systems operational while installing new ones.
- Phasing will affect the agency adversely by splitting it up and having portions of the agency working in lease space and portions working in the Docking building.
- Phased construction will increase the construction schedule an additional 12-18 months.

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New Building

Description

A new building will be built south of the Docking Building location. This building will be provided steam for heating by the existing heat plant. No costs associated with Docking are included in this estimate.

Capacity

Current seat capacity in Curtis: 1,135
Current seat capacity in Docking: 1,551
Current seat capacity in Landon: 865
Current seat capacity of both Docking and Landon: 2,416

Square Footage

Current square footage for Curtis	Usable: 261,161	Gross: 320,721
Current square footage for Docking	Usable: 356,651	Gross: 564,138
Current square footage for Landon	Usable: 216,195	Gross: 362,627
Current square footage for Docking and Landon	Usable: 572,846	Gross: 926,765
New square footage for Curtis	Usable: 227,000	Gross: 283,750
New square footage for Docking	Usable: 310,200	Gross: 387,750
New square footage for Docking and Landon:	Usable: 483,200	Gross: 604,000

Assumptions and Considerations*

- Construction estimate for a new building:
 - \$53,587,891 for a new building with the seat capacity of Curtis.
 - \$73,228,915 for a new building with the seat capacity of Docking.
 - \$114,069,024 for a new building with the seat capacity of Docking and Landon.
- The construction costs do not include demolishing Docking or Landon.
- Utility costs should be added to the cost of construction during time of construction (unknown expense).
- A new utility tunnel from the heat plant to the new building will have to be built (\$1,000,000).
- Furnishing costs of \$5,000 per seat for new system furniture.
- Rent rate and surcharge is not impacted during construction.
- Parking in lot 2 and 4 will be displaced for a new building (unknown expense).
- Moving costs of \$200 per person.

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Demolish Docking with Heat Plant to Remain

Description

Occupants will be moved out of the Docking Building into lease space or a new office building. The Docking Building will then be demolished with the heat plant being kept operational. The new cooling towers will also stay and be used to support a new chilled water plant for the Statehouse that will set east of the cooling towers.

Capacity

Current FTE seat capacity: 1,551

Current FTE occupancy: 1,128

Square Footage

Current Usable: 356,651 Gross: 564,138

Condition

Year Built: 1956

2006 Building Condition Value: 53 (poor)

Life Cycle Information: A majority of the building is heated and air conditioned by a perimeter fan coil system that was installed in 1955. This equipment should have been replaced in 1975 given the typical service life of fan coils is 20 years. All the electrical distribution, transformer and panel boards were installed in 1955. This equipment should have been replaced in 1985 given the typical service life of this electrical equipment is 30 years. A majority of the light fixtures were installed in 1955 and also should have been replaced in 1985.

Assumptions and Considerations*

- Demolition estimate to raze building and protect heat plant and cooling tower: **\$10,309,539.**
- A new Chilled Water Plant is currently needed for the Statehouse given the age of the existing chillers and their lack of capacity to serve the new cooling loads in the Statehouse (estimated Statehouse cooling need after the Restoration Project is done is 820 tons the existing plant has a capacity of 720 tons). The cost of modifying the Docking Chilled Water Plant to add new chillers with the capacity for the Statehouse is (\$3,534,381). If Docking is demolished a new chilled water plant will need to be built east of the new cooling tower that will be setup to supply chilled water to the Statehouse (the new cooling tower will be connected to the plant). The cost of building this new chilled water plant after demolishing Docking will be (\$6,130,000).
- Occupants, currently 1,128, will have to relocate elsewhere.
- Furnishing costs of \$1,600 per person using existing system furniture (\$1,804,800).
- Moving costs of \$200 per person (\$225,600).
- Central Monitoring to relocate (\$439,200).
- Central Mail to relocate elsewhere (\$1,915,705).
- Data Centers to relocate elsewhere (\$5,856,000).

*All numbers above are estimates taken in today's dollars and are not reflective of true cost of construction. Inflation to middle of construction should be considered at a rate of 5% per year.

New Parking Garage

Description

New parking garage to be built in a yet to be determined site.

Capacity

Current capacity in lot 2: 501

Current capacity in lot 4: 501

Current capacity in lot 2 and 4: 1,002

Assumptions and Considerations*

- Construction estimate for a new garage:
 \$9,631,224 for a new garage with 501 stalls.
 \$19,262,448 for a new garage with 1,002 stalls.

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Docking Repair

Description

The Docking Building will be kept occupied while individual repairs are done to the building.

Capacity

Current seat capacity: 1,551

Square Footage

Current Usable: 356,651 Gross: 564,138

Condition

Year Built: 1956

2006 Building Condition Value: 53 (poor)

Life Cycle Information: A majority of the building is heated and air conditioned by a perimeter fan coil system that was installed in 1955. This equipment should have been replaced in 1975 given the typical service life of fan coils is 20 years. All the electrical distribution, transformer and panel boards were installed in 1955. This equipment should have been replaced in 1985 given the typical service life of this electrical equipment is 30 years. A majority of the light fixtures were installed in 1955 and also should have been replaced in 1985.

Assumptions and Considerations*

- Construction estimate for individual repairs to Docking: **\$147,750,785.**
 - Replace Air Handler Units
 - HVAC Piping
 - Ductwork Replace
 - VAV Boxes and Controls
 - Replace Statehouse Chillers
 - Fire Protections
 - Electrical and Lighting
 - Ceiling
 - Carpeting
 - News Walls and Finish
 - Hazardous Material Abatement
 - Roofing and Waterproofing
 - Exterior Wall
 - Elevators
 - Foundation Repairs

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Landon Building Reconstruction

Description

Occupants will be moved out of the Landon Building into lease space. The Landon Building will then be reconstructed.

Capacity

Current seat capacity: 865

New seat capacity: 1,080

Square Footage

Current Usable: 216,195

Gross: 362,627

New Usable: 248,604

Gross: 362,627

Condition

Year Built: 1910

2006 Building Condition Value: 68.2 (deficient)

Life Cycle Information: The building is heated by a perimeter fin tube system that was likely to have been installed in 1955. This equipment should have been replaced in 1975 given the typical service life of steam heating coils is 20 years. The building office area is air conditioned by large multizone air handling units that were installed in 1955. This equipment should have been replaced in 1985 given the typical service life of the air equipment and ductwork is 30 years. The building fire pump was installed in 1910 and should have been replaced in 1930 given a typical service life of 20 years. Most of the power panels and switch gear in the building were installed in 1955. This equipment should have been replaced in 1985 given the typical service life of this electrical equipment is 30 years.

Assumptions and Considerations*

- Construction estimate to reconstruct Landon: **\$71,264,223.**
- Utility costs should be added to the cost of construction during time of construction (unknown expense).
- Furnishing costs of \$5,000 per seat for new system furniture or \$1,600 per person using existing systems furniture.
- Moving costs of \$200 per person.
- Disc data centers and demark to relocate elsewhere (\$5,856,000)
- Rent rates will increase 6% from current rate of \$15.93 for remaining tenants in complex until tenants are moved back into the building.

*All numbers above are estimates taken in today's dollars and are not reflective of true cost of construction. Inflation to middle of construction should be considered at a rate of 5% per year.

Landon Building Repair

Description

The Landon Building will be kept occupied while individual repair are done to the building.

Capacity

Current seat capacity: 865

Square Footage

Current Usable: 216,195

Gross: 362,627

Condition

Year Built: 1910

2006 Building Condition Value: 68.2 (deficient)

Life Cycle Information: The building is heated by a perimeter fin tube system that was likely to have been installed in 1955. This equipment should have been replaced in 1975 given the typical service life of steam heating coils is 20 years. The building office area is air conditioned by large multi-zone air handling units that were installed in 1955. This equipment should have been replaced in 1985 given the typical service life of the air equipment and ductwork is 30 years. The building fire pump was installed in 1910 and should have been replaced in 1930 given a typical service life of 20 years. Most of the power panels and switch gear in the building were installed in 1955. This equipment should have been replaced in 1985 given the typical service life of electrical equipment is 30 years.

Assumptions and Considerations*

- Construction estimate for individual repairs to Landon: **\$83,064,794.**
 - Replace Air Handler Units
 - HVAC Piping
 - Ductwork Replace
 - VAV Boxes and Controls
 - Replace All Building Chillers
 - Fire Protections
 - Electrical and Lighting
 - Ceiling
 - Carpeting
 - New Walls and Finish
 - Hazardous Material Abatement
 - Roofing and Waterproofing
 - Exterior Wall
 - Elevators

*All numbers above are estimates taken in today's dollars and are not reflective of true cost of construction. Inflation to middle of construction should be considered at a rate of 5% per year.

Renovation of Dillon House

Description

The initial renovation work, completed in late 1998, included work to allow the first floor of the Dillon House to be used for events. Work on the upper floors and exterior was deferred. The roof has significant leaks that are causing deterioration to building structure and presents a potential for mold. The ultimate method to stop the leaks and to insure the long-term usability of the roof and the stability of the structure is to replace the roof material and repair any damaged substrate materials. The foundation walls are leaking causing water problems in the basement that are causing a deterioration of interior components as well as the presence of mildew and mold.

Condition

Year Built: 1914

2006 Building Condition Value: 45.7 (poor)

Assumptions and Considerations*

- Construction estimate for individual repairs to Dillon House: **\$3,027,500.**
- Construction estimate for demolition of Dillon House and building a parking lot: **\$252,000.**

*All numbers above are estimates taken in today's dollars and are not reflective of true cost of construction. Inflation to middle of construction should be considered at a rate of 5% per year.

January 18, 2007

To: Senate Ways and Means Committee
From: Joan Wagnon, Secretary, Department of Revenue
Re: Briefing on Department of Revenue

The department has been engaged in numerous compliance initiatives which have dramatically increased revenue collections in the past several years. Some of those higher profile initiatives include tax clearances for all state employees, appointees to boards and commissions and licensees holding state licenses; expansion of collection staff and enhanced collections processes; misclassification of workers project. In addition, participation in the Streamlined Sales Tax has caused an increase in the sales tax revenues for both state and local governments.

The following is a report of the progress to date on these initiatives, as well as a discussion of new projects and strategic directions.

1. Tax Clearance produces significant dollars as well as identifies non-filers.

We have requested memberships lists for discovery matching from 20 of the 29 licensing agencies to date. All have provided complete information including SSN's except the Kansas State Board of Technical Professions and their 14,494 licenses. Cooperation has been great. We are exceedingly careful with the security of any dataset we obtain. To date, we have matched 336,567 of the 423,556 licensee's which is 79% of the licensee's in Kansas. Without the SSN, it is difficult to complete the match. A bill is pending in Senate Tax that would require all licensing agencies to obtain SSN's on their licenses and to transmit that information to us on request.

Debts discovered/set up:	\$9,252,658
Refunds:	\$ 947,239
Net Tax:	\$8,305,419
Cash in Bank at this time:	\$5,977,385
Kansas returns filed:	3,444
Non-Kansas returns filed:	444

It is important to note that the department does not have the authority to withhold the license if a delinquency exists. However, we are using current authorization to collect the debt. It is a little slower perhaps than if the license was contingent on being current, but we believe the recovery from this project will continue to increase due to taxpayers continuing to pay on payment plans, pending Petitions for Abatement, etc.

Boards matched to date: Behavioral Sciences Regulatory Board, Board of Accountancy, Board of Emergency Medical Services, Board of Nursing, Board of Optometry Examiners, Department of Health & Environment, Insurance Department, Judicial Branch, Kansas Bureau of Investigation, Kansas Dental Board, Kansas Department of Revenue, Kansas Securities Commission, Kansas State Board of Cosmetology, Kansas State Board of Mortuary Arts, Kansas State Board of Pharmacy, Kansas State Department of Education, Real Estate Appraisal Board, Real Estate Commission, State Bank Commissioner, State Board of Healing Arts

We have recently received all the Kansas Restaurant Licenses from KDHE and will be matching them also for all tax and filing types.

2. Expansion of collection staff and enhanced collections processes have dramatically increased collections, paying for the additional staff many times over.

- Added 18 Field Agents in FY06 from existing funds

FY05 AR Recovery:	\$37,041,872
FY06 AR Recovery:	\$52,704,837

These additional field staff increased AR Recovery by \$15,662,965, a 42.28% increase over FY05

These results continue into this fiscal year as well:

FY06 Recovery:	\$25,570,280
FY07 Recovery:	\$29,423,394

The increase so far in this fiscal year is \$ 3,853,114, or 15.07% increase, but is expected to climb before year-end.

- Field Agent presence has increased 60 percent over the past 3-4 years

FTE in FY01:	25 Revenue Agents
FTE in FY05:	40 Revenue Agents
FTE in FY07:	58 Revenue Agents

- Altered collection processes have improved collections in the last 4 years. These have included an amnesty, shortening the time delinquencies are allowed to accumulate, working more closely with businesses and sooner in the cycle.

AR Recovery/Discovery (Collected):

FY2003:	\$100,069,582 (Amnesty year)
FY2004:	\$ 93,358,378
FY2005:	\$ 84,314,259
FY2006:	\$108,752,730 (increased 18 Field Agent FTE)

Total new debt referred into collections system:

FY03	\$165,060,064
FY04	\$116,886,533
FY05	\$115,545,293
FY06	\$158,334,655
FY07	\$105,875,909 (to date)

Agency AR Balances:

	GROSS	GROSS NET*	NRV **
FY2003:	\$445,669,333	\$291,404,049	
FY2004:	\$427,904,197	\$262,595,876	
FY2005:	\$499,323,413	\$301,532,736	\$151,647,872
FY2006:	\$507,768,649	\$355,702,142	\$136,315,867
FY2007: (12.31.06)	\$516,707,788	\$377,296,164	\$142,929,636

* Gross Net equals Gross AR balances excluding accounts in Bankruptcy or Uncollectible.

** Net Realizable Value (NRV) - after extensive data research, the NRV was applied to the Gross Net values in FY2005. NRV essentially means what is the real balance the department could recover ... realistically. Based on the age, value, and tax type. For instance, and easy one to describe is Drug Tax, which, based on historical recovery data, is assigned a 1% NRV for a \$45 Million dollar AR balance leaving an NRV of \$900k.

3. Misclassification of Workers

Legislation was passed during the 2006 session to allow the departments of Revenue and Labor to cooperate to determine if businesses are misclassifying workers, particularly in the construction industry, and showing them not as employees, but as independent contractors. The first step in the process is for the KDOL to determine if misclassification has occurred. Then KDOR can assess the employers and follow through with its collection efforts. The program is operational, but complete results are premature. However, the Department of Labor, from March 2006 through December, 2006 has received reports on 136 Employers. They have completed their action and reported to KDOR 78 employers with \$1,824,214.45 taxable wages. Payment and collections are pending on an estimated \$80,000. We believe this to be just the tip of the iceberg, but the work is staff intensive. The website is operational and is being used.

4. Streamlined Sales Tax

When tracking Streamlined Sales Tax (SST) revenues we have three different components that are tracked: voluntary remitters, SST Accounts, and non-Kansas border remote retailers' use tax.

Voluntary remitters are those companies that we have been tracking since 2003 who publicly announced they would voluntarily remit the use tax due to our involvement and compliance with SSTP. In fiscal year 2006, these retailers remitted \$2.5 million in state and local retailers' use tax (\$1.9 M State, \$0.6 M Local) . In the first five (5) months of fiscal year 2007 these accounts have already remitted \$1.2 million. In the last 4 years, they have remitted \$12.1 million in state and local retailers' use tax.

SST Accounts are those companies that have registered through the SST registration system and are remitting use tax to Kansas. SST registrations were effective October 1, 2005 and many of the retailers remitted tax for less than half of fiscal year 2006. For fiscal year 2006, Kansas received collections of \$2.2 million in state and local use tax from SST registrants (\$1.5M State, \$0.7 Local). For the first four (4) months of fiscal year 2007, the state has already received \$2.1 million from SST accounts. Since the SST registration became available in October 2005, over 1,300 retailers have registered to collect Kansas sales and use taxes. Many of the early registrants were taking advantage of the SST amnesty period and are not doing business in Kansas. Kansas has received tax collections from 260 SST retailers. A number of the retailers registered late in 2006 and are just starting to submit returns.

Non-Kansas Border Remote Retailers are companies that we have been tracking since 2003. This category consists of companies who are not located in a border state, are not included in the other two categories, and started remitting retailers' use tax after January 1, 2003. The assumption is that 75% of the retailers' use tax remitted by these companies is due to the state's involvement with SST. In fiscal year 2006, these new use tax retailers remitted \$33.5 million in state and local tax of which \$22.2 million the department attributes to the state's involvement with SST (\$16.6M State, \$5.6M Local)

A summary of the revenues for FY 2005 and 2006, with an estimate for FY 2007 is provided below. Continued growth in the SST and Non-Border Remote accounts is expected with SST Registration system, the ability for filing through CSPs (Certified Service Providers), and as more states implement SST.

State and Local Retailer's Use Revenues from SST			
	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimated
Voluntary Remitters	\$1.9 M	\$2.5 M	\$3.5 M
SST Accounts	n/a	\$1.8 M	\$7.5 M
Non-border Remote	\$14.3M	\$22.2M	\$27.8 M
Total	\$16.2M	\$26.5 M	\$38.8 M
State	\$12.2 M	\$19.9 M	\$29.1 M
Local	\$ 4.0 M	\$ 6.6 M	\$ 9.7 M

Note: FY 2005 revised due to filing of amended returns.

5. New Compliance Projects being developed

- W-2 match

These estimates are based on our Discovery Project average statistics on matching.

If noncompliance of those W2's (nonfilers) is 9% , we could possibly expect to pay \$11.3 million in refunds (avg \$389) and receive \$48.4 million in revenues (\$665 average tax. Of course, this assumes that we have all the W-2s available for matching, which at this point is not true.

- Data Warehouse

The Compliance Enforcement Division of the Kansas Department of Revenue has consolidated data from internal and external resources for the purposes of increasing information efficiency, decreasing reporting time, and non-compliance discovery efforts. For example, use of the Data Warehouse and its matching potential could lead to discovery of non-registered businesses, or finding valid addresses for delinquent taxpayers.

Many different databases from a variety of sources are being added to the Data Warehouse, including the drivers license file, business licenses, etc.

6. Strategic Directions

Several large projects are on the horizon for KDOR. Our focus has been on doing what we are charged to do: collecting taxes and fees, administering the tax laws, issuing licenses, regulating the sale of various products, mostly alcohol and tobacco.

Our focus has been on improving our internal processes, increasing accuracy and reducing costs through use of technology.

E-filing, if we could achieve a 65% compliance rate, would save \$5-6 million annually in salaries and processing costs. We are currently at 56% and are cooperating with tax preparers, as well utilizing an advertising campaign for the third year.

VIPS – the vehicle identification processing system – is dated and almost non-functional. Replacement of VIPS is our highest priority. A feasibility study is underway at the present time, now that the upgrade to the CAMA system is almost complete.

Our technology staff is maxed out with compliance initiatives and continuing to provide changes to the tax processing system. Our fiscal notes will reflect the need for additional help if we are to take on new projects.

Real ID – a federal initiative – is likely to cause a dramatic increase in budget expenditures, depending on how the federal regulations are drafted this Spring.