Approved: March 07, 2016

MINUTES OF THE HOUSE COMMERCE, LABOR AND ECONOMIC DEVELOPMENT COMMITTEE

The meeting was called to order by Chairperson Mark Hutton at 1:30 pm on Tuesday, February 16, 2016, 346-S of the Capitol.

All members were present except:
Representative Annie Tietze – Excused

Committee staff present:
Linda Herrick, Kansas Legislative Committee Assistant
Reed Holwegner, Legislative Research Department
Chuck Reimer, Office of Revisor of Statutes

Conferees appearing before the Committee:
Melissa Glynn, Alvarez and Marsal
Ted Risher, Alvarez and Marsal
Daniel Spragg, Alvarez and Marsal
Nancy Zielke, Alvarez and Marsal

Others in attendance:
See Attached List

Presentation on: Six State Efficiency Study Recommendations Assigned to House Commerce
Chairperson Hutton said the Committee would hear efficiency recommendations and report to House Appropriations Committee, which will have the responsibility to consider any action. House Commerce will have meetings after turnaround to discuss the recommendations in depth.

Melissa Glynn introduced Alvarez and Marsal representatives and presented the six recommendations (Attachment 1) and (Attachment 2) assigned to the House Commerce Committee.

Ted Risher, Alvarez and Marsal, presented the recommendation regarding REAL.03 - Disposition of State Owned, Surplus Properties. He met with Department of Administration (DOA) senior staff several months ago to review the entire state property leasing portfolio and owned portfolio. Several lists were received from the DOA and from the Budget Director. After reviewing those lists and after multiple conversations with the DOA staff, filters were developed to identify surplus property. There were nine identified and approved parcels. Additional unapproved properties were identified, but, for various reasons, state agencies were reluctant to give up the parcels at this time. Some surplus properties could be sold in groups over FY 2017 and FY 2018, but the property on SW Topeka Boulevard would not be ready for sale until FY 2018. Nine million dollars could be achieved over the next five years with the bulk coming in the first two years totaling approximately $7.6 million. Eighty percent of the proceeds of the sale would be contributed to Kansas Public Employees Retirement System (KPERS). There were no questions.

Daniel Spragg presented the recommendations regarding INS.02 - KDOL Assessment Rate Change. By studying other states, a recommendation was made to change the rate assessment against workers compensation carriers from 2.79 percent, based on prior year losses, to 1 percent, based on a written premium basis. The most standard methodology among the 50 states was to calculate assessments using prior year net written premiums as the rating base. It is Alvarez staff's understanding that the administrative fund is designed to pay for all workers compensation activities of the Kansas Workers Compensation system and that is the focus.

In response to questions raised, Mr. Spragg replied:

- A review was done on what the state is spending for workers compensation at this time, but no analysis was done line-by-line.
- There is no assessment on the state workers compensation fund. Conservatively, it is estimated $3 million to $4 million a year can be returned to the state in reduced losses and costs, which are currently at $22 million to $24 million a year.
- A part of the recommendation is to change to the written premium basis. All losses for carriers and self-insureds were $400 million. The assessment is applied in May and collected in July. The carriers incorporate it in their loss rating structure when making their rating forecast. So, technically, in July 2016, the state is collecting for actual losses in 2015. Under the written premium basis, policies are written and paid in 2016 for 2016 exposure.
- By charging losses for insurance companies assessed on written premium, there is some misalignment. That is, large employers pay, for instance $100,000 or 35 percent of losses compared to small business losses, but the assessment is across all Kansas businesses.
- The change to 1 percent is on net premium not adjusted for reinsurance.
- An additional $30 million is the estimated cost to change to this approach which would all be going to the Kansas Department of Labor.
- The 1 percent applies to carriers and self-insureds.

Alvarez and Marsal recommends the establishment of an office of risk management (INS.04) which would operate within the Kansas Department of Health and Environment. Thirty-eight states use such an office, and it was believed this would be of great value to Kansas. This recommendation would reduce workers compensation SSIF claims by outsourcing to a third party administrator overseen by the new office of risk management. Rate notices would be more uniform. The public sector is a large part of workers compensation. There would be more consistency across the state. Total estimated cost savings are $3.96 million.

Part of the recommendation is to change state compensation policy to eliminate injured employees who receive workers compensation benefits from concurrently accruing vacation and sick leave.

In response to questions, Mr. Spragg replied:

- On the tax basis, an actuary was consulted when reviewing the total cost of claims and it was no more different than what is currently the claims cost forecast.
- When an employee is injured, accrued leave allows the employee to subsidize their normal pay over that period.

Nancy Zielke, Alvarez and Marsal, addressed recommendation COM.05-Ensure no program subsidy for Athletic Commission fee for service operation. The state assesses a 5 percent fee on the gross ticket sales on promotion events. If events are expanded across the state, the state could be subsidizing the cost of the events. A $10,000 surety bond is posted, which should allow the Athletic Commission to recover costs above the gross ticket cost.

It was asked if it is common that athletic fees do not cover the cost, and Ms. Zielke noted that Kansas is one of a few states that has a regulatory commission.

Ms. Zielke addressed the recommendation, COM.01-Enhance Commerce's Business-to-Business Strategies which would increase financial modeling, research analysis, project auditing, and marketing/sales service support efforts.

It is recommended that six new positions be created. Two would be for analytical research. These positions could allow the Department of Commerce to improve the financial impact new businesses brought to the state.

Four new positions would enhance the monitoring of incentive programs. It is estimated that each position will recruit 1,000 new jobs annually to the state, and $1.6 million could be generated in business-to-business strategies, or $4,000 per new job per year. Also, $1,600 to $2,000 in new annual state income tax withholdings is estimated.

In response to questions, Ms. Zielke replied:

- These employees would live in and work in the state and funded from economic development funds to address new economic development, local chambers, local cities, and stronger sales and marketing role. Ms. Zielke said she has not explored Commerce employees who are living and working in other states.
- This recommendation would be in addition to PEAK.

LOT.1 - Implement ITVM's (Instant Ticket Vending Machines) for the Kansas Lottery. Melissa Glynn presented this recommendation. It is estimated lottery sales would increase by $30 million annually if ITVM's were installed. Fifty-four jurisdictions have ITVM's now. Two vendors in Washington State provided 1,494 machines, which generate $2,600 in sales per machine per week. Higher traffic locations, such as grocery stores, generated more sales per machine per week. It is estimated the Lottery would be able to transfer 25 percent to 30 percent of increased ticket sales to the state. There were no questions.

Discussion & possible action on: HB2325 — Enacting the public employee bargaining transparency act.
Chuck Reimer provided an overview (Attachment 3) of the comparison of the bill with the **Substitute for HB2325**.

Representative Mason moved, seconded by Representative Suellentrop, the bill be passed.

Representative Carpenter moved, seconded by Representative Frownfelter, the bill be tabled. The motion carried.

Discussion & possible action on:
HB2576-Prohibiting cities or counties from adopting employee scheduling policies for private employers.

Chuck Reimer gave an overview of the bill.

Representative Mason moved, seconded by Representative Suellentrop, the bill be passed.

Discussion followed.

Representative Frownfelter moved, seconded by Representative Whipple, on page 1, line 23 of the bill to delete "required" and insert "authorized". The motion failed.

The motion the bill be passed carried with Representative Ruiz voting nay.

Adjournment
The meeting adjourned at 3:01 p.m.