

Approved: 2/22/93
Date

MINUTES OF THE SENATE COMMITTEE ON COMMERCE.

The meeting was called to order by Chairperson Alicia Salisbury at 8:00 a.m. on February 15, 1993 in Room 123-S of the Capitol.

Members present: Senators Burke, Downey, Gooch, Harris, Hensley, Kerr, Petty, Reynolds, Steffes and Vidricksen

Committee staff present: Lynne Holt, Legislative Research Department
Jerry Ann Donaldson, Legislative Research Department
Jim Wilson, Revisor of Statutes
Bob Nugent, Revisor of Statutes
Mary Jane Holt, Committee Secretary

Conferees appearing before the committee: Jacki Summerson, Manpower Temporary Services, Topeka
William H. Layes, Chief, Labor Market Information Services,
Kansas Department of Human Resources
Bob LaGarde, Vice-President, Cardinal Building Services, Inc.
Topeka
Wayne Maichel, Kansas AFL-CIO

Others attending: See attached list:

Hearing on SB 165--Employment security, taxable wage base increase

Jacki Summerson, Manpower Temporary Services, testified the taxable wage base under the employment security law for unemployment taxes is currently \$8,000. **SB 165** increases the taxable wage base by \$1,000 each year until it reaches 60 percent of the statewide average annual wage. The rationale for using 60 percent of the statewide average annual wage is that the maximum weekly unemployment benefit is based on 60 percent of the statewide average weekly wage. The taxable wage base in eighteen other states is currently indexed to the statewide average wage. The current wage base is unfair to employers who have low-wage, part-time or short-term employees. These employers are paying many times more than what their claims are. This applies not only to temporary services, but also to restaurants, janitorial services, nursing homes, etc. These employers pay unemployment taxes on 100% of their payrolls, whereas a company paying the statewide average wage of \$20,000 pays only on 40% of their payroll.

Ms. Summerson concluded her testimony by stating **SB 165** does not raise unemployment taxes, nor does it impact benefits paid. It simply makes the unemployment taxes more fair for all employers, see Attachment 1.

William H. Layes, Chief, Labor Market Information Services, Kansas Department of Human Resources, suggested two amendments to the bill as drafted. Delete lines 27-33 on page 14, as the language is unnecessary and should not be included in the law. In the definition of "computation date", change the date from July 1 to June 30, see Attachment 2.

Bob LaGarde, Vice-President, Cardinal Building Services, Inc., testified in support of **SB 165**. He stated the Cardinal Building Services, Inc., depends largely on part-time, minimum wage employees, with an average wage of less than \$3,000 annually. The current system requires that they pay unemployment taxes on virtually 100% of the \$3,000 payroll base. Cardinal Building Services, Inc., has paid in \$234,841 and charged out \$42,150, leaving a balance with the Kansas Employment Security Fund of \$192,691.

Mr. LaGarde stated this type of regressive taxation program must be corrected in order to stabilize the base for the unemployment system and correct the unfair burden currently being borne by Kansas small businesses, see Attachment 3.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON COMMERCE, Room 123-S Statehouse, at 8:00 a.m.
on February 15, 1993

Wayne Maichel, Kansas AFL-CIO, testified the AFL-CIO is opposed to **SB 165**. He stated the issue is not small employers vs. large employers, it is low wages vs. high wages. Twenty-five states have an \$8,000 taxable wage base, or lower. All negative balance employers in the state of Kansas pay the maximum taxable rate of 5.4 percent, plus all negative account employers can receive a surcharge of .1 up to 1 percent.

There being no other conferees, the hearing on **SB 165** was closed.

Discussion and possible action on SB 76--Kansas venture capital company investment act; extended

Lynne Holt, Analyst, Legislative Research Department, reviewed the fiscal impact of **SB 76**. The Department of Revenue and the Department of Commerce and Housing figures do not agree on the amount of the extension of tax credits.

Steve Kelly, Venture Capital Specialist, Existing Industry Development Division, Kansas Department of Commerce and Housing, responded to inquiries from the Committee. The Department of Revenue indicated information that would identify specific investments in specific companies is not subject to disclosure. Monitoring of the program has been provided as staff and resources allow. Information as to payroll generation and tax revenue resulting from investments has not been required, see Attachment 4.

Senator Kerr moved and Senator Vidricksen seconded to recommend **SB 76** favorably for passage. The motion passed.

A motion was made by Senator Gooch to approve the minutes of January 26, February 1, 2, 4, 5, 8, and 9. The motion was seconded by Senator Vidricksen, and the motion passed.

The Committee meeting was adjourned at 9:00 a.m.

The next meeting is scheduled for February 22, 1993.

GUEST LIST

COMMITTEE: SENATE COMMERCE COMMITTEE

DATE: 2/15/93

[illegible]



MANPOWER®
TEMPORARY SERVICES

STATEMENT OF TESTIMONY Senate Commerce Committee

RE: SB-165, Increasing the Unemployment Taxable Wage Base

DATE: February 15, 1993

FROM: Jacki Summerson, Manpower Temporary Services (913/267-4060)

My husband and I own and operate the Manpower Temporary Services franchise offices in Kansas. We have fourteen offices throughout the state. Our company is one of several employers in the State of Kansas that provide thousands of employment opportunities to people who are in the process of looking for permanent employment but need work or simply want limited employment. On the average, we employ approximately 2,000 people per week. In 1992, we sent out about 11,000 W-2s. Some of these people would otherwise be drawing unemployment benefits if we didn't provide them with work.

You may be surprised to know that an employee can take a temporary job, knowing that it is temporary, and then still file for unemployment benefits. They are eligible to file at the end of each temporary assignment if we don't have another assignment for them. We are not complaining about this and we are willing to pay our fair share of unemployment taxes. We feel we are paying more than our fair share. We currently pay more than seven times our average liability each year. We have a positive account balance that is over \$1,385,000. That is money we have paid in to the fund that we will never get back.

FOR EXAMPLE, THIS YEAR OUR STATEMENT OF ANNUAL BENEFIT CHARGES WAS \$43,978. AND OUR TAXES WERE \$323,123. We pay more each quarter than the total of all claims made against our account in a year. OUR COMPANY IS REQUIRED TO PAY \$207,000 MORE THAN AN EMPLOYER PAYING THE EXACT SAME AMOUNT OF WAGES AT THE STATE-WIDE AVERAGE WAGE OF \$20,000.

HISTORY OF TAXABLE WAGE BASE. Unemployment taxes began in 1937. At that time there was no taxable wage base. the taxable wage base was introduced in 1940 at \$3,000 because at that time that was the state-wide average wage. Today the state-wide average wage is MORE THAN \$20,000, yet the taxable wage base is \$8,000. I have attached a chart from the Department of Human Resources that shows how the taxable wage base and the average annual wage have grown apart. Compare this to an income tax. If everyone paid taxes on only their first \$8,000 of income, it would be an extremely regressive tax. That is what has evolved over the years with the taxable wage base. It has made the unemployment taxes regressive on employers who have low-wage, part-time or

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Lawrence, Kansas 66044
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short-term workers. They are paying many times more than what their claims are. Some may say that this is fair since those workers draw unemployment more often. In fact, that is not the case. Lower paying jobs are easier to find and those employees usually leave their short-term or part-time job because they have found a better long term job. An individual earning the minimum wage of \$4.25 an hour even earns more than the current \$8,000 wage base.

SENATE BILL 165 INCREASES THE TAXABLE WAGE BASE. The taxable wage base under employment security law for unemployment taxes is currently \$8,000. SB-165 increases the taxable wage base by \$1,000 each year until it reaches 60% of the statewide average annual wage (e.g. 60% of \$20,000 would be \$12,000). The rationale for using 60% of the statewide average annual wage is that the maximum weekly unemployment benefit is based on 60% of the statewide average weekly wage (KSA 44-704). The taxable wage base in eighteen other states is currently indexed to the statewide average wage.

OTHER STATES ARE INCREASING THEIR TAXABLE WAGE BASE. Most states with unemployment "experience-rating" systems similar to Kansas have already increased their taxable wage base. For example, the following states increased their taxable wage base effective January 1, 1992 and January 1, 1993:

Hawaii	\$23,900	Idaho	\$19,200
Illinois	\$ 9,000	Iowa	\$13,100
Maryland	\$ 8,500	Minnesota	\$14,300
Missouri	\$ 7,500	Montana	\$14,500
Nevada	\$14,800	New Jersey	\$16,100
New Mexico	\$12,600	North Carolina	\$12,500
North Dakota	\$12,600	Ohio	\$ 8,500
Oklahoma	\$ 7,500	Oregon	\$18,000
Rhode Island	\$15,600	Utah	\$15,700
Washington	\$18,500	Wyoming	\$11,100

CHANGE IS PHASED IN GRADUALLY. Since a three year average of taxable wages is used to compute the contribution rate, the effect of the \$1,000 per year increase in the taxable wage base is minimized. If Senate Bill 12 or House Bill 2048 is passed to lower the fund balance, the impact of this bill will be further minimized.

CHANGING THE TAXABLE WAGE BASE DOES NOT AFFECT THE SOLVENCY OF THE FUND OR CLAIMANT BENEFITS. THIS IS NOT A TAX INCREASE. By statute, the State can only collect enough to maintain the fund balance. The State will not collect any more money. The contribution rates will be reduced accordingly so that the taxes are approximately the same for employers of full time employees who earn more than 60% of the statewide average annual wage.

WHO WILL PAY MORE? If we are paying that much more than our liability, many employers are drawing more out of the fund than they are paying in. In fact, of the 55,869 contributing employers in Kansas, 3,046 of them have negative account balances.

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In other words, their employees draw more out of the fund than they pay in. In 1991, those employers paid in \$23 million and drew out \$49 million. The total employer contributions for 1991 were \$158,265,000. Negative balance employers contributed \$23,256,000 (15% of the total). The total benefits paid were \$155,376,952. Of that total, the benefits charged to employer accounts was \$131,666,683. (Some benefits paid are paid out of the general fund and are not charged to an employer's account). Benefit charges to negative balance employers were \$49,109,000 (37% of the total benefits charged). Negative account employers are paying in less than one-half of what their claims are. This is placing an extreme burden on employers of part-time or short-term, low-wage employees who are subsidizing these negative account employers. In the workers compensation reform, one of the issues being addressed is that the employers in the assigned risk fund are being subsidized by all the other employers. In unemployment taxes the same situation exists. Positive balance employers are subsidizing "negative balance" employers. This bill would "level" the playing field. Since negative account employers pay the maximum amount, they would pay an increasing amount as the wage base increases.

ARE UNEMPLOYMENT TAXES RELATED TO BENEFITS? One objection I have heard from a few is that this bill will encourage employers to hire more part-time people to avoid paying benefits. This argument makes no sense. While there may be a few employers who have that policy, that is not true of most employers. Almost all of our temporary jobs pay more than minimum wage. We offer vacation pay, holiday pay, health insurance (we pay half) and life insurance (we pay all) to our temporary employees. There are many small businesses who hire short-term or part-time employees that DO offer benefits. By reducing the excessive burden of unemployment taxes on these small employers, maybe they could afford to offer more benefits. Regardless, this is a fairness and equity issue on unemployment taxes, not on benefits.

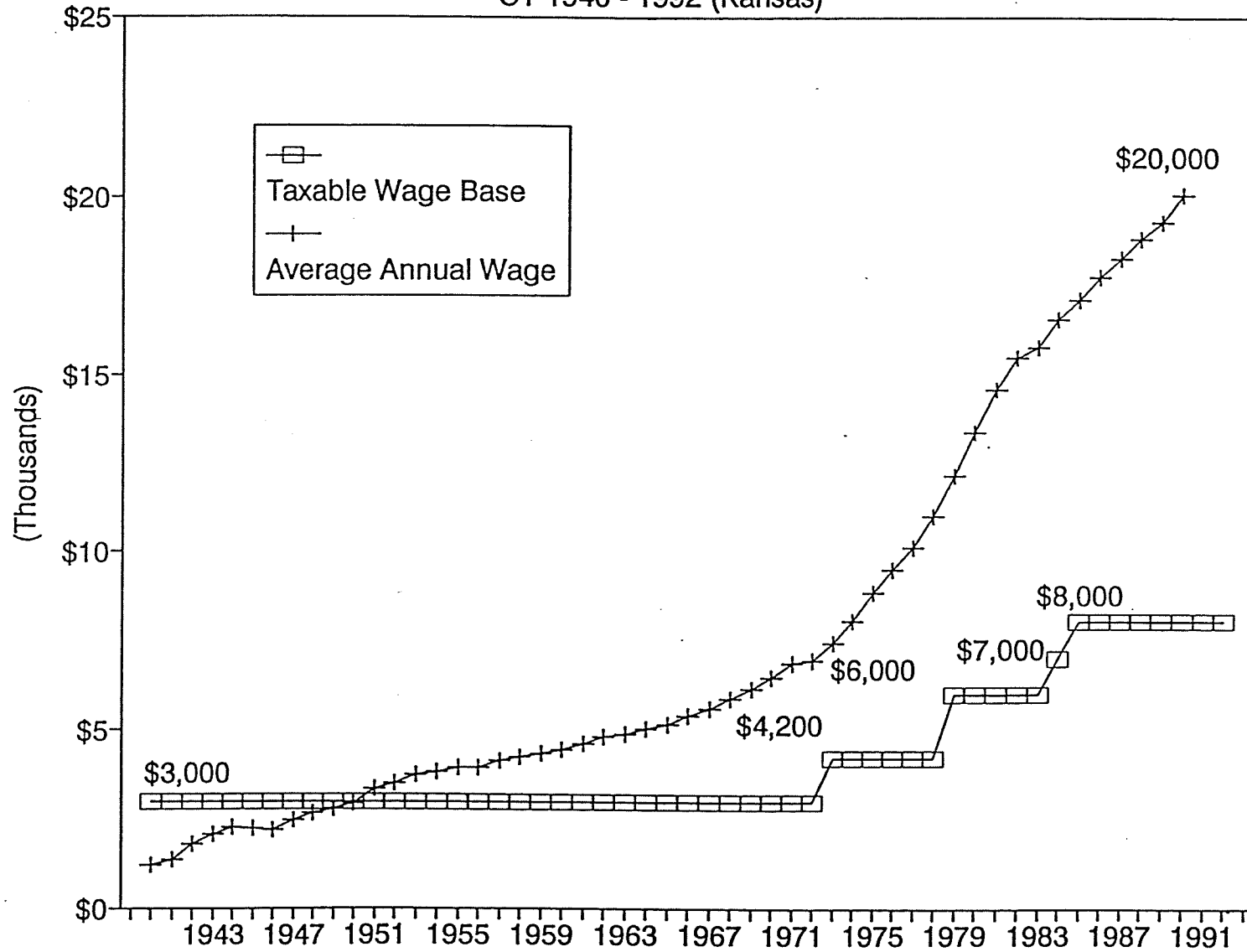
THIS LEGISLATION IS LIMITED TO ADJUSTING AN INEQUITY IN THE SYSTEM. The current wage base is unfair to employers who have low-wage, part-time or short-term employees. These employers are paying many times more than what their claims are. Not only temporary services, but also restaurants, janitorial services, nursing homes, etc. The INEQUITY is that we pay unemployment taxes on 100% of our payroll where a company paying the statewide average wage of \$20,000 pays on only 40% of their payroll. High wage employers are paying on an even smaller percentage of their overall wages and yet their overall exposure for paying benefits is higher because higher paid employees are usually more skilled and have more trouble replacing their job. This bill does not raise unemployment taxes, nor does it impact benefits paid. It simply make the unemployment taxes more fair for all employers.

We would ask your support in passing this bill.

Frank and Jacki Summerson
Franchise Owners
Manpower Temporary Services

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Taxable Wage Base and Average Annual Wage CY 1940 - 1992 (Kansas)



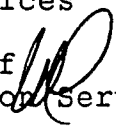
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Memorandum

Kansas Department of Human Resources

Date: February 12, 1993

To: Bob Molander, Director
Division of Staff Services

From: William H. Layes, Chief 
Labor Market Information Services

Subject: Senate Bill 165 Relating to Increasing the Taxable Wage Base for Employer Contributions

The taxable wage base in Kansas, as defined in section K.S.A. 44-703(o)(1) of the Kansas Employment Security Law, is \$8,000 or the definition of the term "wages" in the Federal Unemployment Tax Act (FUTA), whichever is greater. SB 165 would increase the taxable wage base by \$1,000 per year, starting with a raise to \$9,000 in CY 1994. The \$1,000 annual increases would continue until such time as the taxable wage base would equal 60 per cent of the statewide average annual wage (aaw) rounded to the nearest \$1,000. If the \$1,000 annual increase would cause the taxable wage base to exceed 60 per cent of the rounded aaw, the base will remain at the same level as the prior year. As 60 per cent of the average annual wages, rounded, increases, the taxable wage base will also increase. An example of the effect of SB 165 is shown in the attached paper.

Within SB 165 are two sections which we question. The first deals with stating a purpose for the annual determination and adjustment procedure. In K.S.A. 44-702 of the Employment Security Law, the declaration of the state public policy declares that unemployment reserves will be compulsory set aside to be used for the benefits of persons unemployed. The sentence on page 14, lines 27-33 of SB 14 does state what will happen if the proposed amendment is accepted, but it is unnecessary language. The purpose of K.S.A. 44-703(o)(1) is to determine a method for calculating an annual taxable wage base to be used in the definition of "wages." This does not need to be stated within the Law as it is already implied. We strongly believe that the aforementioned sentence is unnecessary language and should not be included within the Law.

The second problem discovered deals with the definition of "computation date" in K.S.A. 44-703(o)(1). A definition of "computation date" can also be found in section K.S.A. 44-710a(a)(1)(C). Each definition is correct within the section but the dates, July 1 and June 30 do differ. Therefore the attached language is suggested.

Attachment

cc: Bob Stacks, Paul Bicknell, Bill Clawson

WHL:TDM:csb

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PROPOSED AMENDMENT TO K.S.A. 44-703(o)(1)

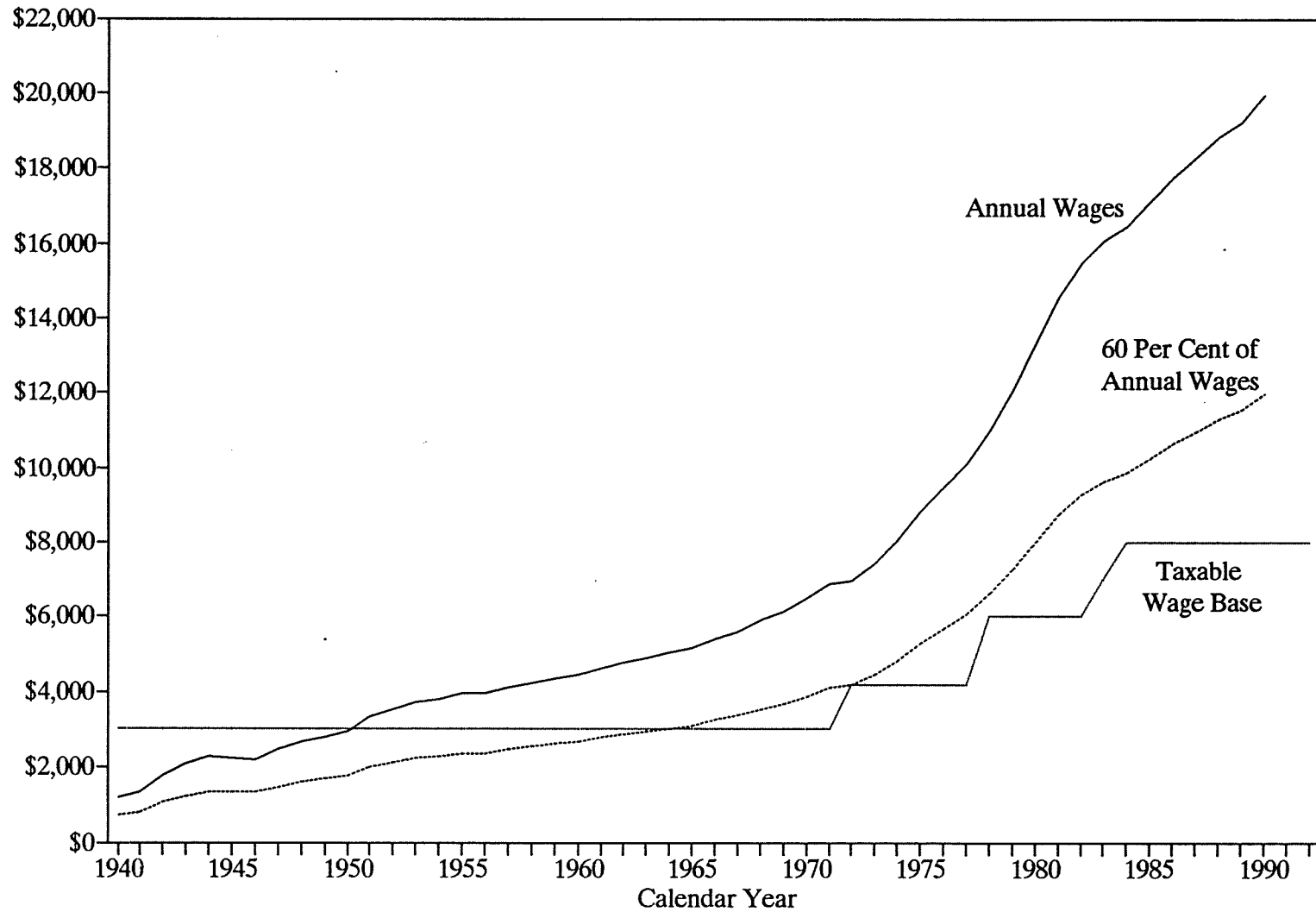
(1) That part of the remuneration which has been paid in a calendar year to an individual by an employer or such employer's predecessor in excess of \$3,000 for all calendar years prior to 1972, \$4,200 for the calendar years 1972 to 1977, inclusive, \$6,000 for calendar years 1978 to 1982, inclusive, \$7,000 for the calendar year 1983, ~~and \$8,000 for calendar years 1984 to 1993, inclusive, and the taxable wage base amount determined by the secretary in accordance with this subsection (o)(1) with respect to employment during any calendar year following 1983~~ 1993, except that if the definition of the term "wages" as contained in the federal unemployment tax act is amended to include remuneration in excess of \$8,000, ~~or any greater taxable wage base amount determined by the secretary under this subsection (o)(1),~~ paid to an individual by an employer under the federal act during any calendar year, wages shall include remuneration paid in a calendar year to an individual by an employer subject to this act or such employer's predecessor with respect to employment during any calendar year up to an amount equal to the dollar limitation specified in the federal unemployment tax act. *The taxable wage base amount for calendar year 1994 and for each calendar year thereafter shall be determined by the secretary on the computation date for the calendar year and in accordance with the following: (A) The taxable wage base amount for a calendar year shall be equal to the total of the taxable wage base amount prescribed under this subsection (o)(1) for the preceding calendar year plus \$1,000, except that if the taxable wage base amount so determined exceeds the amount equal to 60% of the statewide average annual wage rounded to the nearest \$1,000 which shall be determined by the secretary as of the computation date, the taxable wage base amount determined by the secretary for such calendar year shall be the taxable wage base amount prescribed under this subsection (o)(1) for the preceding calendar year; and (B) the taxable wage base amount for a calendar year shall increase for each calendar year occurring after 1993, in accordance with an subject to clause (A) of this subsection (o)(1), until the taxable wage base amount is indexed to 60% of the statewide average wage, rounded to the nearest \$1,000, so that if the amount equal to 60% of the statewide average wage, rounded to the nearest \$1,000, increases, then the taxable wage base amount increases. ~~The purpose of such annual determination and adjustment procedure is so that, absent other factors, as the taxable wage base amount increases in accordance with this subsection (o)(1), there will be decreases in the contribution rates prescribed for contributing employers and there will be no substantial increases in the overall yield to the fund as determined under K.S.A. 44-710a and amendments thereto.~~* For the purposes of this subsection (o)(1), the term "employment" shall include service constituting employment under any employment security law of another state or of the federal government; "computation date" ~~as determined under K.S.A. 44-710a means July 1 of the calendar year which precedes the calendar year for which the taxable wage base amount is being determined under this subsection (o)(1);~~ and "statewide average annual wage" means the average annual wage paid to employees in insured work during the calendar year which precedes the calendar year in which the computation date occurs;

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Kansas Wages and Tax Wage Base

Annual Wages, 60 Per Cent of Annual Wages, and Taxable Wage Base
1940-1992



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Kansas Wages and Tax Wage Base
Annual Wages, 60 Per Cent of Annual Wages, and Taxable Wage Base
1940-1992

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Year	Taxable Wage Base	Annual Wages	60% of Annual Wages
1940	\$3,000	\$1,200.78	\$720.47
1941	3,000	1,350.67	810.40
1942	3,000	1,784.22	1,070.53
1943	3,000	2,066.45	1,239.87
1944	3,000	2,263.86	1,358.31
1945	3,000	2,254.61	1,352.77
1946	3,000	2,214.67	1,328.80
1947	3,000	2,453.70	1,472.22
1948	3,000	2,675.07	1,605.04
1949	3,000	2,800.79	1,680.47
1950	3,000	2,945.83	1,767.50
1951	3,000	3,344.69	2,006.81
1952	3,000	3,507.60	2,104.56
1953	3,000	3,719.04	2,231.42
1954	3,000	3,810.00	2,286.00
1955	3,000	3,951.99	2,371.19
1956	3,000	3,954.55	2,372.73
1957	3,000	4,123.02	2,473.81
1958	3,000	4,232.67	2,539.60
1959	3,000	4,348.86	2,609.31
1960	3,000	4,441.29	2,664.77
1961	3,000	4,612.93	2,767.76
1962	3,000	4,789.15	2,873.49
1963	3,000	4,885.49	2,931.30
1964	3,000	5,052.59	3,031.55
1965	3,000	5,178.19	3,106.91
1966	3,000	5,400.08	3,240.05
1967	3,000	5,594.72	3,356.83
1968	3,000	5,892.56	3,535.54
1969	3,000	6,145.26	3,687.16
1970	3,000	6,487.16	3,892.30
1971	3,000	6,865.95	4,119.57
1972	4,200	6,948.93	4,169.36
1973	4,200	7,422.71	4,453.63
1974	4,200	8,039.51	4,823.71
1975	4,200	8,824.58	5,294.75
1976	4,200	9,467.42	5,680.45
1977	4,200	10,097.99	6,058.79
1978	6,000	10,985.80	6,591.48
1979	6,000	12,105.97	7,263.58
1980	6,000	13,342.11	8,005.27
1981	6,000	14,585.98	8,751.59
1982	6,000	15,497.08	9,298.25
1983	7,000	16,058.66	9,635.20
1984	8,000	16,461.81	9,877.08
1985	8,000	17,106.28	10,263.77
1986	8,000	17,722.76	10,633.66
1987	8,000	18,262.07	10,957.24
1988	8,000	18,843.06	11,305.84
1989	8,000	19,218.32	11,530.99
1990	8,000	19,946.77	11,968.06
1991	8,000		
1992	8,000		

Kansas Department of Human Resources
Division of Staff Services
Labor Market Information Services
February 12, 1993

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CARDINAL BUILDING SERVICES, INC.
CARDINAL CHEMICAL & SUPPLY CO.

913/354-7676

2306 W. 10th • TOPEKA, KANSAS 66604

To: Honorable Senator Alicia Salisbury, Chairman
and Members of the Commerce Committee

From: Mr. Harry Gordon, Chairman of the Board
Cardinal Building Services, Inc.
Topeka, Kansas

Testifying: Bob LaGarde
Vice - President,
Cardinal Building Services, Inc

Date: 15 February 1993

We are here today to urge your support of Senate Bill 165. This bill provides for a vital and necessary reallocation of the tax base for supporting the Kansas Unemployment Compensation Program.

As a Small Business operating in the State of Kansas and depending largely on part-time, minimum wage employees, our average wage is less than \$ 3,000.00 annually. The current system requires that we pay unemployment taxes on virtually 100 % of this payroll base.

The state wide average wage is currently over \$ 20,000.00 annually. The existing system allows for those paying the state wide average to pay unemployment taxes on only 40 % of its payroll.

Because the current system falls so heavily on the industries with lower average wages bases, these industries are forced into supporting the system for other employers. As of 1991 Cardinal had the following account balance with the Kansas Employment Security Fund:

Amount Paid In	\$ 234,841.00
Amount Charged Out.....	\$ 42,150.00
Balance as of 6/30/91.....	\$ 192,691.00

This type of regressive taxation program must be corrected in order to stabilize the base for our unemployment system and in order to correct the unfair burden currently being borne by Kansas small businesses.



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KANSAS

Joan Finney
Governor

DEPARTMENT OF COMMERCE & HOUSING

Bob Knight
Secretary

MEMORANDUM

TO: Senator Alicia Salisbury, Chair-Senate Commerce
FROM: Steve Kelly *SRK*
DATE: February 5, 1993
SUBJECT: Response to inquiries by Committee on Senate Bill No. 76

Information currently required and the reports compiled from same information for the Kansas certified venture capital companies and certified local seed capital pools has been consistent with statutory provisions. Program information collected and provided via the annual report is that provided for in K.S.A. 74-8310 (a) (1 to 6) inclusive.

Other information obtained in the reports that would identify specific investments in specific companies has been held confidential. A listing of the investors in each of the certified funds is annually submitted to Commerce & Housing and forwarded to the Kansas Department of Revenue, along with information involving transfer of tax credits. I have spoken to a representative of Revenue and such information is not subject to disclosure.

Monitoring of the program has been provided as staff and resources allowed. Information as to payroll generation and tax revenue resulting from investments has not been required. Kansas Inc. has in the past indicated a desire to conduct a program review to identify program impacts of this type but that to date has not occurred due to their resource limitations.

We would be happy to meet, at your convenience, with you and other members of the committee to discuss the information that is available.

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