Proponent for Sub. HB 2196
KS Unemployment Insurance Reforms

KS Senate Commerce Committee
March 16, 2021

Testimony Provided By:

Phillip M. Hayes
Vice President
The Arnold Group (TAG)

Chairman, KS Employment Security Board of Review
Kansas Department of Labor
UI Benefits: Pre–MFA (Identity Verification) Solution

<table>
<thead>
<tr>
<th>Week Ending</th>
<th>12/19/2020</th>
<th>12/26/2020</th>
<th>1/2/2021</th>
<th>1/9/2021</th>
<th>1/16/2021</th>
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<td>Kansas Trust Fund Balance</td>
<td>$400,600.00</td>
<td>$375,300.00</td>
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<td>$302,200.00</td>
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<td># Weeks Trust Fund to ZERO - KS Only benefits (KS Only - UI)</td>
<td>0.26</td>
<td>0.23</td>
<td>0.19</td>
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<td>0.12</td>
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| Sub. HB 2196 | ***** |
Proponents
UI Benefits: Post-MFA (Identity Verification) Solution

### Kansas Trust Fund Balance

<table>
<thead>
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<td>$272,900,000</td>
<td>$275,200,000</td>
<td>$264,900,000</td>
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### Projected Date of KS Trust Fund Bankruptcy

- 3/25/2022
- 3/27/2030
- 11/19/2021
- 1/9/2024
- 11/3/2021
- 9/8/2021

### Total Payments Summary

<table>
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<tr>
<th>Payments</th>
<th>Amount</th>
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<tr>
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<tr>
<td>$13,377,138</td>
<td>$14,604,395</td>
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<tr>
<td>$26,193,410</td>
<td>$24,939,965</td>
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### Regular Unemployment Insurance (KS Only - UI)

| Weeks Compensated | $1,124,778 | $570,154 | $6,729,527 | $1,812,958 | $7,720,081 | $9,949,817 |

### Pandemic Unemployment Assistance (PIU)

| Weeks Compensated | $10,762,085 | $623,091 | $9,957,049 | $6,416,421 | $11,234,928 | $10,560,935 |

### Pandemic Unemployment Assistance (PUA)

| Weeks Compensated | $2,286,148 | $194,409 | $215,967 | $906,133 | $630,783 | $911,366 |

### Pandemic Emergency Unemployment Comp (PEUC)

| Weeks Compensated | $18,282 | $9,864 | $399,330 | $5,421,986 | $5,355,436 | $2,795,315 |

### Total Payments |

<table>
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<tr>
<td>$26,212,383</td>
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<tr>
<td>$6,553,096</td>
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</table>

### State Extended Benefits (SBE)

| Weeks Compensated | $1,343 | $75,169 | $43,577 | $75,818 | $82,433 |

### Lost Wages Assistance (LWA)

| Weeks Compensated | $16,800 | $18,300 | $ - | $3,300 | $14,720 | $13,800 |

### Final Payments

| $3,265 | $863 | $10,832 | $2,777 | $13,279 | $13,720 |

### Individuals Receiving Payments

| $290,621 | $377,695 | $393,935 | $385,900 | $421,155 | $396,415 |

### Average Weekly Benefit Amount

| $390,621 | $377,695 | $393,935 | $385,900 | $421,155 | $396,415 |

### Pandemic Unemployment Assistance (PUA)

| Weeks Compensated | $4,342 | $3,574 | $2,411 | $1,304 | $787 | $52 |

### Pandemic Emergency Unemployment Comp (PEUC)

| Weeks Compensated | $30,057 | $40,546 | $37,919 | $28,216 | $21,833 | $19,070 |

### Individual Claims

| $455 | $900 | $637 | $6,456 | $2,522 | $3,655 |

### Four (4) Week Average

| $2,642,600 | $51,816 | $40,608 | $10,152 |

### Full Totals & Averages

<table>
<thead>
<tr>
<th>Totals</th>
<th>Weekly Averages</th>
<th>4 Wk Totals</th>
<th>4 Wk Avg</th>
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### Four (4) Week Average

| $2,813,773,870 | $55,172,019 | $75,564,912 | 19,642,282 |
| $26,193,410 | $21,487,707 | $26,212,383 | $6,553,096 |
| $3,265 | $863 | $10,832 | $2,777 | $13,279 | $13,720 |
| $290,621 | $377,695 | $393,935 | $385,900 | $421,155 | $396,415 |
| $4,342 | $3,574 | $2,411 | $1,304 | $787 | $52 |
| $30,057 | $40,546 | $37,919 | $28,216 | $21,833 | $19,070 |
| $455 | $900 | $637 | $6,456 | $2,522 | $3,655 |
| $2,642,600 | $51,816 | $40,608 | $10,152 |

Sub. HB 2196

The Arnold Group & Human Resource Management
UI Benefits: Pre- VS. Post-MFA 4 Week Comparison

01/02/2021 – 01/23/2021:
• Average Weekly Kansas Regular UI Benefits:
  • $38,203,021
• Projected Insolvency Date:
  • 03/17/21

02/13/21 – 03/16/2021:
• Average Weekly Kansas Regular UI Benefits:
  • $6,553,096
• Projected Insolvency Date:
  • 09/08/21 (Q1 & Q2 Employer Contributions not included)

Average Weekly Benefits decreased 82.85% with MFA

MFA Implemented between Jan. 31 – Feb. 2, 2021
Estimated Fraud Summaries

U.S. DOL Improper/Fraud Payment Rate for Kansas Prior to Pandemic: **14.21%**

### Regular Kansas Unemployment Insurance
- **12/29/2019 – 11/28/2020:**
  \[ \$842,348,475 \times 14.21\% = \$119,697,718 \]
- **11/29/2020 – 03/06/2021:**
  \[ \$292,426,717 \times 14.21\% = \$41,553,836 \]
- **09/27/2020 – 03/06/2021:**
  \[ \$424,773,155 \times 82.85\% = \$351,924,559 \]

### Total Estimated Fraud:
- Regular Kansas UI = \$513,176,114
- Federal UI: \$1,717,900,928 \times 14.21\% = \$244,113,722 (conservative)
- Combined KS & Fed UI: \$757,289,836 OR \$913,176,114 (w/ LPA $400M Fed)

### KDOL & LPA Estimated Fraud:
- KDOL Est. = Kansas UI: \$140M | Federal UI: $150M | $290M Total Estimate
- LPA Est. = Kansas UI: \$200M | Federal UI: $400M | $600M Total Estimate
1. Unemployment Compensation Modernization Council

- Comprised of **13 members**:
  - 3 Employers | 3 Employees | 6 Kansas Legislators | 1 KDOL Member
- Primary focus includes:
  - Review/recommend technological infrastructure used to file claims and pay benefits as well as the customer experience
  - Recommend features to maximize responsiveness
  - Recommend methods for sharing data across systems related to UI compensation to maximize efficiency
  - Recommend methods for synergizing user experience across KDOL programs
- **Conduct audit of the UI system (Prelim report 5/1/22; Final report 9/1/22)**
  - Examine effects of fraudulent claims and improper payments from 3/15/20-3/31/22, and the response by KDOL to such claims
  - Examine amounts and nature of such claims, fraud processes and methods, and the potential for recovery of fraudulent payments
  - Evaluate likelihood of a data breach contributing to fraud and improper network architecture allowing a potential breach to have occurred
- **Three year sunset provision of the Council**
2. Modernization of Kansas UI System

New Technology & Platform
- Defined System Components
- Defined Features & Benefits
  - Efficient Benefit Claims & Payment Management
  - Integrated Tax Management Functionality
  - Comprehensive Appeals Filing and Tracking
  - **Automated work opportunity tax credit eligibility determination**
  - UI Program Integrity Elements/Guidance

Bottom Line
- Modern, reliable, and modifiable
- 12/31/22 Implementation deadline
- Continual development, customization, enhancements, and upgrades
(c) The information technology system, technology and platform shall include, but not be limited to, the following any components, as specified and defined by the unemployment compensation modernization and improvement council established by section 1, and amendments thereto, in consultation with the secretary:

1. Component-centric architecture;
2. Configurability;
3. Results-driven customer empowerment;
4. Extensibility;
5. Reporting;
6. Adaptable and scalable platform;
7. Enterprise service bus;
8. Version control;
9. Change control;
10. Multi-speed information technology;
11. Data migration or data architecture; and
12. Legacy integration.

(d) The new system shall include, but not be limited to, the following features and benefits, as specified and defined by the unemployment compensation
*Compromised System Component Language (cont.)

PROPOSED Clean-up: New Sec. 2. – Page 8, line 10
(E) tax audit assignments; and

PROPOSED Clean-up: New Sec. 2. – Page 8, line 17
(G) federal reporting; and
(e) The secretary shall implement and utilize all program integrity elements and guidance issued by the United States department of labor and the national association of state workforce agencies, including the integrity data hub, within 60 days of the issuance of such guidance. The secretary shall implement and utilize the following specific program integrity elements,

(e) The secretary shall implement and utilize all program integrity elements, as specified and defined by the unemployment compensation modernization and improvement council established by section 1, and amendments thereto, in consultation with the secretary including, but not limited to:

PROPOSED LANG: New Sec. 2. –
Insert the following additional, new language between Page 9, lines 7 and 8

If and when the unemployment compensation modernization and improvement council is inactive or dissolved, the secretary shall implement and utilize all new program integrity elements and guidance issued by the United States department of labor and the national association of state workforce agencies, including the integrity data hub, within 60 days of the issuance of such guidance. If such guidance is not feasible to implement within 60 days, the secretary shall notify and request from the unemployment compensation modernization and improvement council, if active, otherwise the legislative coordinating council shall be notified.

• Re-letter/number (f) through (j) accordingly
3. Notify Recipients of UI Benefits of Tax Liability

- Requires Secretary of Labor to inform a claimant of the federal and state tax consequences related to UI benefits on the initial determination of benefits notice.
- Explanations of the following would be required:
  - KDOL income tax withholding agreement form K-BEN 233, or a successor form.
  - Tax withholding elections; and
  - Tax withholding process and estimated weekly and maximum withholding amounts.
4. UI Trust Fund Data Reporting

• Requires certain data related to the UI Trust Fund be published on website maintained by the Secretary
• Requires the following information to be maintained for the most recent 20 fiscal years within 120 days of FY closing:
  • Distributions of taxable wages by experience factor for each fiscal year, to include:
    • Rate group;
    • Reserve ratio lower limit;
    • Number of accounts;
    • Taxable wages; and
    • Summaries of active positive eligible, active ineligible, and active negative accounts;
  • Average high-cost benefit (AHCB) rate summary data:
    • Average high-cost benefit rate in effect, and
    • Benefit cost rate for fiscal years used for AHCB
A-1. Re-Employment & Work Skills Training Services

• Require secretaries of Labor and Commerce to jointly establish and implement programs providing reemployment and work skills training services to UI benefit recipients.

• Require the Secretary of Labor to request a UI claimant’s resume and job search plan or similar information and provide, upon request, assistance to claimants in developing such documents.

• Requires the secretaries of Labor and Commerce to jointly implement a work skills training or retraining program in collaboration with employers and other appropriate organizations, utilizing any available federal funding.

• Secretary of Labor report annually on status and progress of the reemployment services and work skills training programs to the House & Senate Commerce Committees during first month of each Legislative Session.
A-2. Federal Relief Aid & SGF Transfers

- Provides for lesser of an aggregate of $450M or max amount available, as determined by the Dir. of the Budget, to be transferred from special revenue funds to the Employment Security Fund during FY 2021 and FY 2022
  - Transfer made up of moneys identified by Director of the Budget to be unencumbered coronavirus relief funds that may be spent at discretion of the State and provided by federal legislation enacted in response to the COVID-19 pandemic
  - In the event the full $450M transfer of federal coronavirus relief funds to the Employment Security Fund is not made, the bill would stipulate contributing employers would pay contributions as set forth in the standard rate schedule for rate year 2022, and no solvency credit or adjustment would apply
  - In the event the full $450M transfer of federal coronavirus relief funds to the Employment Security Fund is not made, the Director of Accounts and Reports, upon receiving the certification regarding the amount of fraudulent and improper payments, would be required to immediately transfer an amount equal to the improper payment to the UI Trust Fund from either:
    - SGF; or another fund in the State Treasury as deemed appropriate & authorized by the Governor, with approval of the SFC
A-2. Federal Relief Aid & SGF Transfers

- In event Sec. of Labor determines full amount of fraudulent & improper payments from 3/15/20 – 12/31/22, has not been transferred to the Employment Security Fund from either federal coronavirus relief funds or SGF, the Sec. then required to certify the amount of such shortfall, which would then be transferred from the SGF to the Employment Security Fund in five equal installments on or before July 15 of FY 2024 through FY 2028

- Governor permitted to direct transfers come from different funds within the State Treasury with approval from the State Finance Council

- In the event the Secretary of Labor determines the full amount of fraudulent and improper payments from the period of 3/15/20 – 12/31/22, was less than the amount transferred from SGF to the Employment Security Fund, an amount equal to the difference between the transfer and the amount of fraudulent and improper payments would be made from the Employment Security Fund to the State General Fund and designated for use for COVID-19 related purposes, as provided by acts of the Legislature

- The bill would provide for any amount of improper payment recovered by the Secretary of Labor to be deposited in the State General Fund
A-3. Annual Projections Report – for 3 Years

• To House Commerce, Labor and Economic Development Committee
  • Actual & Projected Amount of UI Claims
  • Actual & Projected Employer Contributions
  • Actual & Projected UI Trust Fund Balance

*Amendment Consideration – lines 4-5:
  • Add the Senate Commerce Committee, if desired
A-4. Disqualification for Fraudulent/Misleading Statements

• Shortens the time an individual is to be disqualified from receiving benefits for fraudulent or misleading statements from five years to two years for a first occurrence

• Adds a lifetime disqualification for a second occurrence

*Amendment Consideration:

• Consider alternate DQ option based on likely U.S. DOL conformity concerns

• Proposed language provided on next slide
(g) If the individual, or another on such individual’s behalf with the knowledge of the individual, has knowingly made a false statement or representation, or has knowingly failed to disclose a material fact to obtain or increase benefits under this act or any other unemployment compensation law administered by the secretary of labor. The disqualification period shall begin on the first day following the last week of unemployment that the individual received benefits for, or on the date the most recent fraudulent act was committed, whichever is later, and continue for the amount of time specified based on the claimant’s number of known and documented number of fraud occurrences committed against the Kansas employment security law outlined below:

i. **first occurrence**: two year disqualification, and until claimant repays any resulting overpayment, penalty and interest, whichever is later; or

ii. **second and any future occurrence(s)**: five year disqualification, and until the claimant repays any resulting overpayment, penalty and interest, whichever is later

In addition to the penalties set forth in K.S.A. 44-719, and amendments thereto, an individual who has knowingly made a false statement or representation or who has knowingly failed to disclose a material fact to obtain or increase benefits under this act or any other unemployment compensation law administered by the secretary of labor shall be liable for a penalty in the amount equal to 25% of the amount of benefits unlawfully received. Notwithstanding any other provision of law, such penalty shall be deposited into the employment security trust fund.

*ADDITIONAL CLEAN UP LANGUAGE:

- **{Sec. 8} – Page 13, line 41 through page 22, line 42** - Include clean-up language in SB 163 page 1, line 25 through page 10, line 5
- **{Sec. 8} – Page 23, line 19 through page 28, line 13** - Include clean-up language in SB 163 page, 10 line 26 through page 15, line 13
A-5. Petroleum Landman Exclusion

- Revises the Employment Security Law by excluding from the definition of “employment” contractual services performed by a petroleum landman.
  - Such services would be defined to include mineral rights management and negotiations, development of minerals, research of public and private property records, and title work.
  - For purposes of the bill, “minerals” would include oil, natural gas, or petroleum.
  - Such services would not include services performed for 501(c)(3) organizations exempt from federal income taxation.
5. Unemployment Rate Thresholds for Maximum Benefits

- Raises minimum threshold for receiving a max. of 20 weeks of UI benefits from a 3-month seasonally adjusted average unemployment rate of 4.5% to 5.0% for weeks beginning 4/1/21
  - Federal Reserve Defines Full Employment at 5.0% - 5.2%
  - Kansas – Recent UI Rates:
    - Nov. 2020: 5.1%; Revised to 5.7%
    - Dec. 2020: 3.8%; Revised to 4.7%
    - Jan. 2021 3.5%

Current Statute:
- <4.5%: 16 weeks
- 4.5% to <6%: 20 weeks
- =>6%: 26 weeks

Sub. HB 2196:
- <5%: 16 weeks
- 5% to <6%: 20 weeks
- =>6.0%: 26 weeks
A-6. Return to Work MOU Provision w/ DCF

- Requires KDOL and the Department for Children and Families (DCF) to enter into a memorandum of understanding.

- Provide for the transfer of information between agencies providing that, upon notification that a UI claimant has become employed, the Secretary of Labor shall notify DCF to determine the UI claimant’s eligibility for state or federal benefits provided or facilitated by DCF.

- Requires Secretary of Labor to develop procedures enabling employers to notify KDOL when a UI claimant refuses to return to work or refuses an offer of employment
  - Upon receipt of notification, requires Secretary to determine if the offered employment is suitable, considering wages offered are comparable to claimant’s recent employment, work duties correspond to claimant’s education level and work experience, and wages offered are at least amount of claimant’s max weekly UI benefits

- Requires Secretary, within 10 days of receiving work refusal notification from an employer, to notify claimant who refused work information:
  - A summary of the claimant’s duties to accept suitable work;
  - A statement that the claimant has been or may be disqualified from receiving benefits;
  - An explanation of what constitutes suitable work; and
  - Instructions for contesting a denial of claim based upon a report by an employer that the claimant has refused an offer of suitable work

*Amendment Consideration – Page 54, line 20

- 10 *business* days

- Temporarily double the Employment Security Review Board
- Effective date of bill to June 30, 2024
- Currently composed of three members, will consist of six members
  - No more than four of the members belonging to the same political party rather than two as in current law
  - Board may sit in panels of three members with no more than two members belonging to the same political party, for the purpose of hearing and deciding cases before the Board
  - Provide that a member’s appointment specifically for the term of the effective date of the bill through June 30, 2024
    - will not count as a term for purposes of the prohibition currently preventing a Board member from serving more than two consecutive terms
6. **Provide Employer Relief for Fraudulent Charges**

- Provide economic relief to Kansas employers
- Includes fraud and/or improper payments
- Specific, limited & targeted timeframe
7. Employment Security Rate Table Changes

- Strikes the language that was applicable to old Arrayed System methodology used prior to 2015
- Provides updated fund control table for the purpose of making solvency or credit adjustments to maintain the Employment Security Fund balance beginning in rate year 2022
- Replaces the current uniform solvency rate adjustments to the standard rate schedule with six new solvency rate schedules and six new credit rate schedules providing for solvency and credit rating adjustments to be made according the experience rating of employers
  - Trust fund replenishment is more evenly spread out and avoids disproportionately penalizing employers who use the fund the least
  - Provides fair and proportional trust fund solvency/credit adjustments for each and every rated employer

- Clean up language as Employment Security Interest Assessment Fund is required by U.S. DOL

- Provides that if the contributions collected from negative account balance employers and paid into the Employment Security Interest Assessment Fund for the purpose of paying interest on unemployment advances provided by the federal government exceed the amount of interest owed, any excess amount shall be transferred to the Employment Security Trust Fund

- Prohibits any expenditures other than the payment of principal and interest on such advances from the federal government
A-10. Employer Account Protections & Payment Certification

- Requires employers to be held harmless and not owe any amount to the State for:
  - Any paid claim reported as fraudulent to Secretary of Labor, unless Sec. determines claim to be legitimate
  - Any claim that has been improperly paid, as would be defined by the bill

- Requires Secretary of Labor to make immediate restitution to employers, without requiring a hearing or a request from the employer, as follows:
  - Credit account of any contributing, governmental rated, or reimbursing employer for any paid benefits determined to be due to fraud or improper payment;
  - Refund “reimbursing employers,” who repay State for claims paid on their behalf, for any claim paid after 3/15/20, that is or is reported to be fraudulent by employer, unless determined to be otherwise by the Sec.
  - After reviewing all reimbursing employer accounts, apply credits for any unrecovered charges for fraudulent or erroneously paid claims

- For purposes of both restitution and indemnification:
  - Any determination with respect to the legitimacy of a claim would be subject to appeal; and
  - No time limit to dispute a fraudulent claim or related appeals for benefits paid between 3/15/20-12/31/22

- “Improper payments” defined as any payment that, according to legally applicable requirements, should not have been made or was in the incorrect amount.

- Requires the Secretary of Labor to review all information reported by the USDOL pursuant to the PII Act regarding improper payments between March 15, 2020, and December 31, 2022, and to:
  - Determine the amount of any improper payments within 60 days of such information becoming available;
  - Immediately certify such amounts to the Director of Accounts and Reports;
  - Upon certification, send copies of each certification to the Director of the Budget and the Director of Legislative Research
A-11. Payment Integrity Information Data Certification

• U.S. DOL – Payment Integrity Information Act Review
  • Specific focus on March 15, 2020 – December 31, 2022
    • Start of pandemic through new UI IT system implementation date
A-12. Federal UI Program Restrictions

- Specifies that any federal UI program established in response to a pandemic is not to be continued using state contributions after the federal program ends.
8. Shared Work Program Modifications

- Requires Secretary of Labor to create and manage a promotional campaign for the Shared Work Program
  - Includes educational communications with other state agencies and stakeholders, including Governor's office, legislators, workforce investment boards, labor unions, and local, regional, or state chambers of commerce
- Eligibility of employees to participate in the program would be expanded from those whose hours of work are reduced by 20 to 40 percent of normal weekly hours to those whose hours of work are reduced by 10 to 50 percent of normal weekly hours
- Permits negative account employers (N1-N11) to be approved for the Program if their most recent calculated reserve ratio has improved from the previous reporting year’s reserve ratio
- Clarifies eligibility for UI benefits pursuant to a Program agreement would not be conditioned upon work search or work availability limitations otherwise generally required of UI benefit recipients
A-13. PEO – Client Employee Reporting Prohibition Removal

• Similar provision/bill passed in one chamber during the 2020 session

• Amends a provision of the Employment Security Law pertaining to the quarterly reporting of tax and wage data

• Under current law, professional employer organizations, or independent businesses that provide leased employees to a client, are prohibited from including a client company’s owners and officers in the same UI quarterly report as that company’s employees

• Bill removes the prohibition
A-14. Effective Date of Bill

- Changes the effective date of the bill to be upon publication in the Kansas Register
**CONCEPT:**

- Address the thousands of Kansans facing repayment of mistakenly paid *FEDERAL* program UI benefits
- This provision would forgive debts to Kansans due to overpayments from federal coronavirus relief programs, but would not stop collections on debts to the state’s regular unemployment fund
- It would relieve a huge burden on Kansans based on the rushed decisions made and actions taken by KDOL with zero negative impact on the Kansas UI Trust Fund
- Federal law allows waivers for overpayments, claimants must submit a form expressing no fault and indicating if reimbursing for an overpayment would be a hardship
- No language has been developed... it’s worth noting that Missouri and other states have recently passed similar bills
Fiscal Impact Summary

• According to the fiscal note prepared by the Division of the Budget on the bill as introduced
  • KDOL estimates modernizing the UI IT system would cost $46.7 million from all funds
  • Require $688,660 and 9.0 FTE positions to staff the Council, perform fraud research, and serve the revised shared work program

• KDOL also notes it is unable to estimate the total amount of fraudulent and improper payments and is unable to estimate the amount of transfers to or from SGF

• Of the total fiscal effect of the bill, approximately $37M for UI IT modernization is included in the FY2022 Governor’s Budget Report
  • Other provisions of the bill are not reflected in the Governor’s budget
In Summary

• Sub. HB 2196 fixes a broken system with common sense and evidence-based UI reforms:
  • Builds a better UI system and tightens up processes to serve all Kansans and all Kansas employers
  • Helps small businesses get back on their feet; and
  • Gets to the heart of hiring employees back into the workforce
Questions?

Phil Hayes
316.619.7864
phayes@the-arnold-group.com
www.the-arnold-group.com

Thank You

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