



PUTTING STATE PENSION COSTS IN CONTEXT: KANSAS

2016 Normal Cost of Kansas Public Employee Pensions:	\$168,182,708
2015 Cost of Kansas Subsidies and Corporate Tax Breaks:	\$178,261,619
Pension Costs as a Percentage of Subsidy Costs:	94.3%

In May 2012, Kansas Governor Sam Brownback signed one of the largest state tax cut bills in U.S. history, dramatically reducing the taxes paid by businesses and wealthy individuals. By fiscal year 2014, state tax receipts fell \$700 million. The following year, the Governor slashed school funding, leading some school districts to end their school years early. Basic state aid per pupil fell more than \$1,000 between 2008 and 2014 (from \$4,888 to \$3,838.) As a result, while Kansas schools gained 19,000 students between 2009 and 2015, there were 665 fewer teachers to serve them.¹

In March 2017, the Kansas Supreme Court ruled that the state’s school funding was too low. By June, lawmakers overrode Governor Brownback’s veto of a bill that reversed most of the 2012 tax cuts.

A recently released report on school funding needs found that the state’s schools need an additional \$1.7 billion over five years to meet current educational standards, and \$2 billion to meet higher performance standards.²

In 2012, the Kansas Legislature passed and the Governor signed a pension bill that closed the Kansas Public Employee Retirement System (KPERs) to new hires and replaced it with a less-secure cash balance plan starting in 2015. In a cash balance retirement system, public employees bear the risk of market volatility. In addition, the Legislature deferred its 2012 required cash contribution to the pension fund; instead it issued a \$1 billion bond as an I.O.U to the fund, with a due date of 2018. That debt is now coming due as legislators continue to wrestle with a budget gap and new demands to meet court-mandated restoration of school funding.

One area not yet critically examined to meet the state’s school funding and public employee pension obligations is economic development subsidies granted by the state. We have identified at least \$178.3 million per year in such subsidies that if rolled back could be used instead to meet court-ordered school funding and pay off the state’s debt to KPERs.

The \$178.3 million figure is incomplete because the costs of three key subsidy programs remain secret.

The total of those corporate subsidies that are known amounts to more than \$178 million per year, as summarized in the following table.

Known Kansas State Economic Development Subsidy Costs in FY2015³

High Performance Incentive Program	\$67,018,744
Mineral Tax Exemption – Oil	\$28,652,822
Promoting Employment Across Kansas (PEAK)	\$28,500,000
Kansas Impact Program	\$24,124,752
Job Creation Program Fund	\$8,700,000
Mineral Tax Exemption - Gas	\$8,438,694
Sales Tax Limited Obligation Bonds (STAR Bonds)	\$7,792,982
Research & Development Tax Credit	\$4,067,269
Rural Opportunity Zone Credit	\$966,356
Business and Job Development Tax Credit	Secret
Plugged or Abandoned Oil or Gas Well Credit	Secret
Qualified Pipeline Credit	Secret
TOTAL	\$178,261,619

At least three subsidy programs in Kansas are opaque; their costs remain secret. The Business and Job Development Credit provides an annual tax credit of \$100 per job and \$100 per \$100,000 of capital investment for qualified businesses. The Plugged or Abandoned Oil or Gas Well Credit allows taxpayers to claim a credit for 50 percent of the cost of plugging abandoned wells. The Qualified Pipeline Credit enables pipeline owners to receive a tax credit equal to 10 percent of the first \$250 million in capital investment and 5 percent of amounts greater than \$250 million.

In January 2014, Good Jobs First published “Show Us the Subsidized Jobs” a 50-state “report card” study on state transparency in economic development (i.e., online disclosure of the names of subsidy recipients and the number of jobs created by each). Kansas tied for last place, with a score of 0 out of 100, because none of its major incentive programs even disclosed the names of corporate recipients and the amount of subsidies each received, much less the *outcomes* of the deals such as actual jobs created.⁴ Since then, Kansas has improved its transparency and now posts online some subsidy recipient data, including a list of companies that receive benefits from Promoting Employment Across Kansas (PEAK) program (the disclosure document provides the annual cost of the program though still does not provide any data on the amount of subsidies provided to each recipient).

As the Kansas Legislature considers how to close its budget gap and also to pay off the \$1 billion debt it owes to KPERs, it should immediately assemble and release subsidy data. There is hope

on the horizon. The Kansas House recently passed House Bill 2572 which would create a searchable database of state incentives and tax abatements. While the bill is pending in the Senate, the Governor should also release data for the three programs where costs are currently secret.

The Cost of Public Employee Pensions to State Taxpayers

While many pension numbers are circulated in public discussion, the central issue is how much of an obligation is being taken on each year to provide benefits for current government employees such as teachers, correctional officers, and first responders. The best way to measure this is to use an amount known as employer normal cost. Such costs can be found in the annual financial reports that each public pension plan has to produce. The most recent financial reports indicate annual employer normal costs for state employees of \$168.1 million for KPERS⁵:

In other words, the annual taxpayer cost of funding the retirement benefits of current Kansas public employees belonging to KPERS is 94 percent of the cost of currently disclosed state economic development subsidies and corporate tax breaks, suggesting that the state spends more on corporate subsidies than it does for the normal cost of all public employee pensions.

¹ *Quality at Risk: Impact of Education Cuts*; Kansas Center for Economic Growth; September 2, 2014; <https://realprosperityks.com/wp-content/uploads/2014/09/KCEG-school-funding-report3.pdf>

² “Kansas Schools Need Massive Funding Increase, Study Says,” by Jonathan Shorman and Hunter Woodall, The Wichita Eagle; March 6, 2018; <http://www.kansas.com/news/politics-government/article205545669.html>

³ Data for the Promoting Employment Across Kansas (PEAK) Program comes from Fiscal Year 2015 PEAK Annual Report; Antonio Soue, Secretary of Commerce; January 5, 2017; <http://kanview.ks.gov/EcoDev/Documents/FY15PEAKAnnualReport.pdf>; Data from the Job Creation Program Fund comes from Jobs Creation Annual Report; Kansas Works (Department of Commerce); January 31, 2016; <http://kanview.ks.gov/EcoDev/Documents/FY%202015%20Job%20Creation%20Fund%20Annual%20Report.pdf>; data for STAR Bonds comes from State of Kansas FY 2017 Comprehensive Annual Financial Report (CAFR); Department of Administration; <https://admin.ks.gov/docs/default-source/cfo/cafr/2017-cafr---final.pdf?sfvrsn=6>; All remaining subsidy data comes from Tax Expenditure Report: Calendar Year 2015; Kansas Department of Revenue; <https://www.ksrevenue.org/pdf/taxexpreport15.pdf>.

⁴ “Show Us the Subsidized Jobs” Profile of Kansas, Good Jobs First, January 2014 <http://www.goodjobsfirst.org/sites/default/files/docs/pdf/showusthesubsidizedjobsks.pdf>

⁵ Pension normal costs are derived using the normal cost rates for each of the pension system’s five components found on pages 90-95 of the 2017 Comprehensive Annual Financial Report of the Kansas Public Employees’ Retirement System (KPERS) (<https://www.kpers.org/annualreport2017.pdf>) by the covered payroll amount for each of the components provided in private disclosure by KPERS to the authors.