



PUTTING PENSION COST IN CONTEXT: KANSAS

This brief on Kansas is part of a series of state reports that compare pension obligation to subsidy spending for FY 2018.

The measure chosen for pension obligation is the employer normal cost, which is the portion of the total normal cost (i.e. present value of future benefits allocated to a particular fiscal year) that is attributable to employers. The employer normal cost is obtained from annual financial statements and actuarial valuation reports – either extracted directly or calculated by: 1) multiplying covered payroll by the employer normal rate; or 2) subtracting the employee share from the total normal cost; or 3) subtracting legacy costs (i.e. annual payment needed to amortize the unfunded actuarial accrued liabilities) from actuarially determined employer contribution.

The cost of economic development incentive programs was obtained from annual reports from economic development agencies, state tax expenditure reports, and GASB Statement No. 77 Tax Abatement Disclosures in annual financial reports. We also consider corporate tax dodging via offshore tax havens as reported by U.S. PIRG in 2016 (latest available data and likely a good approximation for 2018 data).

2018 Kansas Public Employee Pension Obligations	\$263,599,343
2018 Cost of Kansas Subsidies and Corporate Tax Breaks	\$442,996,329

Kansas's revenue base was gravely damaged by past tax cuts of massive proportion. Funding for schools and pensions, in particular, has been slow to recover. There has not been a cost-of-living adjustment in 22 years. Correctional officers, in particular, have received so little support in retirement that employee retention has become a major problem. Kansas Public Employee Retirement System (KPERs) covers state, local, and school employees as well as judges, police, and fire fighters. The employer normal cost valued for 2018 is \$263.6 million [1].

Fortunately, many of the Governor Brownback-era tax cuts have since been reversed, leading to two consecutive budget surpluses, including \$47 million in 2018. Nevertheless, there is still substantial revenue foregone to economic development incentive programs. The High Performance Incentive Program is the costliest at \$62.2 million. State revenue is further reduced by \$132.8 million due to various tax abatement agreements entered into by local municipalities,

mostly in the form of property tax abatements and industrial revenue bonds. In 2018, the localities that affected Kansas revenue were located in Brown, Johnson, McPherson, Montgomery, and Sedgwick counties. Because only a handful of school districts reported revenues lost to tax abatements (per GASB Statement 77), it is unclear how much such local abatements cost the state for offsetting payments.

Kansas also issued sales tax limited obligation (STAR) bonds to various local governments for the purpose of economic development and community revitalization, which cost the state \$25.6 million in sales tax revenue. In addition, according to the latest report by U.S. PIRG, Kansas’s corporate tax revenue loss to offshore tax havens amounts to \$173.3 million [6].

August 2019 marked a historic moment, when Kansas and neighboring Missouri entered into a legally-binding agreement to bilaterally “disarm,” in the Kansas City metro area, after wasting more than a third of a billion dollars in the past decade paying border-hopping companies to do little more than change their employees’ commuting routes.

Subsidy Program Costs

Economic Development Subsidies and Corporate Tax Breaks	Subsidy Amount
Local Ad Valorem Property Tax Abatements [2]	\$132,800,000
Sales Tax Limited Obligation Bond (STAR Bonds) [2]	\$25,560,000
Promoting Employment Across Kansas (PEAK) [3]	\$43,500,000
High Performance Incentive Program [4]	\$62,284,569
Research and Development Tax Credit [4]	\$999,696
Angel Investor Tax Credit [4]	\$3,625,717
Rural Opportunity Zone Credit [4]	\$1,730,471
Job Creation Program Fund[5]	\$930,000
Corporate tax dodging via offshore havens [6]	\$173,296,347
TOTAL	\$442,996,329

Source Documents

(Accessed December 18, 2019)

- [1] Kansas Public Employees Retirement System Valuation Report as of December 31, 2018
<https://www.kpers.org/valuationreport123116.PDF>
- [2] Kansas Department of Administration, Office of the Chief Financial Officer “Comprehensive Annual Financial Report Fiscal Year 2018”.
https://admin.ks.gov/docs/default-source/cfo/cafr/pdf-final-2018-cafr.pdf?sfvrsn=8eed8ec7_4
- [3] Kansas Department of Commerce, “Promoting Employment Across Kansas (PEAK) Act, Fiscal Year 2018.” <http://kanview.ks.gov/EcoDev/Documents/FY18PEAKAnnualReport.pdf>
- [4] Kansas Department of Revenue. 2018. “Tax Expenditure Report for Calendar Year 2018.”
<https://www.ksrevenue.org/pdf/taxexpreport18.pdf>
- [5] Kansas Department of Commerce, “Job Creation Program Annual Report Fiscal year 2018: (January 31, 2019).
<http://kanview.ks.gov/EcoDev/Documents/FY%202018%20Job%20Creation%20Fund%20Annual%20Report.pdf>
- [6] U.S. PIRG Education Fund. 2016. “Picking up the Tab 2016: Small Businesses Bear the Burden for Offshore Tax Havens.” <https://uspirg.org/sites/pirg/files/reports/USP%20PickTab%20Nov16%201.0.pdf>