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Testimony to the House Taxation Committee
on HB 2424
May 9, 2017

Mr. Chairman and Members of the Committee:

Thank you for holding a hearing on HB 2424, which allows for increased expenses associated with employee benefits to be excluded from the tax lid that applies to cities and counties.

As you may recall from testimony in the past on the tax lid, Kansas had a tax lid that expired in 1999. That particular lid contained several exceptions, allowing cities and counties to exempt certain expenditures from the tax lid. One of those exemptions pertained to employee benefits, and in fact, the language of HB 2424 is similar to the language found in the 1990s tax lid. While the 1990s language completely exempted employee benefits from the tax lid, HB 2424 exempts just the increased costs applicable to employee benefits, a narrower provision. Although KAC stands in opposition to *any* tax lid on local elected officials, we do support additional exemptions to make the tax lid more manageable.

Health Care Costs

Employee benefit costs are a fluctuating cost, making them difficult to predict and budget. As you have surely noticed during the national debate on health care, health care costs now are unpredictable and generally rising. A sampling of cities and counties provided the following information:

- The city of Augusta saw a 25% increase in health care costs in the last year.
- Johnson County saw health care costs increased by 15% from 2014 to 2015. Although 2016 costs are expected to increase by 8% over 2015, based on its volatility 2016 could experience another 15% increase.
- Kingman noted that its highest budgetary cost has been health insurance; in 2014 the county paid about $900,000 and in 2015 it went to about $1,400,000, an approximate 55% increase.
- City of Kinsley said its initial quote for health care insurance renewal is an increase of 26%.
- Wichita reported its health insurance costs for police and fire employees have increased by $3.9 million (or 33%) in the last five years.
- Riley County employee health insurance costs (which are part of the State of Kansas Health Plan) have increased 6% from 2015-2016 and 7% from 2016-2017.
- Franklin County spent an additional $80,000+ for health insurance in 2017.

Providing health insurance is a basic expectation with full-time employment, and also a key element in attracting and retaining qualified public staff. Yet, counties are constrained by the tax lid to cover these costs. The County Human Resources Association has indicated that recruiting and retaining employees is difficult when the health insurance costs paid by employees are increasing faster than their wages.

KPERS Contributions

HB 2424 would exclude increases in KPERS contributions from the tax lid. KPERS contributions from cities and counties are state-mandated costs, and local government is not excused from paying these costs, even if they increase. Yet, KPERS contributions are not exempted from the tax lid. The County Human Resources Association notes that KPERS and KP&F costs have increased (see chart below)

Budget Year	KPERS rate	KP&F rate
2012	7.34%	16.54%
2013	7.94%	17.26%
2014	8.84%	19.92%
2015	9.48%	21.36%
2016	9.18%	20.42%

Tax Lid Election

The opponents will argue that the tax lid law allows for an election for costs that exceed the lid. The argument for a public election is contradicted by a process outlined in the law that does not allow for an actual election. Proponents of the tax lid are likely to compare the tax lid election to local-option-budget elections for schools. However, one should note that schools get 20 mills in property taxes from the state, whereas cities and counties receive very little, if any, state support at this point in time. The comparison to an election on sales tax is not sound either, given that local governments currently can use property taxes to meet budgetary needs if the election on sales tax fails.

With regard to employee costs in particular, if these costs are put to an election and the citizens do not vote to support an increase, what is a city or county supposed to do? They are required by law to make the KPERS contributions. As to health care and other benefits, should the city or county lay off some workers in order to provide benefits to the remaining employees? As you can probably guess, a good health care plan is key to attracting good employees, especially when public salaries are lower than private market salaries.

KAC would appreciate the committee's favorable consideration of HB 2424. I am happy to stand for any questions from the committee.

Randall Allen, Executive Director