

Senate Standing Committee on Commerce

Wednesday, March 20, 2013

Testimony by Spirit AeroSystems on unemployment insurance reform

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Prepared remarks

Chairwoman Lynn, President Wagle, Ranking Member Holland, members of the Committee:

Thank you for allowing us to testify about unemployment insurance tax reforms. My name is Sam Sackett. I serve as Spirit AeroSystems' senior manager for global communications and government relations.

Spirit employs more than 11,000 people at its Wichita facility where we design, engineer and produce large and complex aerostructures for our customers – mostly within the commercial aviation sector. Our teams produce both traditional metallic airframe structures, such as the 737 fuselage, as well as advanced new composite structures. Spirit also has a facility that we opened last year in Chanute that produces smaller parts that are then integrated into the assembly processes in Wichita.

Spirit's annual payroll in 2012 was \$837M, and we paid Kansas suppliers \$550M for products and services to support the business. The direct economic impact our business has on the state is significant, and even more so when you consider the multiplier effect our 11,000 employees have when they spend money on homes, cars and trucks, food and other items. That money gets put right back into our local and state economy.

We want to thank the Committee for considering unemployment insurance reforms aimed at making our system stronger and better preparing us to weather challenging economic times. As Kansans, we pride ourselves in working hard and preparing for the future. When our state unemployment insurance balance falls into the red, and collectively we are forced to borrow from the federal unemployment insurance program, it makes us want to put in place a better way of planning for the next recession.

While we support the concept of unemployment insurance reform, there are provisions of the Substitute for HB 2105 as passed by the House that concern us greatly. Chief among those concerns is the dramatic increase in the taxable wage base, which would cause Spirit's per-employee unemployment insurance taxes to spike in 2015. The result would be a multi-million tax increase to our business.

Based on the most recent data provided to us by the Kansas Department of Labor, we estimate that under the increased taxable wage base as proposed in HB 2105, Spirit would be faced with a

45 percent unemployment insurance tax increase beginning in 2015. That works out to be \$2.3M in higher taxes for years 2015 and 2016.

This combined \$4.6M in higher unemployment insurance taxes over two years would add additional costs to our business making it more difficult to remain competitive in a global economy. It is our understanding that more than a third of positive-balance Kansas employers would be hit with an effective tax increase beginning in 2015 under a jump to a \$16,000 taxable wage base, while the remaining two thirds would be give a tax decrease beginning in 2015.

While we understand the complexity of this issue, we urge the Committee to consider the financial burden a tax increase would have on a third of Kansas' positive balance businesses – which works out to be more than 17,000 employers representing 38 percent of all Kansas employees – including ours. This additional cost of doing business in Kansas is the wrong message to send to businesses, large and small, that are doing the right things to help drive our economy forward.

It is important to note that Spirit is a positive balance employer. We have grown from a company at divestiture in 2005 with about 8,000 employees to a company of 16,000 employees worldwide – again with more than 11,000 of those employees based right here in Kansas. And we were able to accomplish much of this during one of the most challenging economic times in recent history.

As currently drafted, the bill would penalize, rather than enable, our business to be more successful. As members of this committee are keenly aware, businesses face all kinds of state, local and federal taxes. To be hit with a \$4.6M unemployment insurance tax increase during a two-year period is not something we can support.

We respectfully request that the Committee consider alternative solutions to the current taxable wage base increase as contained in HB 2015 that would not punish businesses such as ours that have, and continue to make, such a positive economic impact in Kansas.

Again, thank you for giving us the opportunity to testify today and for making time to hear from employers whose businesses would be adversely affected by this legislation. We appreciate your leadership in supporting policies that enable all businesses to be successful.