GOOD JOBS FIRST
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PUTTING STATE PENSION COSTS IN CONTEXT:

COLORADO

PUBLIC PENSION COSTS HAVE BEEN A subject of controversy in Colorado during the past few years. In 2010, the legislature reduced cost-of-living adjustments for participants in the Public Employees Retirement Association (PERA) plans, and some legislators later sought to make other changes to the formula for benefits and to create a 401(k)-type defined-contribution alternative to the traditional defined-benefit plan. State Treasurer Walker Stapleton has been making public statements suggesting that the state's plans are headed for disaster.

While many numbers are bandied about, 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 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. In the case of Colorado, the plans administered by the state are what make up PERA, whose main divisions cover state employees, judicial employees, school employees, and some local government employees. The most recent PERA financial reports indicate that total annual employer normal costs amount to $179.6 million.[1]

How should this amount be viewed? One approach is to compare it to the financial costs incurred by the state in supporting business through economic development subsidies and other special tax provisions. While not providing an assessment of the effectiveness of any particular subsidy or provision at achieving targeted policy objectives, such as creating family-wage jobs, this approach does provide an important perspective on public sector pensions.

The state's most expensive subsidy is the enterprise zone program. EZ tax credits cost about $103 million a year.[2] Colorado also provides other lucrative tax breaks for business.[3] The most expensive is the oil & gas ad valorem credit against the severance tax, which costs about $101 million per year. A policy exempting purchases of manufacturing equipment from the sales tax costs about $54 million annually.

Colorado is one of the states that allow corporations to apportion their taxable income by methods other than the traditional three-factor (payroll, property and sales) weighting. The state's tax expenditure report does not include an estimate of the revenue loss relating to the use of the single sales factor apportionment formula.

An archaic tax rule that allows retailers to keep a portion of the sales tax revenues they collect from customers costs about $24 million a year.[4]

Another major form of corporate tax avoidance that eats into state revenues is the use of offshore tax havens. In January 2013, the U.S. PIRG Education Fund published a report in which it calculated the impact on this practice on each state. For Colorado, the estimated annual cost is $310 million.[5]

The total of these corporate subsidies, official tax breaks and unofficial tax dodging amounts to more than $593 million year, as summarized in the table below.

In other words, the annual taxpayer cost of funding the retirement benefits of current Colorado public employees belonging to the main state administered public pension systems is only 30 percent of the cost to the state of economic development subsidies and corporate tax breaks and loopholes.

Enterprise Zone Program	$103,000,000
Oil and gas ad valorem credit	$101,764,000
Machinery or machine tools using in manufacturing	$54,245,000
single sales factor	unknown
vendors fee	$24,100,000
Revenue loss from corporate use of offshore tax havens	$310,000,000
TOTAL	**$593,109,000**

NOTES:

1 Colorado Public Employees' Retirement Association Comprehensive Annual Financial Report for the year ended December 31, 2012 at https://www.copera.org/pera/formspubs/reports.htm#peracafr (derived by multiplying the payroll figures for the five divisions on page 87 by the employer normal rates on page 138).

2 Figure is the average of unpublished data for FY2011 and FY2012 on combined obtained by Good Jobs First from the Colorado Office of Economic Development and International Trade.

3 The following figures come from the 2012 state tax expenditure report at http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251847897557&ssbinary=true

4 The figure, for FY2013, is cited in "Governor Signs Bill Temporarily Reducing Vendor Fees in Sales Tax Collection Expenses," *BNA Daily Tax Report*, May 11, 2011.

5 U.S. PIRG Education Fund, *The Hidden Cost of Offshore Tax Havens: State Budgets Under Pressure from Tax Loophole Abuse* (January 2013); http://uspirg.org/reports/usp/hidden-cost-offshore-tax-havens