PUTTING PENSION COST IN CONTEXT:

LOUISIANA

This brief on Louisiana is part of a series of state reports that compare pension obligations to subsidy spending for either FY 2018 or FY 2019, depending on data availability.

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. Where the necessary information is not provided, the employer normal cost is estimated by multiplying the total normal cost by the actuarially determined employer contribution (rate) as a percentage of total contribution (rate).

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. Where data for a particular program or tax expenditure is not available for the year of study, the most recent data (but no earlier than 2016) is used as an estimate.

2018 Louisiana Public Employee Pension Obligations	**$232,813,697**
2018 Cost of Louisiana Subsidies and Corporate Tax Breaks	**$314,105,320**

Louisiana's public sector employee pensions are administered through the Louisiana State Employees' Retirement System (LASERS) and the Teachers' Retirement System of Louisiana (TRSL). The employer normal costs for 2018 are $70 million and $163 million dollars, respectively [1-3]. Deep revenue cuts enacted during the Jindal administration combined with large subsidies have prompted lawmakers to consider less-secure models of pension provision, threatening the retirement security of public sector employees. Meanwhile, the state is losing hundreds of millions in revenue annually to tax breaks, incentives, and loopholes that benefit corporations.

In the world of economic development subsidies, Louisiana is best known for the more than 80 years in which state government has inflicted massive damage on local-government tax revenue through the notorious Industrial Tax Exemption Program (ITEP). In a unique arrangement reflecting the oil industry's political power, the state has controlled local property tax abatements through ITEP. Governor John Bel Edwards has moved to restore some local control of ITEP in response to community organizing by Together Louisiana, which prompted the reform. While ITEP is not a direct cost to the *state* treasury, it has long been a state-controlled expenditure, averaging $2.3 billion annually from 1998 through 2017. (And as of this writing, there are legislative proposals to reverse Governor Edwards' executive order and again strip local governments of control over their property tax rolls.)

Over the past decade, the state's Commerce and Industry Board (which long controlled and must still approve every ITEP deal) has awarded three deals worth billions to energy companies, along with 26 other individual agreements offering more than $50 million each. These 29 so-called "megadeals" (which typically include a mix of state and local tax abatements) will cost approximately $10 billion over multiple years, according to compilations by Good Jobs First.

Excluding the enormous annual cost of ITEP here (because it is a local-government cost), the table below shows state costs by subsidy program or category in 2018. Digital media, musical and theatrical production, and sound recording was awarded nearly $20 million in tax credits. Enterprise zones and tax increment financing districts (TIFs) cost an additional $50 million [4]. Combined with revenue lost to offshore accounts and the "vendor discount" (an archaic vestige of days before cash register software automatically computed how much sales tax had been collected), Louisiana's foregone revenue in 2018 came to almost $600 million – more than twice the amount needed for the year's public pension costs [4-6].

Thanks to organizing around the ITEP costs, Louisiana has a growing awareness of lost revenues and the resulting damage to public services. Reducing such corporate subsidies could bolster public pension funds considerably.

Subsidy Program Costs

Economic Development Subsidies and Corporate Tax Breaks	Subsidy Amount
Cooperative Endeavor Agreements for Tax Increment Financing Districts [4]	$11,473,401
Digital Interactive Media and Software Tax Credit [4]	$11,574,373
Enterprise Zone Program [4]	$37,258,758
Louisiana Capital Companies Tax Credit [4]	$62,429
Musical and Theatrical Production Income Tax Credit [4]	$6,377,078
New Markets Tax Credit [4]	$1,938,840
Procurement Processing Company Rebate [4]	$11,693,808
Retention and Modernization Tax Credit[4]	$4,031,575
Rehabilitation of Historic Structures [4]	$99,929,840
Sound Recording Investor Tax Credit [4]	$41,673
Tax Equalization Program [4]	$7,455,954
Brownfields Investor Tax Credit [5]	$51,412
Research and Development Tax Credit [5]	$4,889,498
Technology Commercialization Credit Program [5]	$70,399
Angel Investor Tax Credit Program [5]	$1,993,213
Vendor's Discount/Compensation [5]	$19,352,000
Corporate tax dodging via offshore havens [6]	$95,911,069
TOTAL	**$314,105,320**

Source Documents

(Accessed February 12, 2020)

[1] Louisiana State Employees' Retirement System. 2018. "2018 LASERS Comprehensive Annual Financial Report for Fiscal Years Ended June 30, 2018 and 2017." https://lasersonline.org/wp-content/uploads/2019/09/CAFR_Web_EachLinks.pdf.
[2] Louisiana State Employees' Retirement System. 2018. "LASERS June 30, 2018 Actuarial Valuation." https://lasersonline.org/wp-content/uploads/2019/02/LASERSValuation_2018_Revised.pdf.
[3] Teachers' Retirement System of Louisiana. 2018. "TRSL Comprehensive Annual Financial Report for Fiscal Years Ended June 30, 2018 & 2017." https://fluxconsole.com/files/item/202/38416/CAFR_2018_web.pdf.
[4] Louisiana Department of Administration. 2018. "Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2018." https://www.doa.la.gov/osrap/library/Publications/CAFR%20FY18%20FINAL.pdf.
[5] Louisiana Department of Revenue. 2019. "State of Louisiana Tax Exemption Budget 2018-2019." http://revenue.louisiana.gov/Publications/TEB(2018).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