



PUTTING STATE PENSION COSTS IN CONTEXT: FLORIDA

2015 Normal Cost of Florida Public Employee Pensions:	\$1,155,229,000
2015 Cost of Florida Subsidies and Corporate Tax Breaks:	\$3,323,057,512
Percentage of Pension Costs to Subsidy Costs:	34.8%

Although Florida’s state pension fund is among the healthiest in the nation, public pensions continue to be a contentious issue in Florida. This year, state lawmakers changed the default plan for new hires from a pension to a 401(k)-style plan. This means that any new hire who does not proactively elect the defined benefit pension will be automatically placed into a 401(k)-style plan.

The State Legislature and Governor Rick Scott (R) had a contentious fight over economic development subsidies. In the end, a late compromise cut the Visit Florida subsidy program by two-thirds, to \$25 million a year, while establishing the \$85 million Florida Job Creation Grant Fund, with heightened accountability measures over the program it replaced.

If the state were to scale back taxpayer handouts to corporations, it could provide an important pool of new revenue to shore up pension funds, improve schools or invest in infrastructure. While many numbers are circulated in public discussion about public pensions, 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 Florida, that means the Florida Retirement System. Its most recent report indicates total employer normal costs of about \$1.15 billion last year.¹

How should this amount be viewed? One approach is to compare it to the financial costs incurred by the state via economic development subsidies and other special tax provisions. While not providing an assessment of the effectiveness of any particular subsidy or provision, this approach does provide an important perspective on public sector pensions.

Florida has been willing to spend large amounts to promote private-sector development. In the 2000s, the state approved a series of huge giveaways for biotech research, including \$545 million to the Scripps Research Institute and \$233 million to the Burnham Institute for Medical Research.² Last year, the state attempted to invoke claw back provision and seek the return of some of the Burnham Institute subsidy, after promised jobs were not created, and the company talked of ending its presence in the state altogether.³

In addition to these special deals, Florida has programs that give away tens of millions of dollars each year to numerous companies in the name of job creation. The most expensive of these subsidies is the Quick Action Closing Fund, which costs about \$47 million. The Economic Development Transportation Fund cost nearly \$20 million in FY2015; the Enterprise Zone program, \$14 million; and the Qualified Target Industry Tax Refund, \$6 million.⁴

Florida provides other lucrative tax breaks for business. Preferences relating to the premium tax paid by insurance companies cost \$913 million. An archaic tax rule that allows vendors to keep a portion of the sales tax revenues they collect from customers on tobacco, alcohol, telecom and fuel sales costs about \$33 million a year.⁵ Florida taxpayers also provide more than \$20 million in annual subsidies for the Florida Marlins, the Tampa Bay Rays, several baseball teams with Florida-based spring training facilities as well as the Professional Golf Hall of Fame.⁶

Another way Florida loses corporate income tax revenue is through its failure to adopt a reform known as combined reporting, which if enacted would make it more difficult for large companies to export a substantial portion of their Florida profits to passive investment companies in Delaware or Nevada, thereby shielding that income from taxation altogether. Florida's tax expenditure report estimates that the adoption of combined reporting would increase annual revenue by about \$478 million.⁷

Another major form of corporate tax avoidance that eats into state revenues is the use of offshore tax havens. In November 2016, the U.S. PIRG Education Fund published a report in which it calculated the impact of this practice on each state. For Florida the estimated cost was \$846 million.⁸

The total of these corporate subsidies, official tax breaks and unofficial tax dodging amounts to more than \$3.3 billion per year, as summarized in the following table.

Qualified Target Industry Tax Refund	\$5,720,100
Quick Action Closing Fund	\$46,837,000
Economic Development Transportation Fund	\$19,643,142
Enterprise Zone Program	\$14,299,901
New Markets Tax Credit	\$13,600,000
Exemption for S Corp, LLP and MLP income	\$901,700,000
Research and Development Tax Credit	\$9,000,000
Capital Investment Tax Credit	\$21,505,655
Insurance Premium Tax Preferences	\$913,000,000
Dealer Collection Allowance (vendor discount)	\$33,200,000
Failure to adopt combined reporting	\$478,000,000
Annual subsidy for certain professional sports teams	\$20,500,000
Revenue loss from corporate use of offshore tax havens	\$846,051,714
TOTAL	\$3,323,057,512

In other words, the annual taxpayer cost of funding the retirement benefits of current Florida public employees belonging to the main state administered public pension systems is about 35 percent of the cost to the state of economic development subsidies and corporate tax breaks and loopholes.

NOTES

¹ Derived by multiplying the payroll figure on page 61 of the Annual Report of the Florida Retirement System (July 1, 2014-June 30, 2015) at The figures in this paragraph come from: https://www.rol.frs.state.fl.us/forms/2014-15_CAFR.pdf by the employer normal cost rate at https://www.rol.frs.state.fl.us/forms/2014-15_contributions.pdf

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Good Jobs First Subsidy Tracker page for Scripps Research Institute: <http://www.goodjobsfirst.org/subsidy-tracker/fl-scripps-research-institute>. Good Jobs First Subsidy Tracker page for Burnham: <http://www.goodjobsfirst.org/subsidy-tracker/fl-burnham-institute-medical-research-0>

³ "Florida Demands \$77 Million from Sanford Burnham Prebys as Deal Sours," (San Diego Union-Tribune, 11/9/2016) <http://www.sandiegouniontribune.com/news/science/sd-me-florida-burnham-20161108-story.html>

⁴ The figures in this paragraph come from Enterprise Florida's 2015 Economic Incentives Report http://floridajobs.org/docs/default-source/reports-and-legislation/2015_annual_incentivesreport_123015.pdf

⁵ 2015 Florida Tax Handbook <http://edr.state.fl.us/Content/revenues/reports/tax-handbook/taxhandbook2015.pdf>

⁶ 2015 Florida Tax Handbook <http://edr.state.fl.us/Content/revenues/reports/tax-handbook/taxhandbook2015.pdf>

⁷ 2015 Florida Tax Handbook <http://edr.state.fl.us/Content/revenues/reports/tax-handbook/taxhandbook2015.pdf>

⁸ U.S. PIRG Education Fund, *Picking Up the Tab: Small Businesses Bear the Burden for Offshore Tax Havens*: (November 2016); <http://www.uspirg.org/sites/pirg/files/reports/USP%20PickTab%20Nov16%201.0.pdf>

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