



PUTTING PENSION COST IN CONTEXT: TEXAS

This brief on Texas 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.

2019 Texas Public Employee Pension Obligations	\$2,171,094,511
2019 Cost of Texas Subsidies and Corporate Tax Breaks	\$4,477,912,030

The pensions for Texas' teachers and state employees are administered through the Teacher Retirement System (TRS) and the State Employees Retirement System (ERS, which also covers law enforcement and custodial officers and members of the judiciary). Currently, both are stressed: Cost-of-living adjustments for TRS beneficiaries have been so few and far between that they have not kept up with inflation; ERS is underfunded because the state legislature has not been willing to offset poor asset-investment returns. In 2019, the two funds' total employer normal cost is almost \$2.2 billion [1, 2].

Despite the pension-fund issues, the state is spending an even more astronomical amount of revenue via tax breaks and deal-closing funds benefiting corporate interests. In 2019, \$700 million was exempted or foregone for agricultural machinery and equipment and other products, \$73 million for the timber industry, and over \$800 million for manufacturing [3]. A sales tax exemption and a franchise tax credit for Research and Development cost the state \$368 million [3]. Businesses located in Enterprise Zones were refunded \$59 million in sales and hotel occupancy taxes [3]. TV, media,

broadcasting, and telecommunications were awarded \$146 million in tax exemptions as well as cash grants [5]. Data centers were allowed to make tax-free purchases that cost state coffers \$71 million [3].

The state also offers a number of funds for purposes like business relocation. Program costs are generally not disclosed, except for the Texas Enterprise Fund through which \$59 million was disbursed in 2019 to “close out” deals with companies such as Apple, Infosys, and Louis Vuitton [4, 6]. About \$36 million worth of awards for 2020 has already been approved for Uber and four other large corporations [4]. Additionally, local governments in Texas have the authority under Chapter 313 (the Texas Economic Development Act) and Tax Increment Financing Act to abate school district property taxes. These local property tax abatements, in turn, have a tremendous fiscal impact on the state government because the state reimburses school districts for the resulting losses [5,7].

With subsidies equal to six times its pension obligation, it is time for the Texas government to reassess both the revenue impact of its gigantic incentive programs and its skewed spending priorities. Public employees deserve to receive pensions that can meet their basic needs in retirement, but that is less likely to happen if the state continues to forgo the revenue necessary to sustain the pension funds.

Subsidy Program Costs

Economic Development Subsidies and Corporate Tax Breaks	Subsidy Amount
Agricultural and Timber Tax Abatement Programs [3]	\$698,900,000
Timber Tax Abatement Programs [3]	\$72,871,000
Research and Development Tax Credit Program [3]	\$368,192,000
Texas Enterprise Zone Tax Refund Programs [3]	\$59,301,000
Texas Data Center Tax Exemption Program [3]	\$70,926,000
Rehabilitation of Certified Historic Structures Tax Credit [3]	\$72,193,000
Texas Enterprise Fund [4]	\$59,029,030
Manufacturing Sales Tax Exemptions [5]	\$832,500,000
Sales Tax Exemptions for Media, TV, and Telecommunications [5]	\$145,800,000
Oil Production Tax Exemptions [5]	\$53,600,000
Franchise Tax Deductions and Special Accounting Methods [5]	\$1,205,300,000
Cost to reimburse school district property tax exemptions [5]	\$839,300,000
Skills Development Fund/Self-Sufficiency Fund/Infrastructure Fund [6]	unknown
TOTAL	\$4,477,912,030

This document was updated April 28, 2020 to remove sales tax exemption on materials used in manufacturing from subsidy program cost.

This document was updated April 29, 2020 to add the impact of school district property tax exemptions on state finance to subsidy program cost.

Source Documents

(Accessed March 11, 2020)

- [1] Teacher Retirement System of Texas. 2019. “Actuarial Valuation Report as of August 31, 2019.” https://www.trs.texas.gov/TRS%20Documents/actuarial_valuation_pension_fund_2019.pdf.
- [2] Employees Retirement System of Texas. 2019. “Actuarial Valuation Reports: Funding for Pension Plans Administered by ERS as of August 31, 2019.” <https://ers.texas.gov/About-ERS/Reports-and-Studies/ERS-Actuarial-Valuation-Reports/2019-ERS-Pension-Valuation-Reports-December-2019.pdf>.
- [3] Texas Comptroller of Public Accounts. 2019. “State of Texas Comprehensive Annual Financial Report for the Fiscal Year Ended August 31, 2019.” <https://comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/2019/96-471.pdf>.
- [4] Office of the Governor. 2019. “Texas Enterprise Fund (TEF) as of December 31, 2019.” https://gov.texas.gov/uploads/files/business/TEF_Listing_as_of_12.31.19.pdf.
” https://gov.texas.gov/uploads/files/film/th_TMIIP_paidprojects_09132019.pdf.
- [5] Texas Comptroller of Public Accounts. 2018. “Tax Exemptions and Tax Incidence.” <https://comptroller.texas.gov/transparency/reports/tax-exemptions-and-incidence/2018/96-463.pdf>.
- [6] Texas Economic Development. 2019. “Texas Business Incentives and Programs Overview.” <https://gov.texas.gov/uploads/files/business/IncentivesOverview.pdf>.
- [7] Texas Comptroller of Public Accounts. 2019. “Report of the Texas Economic Development Act 2019.” <https://comptroller.texas.gov/economy/docs/96-1359-2018.pdf> .