



## **PUTTING PENSION COST IN CONTEXT: OKLAHOMA**

This brief on Oklahoma is part of a series of state reports that compare pension obligation to subsidy spending for FY 2018.

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.

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 in 2016 (latest available data and likely a good approximation for 2018 data).

<b>2018 Oklahoma Public Employee Pension Obligations</b>	<b>\$ 293,461,555</b>
<b>2018 Cost of Oklahoma Subsidies and Corporate Tax Breaks</b>	<b>\$ 704,599,890</b>

Oklahoma’s public pensions are administered through the Oklahoma Public Employees Retirement System (OPERS, which covers state and local government employees, hazardous duty personnel, and elected officials), the Uniform Retirement System for Justices and Judges (URSJJ), the Oklahoma Teacher’s Retirement System (OTRS), and the Oklahoma Police Pension and Retirement System (OPPRS). The state’s total pension obligation valued for 2018 is \$293.5 million [1-4].

Recent strikes by Oklahoma teachers once again brought to the forefront the issue of public budgets being negatively affected by tax cuts and subsidies for corporations. Oklahoma’s 2018 corporate subsidies and loopholes totaled over \$700 million – a small portion of that would have covered the employer normal cost for the year. Recovering subsidy costs can also free up resources to deliver the long-overdue cost-of-living adjustment for retirees.

For the purpose of general economic development, the Oklahoma Department of Commerce provides a host of tax credits, tax exemptions, and direct cash rebates to businesses. In 2018, the ones that involve formal agreements totaled \$117.1 million, as reported under GASB Statement No.77. A large portion of Oklahoma’s tax expenditure (\$60.1 million) is attributable to three Quality Jobs programs aimed at incentivizing firms to relocate or expand in-state, one of which is targeted at small businesses. Tax exemptions for New Product Development and Small Business Incubators programs are not reported separately because they are “commingled with other tax exemptions on the forms provided to the [Oklahoma Tax Commission]” (p. 147). The \$46.7 million abatement in cigarette tax is the result of tax sharing between the state and twenty-nine Native tribes [5].

Title 62 of the Oklahoma Statutes Section 193 requires the state to maintain an Ad Valorem Reimbursement Fund for reimbursing local governments for their tax abatement programs. Due to uneven disclosure among local governments, it is impossible to estimate how much this obligation costs the state. The state’s aggregate cost of reimbursement is not provided in the state’s 2018 comprehensive annual financial report.

Two major as-of-right incentives are a \$408 million exemption of the gross production and petroleum excise tax for drilling new wells and a \$26 million corporate income tax credit for job creation and capital investment [6]. The governor also has the discretionary Quick Action Closing Fund (a so-called “deal closing fund” for companies considering other states); ; \$9 million was spent in 2018 for this purpose [7]. In addition, according to the latest report by U.S. PIRG, Oklahoma lost \$149,912,390 in corporate tax revenue to offshore tax havens [8].

## Subsidy Program Costs

<b>Economic Development Subsidies and Corporate Tax Breaks</b>	<b>Subsidy Amount</b>
Oklahoma Quality Jobs Programs [5]	\$60,085,000
New Products Development Income Tax Exemption [5]	Not reported
Quality Events Incentive [5]	\$417,000
Small Business Incubators Program [5]	Not reported
Historic Rehabilitation Tax Credits Program [5]	\$7,502,000
Cigarette Tax Tribal Compacts [5]	\$46,654,000
Investment/New Jobs Income Tax Credit [6]	\$25,614,000
New Well Incentive for Oil and Petroleum Production [6]	\$408,023,000
Quick Action Closing Fund [7]	\$9,392,500
Corporate tax dodging in offshore havens [8]	\$146,912,390
<b>TOTAL</b>	<b>\$704,599,890</b>

## Source Documents

(Accessed December 18, 2019)

- [1] Teachers' Retirement System of Oklahoma. 2018. "Actuarial Valuation Report as of June 30, 2018". [https://www.ok.gov/TRS/documents/2018\\_TRS\\_Actuarial\\_Valuation\\_Report.pdf](https://www.ok.gov/TRS/documents/2018_TRS_Actuarial_Valuation_Report.pdf)
- [2] Oklahoma Police Pension and Retirement System. 2018. "Actuarial Valuation Report as of July 1, 2018." <https://www.ok.gov/OPPRS/documents/Actuarial%20Valuaton%202018.pdf>
- [3] Oklahoma Public Employees Retirement System. 2018. "Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2018 and June 30, 2017." <http://www.opers.ok.gov/Websites/opers/images/pdfs/CAFR-2018-OPERS.pdf>
- [4] Uniform Retirement System for Justices and Judges. "Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2018 and June 30, 2017." <http://www.opers.ok.gov/Websites/opers/images/pdfs/CAFR-2018-URSJJ.pdf>
- [5] Oklahoma Office of Management and Enterprise Services. 2018. "The State of Oklahoma Comprehensive Annual Financial Report 2018." <https://omes.ok.gov/sites/g/files/gmc316/f/publications/cafr2018.pdf>
- [6] Oklahoma Tax Commission. 2018. "State of Oklahoma Tax Expenditure Report 2017-2018". <https://www.ok.gov/tax/documents/Tax%20Expenditure%20Report%202017-2018.pdf>
- [7] State of Oklahoma Incentive Evaluation Commission. 2018. "Quick Action Closing Fund Evaluation." [https://iec.ok.gov/sites/g/files/gmc216/f/Quick%20Action%20Closing%20Fund\\_11.20.18\\_FINAL.PDF](https://iec.ok.gov/sites/g/files/gmc216/f/Quick%20Action%20Closing%20Fund_11.20.18_FINAL.PDF)
- [8] 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>