



PUTTING PENSION COST IN CONTEXT: ARIZONA

This brief on Arizona 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).

2018 Arizona Public Employee Pension Obligations	\$283,827,000
2018 Cost of Arizona Subsidies and Corporate Tax Breaks	\$603,253,985

The Arizona State Retirement System (ASRS) provides funds for retirement, health benefit supplement, and long-term disability. The employer normal cost for 2018 is \$283.8 million [1].

Pension costs have risen since a similar analysis was undertaken about two years ago, as has subsidy spending in the form of grants and tax breaks for corporations. Diverting public revenue to the private sector can worsen pension burdens. Even though Arizona has allowed its enterprise zone and film tax credit programs to expire, the state has nevertheless been losing revenue through other incentive programs and tax cuts. In addition, according to a report by the Arizona Center for Economic Progress, allowing corporations to elect their income tax apportionment formula costs the state another \$132 million every year [5]. Moreover, according to the latest report by U.S. PIRG, Arizona lost \$261.3 million in corporate income tax revenue to offshore tax havens [7].

Under GASB Statement No. 77 on tax abatement disclosures, the state of Arizona reported losing \$22.7 million in tax revenue to the Rio Nuevo Tax Increment Financing (TIF) District. the TIF's beneficiaries include AC Marriott Hotel, Arizona Hotel, Chicago Store, 123 South Stone, 98-112 E. Congress, and 44 E. Broadway [6]. In some instances, states reimburse localities for revenue lost to local programs, especially school districts that are strapped for funding. A review of local GASB 77 disclosures suggests that this does not seem to be the case for Arizona, though the disclosure rate among local governments in Arizona is relatively low: For instance, none of the 133 sampled school districts complied with GASB Statement No.77 even though all are required by law to do so. This suggests that there may be additional hidden costs associated with economic development programs.

The ASRS system reported a 71.2% funded ratio for FY 2019. Opponents are misrepresenting the system's unfunded liability to create a crisis and move employees to less-secure 401k-style plans. Solutions should be sought by reducing costly corporate subsidies rather than moving more public employees out of ASRS to defined contribution plans.

Subsidy Program Costs

Economic Development Subsidies and Corporate Tax Breaks	Subsidy Amount
Arizona Competes Fund [2]	\$4,702,060
Arizona Job Training Grants Program [2]	\$2,251,487
Angel Investment Tax Credits [2]	\$2,500,000
Commercial/Industrial Solar Energy Incentive Program [2]	\$407,827
Healthy Forest Enterprise Incentive Program [2]	\$620,093
Military Reuse Zone Incentive Program [2]	\$2,189,203
Qualified Facility Incentive Program [2]	\$740,000
Quality Jobs Incentive Program [2]	\$22,671,000
Research and Development Tax Credit [4]	\$83,672,841
Rural Economic Development Grants [2]	\$1,789,195
Coal Consumption Corporate Income Tax Credit [4]	\$1,415,200
Sales Tax Exemption for Machinery and Equipment [3]	\$51,700,000
Rio Nuevo Tax Increment Financing District [8]	\$22,771,000
Single Sales Factor Apportionment [5]	\$132,000,000
Accounting credit (vendor discount)[3]	\$13,583,668
Corporate tax dodging via offshore havens [7]	\$261,268,331
TOTAL	\$603,253,985

Source Documents

(Accessed December 16, 2019)

- [1] Arizona State Retirement System. 2018. “Comprehensive Annual Financial Report For Fiscal Year Ended June 30, 2018.” https://www.azasrs.gov/sites/default/files/pdf/CAFR_FY_2018.pdf
- [2] Arizona Commerce Authority. 2018. “Annual Report Fiscal Year 2018.”
<https://www.azcommerce.com/media/1543503/acafy2018annualreport.pdf>
- [3] Office of Economic Research & Analysis, Arizona Department of Revenue. 2018. “The Revenue Impact of Arizona’s Tax Expenditures Fiscal Year 2018.”
https://azdor.gov/sites/default/files/REPORTS_EXPENDITURES_2018_fy18-preliminary-tax-expenditure-report.pdf
- [4] Joint Legislative Budget Committee Staff Memorandum. 2018. “Income Tax Credit Review Reports & Presentations.” <https://www.azleg.gov/jlbc/jlitcrcpt121218.pdf>
- [5] Arizona Center for Economic Progress. 2017. “Q&A Arizona’s State Budget and Taxes.”
<http://azchildren.org/wp-content/uploads/2016/12/QA-Budget-and-Taxes-002.pdf>
- [6] Arizona Department of Administration General Accounting Office. 2018. “State of Arizona Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018.”
<https://gao.az.gov/sites/default/files/Final%20State%20of%20AZ%20-%20CAFR%20-%20FY18%20-%203-8-19%20no%20sig.pdf>
- [7] 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>