PUTTING STATE PENSION COSTS IN CONTEXT:
COLORADO

2015 Normal Cost of Colorado Public Employee Pensions:	**$299,867,196**
2015 Cost of Colorado Subsidies and Corporate Tax Breaks:	**$615,235,336**
Percentage of Pension Costs to Subsidy Costs:	**48.7%**

Public pension costs continue to be a subject of debate in Colorado. In 2010, legislation raised employee pension contributions; retiree cost-of-living adjustments were reduced to 2 percent annually; and the state increased annual contributions to employee pensions. While these changes put PERA on a course to solvency, State Treasurer Walker Stapleton and PERA Executive Director Greg Smith say additional reforms are still necessary.[1]

While many numbers are circulated in public discussion, 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 Colorado, the plans administered by the state are what make up PERA, whose main divisions cover state employees, judicial employees, school employees, and some local government employees. The most recent PERA financial reports indicate that total annual employer normal costs amount to $299.9 million.[2]

How should this amount be viewed? One approach is to compare it to the financial costs incurred by the state in supporting business through 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.

Colorado's enterprise zone program, EZ tax credits, cost about $72 million in 2016.[3] Colorado also provides other lucrative tax breaks for business.[4] The most expensive is the oil & gas ad valorem credit against the severance tax, which cost about $135 million in 2015. A policy exempting purchases of manufacturing equipment from the sales tax costs about $66 million annually.

Colorado is one of the states that allows corporations to apportion their taxable income by methods other than the traditional three-factor (payroll, property and sales) weighting. The state's tax expenditure report does not include an estimate of the revenue loss relating to the use of the single sales factor apportionment formula.

Colorado's Strategic Fund and Job Growth Initiative approved $195.7 in new tax credits for 41 projects in FY2015, but no annual costs of credits claimed are disclosed (in an unusual interpretation of taxpayer privacy).

An archaic tax rule that allows retailers to keep a portion of the sales tax revenues they collect from customers costs about $88 million in FY 2015.[5]

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 Colorado, the estimated annual cost is $255 million.[6]

The total of these corporate subsidies, official tax breaks and unofficial tax dodging amounts to more than $615 million year, as summarized in the following table.

Enterprise Zone Program	$72,351,137
Oil and gas ad valorem credit	$134,915,000
Machinery or machine tools using in manufacturing	$65,505,000
Strategic Fund and Job Growth Initiative	unknown
Single sales factor	unknown
Vendors fee (sales tax, cigarette tax, tobacco tax)	$87,900,000
Revenue loss from corporate use of offshore tax havens	$254,564,199
TOTAL	$615,235,336

In other words, the annual taxpayer cost of funding the retirement benefits of current Colorado public employees belonging to the main state administered public pension systems is only 48.7 percent of the cost to the state of economic development subsidies and corporate tax breaks and loopholes.

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[1] "PERA at risk of insolvency if another recession comes, director says" (Denver Post, 1/20/17) http://www.denverpost.com/2017/01/20/pera-colorado-growing-pension-concerns/

[2] Colorado Public Employees' Retirement Association Comprehensive Annual Financial Report for the year ended December 31, 2015 https://www.copera.org/sites/default/files/documents/5-20-15.pdf (derived by multiplying the covered payroll figures for the five divisions on page 99 by the employer normal rates on page 159).

[3] Enterprise Zone Annual Report, State Fiscal Year 2016 http://choosecolorado.com/wp-content/uploads/2012/07/EZ-Annual-Report-2016.pdf

[4] The following figures come from the Colorado Tax Profile and Expenditure Report 2016 (Colorado Dept. of Revenue) at https://www.colorado.gov/pacific/sites/default/files/2016%20Tax%20Profile%20and%20Expenditure%20Report.pdf

[5] Revenue Impact of HB 1087 (Increases in Vendor Discounts) https://leg.colorado.gov/sites/default/files/documents/2016a/bills/fn/HB1087_r1.pdf

[6] 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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