



PUTTING STATE PENSION COSTS IN CONTEXT: ALABAMA

2015 Normal Cost of Alabama Public Employee Pensions:	\$1,016,474,000
2015 Cost of Alabama Subsidies and Corporate Tax Breaks:	\$633,979,616
Percentage of Pension Costs to Subsidy Costs:	157.7%

Fifteen years ago, Alabama’s pension funds were fully funded. Like many systems, the plans took a hit during the Great Recession, but are slowly moving back to full funding in an improved economy. In 2016, some Alabama lawmakers pushed for closing the defined benefit pension plan and switching new workers to a cash balance plan that would eliminate guaranteed monthly payments upon retirement.¹ That proposal would be detrimental to workers and would do nothing to address any unfunded liability in the system. Wisely, lawmakers abandoned that proposal in 2017 and are sticking with pensions.

While many pension 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 public 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 Alabama, the main plans administered by the state are the Alabama Teachers Retirement System (TRS), the Alabama Employee’s Retirement System (ERS), and the Alabama Judicial Retirement System (JRS). The most recent financial reports indicate annual employer normal costs of \$660.4 million for TRS, \$346.4 million for ERS, and \$9.6 million for JRS.² The total normal cost for the three plans was about \$1 billion in 2015.

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 at achieving targeted policy objectives, such as creating well-paying jobs, this approach does provide an important perspective on public sector pensions.

While Alabamians face significant shortfalls in funding of state pensions, the state also gives hundreds of millions of dollars a year in subsidies and tax breaks to corporations. In January 2017, Alabama published its first-ever tax expenditure report, joining forty-seven other states that regularly issue such reports (although they are not standardized or comparable).

While the new Alabama report obfuscates a number of subsidy programs by lumping them into large catch-all categories, the report nonetheless shines a light for the first time on hundreds of millions of subsidy dollars that flow annually to corporations.

One of the most lucrative state subsidies is the Income Tax Capital Credit, which cost the state more than \$55 million in 2014 (the tax year covered by the January 2017 tax expenditure report). Other large economic development tax subsidies include property tax abatements from the Tax Incentive Reform Act; Brownfield Development Tax Abatement; Alabama Economic Incentive Enhancement Act of 2007; Tax Increment Districts; Rehabilitation of Historic Structures; and Alabama Reinvestment and Abatement Act programs which reduced corporate tax bills by \$19 million; Job Development Fee tax credits which reduced state revenues by nearly \$5 million; sales tax abatements for industrial properties and brownfield redevelopment which cost more than \$51 million; and nearly \$100 million lost to discounted sales tax rates on equipment used in manufacturing and mining.

Alabama's tax code is particularly generous to several specific industries. The insurance industry is the biggest beneficiary, saving nearly \$65 million from a series of tax breaks that reward insurance companies for having facilities in the state and from two programs named the Certified Capital Company Program and the Alabama New Markets Tax Credit (unrelated to the federal New Markets Tax Credit). The entertainment industry received \$9.5 million in tax rebates, while energy companies got discounted tax rates on some of their properties that cut their tax bills by \$1.5 million. The Coal Production tax credit saved coal producers \$1.2 million on their tax bills.

Like many states, Alabama allows many deductions and credits claimed on corporate federal income tax returns to also lower state income taxes owed. Generous depreciation rules (accelerated depreciation and bonus depreciation) allowed on federal tax returns reduced Alabama revenues by \$20 million, while the federal Domestic Production Credit trimmed state tax collections by \$6 million more.

An archaic tax rule that allows retailers to keep a portion of the sales, fuel, lodging and cigarette tax revenues they collect from customers (the "vendor discount") cost about \$38 million in 2014.³

In addition to the state’s tax expenditure report, other Department of Revenue reports shine a light on some additional subsidy costs. Alabama spent \$41.9 million in 2015 on workforce development programs including the Alabama Industrial Training Program.⁴ The state’s Income Tax Capital Credit cost \$50.8 million in 2014.⁵ And the Port Credit and Growing Alabama Credits cost \$5 million each.⁶

In addition to these programs, Alabama also operates at least five other programs and corporate tax breaks that reduce state revenue: Enterprise Zone Credits; Jobs Act Incentives and Tax Abatements; Heroes for Hire Act; Air Carrier Hub Operations Business Privilege Tax Deduction; and Made in Alabama Job Incentives Act. The state does not disclose the amount of revenue lost to any of these programs.

Alabama is one of the states that allow corporations to apportion their taxable income by methods other than the traditional three-factor (payroll, property and sales) weighting. Its corporate tax system requires multi-state businesses to double-weight sales, providing a tax break for firms with substantial payroll and property in the state and substantial sales out of the state. Alabama does not provide an estimate of the revenue impact of double sales factor apportionment.

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. Public Interest Research Group (PIRG) Education Fund published a report in which it calculated the impact on this practice on each state. For Alabama, the estimated cost is \$202 million.⁷

Finally, Alabama has been a national leader in megadeal subsidies, tracked in Good Jobs First’s Subsidy Tracker, with nearly 5,000 deals worth more than \$3.4 billion since 1993. Over the last decade, Alabama has (in deals that create costs spanning multiple years) granted \$1.07 billion in subsidies to ArcelorMittal, \$430 million to Bayer, \$202 million to Golden Dragon, and \$158 million to Airbus.⁸

The total of these known corporate subsidies and tax breaks amounts to about \$634 million per year, as summarized in the following table.

Alabama Industrial Development Training	\$ 41,870,984
Enterprise Zone Credit	not disclosed
Income Tax Capital Credit	\$ 55,600,000
Industrial Development Grant	not disclosed
Port Credit	\$ 5,000,000
Growing Alabama Credit	\$ 5,000,000
Business Privilege Tax Incentive	\$ 6,800,000
Jobs Act Incentives and Tax Abatements	not disclosed

Full Employment Act of 2011	\$ 1,100,000
Heroes for Hire Credit	not disclosed
Air Carrier Hub Ops Equipment Business Privilege Tax Deduction	not disclosed
Coal Production Tax Credit	\$ 1,200,000
Made in Alabama Job Incentives Act	not disclosed
State Losses from Federal Accelerated and Bonus Depreciation Allowances	\$ 20,500,000
State Losses From Federal Domestic Production Credits	\$ 6,200,000
Vendor Discounts for Sales Tax, Cigarettes, Fuel, and Lodging	\$ 38,080,398
Entertainment Industry Incentive Tax Rebates	\$ 9,500,000
6 Property Tax Abatement programs	\$ 19,143,733
Certified Capital Company Program - Insurance Premium tax credit	\$ 16,640,979
Alabama New Market Tax Credit - Insurance Premium tax credit	\$ 15,649,154
Facilities Credit - Insurance Premium tax credit	\$ 8,734,186
Real Property Investment Credit - Insurance Premium tax credit	\$ 23,581,311
Job Development Fee tax credits	\$ 4,900,000
Discounted Sales Tax on Equipment Used in Mining and Manufacturing	\$ 99,884,041
Discounted Oil & Gas tax for certain oil/gas producers	\$ 1,500,000
Losses from Double Sales-Weighted Apportionment	not disclosed
Sales Tax Abatements on Industrial Property and Brownfields	\$ 51,333,333
Revenue Loss from corporate use of offshore tax havens	\$ 201,761,497
TOTAL	\$ 633,979,616

From what we know from Alabama’s limited subsidy disclosure, the annual cost of state subsidies to corporations could pay about 63 percent of the annual taxpayer cost of funding the retirement benefits of current Alabama public employees. However, the unknown costs of undisclosed subsidies could raise that number significantly.

¹“How to strengthen Alabama’s pension system for workers and taxpayers,” by Greg Mennis, Pew Charitable trusts (published at AL.com 9/15/2016)
http://www.al.com/opinion/index.ssf/2016/09/how_to_strengthen_alabamas_pen.html

² The employer normal cost figures for each of the three funds can be found on page 41 of the 2015 Retirement System of Alabama CAFR here: http://www.rsa-al.gov/uploads/files/2015_RSA_CAFR.pdf

³ The subsidies delineated in this and the previous three paragraphs are all derived from the Report on Alabama Tax Expenditures (The Legislative Fiscal Office, January 2017) found here:
<http://www.lfo.state.al.us/PDFs/TaxExpenditure/2017.Tax.Expenditure.Report.pdf>

⁴ Education Trust Fund Appropriations Comparison Sheet, FY 2017, HB 117, (6/2/2016)
<http://www.lfo.state.al.us/PDFs/FY2017Spreadsheets/ETF/ETF-FY-2017-Enacted.pdf>

⁵ State of Alabama Department of Revenue 2014 Annual Report
http://revenue.alabama.gov/documents/annual_report/2014_annual-report.pdf This credit was slated to sunset in 2016.

⁶ Alabama Corporate, Personal Income Taxes: Port Credit; Growing Alabama Credit Enacted (Wolters Kluwer, 4/7/2016) <http://news.cchgroup.com/2016/04/07/alabama-corporate-personal-income-taxes-port-credit-growing-alabama-credit-enacted/>

⁷ 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>

⁸ Good Jobs First's Subsidy Tracker – Alabama state profile page:
<http://subsidytracker.goodjobsfirst.org/prog.php?statesum=AL>

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