



Center On Regional Politics



Bulletin

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A MESSAGE FROM THE DIRECTOR

With record snowfalls, frigid temperatures, and power outages behind us and seven months of hard-fought political campaigns ahead, we look for any signs that spring will bring a thaw not just in the weather but in the politics of public policy. Amidst many troubling developments, there was at least one hopeful sign that the General Assembly can still mount successful bipartisan policy initiatives.

As we report inside, the Special Education Funding Formula Commission, led by State Rep. Bernie O'Neill (R-Bucks) and State Senator Patrick Browne (R-Lehigh), recommended replacing an arbitrary funding system with a rational and transparent formula rooted in the needs of these vulnerable students. Its findings have been endorsed by overwhelming House and Senate majorities and seem likely to drive new special education funding.

Rep. O'Neill and Senator Browne are now advocating a similar bipartisan commission to recommend a new approach to a much larger and more complex challenge: reforming Pennsylvania's \$5 billion basic education funding formula. Although strong partisan differences seem more likely to emerge, there is overwhelming partisan agreement that a better way is needed. See our summary of the chorus for change inside.

Temple's Center on Regional Politics (CORP) has organized a statewide university consortium to support this effort and take a fresh look at school funding. We will also continue to monitor and assist state and municipal policymakers struggling to meet huge public pension funding obligations. These issues are as tough as last winter, but we begin with the thought: "Ah, Spring!"

Joseph P. McLaughlin, Jr., PhD
Director, Center on Regional Politics (CORP)

STATEWIDE UNIVERSITY CONSORTIUM TO EXPLORE OPTIONS TO IMPROVE PUBLIC SCHOOL FUNDING

Temple's Center on Regional Politics (CORP), Penn State's College of Education, and the University of Pittsburgh's Center on Metropolitan Studies in the Graduate School of Public and International Affairs have formed a consortium to support state legislators and policymakers in a review of options for improving public school finance in Pennsylvania.

Also in the consortium is the Pennsylvania Policy Forum, an informal network of faculty members, academic leaders, and policy researchers at public and private colleges across the Commonwealth. Working with the Pennsylvania General Assembly, the Policy Forum has organized symposia on institutional issues for all Senate and House members and information sessions for newly elected members of both chambers.

The consortium will begin its work as the General Assembly appears poised to launch its own review of the state's basic education subsidy through a bipartisan commission similar to one that has recommended reforms in the distribution of special education funds. (See story inside.)

Academic leaders of the University Consortium to Improve Public School Finance and Promote Economic Growth are Joseph P. McLaughlin, Jr., PhD, director of Temple's CORP; William Hartman, PhD, professor in Penn State's College of Education; and David Y. Miller, PhD, professor in the University of Pittsburgh's Graduate School of Public and International Affairs, and director of the university's Center on Metropolitan Studies. Paula Holoviak, associate professor of political science at

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DOES ANYBODY THINK PA'S SCHOOL FUNDING FORMULA WORKS?

Pennsylvania's basic education funding formula is increasingly described as "broken." As the *Bulletin* went to press, the Senate had received HB 1738, sponsored by State Rep. Bernie O'Neill (R-Bucks) that would establish a bipartisan Basic Education Funding Commission to develop a new formula. Here is what our leaders have said about how we fund schools:

Governor Tom Corbett: "Let's get a true, fair funding system for all the schools of Pennsylvania... not for one school district or another, but for all the schools." (*"In funding formula debate a new voice: the governor's," WITF-FM; Jan. 24, 2014*)

Senator Dominic Pileggi (R-Chester), Senate Majority Leader: "I think we can do better... I want to make sure (creating a funding commission) is a meaningful exercise." (*"School money formula examined," The Tribune-Democrat; Jan. 18, 2014*)

Secretary Carolyn Dumaresq, Pennsylvania Department of Education: "We... put the money in the block grant because... the basic instructional subsidy formula is broken." (*"State Secretary of education talks about 'new funding formula' in 2013-14 budget," The Times Tribune; Feb. 7, 2014*)

Mayor Michael Nutter, City of Philadelphia: "We need a state-wide, student-weighted funding formula... that takes into account the number of students in a district and the needs of those students." (*Budget Address; March 5, 2014*)

Senator Vincent Hughes (D-Philadelphia), Democratic Chairman of Senate Appropriations Committee: "The current school funding formula is not fair... 'But no matter what the... formula is, if you aren't putting money into it, it doesn't matter.'" (*"Challenge to School Funding Formula Gains Steam," The Philadelphia Tribune; Sept. 8, 2013*)

Rob Wonderling, President and CEO of the Greater Philadelphia Chamber of Commerce: "The chamber's president and chief executive, Rob Wonderling, said the business group has supported the mayor's education-related lobbying efforts for more than three years, and is reaching out to chambers of commerce around the state to garner support for what he called a 'modern' school-funding system. 'Not one city, not one mayor, not one chamber is going to be able to get it done in Pennsylvania.'" (*"Nutter to business groups: Make school funding your business," Philadelphia Inquirer; Feb. 20, 2014*)

Auditor General Eugene DePasquale: "The unequal funding system is literally immoral... We have to get better at this." (*"Speakers assail state's school funding formula," Tribune Review; Feb. 25, 2014*)

Representative Frank Dermody (D-Allegheny), House Democratic Leader: "It's a sad commentary... that we have to once again try to establish a fair and equitable funding formula for basic education and our 500 school districts." (*WITF-FM; Jan. 15, 2014*)

Representative Dwight Evans (D-Philadelphia) and Representative Nicholas Micozzie (R-Delaware): "Pennsylvania is falling further behind... we are not dedicating enough state revenue to the K-12 educational services and we are not abiding by a formula that allocates funds based on an objective manner." (*"Pa. lawmaker wants to fix school funding," The Pottstown Mercury; Feb. 21, 2014*)

Representative Todd Stephens (R-Montgomery): "Pennsylvania's school funding formula is blatantly unfair for students, families and taxpayers across the Commonwealth. This complex formula values each child across the Commonwealth differently." (*"We Must Reform Pennsylvania's Education Funding Formula," Rep. Stephens' Webpage; date not provided*)

Jim Buckheit, executive director of the Pennsylvania Association of School Administrators (PASA): "If you really want to go back, we haven't had a fair funding formula since 1991...." (*"House Oks commission to examine school spending," Tribune Review; Jan. 15, 2014*)

Hanna Barrick, director of advocacy for the Pennsylvania Association of School Business Officials (PASBO): "As it is, districts have no idea what they're going to get from year to year." (*"House Oks commission to examine school spending," Tribune Review; Jan. 15, 2014*)

Priya Abraham, senior policy analyst at the Commonwealth Foundation: "To survive, we must spend more effectively. A good start is reforming the broken student funding formula for school districts, which holds funding steady regardless of enrollment changes." (*"A public school funding SOS," Tribune Review; March 3, 2014*)

Pottstown Mercury Editorial: "School leadership organizations, led by the Pennsylvania School Boards Association, also issued a statement last week calling for passage of House Bill 1738 to create a Basic Education Funding Commission for Pennsylvania. This reform in Pennsylvania is long overdue." (*"Corbett calls for fair school funding 3 years after he abandoned it," Jan. 24, 2014*)

Lebanon Daily News Editorial: "The formula doesn't reflect reality. It hurts school districts in growing communities. It leads to property tax increases that hurt seniors on fixed incomes. It needs to change — and that commission to rewrite the formula is a good first step." (*"What's not fair is no one in Pa. will lead on education," Feb. 29, 2014*)

Delaware County Daily Times Editorial: "This uneven playing field has proved devastating to children whose only mistake was living in places like the William Penn School District in Delaware County, or in districts such as Coatesville, Pottstown, Norristown and York. This arcane, archaic funding system penalizes these kids merely on the basis of their ZIP code." (*"Editorial: Micozzie isn't giving up school funding reform fight," Feb. 22, 2014*)

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STATEWIDE UNIVERSITY CONSORTIUM TO EXPLORE OPTIONS TO IMPROVE PUBLIC SCHOOL FUNDING

Kutztown University, is chair of the Policy Forum and McLaughlin is vice chair. (See the list of other Forum members nearby.)

The university consortium plans to hold the first of three symposiums on public school finance at the Marriott Hotel in Conshohocken on Friday, May 30, 2014, from 9 am to 12 pm. Other symposiums are planned for western Pennsylvania and for Harrisburg late in the year. The first symposium will be “How Public School Funding Works in Pennsylvania – Or Doesn’t: What You Need to Know.”

The consortium also will publish research and policy briefs aimed at enhancing understanding of public school finance issues, reviewing the history of school finance in Pennsylvania and developments in other states, and highlighting and exploring options to make school funding more fair, stable, transparent, and effective in preparing students to succeed as citizens and workers. The consortium will explore the economic cost to Pennsylvania’s economy of poorly performing public schools.

In addition to drawing on faculty expertise at their various institutions, the consortium will be assisted by three experienced experts in school finance and taxes: Paula Hess, PhD, a former senior adviser to the House Republican caucus and former director of the House Education Committee (R); David Davare, PhD, now with the Pennsylvania Economy League’s Central Division and former director of research for the Pennsylvania School Boards Association; and Eileen McNulty, former secretary of revenue under Governor Robert P. Casey and former director of the House Finance Committee (D).

CORP’s role in the consortium will be overseen by four members of the Executive Committee who reflect the project’s perspective that improved public schools are vital to Pennsylvania’s economic future. State Rep. Steve Santarsiero (D-Bucks), and Rob Wonderling, president and CEO of the Greater Philadelphia Chamber of Commerce, co-chair CORP’s Committee on Education and Workforce Development. Rob Loughery, chair of the Bucks County Commission, and Patrick Eiding, president of the Philadelphia AFL-CIO, co-chair CORP’s Committee on Economic Development.

Pennsylvania Policy Forum Membership

Theodore R. Alter, *professor of agricultural, environmental and regional economics, Penn State University*

Michelle J. Atherton, *associate director, Institute for Public Affairs, Temple University*

Thomas Baldino, *professor of political science, Wilkes University*

Michael Cassidy, *adjunct instructor of political science, Temple University*

Beverly A. Cigler, *professor of public policy and administration, Penn State Harrisburg*

Richardson Dilworth, *associate professor of political science and director, Center for Public Policy, Drexel University*

Michael R. Dimino, Sr., *associate professor of law, Widener University School of Law*

Ken Gormley, *dean and professor of law, Duquesne University School of Law*

Paula Holoiviak (Chair), *associate professor of political science, Kutztown University*

John J. Kennedy, *associate professor of political science, West Chester University*

Michael King, *adjunct professor, Albright College and Temple University, associate professor, Penn State University (retired)*

Robin Laueremann, *professor of politics and international relations, Messiah College*

Joseph R. Marbach, *provost and professor of political science, La Salle University*

Joseph P. McLaughlin, Jr., *director, Center on Regional Politics, Temple University*

David Y. Miller, *associate professor and director of the Center for Metropolitan Studies, Graduate School of Public and International Affairs, University of Pittsburgh*

Randall M. Miller, *professor of history, St. Joseph’s University*

Theresa Miller, *director, University of Pittsburgh Institute of Politics*

Joseph Sabino Mistick, *associate professor of law, Duquesne University School of Law*

Megan Mullin, *assistant professor of political science, Temple University*

Richard A. Stafford, *distinguished service professor of public policy, Heinz College, Carnegie Mellon University*

David B. Thornburgh, *executive director, Fels Institute of Government, University of Pennsylvania*

F. Carl Walton, *associate professor of political science, Lincoln University*

Craig Wheeland, *associate vice president for academic affairs and professor, Villanova University*

IS SPECIAL EDUCATION REFORM A PRELUDE TO BASIC EDUCATION REFORM?

In a move some observers hope will prove a prelude to reform of the state's basic education subsidy, a bipartisan commission established by the legislature has recommended reforms to Pennsylvania's special education spending formula that have met with widespread approval and appear likely to drive new funding for these services beginning July 1.

The creation of the Special Education Funding Commission, authorized by unanimous House and Senate votes, was signed into law as Act 3 of 2013. It was co-chaired by State Rep. Bernie O'Neill (R-Bucks), and State Senator Patrick M. Browne (R-Lehigh), who are now advocating establishment of a Basic Education Funding Commission with a similar membership and action plan. Commission members also included Democratic chairs of the House and Senate Education Committees, State Rep. James Roebuck (D-Philadelphia), and State Senator Andrew Dinniman (D-Chester).

The 14-member commission, with an even number of Republican and Democratic legislators from each chamber, held hearings across the state throughout 2013. Limitations on the commission included the provision that any new formula developed by its recommendations would have to be approved by the General Assembly and that the formula would apply to just the increase in spending from the base year 2010-11.

The commission's final report released in December 2013 recommended replacing an arbitrary system, under which it has for years been assumed that 16 percent of students in each district need special education services. Additional small funds have been available to districts yearly on a student-by-student basis. After the Department of Education has reviewed the cases, funds have been assigned based on highest need. Each district is capped at \$150,000, with Philadelphia capped at \$300,000. In 2012-13, 236 requests were granted, just 30 percent of the total number of requests.¹

In his budget, Governor Corbett proposes adding \$20 million to the base of special education funding, which has remained the same for six years at \$1.026 billion. While the new formula is yet to be enacted, the administration

also supports allocating these additional funds based on the recommendations of the commission. They include:

- Reflect student needs in the formula based on three cost categories: low, medium, and high.
- Show community factors, like poverty, property tax levels, and rural and small schools.
- Prorate funding according to the above categories.

PENSION FUNDING PROBLEMS STILL PLAGUE COMMONWEALTH, SCHOOLS, AND MUNICIPALITIES

Options in CORP Report under Discussion by State and City Policy Makers

Options for reforming and funding pensions highlighted by CORP's public pension working group (June 2013) are under discussion in Harrisburg and Philadelphia, although little progress has been made in the last year. Among those options are "stacked hybrid" plans that combined defined-benefit and defined-contribution features, issuance of pension obligation bonds, the sale of assets to reduce unfunded liabilities, and the dedication of Philadelphia's sales tax to reducing the City system's huge unfunded liabilities.

In his budget address on February 4, Governor Corbett again called upon the General Assembly to enact pension reform during the current session. Noting that the state's pension debt has increased from \$42 to \$50 billion over the course of three years, Governor Corbett challenged the legislature to work with him to implement a pension reform proposal capable of reducing the growing burden that the two state pension systems present to Pennsylvania taxpayers.

As a part of his call for legislative action, Governor Corbett stated that "we can expect to pay about \$1.5 billion in pension costs for state and school district workers. In just a few short years, that number is expected to grow to more than \$4 billion."²

Acknowledging that the pension reform proposal offered during his 2013 budget address had not come to fruition,

1. Niederberger, Mary. 2013. "Pennsylvania looks at special education funding." *Pittsburgh Post-Gazette*. August 8.

2. <http://www.post-gazette.com/news/state/2014/02/04/Text-of-Gov-Tom-Corbett-s-2014-15-budget-speech/stories/20140204132>.

the governor urged the legislature to move quickly in finding a way forward.

Although legislation has not yet been introduced, Republican legislators are reportedly considering proposing the establishment of “stacked hybrid” plans that would provide future SERS and PSERS members with defined-benefits up to a certain salary level and portable defined-contribution plans above that amount. This kind of plan is discussed in CORP’s June 2013 report entitled *What to Do about Public Pensions? Options for Funding and Reform*.

Responding to the governor’s budget, House Democrats said by further suppressing pension payments, the administration would be increasing debt in the state’s retirement systems by nearly \$13 billion over the next 30 years. They also criticized the administration’s proposal for one-time transfers of \$225 million in cash and equities from the Tobacco Trust Fund and Health Venture Investment Account to PSERS. They argued that had the administration not supported corporate tax cuts, adequate funds would be available to meet pension obligations.

Pew: PA Ranks 48th in Meeting Its Pension Obligations

Concerns continue mounting regarding the solvency of the unfunded liability of both SERS and PSERS. In a January 24 letter to Senators John Blake (D-Lackawanna, Luzerne, and Monroe) and Mike Brubaker (R-Lancaster), Greg Mennis of The Pew Charitable Trusts and Josh McGee of the Laura

and John Arnold Foundation provided an overview of the extent of the Commonwealth’s fiscal challenges related to the underfunded pension systems. According to the letter,

*“Due primarily to insufficient funding policies over the past decade, the state employees’ and teachers’ pension plans currently have less than two-thirds of the assets needed to pay for the benefits already earned by employees. Pennsylvania has done worse than almost every other state when it comes to responsibly paying for its pension promises. **Pennsylvania ranks 48th out of the 50 states since 2003 in terms of paying its Actuarial Recommended Contribution (ARC), the standard measure of pension payment discipline.** As a consequence, the state has gone from having a fully funded pension system 10 years ago to facing a pension debt of more than \$47 billion owed to workers for benefits already earned.”*

The letter states that SERS and PSERS combine for only a 64 percent funding status; the programs together report just \$83.5 billion in assets to cover over \$130 billion in liabilities. Their recommendations to Senators Blake and Brubaker include the development of a “sustainable, comprehensive pension reform” proposal that avoids cutting benefits and engaging in “unsustainable funding practices” that have contributed to the current situation. Although labor leaders in Pennsylvania and other states have attacked Pew’s pension reports as biased by its partnership with the Arnold Foundation, which they accuse of a plot to destroy public pensions, few, including labor leaders, would contest the state’s low ranking in meeting its pension obligations.

Senate Democrats Propose Refinancing PA Pension Debt

Meanwhile, Senate Democrats unveiled a proposal on March 12, 2014 to borrow up to \$9 billion for the purpose of refinancing a portion of \$50 billion in unfunded pension liabilities by issuing a pension obligation bond. According to Senator Christine Tartaglione (D-Philadelphia), the Senate Democratic proposal will benefit local and state government since “school district pension payments would decrease by \$600 million over the next five years, including by \$75 million in 2014-15.”³ Senator Tartaglione argued that “the Commonwealth’s combined SERS and PSERS payments would drop by \$1.2 billion over the same time pe-

Update: Status of Pennsylvania Public Pension Systems

	PSERS (June 30, 2013)*	SERS (Dec. 12, 2012)**
Active Members	267,428	106,048
Retired Members	209,204	117,061
Market Value of Assets	\$49.1 billion	\$25.4 billion
Actuarial Value Assets	\$57.5 billion	\$25.3 billion
Funded Status (Market Share)	54.6%	59.0%
Funded Status (Actuarial Share)	63.8%	58.8%
Expected Liability (12/2012)	\$32.6 billion	\$14.5 billion

* PSERS Actuarial Valuation, June 30, 2013.

** SERS Actuarial Report, June 5, 2013.

3. <http://www.pasenate.com/2014/03/12/tartaglione-senate-dems-offer-solution-to-protect-pension-systems-save-taxpayers-billions/>.

riod, including by \$120 million in the coming budget year.”⁴ Senate Democratic Leader Jay Costa (D-Allegheny) suggested in a March 12 *Patriot News* story that “the net savings to the state was projected to be \$7.5 billion”⁵ under the Democratic Caucus plan. The proposal has been attacked by the libertarian-leaning Commonwealth Foundation as an expensive “risk taxpayers can’t afford to take.”⁶

As reported in CORP’s June 2013 Working Group Report, *What to Do about Public Pensions? Options for Funding and Reform*, pension obligation bonds offer governments a way to invest the proceeds of such bonds to pay down public pension debts. However, there is no guarantee that earnings from the invested bond proceeds will match the interest rates due on the bonds. If this should occur, the Commonwealth would be left paying a higher rate than initially expected at the time the pension obligation bond was issued. The Senate Democratic proposal would require the repeal of the prohibition on the use of pension obligation bonds for funding the liability accrued by SERS and PSERS in Act 120 of 2010. The Senate Democratic proposal is similar to one developed by State Rep. Glen Grell (R-Cumberland) who also argued that because pension obligations must be paid in the end, refinancing makes sense.

Auditor General Recommends Municipal Pension Reforms

Pennsylvania municipal governments, public authorities, and county governments together have a combined total of 3,207 pension plans throughout the Commonwealth. Of these plans, 1,218 are administered by local governments. According to Pennsylvania Auditor General (AG) Eugene DePasquale, 573—or 47 percent—of these plans are classified as “distressed” by the Pennsylvania Employee Retirement Commission (PERC). AG DePasquale issued a report on February 26, 2014 indicating that “the pension plans of these 573 municipalities were underfunded by \$6.7 billion as of the January 1, 2011, valuation date.”⁷

According to AG DePasquale, “Some pension plans are so underfunded that promised retirement commitments are at risk. If they fail, the cost will be passed onto the taxpayers. This liability can truly become every taxpayer’s nightmare.”⁸ Eight of the 25 municipalities with the largest unfunded aggregate pension liabilities are in the Southeast. These municipalities include the City of Philadelphia; the City of Chester, Radnor Township, Haverford Township,

and Marple Township in Delaware County; the Borough of West Chester in Chester County; and the Townships of Falls and Lower Southampton in Bucks County.

Among the Auditor General’s recommendations for addressing under-funding of municipal pension plans are: excluding “spiking” overtime and lump-sum payments for accrued leave when determining pension benefits, accounting for increased life expectancy by updating age and service requirements for normal retirement eligibility, establishing consistent member contribution provisions, and reflecting current economic conditions by narrowing the range of acceptable investment rate of return assumption options.

AG DePasquale also recommended establishing a new distress recovery program that would amend the current formula of state aid distribution to provide for additional state aid based on distress level, setting limits on the amount of pension costs that may be reimbursed by the Commonwealth, mandating that each municipality publish its annual pension costs for public review, and reducing administrative and management fee expenses. CORP’s working group suggested similar steps.

Philadelphia Pension and School Funding Issues Still Unresolved

Philadelphia’s public school and municipal pension funding issues remained unresolved, as the *Bulletin* went to press. City Council has not extended the one percent City sales tax set to expire June 30, 2014, although the legislature has authorized the extension, and the legislature has not yet authorized a \$2-per-pack tax on cigarettes to provide revenues for the City’s schools, although City Council has passed an ordinance to impose the tax subject to legislative authorization.

Last June, the General Assembly authorized extension of the tax and required that the first \$120 million be used to fund the schools, the next \$15 million to pay four years of debt service on a borrowing of \$50 million for the schools, and the balance of the roughly \$145 million to be used to support the City’s pension system.

City Council president Darrell Clarke wants the legislature to re-open the sales tax authorization to allow more of the revenues it produces to be dedicated to reducing the City

4. Ibid.

5. http://www.pennlive.com/midstate/index.ssf/2014/03/senate_democrats_propose_borro.html.

6. <http://www.commonwealthfoundation.org/policyblog/detail/a-risk-too-great-bonds-alone-could-worsen-pension-crisis>.

7. <http://www.auditor.gen.state.pa.us/Reports/MunicipalPensionSpecialReport022614.pdf>.

8. <http://www.auditor.gen.state.pa.us/Department/Press/PRMunicPenLiability022614.html>.

Pension Reform, Public Schools, and Public Opinion

Reforming the state’s public pension systems and improving public schools remain salient issues among Pennsylvania voters. Respondents to the January 2014 Franklin & Marshall College Poll were asked to rate a series of issues on a scale of one to ten with one indicating that the issue is not important for elected officials to address, and ten indicating that it is a very important issue in the eyes of the voters. The poll surveyed 580 registered voters who rated improving the public schools an 8.1 and reforming the state’s pension system a 7.3.

Importance of Addressing State Issues - Franklin & Marshall College Poll, January, 2014			
Question: Please give each issue a score between one and ten, where one means that it is NOT important at all and ten means it is VERY Important for the state to address. How important is it for elected officials to...?			
ISSUE	May 2013	Jan. 2014	Change
Help create new jobs	8.9	9.0	0.1
Improve the state’s economy	8.9	8.8	-0.1
Improve the public schools	8.1	8.2	0.1
Protect the state’s environment	8.0	8.0	0.0
Increase spending to repair existing roads, highways, and bridges	7.6	7.4	-0.2
Reform the state’s pension system	7.3	7.3	0.0
Expand Medicaid to provide insurance coverage for low-income residents	6.9	6.9	0.0
Repair and improve the state’s storm water runoff systems	6.8	6.9	0.1
Create more laws that regulate natural gas drilling	6.6	6.7	0.1
Privatize the state liquor stores	4.9	4.7	-0.2
Privatize the state lottery	3.6	3.3	-0.3

pension system’s more than \$5 billion unfunded liability over time. Mayor Nutter has joined Clarke in this request of the state. Contrary to the working group report, the state legislation does not require that the additional revenues be used to make fund payments above the so-called Minimum Municipal Obligation (MMO), allowing for the possibility that the revenues could be used as a substitute for funds the City would have paid anyway at some time in the future. The City pension system lowered its earnings projection from 7.9 to 7.85 percent, raising the MMO by \$33 million in 2014.

The CORP report also suggested that sales tax extension should be contingent upon pension fund changes that made the funds more sustainable over time. The Nutter administration has since resolved labor contracts with the fire fighters and white collar workers that include optional defined-contribution plans. Both unions have also agreed to increase member contributions to the plans.

Philadelphia Proposes, Allentown Closes, Asset Sales to Fund Pensions

Philadelphia Mayor Michael Nutter is attempting to sell the Philadelphia Gas Works (PGW) to UIL Holdings Corp. for \$1.86 billion, and direct approximately \$420 million of

the proceeds to the City’s pension fund. Of course, this will need approval of the Pennsylvania Public Utility Commission and Philadelphia City Council, which thus far has not shown enthusiasm for the sale. According to Moody’s Investors Service, the sale would not only help pay off part of the unfunded liability, it would also improve bond ratings and therefore reduce borrowing costs.⁹ Although the City’s MMO would decrease after the proceeds were added to the fund, the mayor has made it clear that, after holding the City’s General Fund harmless for the loss of a contribution for a grant that currently comes from PGW, the City would pay more than the MMO, so that all benefits for the sale go to the pension fund. According to the City’s actuary, by adding the \$420 million from the proceeds of the sale and the increased annual contribution, the pension fund would reach 77 percent funded by 2030.

Last year, the City of Allentown leased its water and sewer system to the Lehigh County Authority for a term of 50 years in order to deal with mounting pension liabilities that were set to eat up more and more of the City’s general fund. The majority of the money earned on the lease was put toward the pension fund, about \$160 million, with \$29.3 million toward water and sewer debt, and \$15 million toward reserves. Annually, the lease generates about \$500,000 beginning in 2016.¹⁰

9. <http://www.philly.com/philly/blogs/inq-phillydeals/Wall-Street-applauds-PGW-sale-plan.html>.

10. <http://www.governing.com/blogs/view/gov-how-allentown-sold-its-utilities-to-fund-its-pensions.html>.

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SAVE THE DATE!

The University Consortium to Improve Public School Finance and Promote Economic Growth
will hold a symposium on:

“How Public School Funding Works in Pennsylvania – Or Doesn’t: What You Need to Know”

When: Friday, May 30, 2014 • 9 am to 12 pm
Where: Marriott Hotel in Conshohocken

sponsored by the

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