

Center on Regional Politics



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HOW TO FUND SCHOOLS AND PUBLIC PENSIONS: A PATH FOR PHILADELPHIA, A MODEL FOR THE STATE?

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After a week of suspense and drama, Philadelphia's public schools will open on time, but funding for a full school year is still in doubt, and parents, teachers, and taxpayers are almost certainly wondering what just happened, why did it happen, and what can be done to prevent it from happening again?

An important step is to recognize that the school opening crisis was a symptom of a much deeper, more complex, and more intractable problem: Huge unfunded pension obligations, totaling almost \$50 billion, will continue to hinder the ability of both the City and the state to adequately fund schools and other vital services for years to come.

This problem will remain even if the Philadelphia Federation of Teachers and the School Reform Commission (SRC) reach an agreement that stabilizes school finances this year. In fact, rising pension costs are one factor that complicates reaching such an agreement.

There are no easy or quick solutions, but there is a path that could substantially ease the City's burden and perhaps serve as a model for the state. It is an approach that has worked in the past in Philadelphia and that has recently attracted national attention when pursued successfully in another city. The idea is one of many highlighted in a report issued in June by Temple University's Center on Regional Politics (CORP).

The CORP report, entitled "What To Do About Public Pensions: Options for Funding and Reform," was the product of a bipartisan working group on which Mayor Nutter, City Council President Darrell Clarke, city and suburban state legislators, business, labor, and civic leaders were represented. (It is online at www.temple.edu/corp.)

Ironically, one option cited in the report is now front and center in the current school funding controversy. The report suggested that the one percent Philadelphia sales tax scheduled to expire next year be extended and dedicated to eliminating the City's unfunded pension liability, which consumes 17 percent of its general fund, more than the police department. But the report states that any extension should be conditioned upon changes in law and labor contracts that make the City's pension system more affordable going forward.

If fully implemented, the option would have made it easier for the City to cut taxes, give overdue raises to city workers, fix its facilities, invest in growth, and increase school aid.

In late June, the legislature authorized City Council to extend the tax but required that nearly all of the revenues go to funding the schools, leaving little for the City's pension system. Rather than impose the tax under these rules, Council President Clarke and his colleagues want the legislature to authorize a local tobacco tax that City Council has already passed but the state has so far rejected. Revenues from that tax could be sent to the schools, they contend, allowing half of the sales tax revenues to reduce the City's pension burden.

Despite recent headlines about the disagreement between the mayor and Council on how (but not whether) to advance the \$50 million needed to open the schools on time, there could be agreement on a way to address the deeper problem.

What is the way? The Temple working group heard first-hand about a successful effort to reduce the unfunded liability of public employee pensions that were consuming 22 percent of Lexington, Kentucky's budget. Lexington's mayor, city council, state legislative delegation, and business and labor leaders formed a task force that achieved a common understanding of the problem and developed legislation and pension plan changes that won the support of union members, city council, the legislature, and the governor.

The CORP report also recounts how the Corbett administration, Allegheny County, its Port Authority, and its public employee unions reached an agreement to stabilize the authority's finances through a combination of pension fund changes and new state and county revenues.

Philadelphia used a similar approach to resolve its 1991 fiscal crisis. Working with City, business, and civic leaders, a bipartisan group of City Council members and state lawmakers developed legislation that established the Pennsylvania Intergovernmental Cooperation Authority and enacted a one percent sales tax. The act helped the City escape insolvency and has been copied by other cities. It is one reason we're not Detroit.

Absent in 1991 but crucial this time would be the active participation of the City's public employee unions. The Temple report states that labor's concerns should be addressed and labor leaders at the table when pension changes are discussed. What changes? That would be for the task force to work out in conjunction with the regular collective bargaining process. The CORP report is full of ideas, not just for Philadelphia but for the pension plans for the state, schools, and other municipalities.

The challenge would be for the task force to achieve consensus supporting authorization of the tobacco tax, allocation of the combined revenues of the tobacco and sales taxes between schools and City pensions, and changes agreed to by city workers that made their retirement system more sustainable. Of course, it's possible that even if the task force presented a united front, the legislature might ignore the request.

Or maybe the legislature would decide this was a model worth testing for addressing state and school pension funding problems and give Philadelphia a shot at its solution. Let's find out.

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