HOUSE COMMITTEE ON APPROPRIATIONS

2009-10 Legislative Session

FISCAL NOTE

HOUSE BILL: 1874 **PRINTER'S NO: 2470** **PRIME SPONSOR: Caltagirone**

As amended by A03157

FISCAL IMPACT SUMMARY	**FY 2009/10**	**FY 2010/11**
Expenditure Increase/(Decrease):		
General Fund	$0	$0
Revenue Increase/(Decrease):		
City of Philadelphia	$106,500,000	$116,500,000

OVERVIEW:

House Bill 1874 would implement a municipal pension plan funding relief and recovery program applicable to the Commonwealth's municipal pension systems. The bill amends the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) to create a new Act 205 recovery program with both voluntary and mandatory remedies applicable to most municipalities that operate pension plans. The program involves the transfer of municipal pension plans that are deemed to be "severely distressed" (Distress Level III) from local administration to administration by the Pennsylvania Municipal Retirement System (PMRS).

The bill would also amend Act 205 of 1984 to implement a modification of the actuarial funding requirements applicable to the City of Philadelphia's municipal employees' retirement systems and permits a city of the first class to temporarily impose local sales and use tax of 1%. Any moneys received from the sales and use tax may only be used to pay the city's minimum municipal obligation (MMO). The temporary tax would expire on July 1, 2014.

The bill would take effect immediately for all municipalities, except Philadelphia, for whom select provisions in chapter 5, Financially Distressed Municipal Pension Plan Determination Procedure and chapter 6, Financially Distressed Municipal Pension System Recovery Program shall take effect on July 1, 2010.

ANALYSIS:

House Bill 1874 would amend Act 205 of 1984 to:

- Mandate revised amortization schedules applicable to all future unfunded actuarial accrued liabilities incurred by municipal pension plans
- Provide for optional, alternative, expanded asset smoothing methods for the determination of the actuarial value of assets
- Establish a new distress determination method using pension plan ratio of assets to liabilities, based on the most recent actuarial valuation report
- Establish three new levels of distress (Level I – minimal, Level II – moderate, and Level III – severe) with corresponding optional and mandatory remedies dependent on the severity of distress

- Mandate the transfer of severely distressed (Level III) municipal pension plans to Commonwealth management through PMRS
- Mandate a uniform pension plan applicable to newly hired employees of municipalities with Level III severely distressed plans
- Clarify the limitations on the use of special municipal taxing authority under the Act, and in the case of a municipality utilizing the proceeds from the special tax to fund other post-employment benefits (OPEBs), require the inclusion of those OPEB liabilities in the actuarial valuation report filed with the Commission and in the calculation of the municipality's MMO
- Permit but not require a city of the first class (the City of Philadelphia) to re-amortize all of the unfunded actuarial accrued liabilities in the City's pension plans over a 30-year period using level-dollar amortization payments
- Over a multi-year period, defer payment of a portion of the City's MMO, which is calculated pursuant to the requirements of Act 205, and require total repayment with interest using a 5-year plan. The deferrals are as follows:
    - For the fiscal year ending June 30, 2010, an amount not to exceed $155,000,000 and
    - For the fiscal year ending June 30, 2011, an amount not to exceed $80,000,000.

  The bill mandates that any amounts deferred must be repaid in full, plus interest by June 30, 2014. Any amounts deferred would bear interest at a rate of 8.25%. Accrued interest on amounts deferred would be paid yearly on or before June 30, 2010, June 30, 2011 and June 30, 2012. On or before June 30, 2013, the City would be required to repay at least $90,000,000 of any amounts deferred, plus interest on all amounts deferred. Any amounts deferred, plus interest, and remaining unpaid at the end of the plan year ending June 30, 2014, would be added to the City's MMO for the year 2015.

According to the Pennsylvania Employee Retirement Commission's (PERC) actuarial note, the bill, as it relates to Pennsylvania's municipal retirement plans, would be useful in providing financial relief to municipalities subject to the actuarial funding standard of Act 205. As the bill relates to the city of Philadelphia, it would not result in any actuarial cost, since it pertains only to the funding of the retirement systems and does not result in any additional benefits provided to the members of the retirement systems.

The temporary 1% local sales and use tax would result in a revenue increase to the City of Philadelphia of approximately $106.5 million in 2009/10 and $116.5 million in 2010/11.

PREPARED BY: Rebecca May Cole, Budget Analyst
House Appropriations Committee, (D)

DATE: July 29, 2009

General Note and Disclaimer: *This Fiscal Note was prepared pursuant to House Rule 19(a), and the elements considered and reported above are required by Section 5 of the rule. Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.*