HOUSE COMMITTEE ON APPROPRIATIONS

2009-10 Legislative Session

FISCAL NOTE

HOUSE BILL: 1828 **PRINTER'S NO: 2384** **PRIME SPONSOR: Williams**
As amended by A02827 and A03156

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

OVERVIEW:

House Bill 1828, as amended by A02827 and A03156, would amend the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) to implement a modification of the actuarial funding requirements applicable to the City of Philadelphia's municipal employees' retirement systems by:

1) permitting, but not requiring 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; and
2) over a multi-year period, defer payment of a portion of the City's Minimal Municipal Obligation (MMO), which is calculated pursuant to the requirements of Act 205.

The bill also 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 MMO. The temporary tax would expire on July 1, 2014.

The bill would take effect immediately.

ANALYSIS:

According to the Pennsylvania Employee Retirement Commission's (PERC) actuarial note, the bill would permit, but not require, the City to re-amortize all of the existing unfunded actuarial accrued liabilities of its pension trust funds over a 30-year period with payments commencing in the year 2010. This "fresh start" of the amortization bases would have the effect of extending the amortization of the City's pension liabilities from the current remaining average of approximately 16 years to 30 years, resulting in a reduction in the City's annual contribution requirements to its pension trust funds.

The bill would provide for a deviation from the actuarial funding standard established by Act 205, by permitting the deferral of a portion of the City's statutorily required MMO and total repayment with interest using a 5-year plan. The deferrals are as follows:

1) for the fiscal year ending June 30, 2010, an amount not to exceed $155,000,000 and
2) 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.

The PERC consulting actuary indicated that enactment of the bill 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. If the city determines to impose the tax authorized under this bill, the governing body of the city must adopt an ordinance which states the tax rate.

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.*