HOUSE COMMITTEE ON APPROPRIATIONS

2009-10 Legislative Session

FISCAL NOTE

HOUSE BILL: 1828 **PRINTER'S NO: 2638** **PRIME SPONSOR: Williams**

FISCAL IMPACT SUMMARY	**FY 2009/10**	**FY 2010/11**
Expenditure Increase/(Decrease):		
General Fund	$0	$0
Revenue Increase/(Decrease):		
City of Philadelphia	$87,000,000	$116,500,000
City of Pittsburgh	$1,400,000	$2,900,000

OVERVIEW: HB 1828 amends the Municipal Plan Funding Standard and Recovery Act (ACT 205 of 1984) to implement a municipal pension plan recovery program for municipal pension systems and authorizes cities of the first class to impose a 1% sales tax to help pay for deferrals of required pension payments.

If enacted, it would provide short-term budgetary relief to local governments that are still dealing with unprecedented investment losses and a decline in municipal tax revenues. The bill also includes provisions of transparency in and disclosure of the award of contracts at the local and state level for plan managers, and provides guidelines for Deferred Retirement Option Plans (DROPs). Finally, the bill includes taxing authority provisions for Cities of the First and Second Class.

ANALYSIS:

New Municipal Pension Recovery Program:

The bill replaces the state's municipal pension recovery program that was created in 1984 with a new program that begins with the 2009 actuarial valuation period. It includes revised amortization schedules for future liabilities, allows for asset smoothing based on market cycles with the corridor expanded to 30 percent, up from 20 percent. It creates new scoring to determine a municipal pension fund's level of distress based on an aggregate ratio of assets to liabilities. The distress levels are I (Minimal), II (Moderate) and III (Severe).

It allows for the use of special taxing authority for post-retirement benefits, such as health benefits, after 2010 as long as the same are subject to the actuarial reporting and funding provisions of Act 205.

Cities of the Second Class:

HB 1828 contains taxing authority provisions for Cities of the Second Class, and requires Pittsburgh to be enrolled in the Pennsylvania Municipal Retirement System if, after two years following the effective date of the act, the city is determined to be in Level III distress. The administration of all existing pension plans will be transferred to PMRS.

Pittsburgh's parking tax is currently 37.5%. It is scheduled to be reduced to 35% on January 1, 2010. The bill keeps the tax at 37.5%, thereby generating an additional $1.4 million for 6 months of FY 2009/10 and $2.9 million for all of FY 2010/11.

Cities of the First Class

The bill exempts Cities of the First Class from the mandatory remedies elsewhere in the Act. This exemption expires on January 1, 2016. The City may defer pension payments, but must pay 8.25% interest on the amount of that deferred payment. The balance of all amounts deferred and accrued interest must be paid by June 30, 2014. The State Treasurer, on behalf of the Commonwealth, may withhold grants, loans, entitlements, payments or a combination thereof (with some limitations) if the city fails to make its required repayments of deferred pension obligations. The amount withheld will be equal to the unpaid deferrals and it will be redirected to the pension fund.

The bill gives the City the authority to impose a temporary one percent sales and use tax other than hotel room occupancy, which sunsets on July 1, 2014. Revenue raised by the tax must be used to pay the City's Minimum Municipal Obligation, including deferred amounts and interest.

The temporary 1% local sales and use tax would result in a revenue increase to the City of Philadelphia of approximately $87 million in FY 2009/10, assuming the tax is implemented starting October 1, 2009, and $116.5 million for FY 2010/11.

The bill also establishes a commission to conduct a benefit plan study to examine the City's pension benefits in order to identify the effectiveness of the plans such as benefit costs, administrative costs, amount of employee contributions and annual cash flow and losses. The bill requires the City's pension and retirement board to provide and pay for actuarial and administrative support to the commission.

Deferred Retirement Option Plans (DROPs)

The bill excludes DROPs from actuarial reporting and funding standards of Act 205 but provides other standards for DROPs, including a provision that DROPs established after enactment of the bill will not be available to elected officials.

Other Pension Provisions

The bill allows a member of a municipal pension system to designate his/her spouse to be the beneficiary of the member's pension regardless of the date of the marriage, retroactive to January 1, 2007. It also contains new requirements and restriction for awarding professional services contracts by municipal pension systems and by the Pennsylvania Municipal Retirement System for investment, legal, real estate and other consulting services.

According to the Pennsylvania Municipal Retirement System, the costs to administer Pittsburgh's pension plans would be approximately $450,000 per year with one-time costs for computer reprogramming at approximately $100,000 during the first year of enrollment. PMRS reports that existing assets would be used to fund the start-up. Ongoing expenses would be paid for by investment earnings, similar to how the State Employees Retirement System and the Public School Employees Retirement System cover their own expenses.

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

DATE: September 11, 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.*