

COMMONWEALTH OF PENNSYLVANIA

HOUSE OF REPRESENTATIVES

LOCAL GOVERNMENT COMMITTEE

205 RYAN BUILDING

HARRISBURG, PENNSYLVANIA

MARCH 12, 2014

10:00 A.M.

PRESENTATION ON

HOUSE BILL 1708

BEFORE:

HONORABLE KATE HARPER, MAJORITY CHAIRMAN HARPER
HONORABLE ROBERT FREEMAN, MINORITY CHAIRMAN
HONORABLE FRANK FARRY
HONORABLE MINDY FEE
HONORABLE R. LEE JAMES
HONORABLE WARREN KAMPF
HONORABLE JERRY KNOWLES
HONORABLE DONNA OBERLANDER
HONORABLE SCOTT PETRI
HONORABLE THOMAS SANKEY
HONORABLE ROSEMARIE SWANGER
HONORABLE TARAH TOOHL
HONORABLE JESSE TOPPER
HONORABLE SID KAVULICH
HONORABLE RICK MIRABITO
HONORABLE MARK PAINTER
HONORABLE KEVIN SCHREIBER

1 COMMITTEE STAFF PRESENT:

2 (NONE PROVIDED.)

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** WRITTEN TESTIMONY FROM THE PA NEWSPAPER ASSOCIATION
WAS INCLUDED IN THE MEETING PACKETS.

P R O C E E D I N G S

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MAJORITY CHAIRMAN HARPER: Good morning.

I'd like to call the meeting of the House Local Government Committee to order and remind everybody that we're recording. Today's not a voting meeting, but a hearing; and we'll be hearing from Representative Mike Tobash on House Bill 1708.

This is yet another in a series of hearings that we've had on pension issues, which are big issues for Pennsylvania this year. And being the Local Government Committee, this is dealing with municipal pensions.

We'll have a slight change to the agenda this morning. Instead of Wanda Snader, the Executive Director of the Committee, Representative Mike Tobash will explain his own bill. Other than that, we're going to get started. We do have a new member; but I've decided to wait until we get more members to the Local Government Committee here before we formally recognize that he's here, so that he'll be able to work with the other members of the Committee. Thank you very much.

Okay. Chairman Freeman, do you have anything you want to say?

MINORITY CHAIRMAN FREEMAN: No, thank you,

1 Madam Chairman. I'm just looking forward to the
2 hearing.

3 MAJORITY CHAIRMAN HARPER: Okay. I'm going
4 to have to keep people on time so that we get to session
5 on time. So Representative Tobash, you have the floor.

6 REPRESENTATIVE TOBASH: Thank you very much.
7 I'll try to go quickly. And I really do thank the
8 Chairmen, Chairmen Harper and Freeman, for holding this
9 hearing today.

10 As you mentioned, it's important. If I was
11 going to say timing is nothing or timing is something or
12 timing is everything, I think we're talking about
13 pensions right now; timing is everything. House Bill
14 1708 has to do with the Commission, the Public Employees
15 Retirement Commission that is charged with keeping
16 municipalities informed about their current financial
17 situation.

18 Look, we see within the United States
19 failure of political subdivisions as a result of their
20 pension debt. And we know that Detroit right now is in
21 a bankruptcy state. I just read an article in the Wall
22 Street Journal that talked about Chicago and Los Angeles
23 maybe not being too far behind. I read an article where
24 New York City is \$69 billion dollars underfunded in
25 their pension system. So we have got dire conditions,

1 and it's no different in the Commonwealth of
2 Pennsylvania. We've got political subdivisions that are
3 in trouble, and the Public Employees Retirement
4 Commission is tasked with keeping them up to speed and
5 on board with the requirements of Act 205 of 1984.

6 I was just at a recent hearing, I think of
7 this Committee, and I know the political subdivisions
8 here in the Commonwealth are anxious to have some
9 pension reform within their ranks so that they can make
10 sure that they're financially stable moving forward; and
11 the Commission plays an important role in that.

12 What we're asking in this bill is to add
13 some common-sense funding to the Commission. It's a
14 bipartisan, independent commission; but right now the
15 funding for the Commission comes through a line item
16 from the executive branch. Okay? It doesn't make a lot
17 of sense. And the fact of the matter is, the way things
18 work right now, the Commission has basically two
19 functions: Number one function is actuarial notes on
20 all legislation relating to pensions. So if there is a
21 state pension piece of legislation that has to do with
22 our Commonwealth's pension system, the Commission weighs
23 in with actuarial notes and gets the actuarial study
24 done. It's required for any piece of legislation that
25 deals with pensions. But number two, they've got these

1 Act 205 requirements for local municipalities and
2 political subdivisions. So number one, they review
3 actuarial evaluations. Number two, they make sure that
4 they're in compliance with the current standards.
5 Number three, they take a look at the plan costs; they
6 certify them for their state aid calculation; and I can
7 tell you that they deal with about 3200 municipalities
8 within their operating system.

9 As I mentioned before, it's an independent
10 agency. And right now, they're being funded through a
11 line item in the executive branch. This piece of
12 legislation asks that a portion of their state aid money
13 that is derived from the surplus lines insurance tax,
14 which goes to paying for helping and assisting
15 municipalities with their pension costs, be dedicated to
16 funding the Commission.

17 The amount that we originally asked for in
18 the bill was a half of a percentage point, which would
19 require legislative approval. We backed off on that
20 number after taking a look at the financials of the
21 Commission and trying to put a direct correlation
22 between the amount that could be paid from the state aid
23 fund to what the costs are actually being derived
24 through the work that they do for Act 205, and that
25 number is now at a quarter of a percent. Okay?

1 The bill also requires some consistencies
2 within the accounting methods that municipalities use to
3 report their condition. And number three, there's some
4 relief on advertising requirements when they change the
5 management or the people that are managing the accounts
6 within the municipality. So in a nutshell, that's what
7 the bill does. But the meat of this bill is to try to
8 add to some common-sense methodology to the way the
9 Commission is funded.

10 I'm anxious to hear the people who are going
11 to be testifying at the hearing today. I know we've got
12 stakeholders from the people that represent those
13 different political subdivisions, and I'm happy to
14 answer any questions and address the concerns of those
15 stakeholders after they testify.

16 So thank you again, Madam Chairman. I
17 appreciate very much you holding the hearing today.

18 MAJORITY CHAIRMAN HARPER: Great. I'll
19 start off with the questions, if you don't mind,
20 Representative Tobash.

21 REPRESENTATIVE TOBASH: Sure.

22 MAJORITY CHAIRMAN HARPER: Could you please
23 clarify, the one-quarter of one percent of what?

24 REPRESENTATIVE TOBASH: Okay. So in the
25 Commonwealth of Pennsylvania, we've got a state aid

1 fund. Okay? And municipalities receive a portion of
2 their funding -- and some of them full funding -- for
3 their pension requirements, their pension obligations,
4 into those municipalities from the surplus lines
5 insurance tax. Okay?

6 I believe that the number is about 72
7 percent that goes to a volunteer firemen -- portion of
8 volunteer firemen aid. Okay? But the rest of that
9 fund, the other 28 percent, goes to this pension relief.
10 And that boils down to a unit value for each unit that
11 is being brought forward by that municipality. So if
12 they had ten employees, I think Jim McAneny will be able
13 to explain this just a little bit better. But I think a
14 unit value of one for every non-police unit. Okay? And
15 I think a unit of one and a half for every police
16 officer -- or two is one. Okay. Great.

17 So in this scenario, they derive a unit
18 number for each political subdivision. And then this
19 pool of money that's derived from the surplus lines
20 insurance tax is allocated to those municipalities. So
21 I think last year it was about \$3500 per unit value, and
22 it enabled about 600 municipalities to be totally funded
23 through this state aid allocation. And the rest of them
24 got a portion of the funding for each one of those unit
25 values up to \$3500.

1 MAJORITY CHAIRMAN HARPER: Okay. So
2 one-quarter of one percent of what: each municipality's
3 allocation, the fund in general, the amount of assets in
4 the fund; one-quarter of one percent of what?

5 REPRESENTATIVE TOBASH: One-quarter of one
6 percent of the amount that is allocated to state aid,
7 one-quarter of one percent of the unit values that these
8 municipalities are receiving.

9 MAJORITY CHAIRMAN HARPER: So off the top,
10 or actually not off the top, after dividing it between
11 the fire allocation and the municipal allocation --

12 REPRESENTATIVE TOBASH: Correct.

13 MAJORITY CHAIRMAN HARPER: -- one-quarter of
14 one percent of the statewide allocation each year would
15 be retained to run PERC? Is that what the bill does?

16 REPRESENTATIVE TOBASH: Yes. After it's
17 broken down and the 28 percent that remains going to
18 state aid, one-quarter of one percent of that number.

19 MAJORITY CHAIRMAN HARPER: Okay. Second
20 question: Your bill also makes a change to a law that
21 we passed some years ago that has made it, quite
22 frankly, much more difficult to changes pension
23 advisors. What does it do with that?

24 REPRESENTATIVE TOBASH: Wanda, can you weigh
25 in on that portion of the bill?

1 MS. SNADER: Currently, any municipal
2 pension plan, no matter of the number of active members
3 it has or at least since 2009, all pension plans
4 regardless of size, are required to advertise and bid
5 for professional services contracts. So a professional
6 services person would be any investment, real estate, or
7 legal advice. So if they want to change -- if a small
8 pension plan wants to change advisors, they can't just
9 simply change it; they have to go through a fairly
10 arduous task of advertising and bidding.

11 So this change in the bill would require
12 only those pension plans with 100 or more active members
13 to actually go through that advertising and bidding
14 requirement.

15 MAJORITY CHAIRMAN HARPER: Right. That law
16 also requires that the pension plan advisors themselves
17 meet certain criteria and not engage in other behavior,
18 I think. Right? So this would exempt plans under 100
19 employees, which would be most of the plans in our local
20 governments from that bill, right?

21 MS. SNADER: Yes, it would be most of the
22 plans. There are 49 plans with 100 or more active
23 members. Four of those plans are administered by PMRS,
24 and those 49 plans are in 32 different municipalities.
25 So some of those 32 municipalities have more than one

1 pension plan. It could be for non-uniformed; it could
2 be for police officers, or perhaps another one for fire.

3 MAJORITY CHAIRMAN HARPER: All right. Thank
4 you. Chairman Freeman.

5 MINORITY CHAIRMAN FREEMAN: Thank you, Madam
6 Chairman.

7 Representative Tobash, thank you for your
8 testimony this morning. Just a couple of quick
9 questions as a follow-up to Chairman Harper's
10 questions: Of that .25 percent or quarter of one
11 percent, what does that generate based on last year's
12 figures?

13 REPRESENTATIVE TOBASH: So if you take a
14 look at a unit value of \$3500 -- if you take a look at
15 last year's numbers, the unit value allocation was about
16 \$3500, so it would be less than a hundred dollars per
17 unit value that would be going into PERC. Okay? And I
18 think if you --

19 MINORITY CHAIRMAN FREEMAN: What does that
20 amount to total?

21 REPRESENTATIVE TOBASH: If you take a look
22 at the total allocation, the total fund value was 246,
23 almost \$247 million dollars. Okay? It would result in
24 about \$600,000, \$617,000 in total allocation to PERC.

25 MINORITY CHAIRMAN FREEMAN: Okay. And is

1 that sufficient for what they currently receive through
2 line item? What I'm getting at, would they need to
3 supplement that in order to maintain their current
4 operation?

5 REPRESENTATIVE TOBASH: Yeah, yeah. The
6 bill is designed, and I added a supplement to -- I gave
7 you a document on the accounting of PERC. Okay? And
8 what we've done is, I've asked PERC to come back and
9 give me the numbers on what their budget looks like.
10 Okay? And what we tried to do -- what they tried to do,
11 was calculate the amount of money that they're spending
12 on Act 205 requirements; and that number comes up to
13 about \$505,000.

14 MAJORITY CHAIRMAN HARPER: So, basically,
15 it's to cover that aspect of their charge?

16 REPRESENTATIVE TOBASH: Exactly. It is -- I
17 mean, that's exactly what this bill is designed to do.
18 It's designed to cover the Act 205 compliance
19 requirements that the Commission is doing.

20 MINORITY CHAIRMAN FREEMAN: Okay.

21 REPRESENTATIVE TOBASH: Okay. So the idea
22 is to take a service charge off of the amount they're
23 getting through their unit value allocations through the
24 state aid allocation --

25 MINORITY CHAIRMAN FREEMAN: Right.

1 REPRESENTATIVE TOBASH: -- and put it toward
2 their administrative expenses.

3 MINORITY CHAIRMAN FREEMAN: So it wouldn't
4 necessarily cover their entire current operation, but it
5 would cover that portion which pertains to the Act 205?

6 REPRESENTATIVE TOBASH: No, you're exactly
7 right. Because the expectation is that there's another
8 element of PERC, and the other element is weighing in on
9 legislation that is offered by this body or by the
10 Senate.

11 MINORITY CHAIRMAN FREEMAN: Sure. Sure.

12 REPRESENTATIVE TOBASH: And that part should
13 still be paid by the legislative branch, in my opinion.
14 But if it's paid by the executive branch, fine. It's
15 still coming from government rather from the requirement
16 for the Act 205.

17 MINORITY CHAIRMAN FREEMAN: I applaud your
18 efforts to give them some measure of independence
19 through this mechanism. I do have some concerns with
20 exempting funds of a hundred or less from the current
21 requirements in terms of advertising, bidding, conflict
22 of interest provisions, all the other public notice
23 provisions.

24 And it's my understanding that only 49 funds
25 out of over 3200 would now be covered by those

1 provisions if we were to enact your legislation. So,
2 basically, 3100 plus would be exempted from it.

3 What's the rationale, besides the points
4 that Chairman Harper has raised about the difficulty in
5 advertising?

6 REPRESENTATIVE TOBASH: Well, look, as we're
7 working through this legislation, and again, you know,
8 the initial ask was going to be for up to one and a half
9 of one percent. We started to talk to the state COLAs
10 and said, What is causing some consternation in the way
11 you do business right now and, you know, is there any
12 potential for expense relief? And what came to the
13 table quickly was the advertising requirement. You
14 know, I think that if someone goes into the marketplace
15 and they're looking for a different financial advisor,
16 for whatever reason, and they have acceptable and
17 prudent standards on what they're going to use to hire
18 that financial advisor, I'm not sure that we should have
19 the ongoing expense of the requirement to advertise it
20 as we have in the past.

21 So we're trying to get them some relief from
22 expense while trying to make sure that the accounting
23 information that they're getting from the Commission is
24 adequate, timely, in such a way that they can go ahead
25 and make the important decisions they have to as

1 municipal leaders.

2 MINORITY CHAIRMAN FREEMAN: I appreciate
3 your point there. I guess my concern is, there's a
4 whole bunch of other items that you're also getting rid
5 of when you get rid of the advertising and the public
6 notice. For instance, the conflict of interest
7 provisions; other standard provisions seem to come out
8 of the bill in this current draft form.

9 Would you be amenable to at least retaining
10 the conflict of interest provisions and other
11 professional provisions that the current language seems
12 to be taking out?

13 REPRESENTATIVE TOBASH: You know, I
14 certainly would. Like I mentioned before, look, the
15 meat of this bill is to make sure that the Commission is
16 being funded from the area that it should be funded,
17 away from the executive branch. Really money being
18 utilized right now in those unit values, in those
19 pension dollars, I think the administrative costs should
20 come out of there.

21 In the bill, I would make any effort that we
22 can to make sure that municipalities are held
23 responsible and that they've got the tools in place to
24 require that to happen. But if there's something that
25 they're doing right now that, quite frankly, they

1 shouldn't need to be doing, I'd like to give them relief
2 on that side as well. So certainly I would be.

3 MINORITY CHAIRMAN FREEMAN: And in lieu of
4 having them go through the requirement of having to
5 advertise for the bidding, would you be in favor of
6 requiring them to post a notice or make an announcement
7 saying two consecutive meetings of the governing body
8 that they will be taking offers to have new managers for
9 the fund? At least that would happen at a public
10 meeting?

11 REPRESENTATIVE TOBASH: So you're asking me
12 if I would be open to the idea. I mean, certainly, I'd
13 be happy to talk to you about it and then talk to the
14 stakeholders and --

15 MAJORITY CHAIRMAN HARPER: Right. I think
16 that's already covered by the Sunshine Law anyway, so --

17 MINORITY CHAIRMAN FREEMAN: Well, to have
18 the announcement would be a requirement we could
19 stipulate that would ensure that this wouldn't be
20 something that's done in executive session or not --

21 MAJORITY CHAIRMAN HARPER: It wouldn't be
22 done in executive session. But anyway, thank you for
23 your questions. Can you please wrap up? I'm trying to
24 keep this on schedule so we can get done.

25 MINORITY CHAIRMAN FREEMAN: I'm done. I'm

1 done, Madam Chairman. Thank you.

2 MAJORITY CHAIRMAN HARPER: Thank you very
3 much. Anybody else have questions for Representative
4 Tobash? Great. Thank you.

5 While Mr. McAneny's coming up from PERC, I
6 think I want to recognize our new representative member
7 of the Committee, Representative Jesse Topper.
8 Representative, would you want to introduce yourself to
9 the Committee?

10 (APPLAUSE.)

11 REPRESENTATIVE TOPPER: Thank you.

12 MAJORITY CHAIRMAN HARPER: Hello. Welcome.

13 REPRESENTATIVE TOPPER: Thank you. I
14 appreciate it. My name is Jesse Topper. I represent
15 the 78th District. I was a member of Bedford Borough
16 Council prior to being in this position, so I'm very
17 anxious to serve with Chairman Harper on this Committee.
18 It's going to be an exciting time, at least I think it's
19 exciting anyway.

20 MAJORITY CHAIRMAN HARPER: Thank you very
21 much. Mr. McAneny.

22 MR. MCANENY: Madam Chairwoman and Honorable
23 Members, I'm not going to read my written testimony.
24 I'm sure you all know how to do that. I want to address
25 some of the questions that have come up, and I'm going

1 to start backwards because I do most things backwards
2 anyway.

3 The change to the bidding requirement is
4 only a change to the purchase of professional service
5 contracts. If you take a look at the bill on Page 4,
6 Section 2, the section that we're addressing is the
7 procurement of professional service contracts. There is
8 no change to the provisions of the existing act
9 regarding conflicts of interest. Those are valid
10 positions that we had no intention of changing.

11 The reason for changing the bidding
12 requirement to plans with 100 or more active members is
13 really quite simple: The unintended consequence of this
14 legislation was to reduce competition as opposed to
15 increasing competition for these jobs. Remembering that
16 more than half of Pennsylvania's municipal pension plans
17 have ten or fewer members.

18 This particular chapter of Act 44 is a
19 verbatim copy of the regulations from the city of
20 Philadelphia. And while it may make sense for the plan
21 the size of Philadelphia or Pittsburgh or one of the
22 other large municipalities, it really doesn't make sense
23 in a municipality where your total pension members are
24 say, eight.

25 We also have a problem with the fact that

1 administrative expenses are much higher on a per-member
2 basis in the small plans than they are in the larger
3 plans. So what happened, the actual result of this
4 provision of Act 44 is municipalities looked at the
5 expense that's required to comply to this particular
6 statutory structure and said, We can't afford to do that
7 without pension plans. The additional costs of the
8 pension plan would be exorbitant.

9 So what they do is, they don't bid out.
10 They just keep the fund managers and the financial
11 people that they have now; and therefore, instead of
12 encouraging competition, we've actually killed
13 competition at the local level in these small
14 municipalities. And that is the reason why this issue
15 came up, and that is the actual purpose behind this
16 amendment. We're trying to encourage competition and to
17 reduce the administrative expenses in these small plans.

18 The number 100, that particular size, is
19 based on ERISA requirements. So is it a magic number?
20 No. If you wanted to make it 50 instead, cut it back to
21 plans with 50 or more active members, you'd now be up to
22 171 plans statewide as opposed to the 50 plans that we
23 have that are over a hundred.

24 Where you really come into the big numbers
25 in Pennsylvania is when you start talking about plans

1 with 20 or 10 members. That's where the bulk of our
2 plans really lie. That's when you get into the
3 thousands. You never get into big numbers when you're
4 talking about anything that looks like a
5 functional-sized municipal pension plan as far as
6 membership is concerned.

7 Skipping over one, the question came up
8 about the -- oh, actually no question was asked about
9 the actuarial reporting. There's a provision in here
10 that would provide that if the municipality changes an
11 actuarial reporting methodology, that they have to
12 continue to use it for a total of six years; and that's
13 simply to avoid them from gaining the system. Right
14 now, we have a bunch of municipalities where they
15 changed their actuarial accounting method just about
16 with every filing, and what they're really doing is
17 they're readjusting the methods so they can reduce the
18 contribution requirement and that's not really how
19 actuarial numbers are supposed to work. They're
20 long-term projections. If you change them every year or
21 every two years, that's not an actuarial assumption
22 anymore. That's just a game of playing with the
23 numbers.

24 MAJORITY CHAIRMAN HARPER: Jim, I notice
25 that you're not quite following your testimony; and I

1 don't know that all the members of the Committee have
2 read the testimony.

3 MR. MCANENY: Okay.

4 MAJORITY CHAIRMAN HARPER: And I do think
5 it's important that you talk about Representative
6 Tobash's intention, which was to get funding for the
7 Commission.

8 MR. MCANENY: Yeah. And that's the last
9 issue that I wish to address. And our problem is really
10 quite simple. We have a very visible function, which is
11 the actuarial notes on pending legislation; and then we
12 have an invisible function, which we like to keep
13 invisible, because the only time we're ever going to get
14 noticed is if we screw it up.

15 But that function is to administer,
16 regulate, and enforce the municipal pension funding
17 requirements that were established by Act 205 of 1984.
18 Now, notice I said enforce. We actually have the
19 enforcement requirement under that. And our enforcement
20 method is to take them to court.

21 We also note that if you ever take a look at
22 our budget, we don't have a chief counsel; we don't have
23 a budget for legal services. Technically, under the
24 law, we have to go to the Attorney General for legal
25 services. Historically, the Attorney General's Office

1 has said, Well, we don't have anybody in our office that
2 knows anything about this. So, Jim, you've just been
3 designated a deputy attorney general; and that's only by
4 the coincidence that I happen to be a lawyer. I'm not
5 going to be there forever.

6 And we need to have a budget that allows us
7 to do what we need to do. We are probably the last
8 agency in state government that has no capacity
9 whatsoever for Web-based filing. Every single one of
10 these actuarial reports that come to us comes in paper.
11 From that piece of paper, we then take the data, enter
12 it by hand into our database, and then we have somebody
13 else redo it; because it's the double-check method to
14 make sure we got it entered right.

15 We don't mind the work, but we do mind the
16 fact that it takes us an extremely long period of time
17 to process the information; and we usually have to wait
18 some months after receiving the reports before it's
19 available for members of the General Assembly or for
20 anyone else to be able to see what's there.

21 We are trying to drag the Commission into
22 the current century, and we need -- this is part of the
23 problem -- we were told that it will cost \$350,000 to
24 put a Web-based filing system together. We do not have
25 \$350,000. When our telephone system went down last

1 week, I had to cancel a subscription to BNA in order to
2 be able to pay for the telephone system to be fixed. We
3 are not in the executive offices of the Governor. When
4 the Governor's office put in its new phone system, we
5 didn't get that. We pay for all of the services that we
6 receive from the executive offices. We pay the state
7 treasurer to write the payroll checks, even though
8 there's no checks anymore. We pay the record storage to
9 be able to put our paper files in storage; because
10 again, our files are paper. They're not computerized.
11 We can't afford to put together a computer system.

12 What we have asked for in this bill is
13 simply some money, and it's subject to the
14 appropriations process. At no point are we saying that
15 we get an automatic quarter of one percent of this state
16 aid money. This is still going to be run through the
17 appropriations process. The quarter of a percent is the
18 upper limit of the appropriation that the General
19 Assembly can make from the state aid. So it could be
20 anything up to, and it could be zero; but it cannot be
21 any more than a quarter of a percent.

22 Last year, and actually if you go back years
23 and take a look, the average increase over the last 12
24 years in the state aid unit value has been about \$88 a
25 year. It keeps going up every year. The quarter of one

1 percent based upon last year's unit value of \$3,878
2 would have been just under 10, \$9.70 per unit, so that's
3 just a fraction of the increase that is already built
4 into the system. This is not a big piece of money from
5 the pension aid package. If it were, we would not
6 propose it; because our function is to make sure that
7 the municipalities are able to fund their pension plans.
8 But we need to be able to upgrade our operation in order
9 to serve those municipalities and to serve those pension
10 plans; and we are not capable of doing that. And that
11 is the reason for this request.

12 MAJORITY CHAIRMAN HARPER: Could you
13 confirm, first of all, what is your total top line of
14 your budget?

15 MR. MCANENY: The total of our budget is a
16 little over \$700,000.

17 MAJORITY CHAIRMAN HARPER: We've got this
18 chart here. It looks like 735,476; is that right?

19 MR. MCANENY: I don't think it went that
20 high this last year.

21 MAJORITY CHAIRMAN HARPER: Okay. Your whole
22 budget's 769, and right now it's in the Governor's
23 budget?

24 MR. MCANENY: Yes, it's in the executive
25 office's budget. We do not get -- our budget request

1 doesn't go to the General Assembly. It has to go
2 through the Governor's office, and there it goes through
3 certain revisions, nor do we get a hearing.

4 MAJORITY CHAIRMAN HARPER: Right. Okay.

5 MR. MCANENY: That's another reason why I'd
6 like to see this bill go through.

7 MAJORITY CHAIRMAN HARPER: Representative
8 Tobash suggested that the estimated 617,000 that you
9 would get if we passed this bill.

10 MR. MCANENY: That would be the most that
11 could be paid out of this state aid.

12 MAJORITY CHAIRMAN HARPER: Right. He
13 suggested, however, that that would be somewhat
14 equivalent to the work you do for municipal pension
15 plans.

16 MR. MCANENY: That's based upon the payroll
17 of the individuals who work within that system. We have
18 two people who do very little work with municipal
19 pensions, but the remaining five of us do quite a bit.
20 Two of them almost exclusively do nothing but. And we
21 also have most of our administrative -- our office
22 expenses are tied to the local pension plans, the Act
23 205 function. It is the biggest part of our operation.

24 MAJORITY CHAIRMAN HARPER: Okay. And the
25 money is based on foreign insurance companies selling

1 products in this state, right?

2 MR. MCANENY: All insurance companies pay a
3 gross premiums tax. If that gross premiums tax is
4 collected from an out-of-state insurance company and
5 it's on the casualty or fire, which is primarily car and
6 homeowner's, casualty or fire insurance, then it goes
7 into this fund, this --

8 MAJORITY CHAIRMAN HARPER: Okay. So my
9 question is: What's the possibility that that funding
10 source will be diminished or disappear in ensuing years,
11 thus leaving your agency worse off than you are right
12 now?

13 MR. MCANENY: Well, it never has. Even
14 during the economic wonder of the last couple of years,
15 it has continued to go up every year. I mean, we have
16 the chart in my testimony, if you want to take a look at
17 it. It shows the last 12 years. There is one aberrant
18 year in there because of a change in the way they did
19 the tax collection, so we didn't use it in the
20 calculation of regular increases; and it is footnoted as
21 such.

22 MAJORITY CHAIRMAN HARPER: 2011?

23 MR. MCANENY: Yeah.

24 MAJORITY CHAIRMAN HARPER: Okay.

25 MR. MCANENY: That was quite a year. We had

1 to send out letters to all the municipalities reminding
2 them that that was a one off and not to plan on it,
3 getting that kind of state aid check the following year.

4 MAJORITY CHAIRMAN HARPER: Okay. Chairman
5 Freeman.

6 MINORITY CHAIRMAN FREEMAN: Thank you, Madam
7 Chairman. Jim, I do like the idea of giving you an
8 independent line of funding. I understand the
9 importance of that. I do have some concerns, as I had
10 mentioned in my questions to Representative Tobash,
11 about the repealing of some of the bidding public notice
12 requirements. And I understand that that has not been
13 as effective as was originally envisioned when those
14 provisions were put into the law.

15 In your reading of this bill, I just want to
16 see clarity on a certain point, does the repeal of those
17 provisions also affect, in any way, the other provisions
18 of the law pertaining to conflict of interest or public
19 notices in that regard?

20 MR. MCANENY: Absolutely not. We're only
21 amending one subsection that deals exclusively with the
22 contracts for procurement of professional services.
23 Every other provision is in a different section of the
24 existing law and would be unaffected.

25 MAJORITY CHAIRMAN HARPER: So conflict of

1 interest would not be touched?

2 MR. MCANENY: The conflict of interest
3 provisions stay the same. We intended to have that
4 continue. That's one of the better things of Act 44.

5 MINORITY CHAIRMAN FREEMAN: Are there any
6 side effects though by dealing with procedures, which
7 could have an unforeseen consequence in regard to other
8 transparency features?

9 MR. MCANENY: Not really, because
10 municipalities are already subject to open meeting laws.
11 The procurement process is not a secret. It's just that
12 this particular structure got imposed on this one type
13 of municipal contract. Municipalities enter into
14 contracts all the time, and they have bidding processes
15 and they have disclosure requirements that are different
16 than this one; and they're adequate, especially for the
17 smaller municipalities. This is --

18 MINORITY CHAIRMAN FREEMAN: But we're
19 exempting the bidding requirement.

20 MR. MCANENY: We're only exempting them from
21 the bidding requirement of this particular statute.

22 MINORITY CHAIRMAN FREEMAN: But it's still
23 carving something out of the bidding requirements.

24 MR. MCANENY: We're taking them out of the
25 Act 44 requirement.

1 MAJORITY CHAIRMAN HARPER: It was never part
2 of the bidding requirement before we passed that law.

3 MR. MCANENY: They were part of the regular
4 bidding requirement process for a municipality.

5 MINORITY CHAIRMAN FREEMAN: At the end of
6 the day, we're saying this doesn't have to be bid.
7 That's the bottom line.

8 MR. MCANENY: That's right. The only thing
9 being changed is --

10 MAJORITY CHAIRMAN HARPER: It's like
11 lawyers, engineers, and other professional services.

12 MINORITY CHAIRMAN FREEMAN: Sure. I
13 understand I'm just getting clarity on that.

14 MR. MCANENY: Yeah. These are professional
15 services contracts. For the most part, you know,
16 they're not subject to bidding. They're usually done by
17 RFPs, Request For Proposals; and they ask around and
18 they bring in the people and they talk to them and they
19 decide who they want to pick.

20 MINORITY CHAIRMAN FREEMAN: Do you have any
21 concerns if we were to offer amendments to require an
22 RFP process for that?

23 MR. MCANENY: I do not.

24 MINORITY CHAIRMAN FREEMAN: Okay.

25 MR. MCANENY: I just don't want an RFP

1 process that requires the expenditure of so much money.

2 This one is really elaborate.

3 MINORITY CHAIRMAN FREEMAN: Right, I
4 understand that.

5 MR. MCANENY: It fits in in Philly, but it
6 doesn't really fit in anyplace else.

7 MINORITY CHAIRMAN FREEMAN: Yeah. But given
8 the fact that we want to have transparency and
9 oversight, some sort of RFP provision would be
10 appropriate.

11 MR. MCANENY: I like transparency. I think
12 it's good. I like to have, you know, government out in
13 the open.

14 MAJORITY CHAIRMAN HARPER: I have a bar with
15 ten employees and their pension plan. They could not
16 afford to comply with that law.

17 MR. MCANENY: That's right.

18 MAJORITY CHAIRMAN HARPER: So they're stuck
19 with the same guy.

20 MR. MCANENY: They cannot afford to look at
21 other people, because the process is just too cumbersome
22 and expensive.

23 MINORITY CHAIRMAN FREEMAN: Right.

24 MR. MCANENY: That's not what it's supposed
25 to do.

1 MINORITY CHAIRMAN FREEMAN: This is my final
2 question. Under this proposal, municipalities with a
3 hundred or more employees would still be covered. That
4 amounts to about 49 of the 3200 funds, roughly.

5 MR. MCANENY: Right.

6 MINORITY CHAIRMAN FREEMAN: If it were to be
7 changed to only employees of 10 or less, what percentage
8 of the 3200 would now have this provision?

9 MR. MCANENY: About 40 percent.

10 MINORITY CHAIRMAN FREEMAN: Okay. So 60
11 percent have more than ten?

12 MR. MCANENY: Actually it's closer to
13 two-thirds, so I'll be generous. I'll say 40 percent
14 maybe. But, yeah, it's going to be about two-thirds of
15 pension plans have ten or fewer members.

16 MINORITY CHAIRMAN FREEMAN: Okay.

17 MR. MCANENY: Welcome to Pennsylvania.

18 MINORITY CHAIRMAN FREEMAN: Yeah, I know.
19 It's a scattered fragmented system.

20 MR. MCANENY: That's just how it is.

21 MAJORITY CHAIRMAN HARPER: But those plans,
22 as we heard in testimony just a couple of weeks ago,
23 are, in general, not in default. In general, those
24 smaller plans are performing better than our statewide
25 pension plans.

1 MR. MCANENY: Those pension plans can't
2 afford to get themselves into the trouble that the state
3 got itself into, because they tend to be more
4 conservatively managed and invest more conservatively
5 and don't lose as much.

6 MINORITY CHAIRMAN FREEMAN: Yeah, in most
7 cases, the obligation is paid by municipal aid; so it's
8 easy not to be in default when you're getting a subsidy
9 that makes it possible.

10 MR. MCANENY: Right. We still have most --
11 almost 40 percent of our pension plans still receive all
12 of their costs from the state.

13 MINORITY CHAIRMAN FREEMAN: Yeah.

14 MR. MCANENY: There is no municipal
15 contribution.

16 MINORITY CHAIRMAN FREEMAN: Yeah.

17 MAJORITY CHAIRMAN HARPER: It's more than
18 half of them, though, don't.

19 MR. MCANENY: Well, almost 40 percent get
20 the free ride. But more than half have to pay something
21 in, yeah.

22 MINORITY CHAIRMAN FREEMAN: And of that
23 half, a portion of what they pay comes out of the
24 subsidy that comes from the fire insurance.

25 MR. MCANENY: Right.

1 MINORITY CHAIRMAN FREEMAN: It's easy not to
2 default when you have a subsidy coming your way.

3 MR. MCANENY: Well, the fire insurances are
4 a funny creature; because we also contribute money
5 before we get to this general fund -- this general
6 municipal pension system state aid fund, there's money
7 taken out to fund volunteer fire relief associations,
8 so --

9 MINORITY CHAIRMAN FREEMAN: Yeah, other
10 factors. Thank you.

11 MR. MCANENY: -- that's not included.

12 MAJORITY CHAIRMAN HARPER: Representative
13 Mirabito.

14 REPRESENTATIVE MIRABITO: Thank you, and
15 thank you for your testimony. What is the cost
16 difference per plan member of the large plans for the
17 administration versus the small ones? You said that the
18 plans of 10 to 20 tend to have much higher. So what are
19 we talking about in terms of a differential?

20 MR. MCANENY: A plan with 500 or more -- or
21 actually a plan with a hundred or more members has an
22 average per member actuarial cost of about \$500 a year.
23 It's actually a little less than that. It's 400 and
24 something.

25 The plans with less than ten, the average

1 annual administrative expense is about \$1500 -- yeah,
2 uh-huh -- per member.

3 MAJORITY CHAIRMAN HARPER: Okay. Less than
4 ten, but what about the two-thirds, where you missed the
5 middle range? Where are they?

6 MR. MCANENY: Well, that is -- those are the
7 plans with less than ten. That's about two-thirds of
8 our plans.

9 MAJORITY CHAIRMAN HARPER: Okay.

10 MR. MCANENY: The vast majority of our plans
11 have really high administrative expenses already, which
12 is why the small plans can't afford the additional
13 expense to go through this process.

14 REPRESENTATIVE MIRABITO: Which I guess one
15 of the concerns, because I'm a little confused, I
16 understand about you need money to do things like
17 electronic filing and so forth. And I think you should
18 get it, because I think it's insane in 2014 when Walmart
19 knows how much toothpaste they sold in every store,
20 every minute of the day, but you have to input data. So
21 I'm with you there.

22 What I'm not quite clear on is, are we
23 putting a Band-Aid on the problem? Should we really --
24 look, we're spending three times as much money, wasted
25 money, on administrating these plans. Should we as

1 legislators be saying, Look, we got to find a way to put
2 these plans together so that they're not spending \$1500
3 a year to administer?

4 MAJORITY CHAIRMAN HARPER: Different bill,
5 Representative.

6 REPRESENTATIVE MIRABITO: I know that. I
7 understand that. But I guess my point is that, you
8 know, we can pass this and give this to you, but are we
9 really going to be solving your problem?

10 MR. MCANENY: In a nutshell, yes, I agree
11 with your proposal that we should do something about the
12 fact that Pennsylvania has roughly a third of all the
13 government pension plans in the country. That is
14 awkward.

15 So, yeah, to reduce the administrative
16 expenses, that's certainly one of the ways to do that,
17 is to do some consolidation.

18 REPRESENTATIVE MIRABITO: Thank you very
19 much, Chairman.

20 MAJORITY CHAIRMAN HARPER: Anyone else? All
21 right. Well, thank you very much for your testimony.
22 We'll hear from Elam Herr on behalf of the Local
23 Government. Did I miss somebody? No? We're hearing
24 from Ron, as well?

25 MR. GRUTZA: I'm here for moral support.

1 MAJORITY CHAIRMAN HARPER: Sounds like you
2 need it after the last set of questions. All right.
3 Elam.

4 MR. HERR: Good morning, Chairman Harper,
5 Chairman Freeman. I am Elam Herr, Assistant Executive
6 Director for the Township Supervisors Association. I'm
7 here today speaking on behalf of not only PSATS, but
8 also the Pennsylvania Municipal League and the
9 Pennsylvania State Association of Township
10 Commissioners, and the Pennsylvania State Association of
11 Boroughs.

12 Together, we represent all the
13 municipalities in Pennsylvania. Also, with me today is
14 Ron Grutza, Regulatory Affairs Coordinator with the
15 Boroughs Association. And although Ron will not be
16 presenting any comments today, he is here to answer
17 questions that you may have that I cannot answer for
18 you.

19 You have a copy of my testimony; so I will
20 not read it, but rather hit on what we consider the
21 concerns with the legislation before you today. And
22 although I will focus our comments on the provisions
23 relating to PERC's funding, I must first state that we
24 support the amendment to Section 702(a) which will save
25 smaller pension systems valuable funds.

1 With that being said, we must respectfully
2 object to the proposed redirection of restricted funding
3 that is currently used to help municipal pension plans
4 as an unfunded mandate. Act 205 gave PERC a regulatory
5 role in certifying municipal pension costs through the
6 collection and review of municipal actuarial valuation
7 reports.

8 At that time, the General Assembly made a
9 fundamental policy decision that it was in the best
10 interest of the Commonwealth to require PERC to collect
11 data on municipal pensions and provide funding for this
12 service. It also provided for a revised general
13 municipal pension system state aid program and set out a
14 new direction or new distribution formula for the state
15 moneys allocated to municipal pensions through a
16 two-percent tax collected on the premiums of
17 out-of-state insurance companies.

18 This state aid is determined by the Auditor
19 General. And for 2013, the per unit value was
20 \$3,884.36. While those in support of this proposal
21 argue that this offset is small, every penny of the
22 funding currently goes to the fund pension plans
23 according to the rules established by the General
24 Assembly. And although I will admit that on an
25 individual unit basis it is small, the same agency

1 though that constantly argues that we need to
2 consolidate the many pension systems is the same agency
3 that is promoting taking funds from these pension
4 systems.

5 You must keep in mind that the General
6 Assembly requires generous mandatory benefits for
7 municipal police and fire pension, with some being
8 further enhanced due to arbitration awards. To help
9 these plans, the General Assembly needs to address the
10 causes for the generous pensions, not working to take
11 additional money from them.

12 House Bill 1708, in our collective opinion,
13 creates an unfunded mandate by requiring municipalities
14 to pay for a portion of PERC services, services that not
15 only benefit the Commonwealth and the General Assembly
16 but other agencies and political subdivisions as well.
17 By requiring municipalities to pay for the work that a
18 state agency is tasked with carrying out, sets a
19 precedent for the state to return to municipalities
20 anytime it needs help with its budget. Will the Auditor
21 General be the next state agency to argue for its share
22 of the state aid funds?

23 Further, there is nothing to stop the
24 divergence of funds until PERC is entirely funded
25 through the state aid program. I just suggest that you

1 look at the EPA's budget for water and sewer permits,
2 which the money is for associated costs and staffing;
3 look at the NPDES, water quality for sewer and water.
4 Over the years, that department has needed more funding
5 to run those programs, and as such they have gone to the
6 municipalities to require them to pay for it.

7 Remember, PERC performs other work besides
8 that from municipalities, including the analysis of
9 legislation that affects both the State Employee
10 Retirement System and the Public School Retirement
11 System. Yet, this proposal does not ask those systems
12 to provide a proportional share of the PERC funding.
13 And when you look at the fiscal year 2013/2014 state
14 allocation of \$1 billion, 17 million dollars to PSERS,
15 it makes the state aid to municipal pensions pale in
16 comparison. And there are others that take advantage of
17 PERC services but are not asked to contribute anything.

18 We asked the question, based on the other
19 work that PERC is doing, how it estimated 50 percent of
20 its time is spent on municipal pension plans. Is it any
21 amount of time they spend on any municipal pension
22 issue, to actuarial analysis, to legislative analysis,
23 to studies to promote their own agenda?

24 Finally, there is a justification for this
25 proposal of diverting 205 funds to upgrade their

1 computer system so that municipal reports can be
2 received electronically. Although this is a good idea,
3 it is truly a cost that should not be borne by the
4 municipal pension systems alone.

5 Madam Chairman, I could go on; but I have
6 taken too much time this morning and I know time is
7 running short with you going to session. I think you
8 can tell that collectively we do not support the
9 majority of this proposal that is before you today. So
10 at this time, I appreciate the time you've given us.
11 And Ron and I will try to answer any questions.

12 MAJORITY CHAIRMAN HARPER: I just have one.
13 The bill proposes to deduct from state aid that the
14 municipalities are getting to pay for this service --

15 MR. HERR: Correct.

16 MAJORITY CHAIRMAN HARPER: -- that the
17 testimony says is benefitting the municipal pension
18 plans. It's not a situation where like DEP, water and
19 sewer permits. We're asking the municipal government to
20 actually, you know, plunk down some money. Does that
21 make a difference in your analysis?

22 MR. HERR: No.

23 MAJORITY CHAIRMAN HARPER: And why not?

24 MR. HERR: Because the state is giving us
25 two percent of the money, which past fiscal year was

1 \$246 million. And although, if you take the maximum
2 that's allowed in the proposal, it would only be
3 \$617,000; that's 617,000 that would not go into the
4 pension system. We just heard under the previous
5 speaker in some of the questions, they contend that, you
6 know, those municipalities' pension systems that are
7 less than ten have high costs. It will still have that
8 same high cost, but you're taking some of the money away
9 from them, so they're still going to have to raise it.

10 The issue is, if you look at the report,
11 even the report that the Auditor General just came out
12 with based on PERC's statistics, you'll still see the
13 majority of municipalities funds are financially sound.
14 But there are those who are creating the problems. Even
15 those small systems which have the high administrative
16 cost are running good plans at this point.

17 We'd also contend that in that report they
18 should have broken out the newer plans, which do not get
19 any state aid for the first three years, which also has
20 an effect on their viability. So just taking money away
21 for another purpose, -- today it's, you know, 617,000.
22 What's it going to be tomorrow?

23 The budget for PERC this year is the same --
24 the Governor's proposed budget is the same as PERC's
25 budget last year. And the year before it was \$710,000

1 coming from the state. My question is, If you pass this
2 legislation and give PERC the additional \$617,000, are
3 you going to cut the Governor's proposal by that much
4 and leave them that \$769,000; or are you going to add
5 that amount --

6 MAJORITY CHAIRMAN HARPER: Trust me, we'll
7 cut the Governor's budget.

8 MR. HERR: I have an answer to the trust me
9 statement. We won't go there at this hearing.

10 MAJORITY CHAIRMAN HARPER: Okay. I have a
11 second question, anticipating Representative Mirabito's
12 questions to a representative from PERC that all these
13 municipal plans ought to be in one statewide plan, Does
14 the Association or do any of the associations have an
15 opinion on that?

16 MR. HERR: The position of PSATS -- and I'll
17 let Ron speak for all the boroughs -- I cannot answer at
18 this time for the League and the first-class Township
19 Association. But our position is, no, they should not
20 be combined. Again, looking at it, yes, the
21 administrative cost is up, but they're viable. If you
22 look at the report that just came out, the amount of
23 money that the system is underfunded by \$6.7 billion,
24 which is a lot of money don't get me wrong; but when you
25 subtract Philadelphia and Pittsburgh from it, it drops

1 substantially.

2 That, yes, there's a lot of programs out
3 there. Yes, we could save some money. But I'm not sure
4 that combining into one system will not put us in the
5 same position that you, the General Assembly, is
6 addressing now with PSERS and SERS. And that is, yes,
7 we are \$6.7 billion of unfunded. Those two are \$47
8 billion of unfunded, and they have single
9 administrators.

10 MAJORITY CHAIRMAN HARPER: Thank you. Any
11 other questions from the Committee? Chairman Freeman.

12 MINORITY CHAIRMAN FREEMAN: Thank you, Madam
13 Chairman. Elam, if you can't answer this, it's okay.
14 Maybe Jim can answer the question. What's the current
15 criterion for the people who are hired to manage these
16 funds, what requirements, what criterion, what
17 credentials?

18 MR. HERR: Jim would probably better answer
19 this question. I am, but I don't think there's really
20 any question or any requirements out there for the
21 individuals. They do have a fiduciary responsibility.
22 They rely on -- and that's one reason administrative
23 costs are up; they rely on actuaries and consultants and
24 attorneys to provide them with the best information.
25 They do have a fiduciary responsibility to do, you know,

1 what is appropriate.

2 MINORITY CHAIRMAN FREEMAN: Right. But in
3 terms of their professional credentials, there's not a
4 whole lot out there at this point?

5 MR. HERR: No. You got to remember that the
6 people who are doing this are your elected officials.

7 MINORITY CHAIRMAN FREEMAN: But the person
8 who manages the fund?

9 MR. HERR: Well, that's true. And most of
10 those are the ones that oversee the funds that -- their
11 individual system. But then, again, I will fall back
12 and say those who are administering the state funds do
13 have those credentials, and they're 47 billion in the
14 red.

15 MINORITY CHAIRMAN FREEMAN: They don't have
16 the subsidy either, so --

17 MR. HERR: No. But think about it, the
18 state --

19 MAJORITY CHAIRMAN HARPER: They do have a
20 subsidy.

21 MR. HERR: Yeah.

22 MAJORITY CHAIRMAN HARPER: We put money in
23 there every year.

24 MINORITY CHAIRMAN FREEMAN: That's tax
25 dollars. That's not a subsidy from the insurance

1 industry.

2 MAJORITY CHAIRMAN HARPER: Well, those are
3 tax dollars, too, if you're an insurance company.

4 MINORITY CHAIRMAN FREEMAN: Right, but
5 that's -- you have a subsidy coming from the insurance
6 industry, which is allocated as opposed to direct tax
7 dollars; so there is a difference.

8 MAJORITY CHAIRMAN HARPER: Not much.

9 MR. HERR: Well, excuse me, Representative
10 Freeman, but I will speak again for myself and not the
11 other associations, but I will give up my 400-some
12 million if you give our members all-inclusive cities and
13 boroughs and townships \$1.some billion in annual
14 subsidy.

15 MINORITY CHAIRMAN FREEMAN: Well, we could
16 always roll you into the state system.

17 MR. HERR: You could, but then you will be
18 more in debt. But I'm just saying that, right now,
19 whether you call it a subsidy from the insurance
20 premiums or not, the state gives to just the teachers,
21 over \$1 billion, where we're only getting 200 and some
22 million.

23 MAJORITY CHAIRMAN HARPER: And we'll be
24 giving them more every year for the next five.

25 MR. HERR: Yes.

1 MAJORITY CHAIRMAN HARPER: We only have like
2 two minutes left. Could you ask a quick question for
3 your second one?

4 MINORITY CHAIRMAN FREEMAN: Last point, just
5 for clarification. This money that comes from the
6 insurance industry pays for about hundred percent, at
7 least in two-thirds of the funds; so it is a difference.

8 MR. HERR: Correct.

9 MINORITY CHAIRMAN FREEMAN: Yeah. That's my
10 only point.

11 MR. HERR: And back in '84, it was actually
12 higher; because when they made the changes, those who
13 were getting additional money over the time will be
14 giving it up. And that's -- and if you look at the
15 report that the Auditor General gave, again, based on
16 PERC's, you will see there are a lot of municipal
17 pension systems that are funded at a hundred percent or
18 better; and that is a benefit that --

19 MINORITY CHAIRMAN FREEMAN: That comes from
20 that.

21 MR. HERR: And also that money that comes
22 does create another problem because when you get into
23 arbitration and the third arbitrator says, hey, you're
24 overfunded; you can give more benefits. So it's a
25 catch-22 situation.

1 MINORITY CHAIRMAN FREEMAN: Sure. That's
2 always the case with overfunded pension systems. Thank
3 you, Madam Chairman. Thank you.

4 MAJORITY CHAIRMAN HARPER: Representative
5 Mirabito.

6 REPRESENTATIVE MIRABITO: Just a quick
7 follow-up to Chairman Harper's question. And just to --
8 think about this, I mean, it isn't -- there must be a
9 way if we could save a thousand dollars to members on
10 administrative costs, there's a way for us to find a
11 solution, even if it goes to reduce the tax payments
12 made by the people in those plans so that the taxpayers
13 in those communities see a benefit.

14 But I guess all I'm asking you and your
15 organization to do is to rethink this; because, this is,
16 I believe, what will happen: we can keep putting off
17 that day, but eventually the economic stuff, as it gets
18 to 2000 per member and 2500 per member, it will force us
19 to do something. It's just basic economics. That's
20 what happens.

21 So it's a different bill, but I appreciate
22 you giving me a minute and I hope to talk to you more
23 about it.

24 MR. HERR: Just to respond, there is a state
25 system out there for municipal pensions, PMRS, which is

1 an alternative. But again, part of the situation to
2 address or have more go into, even that system, is there
3 are other parts of the law that needs to be addressed to
4 take care of it.

5 People don't go into that -- or
6 municipalities don't go into that system for several
7 reasons, and I won't get in it today. But that is a
8 stumbling block. So you have -- and that's been around
9 since, I'm going to say, the 70's. Why hasn't more gone
10 into it? I would suggest that you might want to talk to
11 the Executive Director of that program to see what
12 potential concerns are there. But there is an
13 alternative out there. It just needs to be addressed.

14 REPRESENTATIVE MIRABITO: Thank you.

15 MAJORITY CHAIRMAN HARPER: Thank you,
16 Representative. Anybody else? Good. Then we're going
17 to give Representative Tobash the last word, and he gets
18 30 seconds to give it. You can do it, Mike. You can do
19 it.

20 REPRESENTATIVE TOBASH: Thank you. Thank
21 you, Madam Chairman. Thank you again. Okay. Just
22 really quick. Look, this is a common-sense request
23 right here to just cover the administrative costs for
24 the work that they do in these municipal pensions. In
25 reference to your question, Chairman Harper, look, state

1 aid fund is not guaranteed; but the fact of the matter
2 is, that the amount that we're asking for isn't even as
3 much as the recent average increases that they've gotten
4 over the last number of years, so we're still looking at
5 them getting an increase this year but not just as much
6 because the cost that we're asking for, .25 percent, is
7 less than the average increases they've been getting.

8 Representative Mirabito's question: Why
9 fund PERC? Why fund PERC? Because we've got monumental
10 issues that are in front of us as far as pension reform
11 goes from the municipal level and the state level; and
12 we need the Commission to weigh in on those bills that
13 we're proposing; so we need to get something done and we
14 need the Commission to be healthy.

15 As far as the questions and the testimony
16 from Elam Herr, I appreciate them being here today. I
17 appreciate their position. But the fact of the matter
18 is that, you know, this mentality of not letting the
19 camel's nose out from under the tent and not doing
20 anything is not the right answer either.

21 He said we would be setting a precedence
22 here to start to attack this money. But the fact of the
23 matters is, we're only setting a precedent to direct a
24 little bit of this money towards the area that it's
25 being required and being used. So again, I think that

1 as far as, you know, just a reasonable way to fund this
2 Commission, the work that's being done from
3 municipalities should be borne from the money that
4 they're being subsidized within these funds. Number
5 two, the executive branch or some other branch of the
6 legislature should be required to pay for the portion
7 that is coming to try and develop new pension policy
8 within the Commonwealth.

9 So again, I thank you very much.

10 MAJORITY CHAIRMAN HARPER: Thank you very
11 much, Representative. Thank you members for staying
12 with it. We're due on the floor in about a minute and a
13 half.

14 (Whereupon, the hearing concluded.)
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CERTIFICATE

I hereby certify that the proceedings and evidence are contained fully and accurately in the notes taken by me on the within proceedings and that this is a correct transcript of the same.

Tracy L. Markle,
Court Reporter/Notary