

Testimony for Public Hearing on Municipal Pension Reform
House Republican Policy Committee
By Gerald Cross, PA Economy League.
Tuesday, August 18, 2009

Good morning. Thank you for this opportunity to speak regarding Pennsylvania's municipal pension situation. My name is Gerald Cross and I am the Executive Director of the Pennsylvania Economy League Central PA Division. As director of the Central Division, I am very involved in the current state of local government financial conditions as well as being involved as Recovery Plan coordinators for Act 47 municipalities. My PEL division spans 40 counties in central and eastern PA, from Pike County in the Northeast to Altoona in the southwest to Lancaster, Berks and Lehigh Valley to the East.

I would like to add to my colleague Brian's comments on the need for action regarding municipal pension reform by bringing the discussion down to the local level. The local level is, after all, where the tax revenues will have to be raised, probably by real estate tax increases; or expenditure cuts will have to be made, most likely in those areas that are visible to citizens as a benefit of local government. In addition, existing services provided in return for taxes paid to the local government may have to be funded through additional fees to provide the necessary tax funds for the higher pension obligations.

Many municipalities are not yet using the current much lowered asset values to calculate their 2009 and 2010 budget payments for pension obligations. They may use the much higher January, 2007 asset valuations, which are likely about 35 percent higher than they would be in 2009. The delayed effect of the 2009 values on the required pension obligations will be seen most likely in 2011 and will be dramatic, in my estimation.

Let me cite some real life examples from municipalities familiar to PEL. In one case prior to 2009, the municipal police pension fund was overfunded by \$900,000, therefore requiring little annual contributions. At the same time, the fire department pension fund was a manageable \$80,000 per year pension contribution. Based on the latest valuations we have received, using 2009 values will require at the very least \$309,000 per year for these funds. And that amount includes the elimination of the overfunded position of the police fund due to asset losses. That municipality's total real estate collection is approximately \$500,000 per year, so you can see that expected pension costs will consume 60 percent of their total real estate tax collected.

In a medium sized Borough in Northeast PA, the pension obligations will increase well over 100 percent when the new valuations are used in 2011. This Borough has pension obligations for police, fire, and non-uniform employees. Its funds lost an average of 23 percent of value in 2008 and the municipal obligation for pensions fund will increase from \$91,000 to almost \$200,000 in 2011. For the record, the police pension costs cover those police that were employed in the Borough prior to 2003. In 2003, the Borough eliminated its police department and has only recently hired some officers in an attempt to restore the force. The increased pension obligation places the hiring of any police officers in doubt.

PEL has also recently examined the pension liability for one of the Commonwealth's largest cities. This City will budget a \$3,700,000 pension payment based on its 2007 valuations. Using the 2009 valuations, this city will see an increase of nearly \$2,000,000 onto its pension obligation, or a total payment of over \$5.5 million.

It has been said that a long fall does not kill you, but rather the sudden stop. While the rapid fall in stock prices concentrated many persons' attention, it will be the

sudden stop of using the much reduced 2009 asset valuations that will lead to a widespread crisis in funding local pensions. These declines are not limited to our cities (distressed or otherwise), or to our struggling boroughs, but extend to all classes of local governments, reaching even to the relatively prosperous suburban and rural townships. The coming funding crisis is real and extensive.

However, unlike many bills that municipalities can delay in paying, a municipality must make its pension payments as required by law. When the bills come due in 2011, there may be no recourse but to hike property taxes and/or cut back heavily on local services in order to be able to afford to pay these obligations.

Thank you Mr. Chairman, and Committee members. I would be happy to try to address any questions you may have.