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MUNICIPAL PENSION DISTRESS REACHING BOILING POINT IN YORK CITY

HARRISBURG, PA– Today Auditor General Eugene DePasquale returned to his home city and joined York City Mayor Kim Bracey to release the findings of his latest municipal pension audit.

Those findings show that, despite efforts by York City officials to shore up their distressed fire and police pensions, those same pension plan funding ratios have continued to decline. From 2011 through 2013 the pension funding ratio for police declined from 55 percent to 52.8 percent and from 60 percent to 58.2 percent for fire. Despite public safety cuts, a city operating budget which devotes 74 percent to public safety and a four-year boon in the stock market, the cost of the city's uniformed union pension plans continues to rise. DePasquale's audit also found that York City is struggling to pay its Minimum Mandatory Obligation (MMO), the state-mandated minimum amount a municipality must contribute to any pension plan. The city is behind in its MMO payment for 2013 and has yet to make payment for 2014. Coupled with municipal budget limitations, falling behind in MMO payments is a strong indicator that a municipality is, at best, fiscally treading water and, at worse, taking in water.

York City's pension audit is just the latest in a string of similar audits from the state's top fiscal watchdog. Last month DePasquale reported that municipal pension liabilities statewide have reached nearly \$8 billion, an increase of more than \$1 billion in just two years. The same report shows that nearly half of all municipalities administering pensions have plans that are distressed and underfunded.

Three weeks ago, DePasquale released his agency's audit findings on Pittsburgh's municipal pension system. Despite that city's efforts to shore up its pension shortfalls by selling the city's water and sewer system and diverting significant gaming and parking authority revenue to well above state mandated levels, its combined pension fund ratio dropped from 62 percent in 2011 to 58 percent in 2013.

At recent House and Senate Appropriations hearings, DePasquale warned that the next Detroit-style municipal bankruptcy “will happen” in Pennsylvania if the state does not take swift action.

Bracey said that she and other municipal officials face similar challenges and share equal frustrations with Harrisburg.

“Unfortunately, our situation in York is not unique,” Bracey said. “Municipal pension distress is widespread, affecting full-service urban, suburban and rural municipalities alike, with the chief cost-driver being uniformed union pensions. Many of us have been persistently lobbying for action in Harrisburg for more than two years. We are grateful for the leadership from Reps. Greiner and Grove, the Auditor General and many Republicans, but we need more of our friends in Harrisburg to show political courage and join us.”

Rep. Keith Greiner (R-Lancaster) introduced legislation last week, similar to legislation introduced last session by Rep. Seth Grove (R-York), to put the state’s municipal pension systems on an affordable and sustainable path forward.

“I was pleased that Governor Wolf recognized the need to deal with municipal distress in our state during his budget address,” Greiner said. “Underfunded municipal pension liabilities are not only an urban issue. While the state’s two major cities account for the bulk of this liability due to sheer size, the remaining pension liability across the state is equally split between cities on one hand, and townships and boroughs on the other. My legislation would help elected officials in each of these municipalities to deal with this growing problem.”

“I’ve been relentless in my efforts on behalf of York City and our region because everyone suffers when the results are public safety layoffs, service cuts, local tax increases and regional commuter taxes,” Grove said. “But we need more help. I welcome our new Governor, who also calls York County home, along with my Democratic colleagues, who mostly represent the larger cities, to join us. Ignoring these problems got us into this situation in the first place. There is no quick fix to the current municipal pension crisis without a huge influx of revenue, but even then the underlying structural problem is not solved and that’s what we address in our legislation.”

The Greiner/Grove legislation, House Bill 316, is designed to give communities the tools needed to rein in the spiraling costs of municipal pensions. Under the plan, current and retired employees retain all of their existing rights and benefits. Future employees are shifted to a more affordable cash balance hybrid plan and will no longer be permitted to spike their final average salary. The costs of the cash balance pensions will be much more predictable, and the risk of underfunding much less likely because the contributions to the plan are mandated and the guaranteed rate of investment return is tied to a market index.

Highlights of HB 316:

- All current employees are held harmless and retain existing rights and benefits at current levels;
- For new hires only, shifts to a cash balance hybrid plan – a balanced and financially sustainable approach that includes aspects of both a defined benefit and a defined contribution plan. A hybrid plan, as designed here, also allows existing pension liabilities to be paid down over time and without the need for new revenue;
- Authorizes an optional 457 plan as an additional employee retirement tool;

- Requires pensions to be calculated on base pay and a small percent of overtime. This will curb the practice of “spiking” or increasing final average salary with excessive overtime and unused sick/vacation days;
- Removes pension benefits from the collective bargaining process;
- Establishes pension plan portability options for new hires; and
- Improves job and pension security for uniformed unions.

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The Coalition for Sustainable Communities (CSC) is a growing alliance of over 40 organizations, including chambers of commerce, professional and community development groups, the Pennsylvania Municipal League, the Pennsylvania State Association of Township Commissioners, the Pennsylvania State Association of Township Supervisors and the County Commissioners Association of Pennsylvania. The CSC was formed in 2011 to help the Commonwealth's urban, suburban and rural communities address growing economic and budgetary challenges.