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Action Required by the General Assembly to Address Municipal Pension Reform and Avert Financial Crisis

(Pittsburgh, PA – August 13, 2009) Two key municipal pension reform bills aimed at averting a looming financial crisis for municipalities across the Commonwealth currently require action from the Pennsylvania General Assembly. House Bill 1874 and House Bill 1884 have both been reported out of the House Appropriations Committee, but failed to be taken up by the full House for final approval prior to last week.

The current recession is turning the existing pension problem into a crisis. Existing law will require municipalities to base 2011 and possibly 2010 pension plan contributions on asset valuations in place in January 2009 when markets were at their lowest. If legislative reforms are not passed before this fall, the January 2009 market values will lock into place for determining municipal pension asset valuations. As a result, the minimum amount a municipality has to pay annually towards its pension obligations will increase drastically. Quick action is needed to avert the resulting higher taxes and/or reduced services.

HB 1874 and HB 1884 provide distressed pension plans with varying levels of voluntary and mandatory remedies including fund aggregation, reduced amortization payments and asset smoothing tools. For critically distressed plans, state intervention (but not state assumption of costs) is mandatory.

“The Pennsylvania Economy League has a long history of documenting the financial status of our local governments and promoting reforms that increase financial stability. The clock is ticking on municipal pension reform. A substantive solution is now before the General Assembly and passage is critical this year if Pennsylvania municipalities are to remain solvent in the near term and into the future,” said Kathryn Z. Klaber, managing director, Pennsylvania Economy League, Inc.

“It is anticipated that pension funds across the commonwealth have suffered significant losses as a result of the fall 2008 market collapse. How to best deal with these losses in a manner that is fair to pensioners and tax payers is a problem facing local governments. Pension reform, as provided by HB 1874, is crucial in that it will provide budgetary relief to cash strapped municipalities throughout the Commonwealth. More importantly, HB 1874 represents a strong first step on the road to broader pension reforms in the state,” said City of Reading Mayor Thomas McMahan.

“It is clear that if pension reform is not enacted quickly, we will all be facing the prospect of increased taxes and/or decreased municipal services. The current economic downturn is already impacting business owners, residents and municipal budgets. Now is the time to address a growing line item in municipal budgets

through thoughtful reform,” said Mary C. Bula, vice president, Growth Partnership Division, Erie Regional Chamber & Growth Partnership.

(Editor’s note: Additional background information about municipal pension reform is available. Please contact Brian Jensen at the Pennsylvania Economy League, 412-281-4783, ext. 3134 or via e-mail at bjensen@alleghenyconference.org.)

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The Pennsylvania Economy League, Inc. (PEL), established in 1936, is an independent, nonpartisan, nonprofit, public policy research and development organization. Our mission is to provide critical information, perspective and support to the business, civic, and governmental leadership of our communities and our state in their efforts to make Pennsylvania a better place to live, work and do business.

The Allegheny Conference on Community Development and Affiliates – the Greater Pittsburgh Chamber of Commerce, the Pennsylvania Economy League of Southwestern Pennsylvania and the Pittsburgh Regional Alliance – work in collaboration with public and private sector partners to stimulate economic growth and improve the quality of life in southwestern Pennsylvania. For more information, visit www.alleghenyconference.org.