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Council's Last Minute Pension Funding Plan Raises Many Questions

As the proverbial clock moved close to midnight on December 31st Pittsburgh City Council finalized a plan it believed would be sufficient to avoid a state takeover of the City's underfunded pensions. Instead of a long term lease of assets that would have produced a lump sum of upfront cash for the pensions, the Council's plan promises to dedicate thirty years of parking tax revenues along with what the City already pays in as its minimum obligation to the pension system.

Over three decades the total contribution under the plan amounts to just over $3 billion. It is lower than the $3.6 billion state takeover presented to Council by officials of the Pennsylvania Municipal Retirement System (PMRS) that the City considered the "worst case" scenario but slightly higher than other takeover scenarios presented by the PMRS officials at the same meeting ranging from $2.6 billion to $2.9 billion.

Referring to Council's plan—which he helped put together—the City Controller said "this is no long-term solution. This was a mechanism to avoid state takeover". Truer words were never spoken. Under the terms of Act 44 of 2009, the City had until the end of 2010 to boost its pension funding ratio—currently at 27 percent—to 50 percent. Unquestionably, such a low targeted level is by no means healthy or exemplary. A pension system with $1 in assets for every $2 in liabilities could never be considered healthy. Unfortunately, it was the level set by the 2009 statute.

Act 44 gave Pittsburgh the time to come up with a solution after the Mayor asked for a chance to solve the pension problem locally by entering into a long lease for the City and the Parking Authority's parking assets. Not liking the prospect of privatizing the parking system, Council overwhelmingly rejected the lease proposal and embarked on a tortuous journey of finding an alternate plan. In the days proceeding the Act 44 deadline they trotted out in quick succession proposals to use (a) parking meter revenues, (b) Local Services Tax revenues and finally (c) the parking tax revenue plan as revenue streams to "infuse" annual contributions into the pension funds.

We don't yet know if the plan is adequate to avoid takeover. It is up to the Public Employee Retirement Commission (PERC) to work through the numbers and make a determination by the fall. But we do know the pension fund contributions promised under the parking tax plan will fall within the range of what was presented by PMRS in the scenarios depicting what would happen if the state took over management of the pensions. Since the money involved was so similar, why was the Council so desperate to come up with a scheme that would prevent a state takeover? What was the Council so afraid of?

Could it have been that City officials and public sector unions felt that the state would be more involved in negotiating labor contracts? Act 44 clearly states that the Commonwealth's role would be "solely for administration" and collective bargaining would continue at the City's level, albeit with an Act 47 recovery plan and team still in place.

Could it be that City officials and public sector unions did not want other eyes on the workings of the pension funds? Most of the data is publicly available anyway, but the approach of PMRS board might be very different from the City's Comprehensive Municipal Pension Trust Fund board. The former includes the state Treasurer and the Secretary of the Commonwealth along with appointees of various municipal and labor groups. The latter includes the Mayor, the Controller, a member of Council, and representatives of the City's public sector labor unions.

Or could it be that a state takeover would actually force the City to make the higher payments into the pension system rather than relying on the City to honor its "commitment" under the New Year's Eve plan? There is nothing to prevent a future Council majority or Mayor from stating that the pension encumbrance is too much of a strain on services and taxpayers and the ordinance needs to be overturned or amended. No enforceable contract with PERC, PMRS or the state has been entered in to. Does the state have an ironclad plan that allows sanctions to be used to force payments now that the funding for the pensions have morphed from an expected upfront cash infusion of $220 million to a 30 year promise of annual contributions? If there is no such ironclad plan, it is suggested politely that they ought to be thinking about one.

In light of the uncertainty that still hangs over the Pittsburgh pension situation, the Legislature should move soon to spell out what is necessary to boost one of Pennsylvania's worst funded pensions to a respectable standing. Moreover, such a step needs to take into consideration Pittsburgh's other financial difficulties and legacy costs including a large bond debt, unfunded health care for certain retirees, and unfunded workers' compensation benefits. Taken together the City faces at least $1.5 billion in obligations.

Harrisburg also needs to extend the Intergovernmental Cooperation Authority, whose existence could be over as early as February and certainly this year. But if does extend the Authority, the elected officials with board member appointment power need to put a board in place that is willing to be very strict in its approach in seeing to it the City takes the hard steps necessary to get its fiscal house in order. There are substantial advantages to keeping the Authority in place if it has a majority of board members who take the job seriously and are not afraid of political pressure. Otherwise, it will be a waste of money.

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