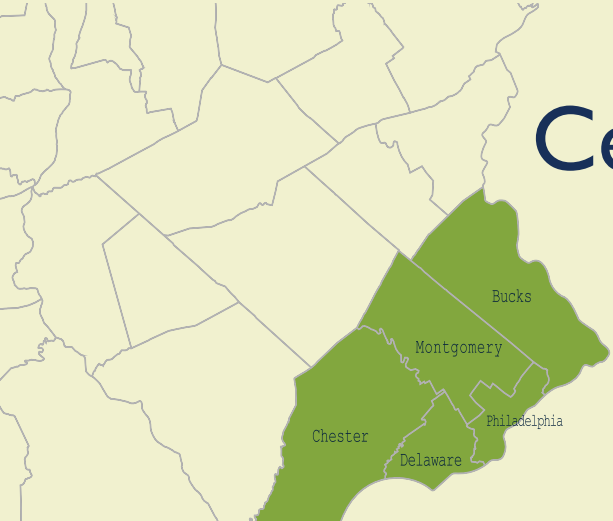


# Center On Regional Politics



## Bulletin

Volume 2, Number 2 | Spring • Summer 2013



State Senator Vincent Hughes, Philadelphia City Councilman David Oh, State Representative Cherelle Parker, Philadelphia City Councilwoman María Quiñones-Sánchez, State Representative John Taylor, State Senator Anthony H. Williams, and *Philadelphia Daily News* Editorial Page Editor Sandra Shea at the symposium on Philadelphia tax policy and politics hosted by the Pew Philadelphia research initiative and Temple Center on Regional Politics, May 3, 2013.

### “THINKERS” AND “DECIDERS” AGREE ON DIRECTION BUT DIFFER ON PACE FOR REFORMING PHILADELPHIA TAXES

More than 130 attendees at a symposium hosted by The Pew Charitable Trusts and Temple University’s Center on Regional Politics (CORP) heard tax experts and elected officials express different, and in some cases contrasting, priorities for changing the direction and pace of Philadelphia tax policy.

The three-hour event, “Philadelphia Taxes: Past, Present, Future” was organized into two roundtable forums that focused, respectively, on the elements of ideal tax policy as recommended by the experts and the political reality of implementing such reforms as reflected by a bipartisan panel of City Council members and state legislators.

*continued on page 5 “Thinkers” and “Deciders”*

### CORP BIPARTISAN WORKING GROUP LISTS OPTIONS FOR PUBLIC PENSION FUNDING AND REFORM

After eight months of discussions, a bipartisan group of state and local officials and legislators from Philadelphia and its four suburban counties has issued a report entitled: *What To Do About Public Pensions: Options for Funding and Reform*. Convened by Temple University’s Center on Regional Politics (CORP), the working group also included legal and financial experts and representatives of business, labor, civic, and academic organizations.

The report identifies and discusses 11 options in three broad categories: obtaining new resources (four options), reducing pension costs (five options), and exploring innovative paths to meet pension reform and funding challenges (two options). The members of the group, meeting dates, and list of experts consulted by the group are summarized on page 2 of this Bulletin.

### Working Group Ground Rules: Nothing Off the Table, Everything Off the Record

“Members of the working group were guided by two rules of thumb designed to engender trust, candor, and openness to the widest possible range of ideas,” the report notes. “First, no options were off the table, and second, all discussions were off the record.”

“The group honored these guidelines, and consequently, both the discussions and this report deal with options about which some members have reservations and which, in some cases, they might oppose. Nevertheless, following through on the spirit of the discussions, the group felt that its work should be made available to other policy makers and to the public to inform debate on ways to address pending funding and reform challenges.”

*continued on page 3*

## Temple University Center on Regional Politics Public Pension Working Group

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**PA State Representative Chris Ross**, Chair, House Commerce Committee (R), and Co-Chair, Act 47 Municipal Distress Task Force, Local Government Commission, PA General Assembly

**PA State Representative John J. Taylor**, Chair, PA House Subcommittee on First Class Cities and Counties (R)

**Anna Wallace Adams**, Office of Finance, City of Philadelphia

**Marc D. Collazzo**, Office of PA State Representative John Taylor

**Rob Dubow**, Director of Finance, City of Philadelphia

**Christine Goldbeck**, Executive Director, PA House Urban Affairs Committee (R)

**Ronald Jumper, Esq.**, Office of PA Senator Jay Costa, Democratic Leader

**Timothy J. Klarich**, Finance Director, Tredyffrin Township

**Richard J. Manfredi**, Township Manager, Warminster Township

**Antoinette Marchowsky**, Office of PA Representative Cherelle Parker, Chair, Philadelphia House Delegation

**James McAneny**, Executive Director, Public Employee Retirement Commission

**Pam McCormick**, Greater Philadelphia Chamber of Commerce

**Elizabeth McElroy**, Secretary-Treasurer, Philadelphia AFL-CIO

**Uri Monson**, Chief Financial Officer, Montgomery County

**Folasade A. Olanipekun-Lewis**, Chief Financial Officer, Philadelphia City Council President Darrell Clarke

**John Raymond**, Office of PA Senator State Vincent Hughes, and also representing PA Senator Shirley M. Kitchen, Chair, Philadelphia Senate Delegation

**Shannon Sargent, Esq.**, Office of PA State Senator Anthony H. Williams, Democratic Whip

**Joan Stern, Esq.**, Partner, Blank Rome, LLP

**David B. Thornburgh**, Fels Institute of Government, University of Pennsylvania

**Paul J. Weschler, III**, Commissioner, Springfield Township (Delaware County)

**Steven T. Wray**, Executive Director, Economy League of Greater Philadelphia

**Bobby Yerkov**, Office of Philadelphia City Councilman Brian O'Neill

### Meeting Dates

September 21, 2012

November 30, 2012

February 22, 2013

April 19, 2013

October 9, 2012

January 4, 2013

March 15, 2013

### Guests and Presenters

**PA State Representative James R. Roebuck**, Chair, House Education Committee (D)

**Randy Albright**, Executive Director, PA Senate Appropriations Committee (D)

**James B. Allen**, Secretary, Pennsylvania Municipal Retirement System

**Jeff Clay**, Executive Director, Public School Employees' Retirement System

**Daniel Connelly**, Director, Fairmount Capital Advisors, Inc.

**David Donley**, Executive Director, PA House Appropriations Committee (R)

**Vijay Kapoor**, Director, Public Financial Management

**Sandra Kurtz Baxter**, Managing Director, Fairmount Capital Advisors, Inc.

**Don Mooney**, Executive Director of Operations, Springfield School District (Delaware County)

**Steve Nickol**, Assistant Director, Retirement Programs, Pennsylvania State Education Association

**Matthew E. Stanski**, Chief Financial Officer, The School District of Philadelphia

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CORP convened the working group after its Executive Committee identified public pensions as a priority for its initial agenda last spring. The center responded with initiatives designed to improve public understanding of pension issues and to seek consensus on appropriate policy responses. The co-chairs of three CORP committees – Fiscal Policy and Governance, Economic Development, and Urban Affairs—were consulted in assembling the group, as were other members of the Board of Fellows.

CORP's first Issue Memo, entitled *The Problem of Funding Pensions* (available at [www.temple.edu/corp](http://www.temple.edu/corp)) outlined the pension funding problems facing the Commonwealth and its municipalities and school districts, with particular focus on the three largest systems: SERS, PSERS, and the City of Philadelphia. In the aggregate as of fall 2012, these three systems accounted for almost \$46 billion of the total \$48 billion in unfunded liability facing Pennsylvania governments.

The center also sponsored a symposium on January 18, 2013 in which top national, state, and regional experts and stakeholders discussed pension issues before an audience of more than 100 public and private sector leaders, many of them members of CORP's Board of Fellows. The center's Winter Bulletin summarized the presentations and discussions that took place at the symposium and is also available on the center's website.

Beginning in September, the center also convened the working group for a series of meetings at Temple's Center City campus with state, school district, and municipal budget officials and with public finance and pension experts.

### Group Principles: Don't Leave Labor Out or Municipalities Behind

Although individual members of the group differed on some of the options discussed, they were virtually unanimous on a set of findings and principles that emerged during their deliberations. Among these were that labor should be at the table and its concerns should be addressed in fashioning pension policies. In addition, there was general agreement that responding to municipal pension problems deserves a higher priority on the legislature's agenda. Currently, the governor and key legislative leaders are focusing on the problems confronting the Commonwealth and school districts.

The group also agreed that pension benefits already earned by public employees, which constitute the bulk of the unfunded liability problem for most plans, must be paid to

comply with requirements of the Pennsylvania Constitution. Changing pension benefits for new hires involves less legal risk but could actually increase employer costs for an extended period of time, depending on the plan, as fewer workers are available to help fund past liabilities and investment policies are necessarily more conservative.

### Address Philadelphia's Unfunded Pension Liability

Under the heading Obtaining New Resources, the report suggests that the City of Philadelphia's one-percent sales tax due to expire on June 30, 2014 be extended and dedicated by law to reducing the unfunded liabilities of the City's pension systems, accompanied by plan changes that make the system sustainable going forward.

The sales tax rate in Philadelphia is currently eight percent, consisting of a six percent state tax and a two percent local tax. The local tax will revert to one percent, and the total rate to seven percent, on July 1, 2014. The report notes that although Philadelphia consistently ranks among the two or three most highly taxed big cities in the US, an eight percent sales tax would not make it an outlier on this levy. Of the 10 largest cities, Philadelphia is tied with San Diego for the lowest sales tax.

### SALES TAXES IN THE 10 LARGEST US CITIES

CITY	SALES TAX RATE (%)
New York	8.875
Los Angeles	9.0
Chicago	9.25
Houston	8.25
Philadelphia	8.0
Phoenix	9.3
San Antonio	8.25
San Diego	8.0
Dallas	8.25
San Jose	8.75

The report suggests connecting the extended sales tax revenues, projected at about \$130 million a year, to both new statutory language and new collective bargaining agreements that could win City and state legislative support. Philadelphia City officials who were members of the group did not endorse this option but did discuss ways in which the revenue stream could be used to reduce the City's \$4.8 billion unfunded pension liability.

For insight into how the state plan liabilities developed, see "Understanding Pennsylvania's Policy Past: The Case of Public Pensions" on page 9.

## **Restrict State Subsidies to Paying for Municipal Pension Benefits, Not Administration**

Noting that Pennsylvania is the only state to subsidize municipal pensions with a dedicated tax and has more than 3,000 municipal plans, many with very few members and high administrative costs, the report suggests that the subsidy be restricted to paying for benefits. For many municipalities, the subsidy fully pays for both benefits and administrative costs. Requiring plans to pay for administrative costs from plan assets or their operating budgets would incentivize inefficient plans to join the Pennsylvania Municipal Retirement System, which centralizes administration and investments and guarantees 5.5 percent returns for more than 900 plans at relatively low administrative costs. A related option would be for the auditor general or Public Employee Retirement Commission to rank municipal plans by cost-per-member or by municipal resident and publicize the rankings, enhancing accountability to taxpayers.

## **Consider “Stacked Hybrids” As Options for Plan Design**

As another example of a policy that could be pursued for state, school, and municipal pensions, the Issue Memo identified reducing benefit levels, such as switching future public employees to defined-contribution (DC) or so-called cash balance hybrid plans, as a general option. The report identifies and highlights “stacked hybrids” as an approach that combines defined-benefit (DB) and DC features, and it provides a hypothetical example of what such a plan might look like. Essentially, stacked hybrids would provide DB plans up to a legislatively or contractually determined salary threshold and a mandatory DC plan for salaries above the threshold. The report suggests that legislative leaders ask for actuarial studies of how stacked hybrids models might work.

## **Offer Retirees and Inactive Public Employees Pension Buyouts**

The group also heard from a firm that advises municipalities and school districts about an approach it is pursuing for a large private sector organization, namely using long-term borrowing to offer lump-sum buyouts to retirees and inactive plan members based on their projected DB earnings. If focused on inactive plan members, this approach can avoid the employer risks associated with pension obligation bonds and the constraints of labor contracts that would govern active employees. Although their collective projected benefits are not large, there are 117,000 inactive PSERS plan members, for example.

## **Reduce Benefits for New Hires or Current Employees Prospectively**

Governor Corbett and Senators Patrick Browne (R-Lehigh) and Dominic Pileggi (R-Chester and Delaware), among others, have proposed that Commonwealth and school employees hired after date certain be provided with a mandatory DC system to stabilize and, over the long run, reduce employer contributions. Some legislators have advocated “hybrid” plans that combine DB and DC features. Cash-balance hybrids provide retirees with the cash balance in their accounts that can be paid in a lump sum or converted to an annuity. Philadelphia Mayor Michael Nutter also has proposed a hybrid system for new hires. The report discusses the advantages as well as the legal and fiscal challenges associated with such steps.

## **For SERS and PSERS: Stay the Course**

Some group members felt strongly that pension changes enacted in 2010, which included longer vesting periods, lower multipliers and higher contribution rates for new hires, and anti-spiking provisions, should be given more time to work. In the meantime, the Commonwealth should step up to the higher appropriations required to fund employer obligations and provide aid to school districts to meet their obligations to PSERS plan members.

## **Consider the Lexington, KY Path**

The report also provides specific examples of innovative paths to pension funding and reform. It describes how a task force of public officials and business and union leaders addressed long-standing pension issues in Lexington, KY, and suggests that a similar approach be considered by Philadelphia and other municipalities in Pennsylvania. The facilitator of the Lexington effort, which has won national attention, was among outside experts who met with the working group.

## **Other Options and Conclusions**

Other options discussed in the report include: restructure health care benefits to offset rising pension costs; sell or lease resources to reduce unfunded pension liabilities; issue pension obligation bonds; address underlying causes of municipal fiscal distress; and negotiate labor contracts and legislative solutions that are mutually contingent. Noting that the report is the product of an informal study group, not an advocacy organization, the group concludes with the observation that its work ends with the publication of options. “It will be up to state and local elected officials and other stakeholders, such as leaders of business, labor, and civic organizations, to continue working on options and ideas they believe have merit,” the report says.



## “THINKERS” AND “DECIDERS” ON PHILADELPHIA TAXES

(continued from page 1)

Joseph P. McLaughlin, Jr., CORP director, characterized the two panels as “the thinkers” and “the deciders.”

The so-called “thinkers” argued that the City should move decisively toward less reliance on taxing the income of workers and businesses, which can move beyond its borders, and greater reliance on taxing property, which cannot move. The “deciders” agreed with the general direction as a goal but argued that the city’s poverty and low education levels were also factors in its job losses. Providing higher quality services, particularly for schools, were at least as important as changing tax policies, they argued.

After introductions by McLaughlin and Larry Eichel, director of Pew’s Philadelphia research initiative, the May 3 conference at the Pennsylvania Convention Center began with the presentation of research data on the impact of Philadelphia’s current tax policy by Thomas Ginsberg, Pew project manager.

### Pew Data Show Low Reliance on Property Taxes

Ginsberg compared Philadelphia’s taxes and economic performance to 30 other major cities. The data, which anchored the following discussions, painted a picture of a city with taxes that were far too numerous and too burdensome, yet paradoxically not broad-based or productive enough to sustain quality services and job growth.

“Comparing Philly just to those five other cities, we see that Philadelphia depends on its personal and business and income taxes much more than the other places do, and less on its property and sales taxes,” said Ginsberg.

Despite levying no less than 17 different municipal taxes and being one of only six cohort cities to rely on all three common methods of taxation (property, income and sales tax), 66 percent of the City’s \$2.9 billion budget came from income taxes, with only 18 percent from property tax, according to Pew data.

### High Wage Tax Costs City Jobs

Ginsberg, citing research conducted by panelist and Wharton School Professor Robert P. Inman, said the cost of the current structure was writ large across the face of the city’s ailing economy.



City Finance Director Rob Dubow, Wharton Professor Robert P. Inman, Center City District Director Paul R. Levy, Naroff Economic Advisors President Joel L. Naroff, University City Science Center President Stephen S. Tang, and NBC10@Issue Host Steve Highsmith at the Philadelphia tax symposium.

“According to that data, Philadelphia’s wage tax helped drive out or eliminate 173,000 jobs over thirty years,” said Ginsberg, adding that Inman’s work indicated that the City’s past incremental wage tax reductions had helped to save 29,000 jobs locally.

The impact of those lost jobs? A city with a 28.4 percent poverty rate, a 10.2 percent unemployment rate, 43 percent of city residents reverse commuting to the suburbs, lower office rents and lower wages across the board, according to Pew statistics. While now-halted reductions in the wage tax and rising taxes elsewhere have led to a narrowing tax gap between city and suburb, Ginsberg noted that the average Philadelphia family still spent 13 percent of its income on state and local taxes alone, higher than in most suburbs. Ginsberg added that the business tax burden on entrepreneurs were on average 19 percent higher in the city than in suburban municipalities.

Ginsberg then turned the stage over to an ensemble of scholars and economists from across the region to weigh in on the report and tax policy at large. Moderated by NBC10 news anchor Steve Highsmith, the panel included Professor Inman, City Finance Director Rob Dubow, Center City District Director Paul R. Levy, Naroff Economic Advisors President Joel L. Naroff, and University City Science Center President Stephen S. Tang.

### Goal: Reform Taxes to Grow Jobs

“Everyone in this room would likely agree with this statement about today’s tax structure: ‘It stinks and it’s not productive,’” began Highsmith. “There has been progress over

the last 20 years to correct some of these inequities...and we are perhaps at a point where we can really move this thing in the right direction, but what is the right direction? That's what we're here to try to get a handle on."

Highsmith started the discussion by trying to reach a consensus amongst the panelists on what the ideal goal of taxation should be. The panelists widely agreed, perhaps unsurprisingly, that it was to have a simple and fair collection system that adequately funds needed public services while causing as little financial hindrances to individuals and businesses as possible.

Levy used the question to contrast the ideal with Philadelphia's current experience. "Since 1970...New York has experienced dynamic job growth; Boston has experienced dynamic job growth as has Washington. All of them are up 14, 18, and 25 percent, while we are down 25 percent," he said. "Job loss is not the fate of old cities. Each of these cities has lost 85 and 90 percent of their manufacturing base since 1970, so this is not unique to manufacturing cities."

Levy went on to color the absence of jobs outside of Center City as a citywide "denial of opportunity caused by taxes." Adding that while the City had made strides towards developing African-American owned businesses over the last two mayoral administrations, nearly all were sole proprietor-based because of the burden the current tax structure posed for growing small businesses. He contrasted Philadelphia with Washington, D.C., which he said had "a much more dynamic rate of businesses adding employees within the African-American community" due to its less onerous business taxes.

"We tax what moves and it moves, while other cities tax what's fixed: land and improvements. They have much more dynamic job growth," said Levy.



State Representative Chris Ross participates in the discussion at the Pew-CORP symposium on Philadelphia taxes.

That served as a segue into Highsmith's next query to the panel, asking what the best mix of different types of taxes should be for a robust economy.

All agreed that the City had too many different tax categories. Inman suggested the City reprioritize core functions like education, public safety, and the park system, while looking for the taxes that "do the least damage," reiterating Levy's point that property tax was an "excellent tax" in this regard. He contrasted this with the wage tax.

"People are not going to work in the city unless the business compensates for their higher wage tax. The bottom line is that this tax is shifted back onto businesses," said Inman.

### Benefits of Property Tax Cited

He added that property taxes were also an ideal "benefits tax," because they gave homeowners an incentive to demand better services and efficiency from the City government itself. As an example, a taxpayer should feel that he gets \$1.10 in the value of city services for \$1 in taxes paid.

Naroff emphasized that in shifting the tax mix, it was important not to get hung up on keeping everything revenue neutral, which Highsmith suggested was a priority for the City.

"The phrase 'revenue neutral' is basically political cover, so people can say 'look, I didn't do any harm'...but if it turns out you raised more revenue by restructuring and simplifying [the tax code], what's wrong with that?" he asked. "Indeed, if you do it correctly, you will be raising more revenue."

Dubow noted that the City's proposed budget for FY 2013-14 resumed a schedule of continuing wage tax cuts and argued that the administration and City Council's decision to hold to revenue neutrality for the property tax was necessary to win public acceptance for the new property tax assessment system represented by the Actual Value Initiative (AVI).

### Philadelphia Taxes Called Regressive

Highsmith then brought up one of the sharpest criticisms of Philadelphia's tax code: that it is one of the most regressive in the nation. Indeed, surveys indicate that the city has the highest wage tax out of the 50 largest US cities for individuals making less than \$100,000. But that rate as a proportion of income actually decreases for wealthier

Charles Mostoller

residents under the current system, a deleterious setup for a city with an astronomically high poverty rate.

Dubow was up front about the particularly negative impact of city taxes in this regard, acknowledging that the burden fell disproportionately on “lower-level incomes” relative to other cities.

“It would be better to have more a progressive rate,” admitted Dubow. He later suggested encouraging the state to change the uniformity clause, which requires a single rate for all payers in a similar tax category, in order to alleviate this problem for Philadelphia.

The conversation then shifted to the city’s historically reviled business taxes, with Levy noting that the Use and Occupancy (U&O) tax levied for the school district and Business Income Revenue Tax (BIRT) levied for the City had led to a 30 percent markup on business costs for office tenants versus the suburbs, and an 18 percent disparity for small businesses.

“U&O and the BIRT are why we have the least jobs of any major city in the Northeast,” he said flatly.

Highsmith quoted a statistic that 40 percent of the region’s private jobs were in the city four decades ago, compared to 26 percent today, wondering if it was possible to create a “vibrant city” with many residents working in King of Prussia or Cherry Hill.

Levy highlighted this point by noting his own study which found that 43 percent of Philadelphians commute to the suburbs for work, a practice that disproportionately affects the poor as jobs move farther away from public transportation nodes.

Inman and Tang looked at the disparity as a missed opportunity for the city, which was in a way, fueling suburban job growth through its own job incubators. Both had watched firsthand as biotech startups fled the University City Science Center for the suburbs once they hit a certain size.

While Tang complimented the city’s move to eliminate the BIRT for businesses earning less than \$100,000 a year, Naroff said it was not enough.

“As soon as businesses can walk, they do,” Naroff said, advocating reductions to the net income portion of the BIRT, which he emphasized was a job killer.



Charles Mostoller

Liz McElroy, Secretary-Treasurer of the Philadelphia AFL-CIO, asks a question of the tax policy panel at the Pew-CORP symposium.

### Levy: Don’t Delay Tax Reform

Levy disagreed with other panelists’ recommendations for incremental attempts to reduce taxes sector by sector, saying the government and economists should not be trying to pick the winners and losers in the private economy, but instead should lower business taxes across the board. Naroff and Inman agreed with that point.

The panel also generally rejected the notion of PILOTs – payments in lieu of taxes – for the city’s burgeoning non-profit sector as a revenue bump, characterizing that proposal as simply creating a problem where there currently was not one. Inman suggested that if the City could figure out the benefits the universities draw from the City and present them with a bill that might be fair. However, it was repeatedly noted that the city’s universities provide not only jobs, but augment security and beautification services to city neighborhoods, as well as healthcare for numerous uninsured residents.

As the first panel concluded, Naroff made a poignant observation. “It was really nice not hearing in this discussion the term ‘good jobs.’ The issue is creating jobs of all kinds, and that’s what we need to focus on,” he said.

Soon after, members of the audience peppered the experts with questions, touching on issues of fairness, and collections, as well as the pursuit of alternative taxes.

Responding to the use of the word “fair,” Inman agreed with an audience member’s assertion that the term might have a different meaning for everyone but urged the audience to study the citizens’ “portfolio of opportunities” – such as their jobs, access to good schools, and neighbor-



hood safety - in order to come to an understanding of what a fair taxing system might look like. Naroff pointed to the development of AVI as an example of what can happen when the system is not perceived as being fair, suggesting that when fairness is lacking, it will lead to the general contempt of the system.

### Stronger Tax Collection Efforts Needed

Specific to the collection of taxes, it was suggested that the City's reliance on the wage tax results from it being an easier tax to collect, that perhaps if more aggressive collection methods on other taxes were used, the result might be a significant revenue increase for the City. Rob DuBow agreed that property tax delinquency was an issue, but argued the City has placed more efforts towards improving the collection process over the last four years. As a result, 91 percent of property taxes owed are collected in the course of the year. While improved, DuBow conceded that more work can and will be done to improve the collection process.

A question was raised as to whether additional revenue might be found by levying taxes on those who benefit from externalities such as transit. Inman was the only respondent, suggesting that parking garages and a regional transit tax could be reasonable since they are systems that provide a public good for those who reside outside of the city.

As expected, AVI was raised throughout the Q&A session, specifically as related to issues such as de-gentrification and abatement. Inman suggested that AVI's success will depend on fairness, as well as the transition process from the old system to the new. Levy highlighted this point by suggesting that residents will be happy if there are tangible benefits to paying more, advocating that this may be achieved by using marginal profits for parks, playgrounds, and schools. "If the benefits are there to compensate for the costs, folks will move in...for us to pretend that the city does not exist in that market environment, I think is a serious mistake," said Inman.

Following Q&A, an array of state and local legislators convened to discuss the politics of actually implementing the policies discussed in the first half of the symposium.

That panel, moderated by Sandra Shea, editorial page editor of the Philadelphia Daily News, consisted of State Senator Vince Hughes, Councilman David Oh, State Representative Cherelle Parker, Councilwoman María Quiñones-Sánchez, State Representative John Taylor and State Senator Anthony H. Williams.

Shea began by asking the panelists for their perspectives on the wide support amongst the policy experts for shifting more of the tax burden towards property.

Councilwoman Sánchez and others agreed that a shift to "non-mobile" assets would be beneficial, but she added two caveats. First, she noted that all those paying the wage tax at least have jobs, while some property tax payers do not. Second, she said Constitutional constraints prevent the City from taxing business and residential property at different rates. "Some of the challenges the City faces are related to that uniformity clause, so we are tinkering around the edges on taxes," she said.

### Improving Education Also Important

Senator Williams, while agreeing that a shift towards property taxes would be beneficial, differed from the other elected officials and previous panelists by suggesting that tax policy was only a small part of growing the local economy, adding that improving the education levels of Philadelphia residents "must be paramount."

The discussion moved on to AVI, with leaders acknowledging the technical and political difficulties in revaluing more than half a million individual parcels of land in the city. Councilwoman Sánchez said, at this point, she was hopeful that leaders would simply "get it better," versus the City's current, notoriously arbitrary, assessments. Both Councilwoman Sánchez and Councilman Oh added that they were upset that the Office of Property Assessment had not released all the information underpinning the new assessment process.

Shea then steered the discussion back to the state level, asking Senator Hughes where Philadelphia stood in the capital, in terms of the tax reform discussion. Senator Hughes criticized the Corbett administration for not responding to the fiscal and economic problems facing Philadelphia and other similarly situated Pennsylvania cities. He referenced a lack of financial support and a \$300 million shortfall in education funding for the city's school district. While saying that he and other legislators were hoping to push for new laws that would give cities more tools to craft and collect taxes, he added that reforms would be ineffective without more funding from the state.

"You can't isolate the economic success of this city and region to tax policy," he said, emphasizing the critical role played by state and federal support.

Representative Taylor, the lone Republican state legislator on the panel, took exception to those comments, saying



that the Corbett administration had not stood in the way of legislation authorizing homestead exemptions and other components of AVI. He recounted bipartisan cooperation in the Republican controlled legislature in pursuing state legislation that would help the City obtain more revenues from tax delinquents and ease the burden for homeowners facing steep tax increases due to AVI.

As with other elected officials on the panel, Representative Taylor said he agreed that the City should move toward lesser reliance on taxing business and worker income but only at a gradual pace.

### School Funding Needs Debated

Shea pressed panelists further on the issue of state funding and education cuts, asking what could be done to deal with the \$300 million gap.

Councilman Oh, one of three Republicans in City Council, said that there was only so much the City could do to deal with the district's problems, adding that he did not support a blank check policy for the schools. He said that given poor school performance, he did not support Council simply signing over more money to the district.

Councilwoman Sánchez agreed that Council had done extraordinary "heavy lifting" in terms of raising taxes and additional revenue for the district, and that the City was in such dire financial straits that it could hardly begin to properly address education on its own. However, she said that it was still up to Council to do whatever it could to fund schools in the absence of state and federal support.

The state legislators, for their part, said that they were committed to finding more funding. Senator Williams, who said he supported an extra \$120 million for the district, called the need for this conversation "chilling." Representative Taylor agreed that schools deserved more funding, and emphasized the role charters and school choice could play in better utilizing increased funding.

Representative Parker continued to emphasize the need to be unified – both as a delegation as well as a region – so that messaging in Harrisburg is consistent and uniform for current and future legislative cycles. House passage of legislation that allows the city to streamline the tax collection process, and ease AVI's impact reflects the aforementioned need for collaboration by the city and state members and suggests that such an effort can indeed occur and be successful, she said.

## UNDERSTANDING PENNSYLVANIA'S POLICY PAST: THE CASE OF PUBLIC PENSIONS

The Center on Regional Politics is part of Temple's Institute for Public Affairs, which has built and maintains a unique and open database that allows users to integrate more than 170,000 records across the three branches of state government, public opinion polls, and the news media. The case of public pensions provides an example of the project's capabilities to quickly capture records that provide insights into past attempts to deal with recurring issues and problems.

Unlike most archives, which are designed mainly to locate individual records, Temple's Pennsylvania Policy Database can serve that function and also display patterns of government and news media activity. The database's graphing tool shows with a few mouse clicks shifts of attention to issues across 10 datasets since 1979, including changing patterns of state spending and general fund balances.

Modeled on the US Policy Agendas database built for the federal government and housed at the University of Texas, the Pennsylvania project and similar databases under construction in Canada and more than a dozen countries in Europe, Asia, and Australia all use the same coding system, organizing data into 20 major and more than 200 minor policy topics. Although the Pennsylvania project has a keyword search tool as a supplemental feature, every record has been individually coded by student researchers aided by computers and therefore is not vulnerable to the quirks of a keyword system.

The US and Pennsylvania databases show that public policy normally evolves incrementally, given biases against rapid change in our constitutional system and limitations on the ability of human beings and political institutions to manage large and complex agendas. But for a variety of reasons, individual policy areas are also occasionally marked by dramatic punctuations of heightened attention and sometimes new directions, such as the country is now experiencing with respect to public pensions.

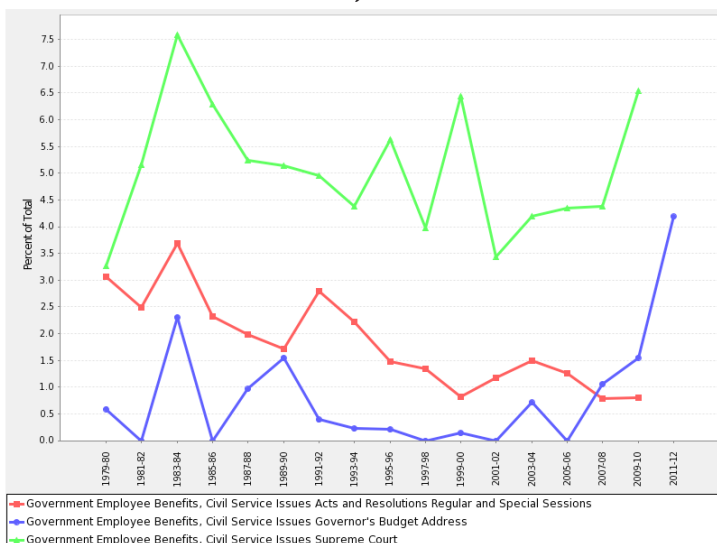
In the case of pensions, punctuations appear to result at least partly from the mismatch between two and four-year political horizons and the 20 to 30 or even 40-year economic horizons of funding pensions. Electoral cycles provide incentives for elected officials to realize benefits in the short run (satisfying constituencies, including public employees) and push costs into the uncertain future. Eventually, incrementally mounting costs or dramatic events like recessions can force policy punctuations.

On the Pennsylvania database, on the drop down menu under the major topic “Government Operations,” the minor topic “Government Employee Benefits, Civil Service Issues” instantly shows peaks (punctuations) of attention by governors in their budget addresses; by the legislature in bills introduced, hearings held, studies authorized, and laws and resolutions adopted; and by the Pennsylvania Supreme Court in decisions on pension cases that reached its docket. These punctuations roughly, but not perfectly, coincide with market peaks (tempting the legislature to expand benefits) and recessions or the aftermath of recessions (providing incentives to defer costs).

With respect to the employment, benefit, and civil service issues going back to 1979, a user can scan in short order all 83 sentences and phrases by governors in their budget messages (26 by Governor Corbett last year and 18 by Governor Rendell in 2009 and 2010), the titles of 264 bills enacted and resolutions adopted by the legislature, and abstracts of the 244 Supreme Court decisions touching on these issues (see nearby graph). Because our database contains links to the General Assembly’s database, users could also go directly to the full text and history of all the pension bills and resolutions so identified as well as to the full text of the governor’s messages. The database also identifies 80 House hearings that could be searched in the House archives and 10 studies authorized by the legislature over the same time period, with links to the full text of the studies.

Among laws captured under employee benefits and civil service issues, four bills and one resolution stand out.

### Attention to Government Employee Benefits and Civil Service Issues in PA, 1979-2012



**Act 9 of 2001** was enacted during the stock market boom when the assets of SERS and PSERS exceeded their actuarially projected liabilities. This legislation expanded benefits for state and school employees and retirees without providing a means to pay for them. The database reveals that the governor did not ask for this act, which had enormous fiscal implications for the Commonwealth and its school districts, in his budget message, and the legislature held no hearings on the bill before it was signed into law on May 17, 2001.

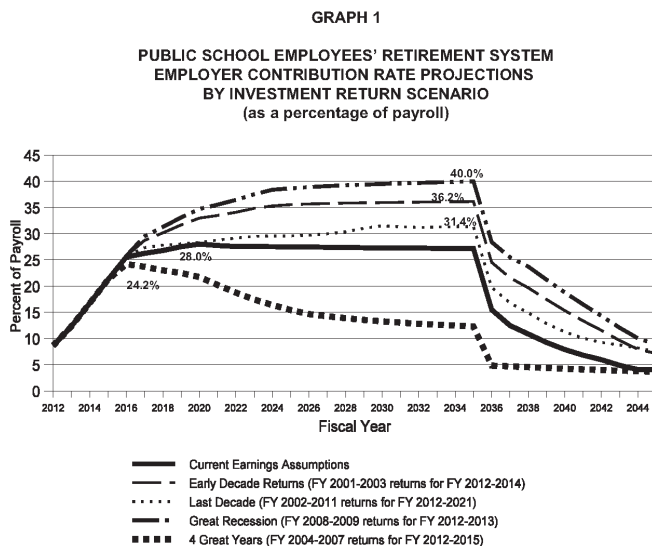
Eighteen months later, however, the Senate, noting a suddenly worrisome post-9/11 decline in investment performance by the two state systems, adopted **SR 286** asking the Joint State Government Commission to study the potential problem of rising pension funding burdens and to make recommendations. The report issued in the 2003-04 session predicted sharply rising employer contributions, but its recommendations either were ignored or proved inadequate to avert the building fiscal pressures for funding pensions.

**Act 40 of 2003** belatedly tried to reduce pension pressures by manipulating the amortization of pension fund gains and losses. According to the governor’s budget office, this legislation had added more than \$5.9 billion to the unfunded liability of the two state systems by 2012. Seven years later, after eight public hearings on the pension problem, the General Assembly enacted an effective pension reform law, **Act 120 of 2010**. This legislation changed pensions for new state and school employees. Essentially, it extended retirement ages and vesting periods, raised employee contribution rates, and repealed the higher multiplier enacted in Act 9. Like Act 40, however, it arbitrarily suppressed sharply steeper employer contributions until FY 2013, after which they sharply rise until FY 2018.

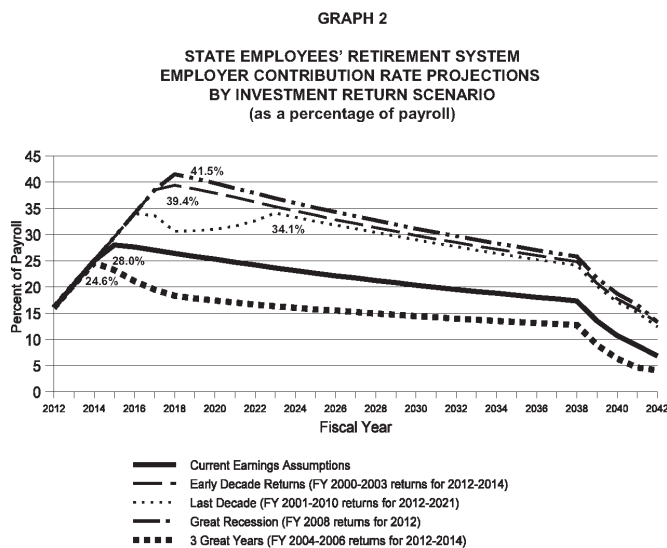
Simplifying things a bit, the current debate in the legislature is between Democrats who argue this law should be given more time to work and Republicans who believe stronger measures, such as changing new hires to a defined-contribution system, are necessary now. Democrats generally note that over the long run (25 years or more), PSERS and SERS have exceeded their actuarially assumed investment returns, even before those assumptions were reduced to the current 7.5 percent level. Republicans generally put more emphasis on the risks of lower investment returns than in the past, the increasing longevity of retirees, and the increasing ratio of retirees compared to current workers.

In its 2012 review of pension policy options, The Public Employee Retirement Commission (PERC) produced graphs (reproduced nearby) showing the course of future

taxpayer supported contributions (as a percentage of state and school payrolls), which are already at historically high levels, under various assumptions about returns. Readers can judge the scenario they believe is most appropriate.



Source: PERC

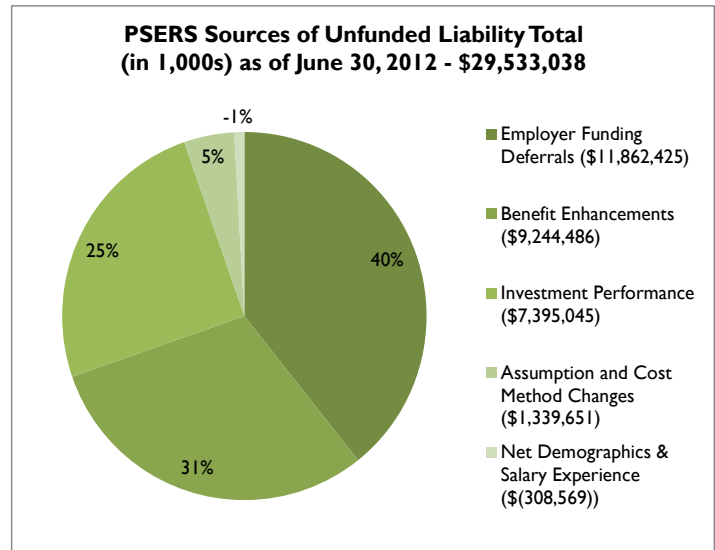


Source: PERC

A fourth bill, **Act 205 of 1984** provided reforms and new state funding for municipal pension systems after the 1983 recession. Faced with sharply rising unfunded liabilities due to the recession, municipalities persuaded the legislature to amend the act in 2009 by extending amortization periods, deferring employer contributions that would have otherwise been required.

Other sources confirm that recessions have not been the major source of the problem. As the nearby graph shows, PSERS attributes more than 70 percent of its current \$29 billion unfunded liability to funding deferrals and benefit

enhancements by the legislature and only 25 percent to poor investment performance. This research is consistent with a point made by the Pew Center on the States presentation at CORP's January 18 symposium, namely that many state and city pension plans were already in trouble due to legislative underfunding before the 2008 recession.




In 2010, two student interns in Temple's Pennsylvania Capital Semester asked current and former legislators, the news media, and scholars to assess the Pennsylvania General Assembly's 50 most important laws enacted since the 1968 Constitutional Convention, as determined by a panel of experts. The survey ranked Act 9 lowest among the laws listed, with more negative than positive impacts. (Act 120 was not included in the survey because it only covered laws enacted through 2008.) Act 205 of 1984 was identified as one of the legislature's 25 greatest achievements, although this law might also have inadvertently contributed to pension plan proliferation. This study, entitled *The Pennsylvania General Assembly's Greatest Achievements*, is online at [www.temple.edu/ipa](http://www.temple.edu/ipa) under Working Papers.

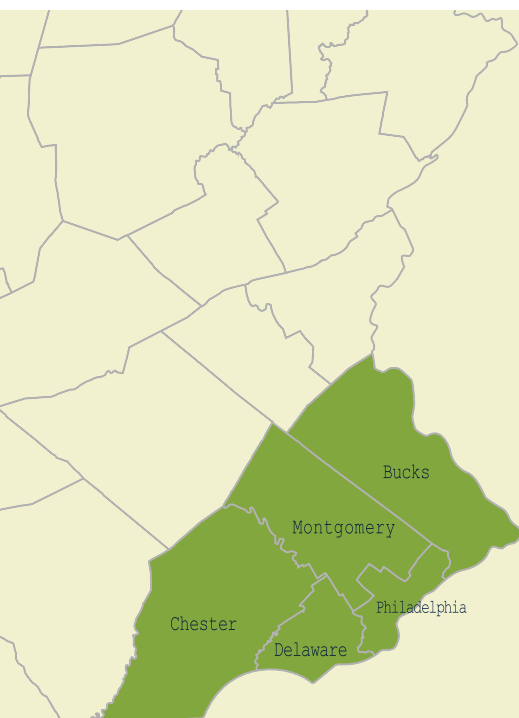
The Temple policy database thus provides a quick roadmap for deeper research into the emergence of problems and responses by the government to issues that seem to recur in cycles. It seems likely that in future years, researchers and policymakers will be trying to understand how their predecessors dealt with the pension punctuations of the legislative sessions from 2009-10 to 2013-14.

*The Pennsylvania Policy Database was built by students at Temple and five other Pennsylvania universities with the support and cooperation of the General Assembly. Users will find a guidebook for utilizing the database on the project's website ([www.temple.edu/papolicy](http://www.temple.edu/papolicy)).*



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