PMA

The Bulletin

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Pension Debt Cited in Lower Credit Rating for Pennsylvania

Pennsylvania's credit is now on par with the lower third of states. Moody's Investors Service cites state employee and teacher pension debts as the prime culprits for lowering the Commonwealth's rating. Financial analysts say the new rating could lead to higher interest rates paid on money borrowed through floating bonds, something that could become evident as soon as July 24, 2012, as the Commonwealth plans a $363.5 million general-obligation bond sale.

"The interest rate all depends on what the bond market will bear at the time," said David Jacobson, spokesman for Moody's. "But certainly the lower rating doesn't help." Jacobson added that Moody's only expects Pennsylvania's debt problem to worsen. "Pennsylvania's level of funding for the employee pension system is under 70 percent," he said. "We expect that to get even lower over the next two years."

Pennsylvania's pension debt represents only part of the state's overall debt burden – but it's a big component. According to the Public Employees Retirement Commission, the pension debt is approaching $40 billion in unfunded liability, with an additional $10 billion in health care and other post employment benefits. In addition, the Commonwealth has $18 billion outstanding in general obligation bonds and plans another $4 billion bond sale to pay off a federal loan that covered unemployment compensation costs during the recession.

"With all this debt and a state budget of about $28 billion we're not looking real good right now," said James L McAneny, Executive Director of the Retirement Commission. "Something has to be done because the longer we wait, the problem only compounds itself."

Moody's dropped Pennsylvania's bond rating to Aa2 from Aa1, citing the Commonwealth's "large and growing pension liabilities and moderate economic growth," which "will challenge the return to structural balance, contributing to a protracted financial recovery," according to a report published by the service.

McAneny attributes the size of the employee pension debt to three causes: In 2001, the General Assembly approve a change in the pension system that jumped the multiplier from 2.0 to 2.5; the flat stock market; the state has underfunded its share of the costs for 15 years. "In some years, the state contributed nothing to the pension scheme," McAneny said. A 2010 law has dropped the multiplier back to 2.0, but the change holds for new hires only.

Moody's also announced it has placed $942 million worth of bonds issued by Pennsylvania's 14 state-owned universities, "on review for downgrade."

In related news, the Task Force on the State Budget recently published a report saying that "the (fiscal) threats and risks vary considerably from state to state, but the storm warnings are very serious. Only an informed public can demand that the political systems … take effective action." To read the report click here.

Guidelines for Public/Private Partnerships Finally Law

State Rep Rick Geist (R-Blair) has bested Sisyphus, the king in Greek mythology who was condemned for eternity by the gods to roll a boulder to the top of a hill, only to have it roll back down. After ten years of trying, Geist's legislation that sets the guidelines for public/private partnerships (P3s) is now law. "Actually when it passed, I wasn't thinking about anything other than, my God, it's done," Geist said.

The bill, HB 3, is viewed by free market advocates as a way of repairing and re-building the state's infrastructure without raising fees or taxes. "In the past, state government would send bids out for a job and then award the contract," said Eric Bugaile, transportation expert for the House Republican Caucus. "This law changes all that. Now a private contractor might come in with some money up front, or all the money up front, and work in closer partnership with the agency."

Pennsylvania needs an additional $2 billon to $2.5 billion each year to fund road, bridges, and mass transit according to an August 2011 report released by the Governor's Transportation Funding Advisory Commission (TFAC). P3s were one of the funding options recommended in the report. P3s could fill an even larger portion of the funding gap without inherent institutional labor problems in Pennsylvania, according to free market advocates.

Nate Benefield, Director of Policy Analysis for the Commonwealth Foundation for Public Policy Alternatives, noted that the Prevailing Wage Law, which guarantees workers a union level wage on public contracts, would be in place under the P3s.

"The added cost of the job because of the prevailing wage will no doubt undermine some opportunities for private investors," Benefield said. Benefield also said that while mass transit systems are permitted to enter into P3s under the new law, the unions will pressure the agencies not to use outside contractors.

Still, the new law is a step in moving Pennsylvania in the same direction as other states with running deficits that are relying more on the private sector for services. The Reason Foundation's Annual Privatization Report, released this week, cites numerous examples of states looking for help from the private sector. In California, officials are looking to the private sector to keep state parks open, Ohio privatized its economic development agency, and Puerto Rico is in the process of leasing the San Juan International Airport.

Cost Saving Prison Reforms Now Law

Sweeping changes in the corrections system in Pennsylvania, that are expected to save millions, have been praised by members of a prison reform coalition that covers the political spectrum.

"The new law will amount to much smarter sentencing which translates into substantial savings," said Katrina M. Currie, policy analyst with the Commonwealth Foundation for Public Policy Alternatives, a member of the coalition. Governor Corbett signed, SB 100, the Criminal Justice Reform Act, on July 5.

The coalition includes former Democratic Governor, George M. Leader, Gene Barr, President & CEO of Pennsylvania Chamber of Business and Industry and Michael Geer, President, Pennsylvania Family Institute, among others. All backed the same goals of alternative sentencing and reducing the number of non-violent criminals in prisons; a move that saves millions in corrections costs.

The legislation grew from two separate initiatives. Montgomery County Republican State Senator, Stewart Greenleaf, worked for years with other lawmakers on approving alternative sentencing measures. House amendments inserted into his bill, SB 100, represent the Justice Reinvestment Initiative (JRI) developed by the Corbett Administration and both Republicans and Democrats in the House. Overall, supporters expect savings of more than $300 million over the next five years.

The money saved will be re-invested to prevent crime and to support alternative sentencing. A portion of the funding will also encourage counties to house non-violent criminals rather than send them to costlier state prisons.

Over the past thirty years, increases in the Department of Corrections line item in the state budget have run well ahead of the rate of inflation. In 1980, state prisons housed over 8,200 prisoners at an average cost of $11,400 each. By December 2011, the state corrections system held over 51,600 inmates at an average cost of $34,200. Nonviolent offenders make up nearly two-thirds of new commitments.

A summary of the legislation provided by the Senate Republican Caucus says the new law will expand the use of Pennsylvania's alternative sentencing programs: county and state intermediate punishment, boot camp, and recidivism risk reduction incentive (RRRI).

County courts would be authorized to create a program to enforce probation violations by imposing, "swift, predictable, immediate and measured sanctions." The programs would be modeled after a successful initiative in Hawaii known as HOPE. The state's pre-release program will be phased out in favor of using community corrections centers or facilities for technical parole violators. Most technical parole violators will be confined in a community corrections center or facility for six months and will be automatically re-paroled after that time period. Low-level offenders (third degree misdemeanors) will no longer go to State prison.

Finally, the new law gives the parole board discretion whether to require a person on parole who commits a new crime to serve all of the time served at liberty in addition to the sentence for the new crime.