



CITY OF PITTSBURGH

"AMERICA'S MOST LIVABLE CITY"

Written Testimony to the Senate Finance Committee Senate Bill 755

June 18, 2015

Chairman Eichelberger, Chairman Blake, Distinguished Members of the Senate Finance Committee:

Thank you for the opportunity to present written testimony in support of a comprehensive reform of municipal pensions in Pennsylvania. The status quo of pensions in this Commonwealth is a barrier to the economic competitiveness of our cities and communities. Pittsburgh has been confronting this issue for decades, and despite taking drastic steps to cauterize the problem, we still remain with a pension fund that is only 59% funded and an unfunded liability of more than \$480 million.

In the 1990s, the City issued pension obligation bonds totaling nearly \$270 million. Over \$200 million is still owed on these bonds, representing a quarter of all city debt, and the last bonds will not be repaid until 2040. The pension obligation bonds severely limited our ability to follow a responsible debt management strategy. And still our unfunded liability is growing.

In 2004, the City entered Act 47. The financial recovery plan was designed to set us on the path toward fiscal stability. Over the last decade, our public safety workforce has shrunk by 15%, and the overall City workforce has shrunk by 10%. These personnel losses have had real effects on programmatic offerings, permit processing times, and other basic city services. And still our unfunded liability is growing.

In 2010 the City was confronted with the choice of privatizing our parking assets or losing local control of our pension fund. While on City Council, I helped craft a plan to bring our funding ratio up above 50% by diverting approximately \$13 million annually of parking revenue into the pension fund, an amount that will nearly double in a few years. This was revenue that could have gone into improving the quality of life in our neighborhoods through additional officers, firefighters, or employees. And still our unfunded liability is growing.

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This year we are contributing to the pension fund an additional \$4.6 million over our minimum municipal obligation and our parking tax commitment. And still our unfunded liability is growing.

Continued investment in a rapidly growing pension liability has also happened at the expense of investment in our long-term capital program. According to our Act 47 Amended Recovery Plan, Pittsburgh's capital spending between 2006 and 2012 was approximately one-third of what was required to adequately maintain and replace our existing infrastructure. Payments into our combined pension system represent money not being invested to make needed improvements to the roads, bridges, parks, police and fire stations, and economic development initiatives that will keep Pittsburgh competitive in the future.

Despite reducing core city services and deferring critical investment in our City, the albatross of pension funding continues to hang around our neck. Without systemic change to the pension funding system our unfunded liability will continue to increase, even as the City's spending on pensions increases and it takes up an ever larger percentage of our budget.

Some will say that borrowing or selling assets is the most responsible way to deal with the pension issue. For two decades, Pittsburgh has served as the laboratory for solving the pension funding issue on the back end. From pension obligation bonds to privatization, no solution has stopped the hemorrhaging of City resources that would otherwise be going to improving the quality of life for our residents or the economic competitiveness of our City. This problem is not a revenue problem. Despite all of the revenue-based solutions attempted over the last 22 years, the challenge remains and still our unfunded liability is growing. Comprehensive statewide reform is the only way that the problem does not continue to grow.

I urge the Senate Finance Committee to consider the ways that the Commonwealth can serve as a partner to municipalities in addressing our critical pension reform needs. I stand as a willing partner to make meaningful municipal pension reform happen. We cannot wait another 22 years.

Sincerely,

A handwritten signature in black ink, appearing to read 'W Peduto', written in a cursive style.

William Peduto
Mayor, City of Pittsburgh