Here is the key question in the Pennsylvania Capitol this spring: Can our divided government fix broken school funding, attack huge pension liabilities, and relieve oppressive property taxes while also eliminating a structural general fund deficit? And can they achieve these goals in ways that also promote economic growth?

Our third school funding symposium May 6 in Harrisburg features a RAND study that estimates the cost to our economy of underperforming schools. Temple commissioned the study with business support to encourage the General Assembly, policymakers, school officials, and teachers to aim for ambitious, long run student performance gains while they are addressing the immediate shortfalls and inequities in school funding. Also featured is a presentation on how the world’s best education systems got to the top and grew their economies. Hint: Not by doing what we do.

We also report herein the continued growth of unfunded pension liabilities that largely represent unpaid bills from the past. Ideas for managing these deadweight costs, many surfaced in our bipartisan working group report on pensions, are not in short supply. Solutions are.

Failure to fund schools and pensions fairly and efficiently drives up property taxes that both parties want to alleviate, perhaps enough for compromises on all the big issues.

Better schools raise property values, and schools in states that have tried to eliminate property taxes altogether have seen school quality and finances decline, as we have reported elsewhere. But state aid must make tax burdens manageable for homeowners and give all of our children a fair shot at a better future for them and for us.

Joseph P. McLaughlin, Jr., Director
Center on Regional Politics

In cooperation with faculty leaders across Pennsylvania universities, Temple’s Center on Regional Politics (CORP) will host a symposium on Wednesday, May 6, for state legislators, policy makers, and advocates with the theme: “Beyond a New School Funding Formula: Lifting Student Achievement to Grow Pennsylvania’s Economy.”

The event, to be held in the auditorium of Harrisburg University, 326 Market Street, just a block from the Main Capitol Complex, will feature RAND Corporation’s study of the economic payoff to Pennsylvania from raising student test scores and high school graduation rates, and an internationally recognized expert’s look at how other countries helped their students move to the top of world rankings while the US hovered just above or below the average for developed nations, far down the list.

The symposium is the third sponsored by the University Consortium to Improve Public School Finance and Promote Economic Growth, which includes, in addition to CORP, Penn State’s College of Education, the University of Pittsburgh’s Center for Metropolitan Studies, and a network of faculty members and researchers at 18 other public and private universities known as the Pennsylvania Policy Forum. As with previous symposiums in Conshohocken and Green Tree, state education policymakers and business and labor leaders will participate in the program. (See the list of 2014 symposium participants on page 2.)

The RAND study, entitled The Economic Impact of the Achievement Gaps in Pennsylvania’s Public Schools, is the first to replicate at the state level a 2009 report by McKinsey & Company, an international business consulting firm, which estimated that the achievement gaps in America’s public schools were the equivalent of “a permanent national recession,” costing our economy more than $1 trillion. The lead

continued on page 3
PAST SYMPOSIUM SPEAKERS

Symposium I - May 30, 2014, Conshohocken
Hon. Robert G. Loughery, Chair, Bucks County Commissioners, Co-Chair, Center on Regional Politics Committee on Economic Development
Hon. Bernie O'Neill, Member, Chair, House Basic Education Subcommittee, and Co-Chair, Special Education Funding Commission
Hon. James R. Roebuck, Chair, House Education Committee (D), and Member, Special Education Funding Commission
Hon. Steve Santarsiero, Member, House Committees on Education and Appropriations, and Co-Chair, Center on Regional Politics Committee on Education and Workforce Development
Hon. Anthony H. Williams, Senate Democratic Whip; Member, Senate Education Committee; and Co-Chair, Center on Regional Politics Urban Affairs Committee
Hon. Charles Zogby, Secretary of the Budget, and Member, Special Education Funding Commission
Pat Eiding, President, Philadelphia AFL-CIO, and Co-Chair, Center on Regional Politics Committee on Economic Development
Rana Foroohar, Global Economic Analyst, CNN News, and Assistant Managing Editor for Economics and Business, TIME Magazine
Bryan Hancock, McKinsey & Company, Lead Author, The Economic Impact of the Achievement Gap in America's Public Schools
Feather O. Houstoun, Member, Philadelphia School Reform Commission; former Pennsylvania Secretary of Welfare; and Co-Chair, Center on Regional Politics Committee on Transportation
Dr. Rob Knoeppel, Associate Professor of Educational Leadership, Clemson University, and Co-Author of From Statehouse to Schoolhouse: Education Finance Apportionment Systems in the United States
Mike Pearson, President and CEO, Union Packaging, LLC
Phil Rinaldi, Principal Partner and CEO, Philadelphia Energy Solutions, LLC
Bill Strahan, Executive Vice President for Human Resources, Comcast Cable
Rob Wonderling, President and CEO, Greater Philadelphia Chamber of Commerce and Co-Chair, Center on Regional Politics Committee on Education and Workforce Development

Symposium II - October 3, 2014, Green Tree
Hon. Patrick Browne, Majority Whip, PA Senate and Co-Chair, Basic Education Funding Commission
Hon. Donna Oberlander, Member, PA House, Basic Education Funding Commission
Hon. Rod Ruddock, County Commissioner, Indiana County and Co-Chair, University of Pittsburgh Institute of Politics Education Policy Committee
Hon. Matt Smith, Member, PA Senate, Basic Education Funding Commission
Hon. Jake Wheatley, Member, PA House, House Education Committee, and House Appropriations Committee
Eva Tansky Blum, President, PNC Foundation
Ms. Nicole F. Duffy, Deputy Secretary, Office of Administration, Pennsylvania Department of Education, and Member, Basic Education Funding Commission
Michael R. Dunleavy, Business Manager, International Brotherhood of Electrical Workers Local Union No. 5
Bill Flanagan, Host, “Our Region’s Business,” and Executive Vice President of Corporate Relations, Allegheny Conference on Community Development
Dr. William Hartman, Penn State College of Education
Dave Malone, President and CEO, Gateway Financial, and Chair, PA Workforce Investment Board
Dr. Maureen McClure, University of Pittsburgh School of Education
Terry Miller, Director, University of Pittsburgh Institute of Politics
Hon. John Pippy, former PA Senator, CEO, Pennsylvania Coal Alliance, and Lieutenant Colonel, Pennsylvania Army National Guard
Dr. Timothy Shrom, Business Manager, Solanco School District, Lancaster County
Rick Stafford, Distinguished Service Professor of Public Policy, Carnegie Mellon University and Member, Pennsylvania Policy Forum
Richard W. Taylor, CEO, Imbue Technologies, Inc. (ImbuTec)
Dr. Neil D. Theobald, President, Temple University
Stan Thompson, Senior Program Officer, Heinz Endowments, and Co-Chair, University of Pittsburgh Institute of Politics Education Policy Committee
author of the McKinsey study reviewed its findings at the Conshohocken symposium last May.

After welcoming remarks by Temple President Neil D. Theobald, Lynn A. Karoly, a senior RAND economist, will present RAND’s estimates of the economic losses experienced -- and potential gains available -- by closing achievement and attainment gaps among students categorized by family economic status, racial and ethnic background, and parental educational levels. The study was commissioned by Temple and funded by the university, the William Penn Foundation, and the Greater Philadelphia Chamber of Commerce Regional Foundation. Rob Wonderling, president of the Philadelphia Chamber, will introduce Karoly.

Karoly will be followed by Marc S. Tucker, president and CEO of the National Center on Education and the Economy, author of the 2014 report Fixing Our National Accountability System, and a leader in benchmarking the policies and practices of the countries with the best education systems in the world. Tucker, who will be introduced by David H. Monk, dean of Penn State’s College of Education, will underscore the economic imperative for U.S. public schools to improve and present ideas for closing the gaps and realizing the gains Karoly has identified. Responding to Karoly and Tucker will be representatives of business, and labor, and Commonwealth leaders on fiscal and educational issues. The panel discussions will be moderated by Francine Schertzer, program director of the Pennsylvania Cable Network and the network’s lead reporter on legislative and fiscal issues. She also will direct questions from the audience to the panelists and speakers.

MAY 6 SYMPOSIUM SPEAKERS

Lynn A. Karoly, Senior Economist, RAND Corporation

A labor economist and professor at the Pardee RAND Graduate School, Lynn A. Karoly’s recent research has focused on human capital investments, social welfare policy, child and family well-being, and U.S. labor markets. In related work, she has examined the costs, benefits, and economic returns of early childhood interventions and youth development programs, and she has assessed the use of benefit-cost analysis more generally to evaluate social programs.


Marc S. Tucker, President and CEO, National Center on Education and the Economy

Marc S. Tucker has been a leader of the standards-driven education reform movement for many years. Tucker created New Standards, a 23-state consortium designed to develop internationally benchmarked student performance standards and matching student examinations; the National Board for Professional Teaching Standards; and The New Commission on the Skills of the American Workforce. He speaks frequently to educators, business leaders, and policymakers (including state legislators) in the U.S. and abroad.

OPTIONS FOR FUNDING AND REFORMING PUBLIC PENSIONS

The options listed below were identified in a report entitled “What to Do About Public Pensions: Options for Funding and Reform,” issued by the bipartisan Center on Regional Politics Working Group on Public Pensions in June 2013. The working group did not endorse specific reforms but did discuss potential benefits and risks associated with each option.

Obtain New Resources
--Redirect existing state revenue streams to pay for pensions.
--Obtain resources by restructuring other, non-constitutionally protected public employee benefits, primarily health care, and use the savings to help fund pensions.
--Extend the one-percent City of Philadelphia sales tax due to expire June 30, 2014, and require by state law that revenues collected after that date be used to reduce the unfunded liability of the City’s pension system accompanied by changes needed to put the system on a sustainable path for plan members and taxpayers going forward.
--Sell or lease resources (assets or revenue streams) to reduce unfunded pension liabilities.

Reduce Pension Costs and Liabilities
--Restrict Act 205 state subsidies to paying for municipal pension benefits as opposed to administrative costs, creating incentives for increased efficiency and plan consolidation.
--Reduce benefits for new hires and/or for current workers prospectively, including moving new hires to defined-contribution (DC) systems or hybrid systems (cash balance) systems.
--Fully fund Commonwealth and school district pension obligations through higher appropriations and give reforms enacted in 2010 time to work.
--Establish “stacked hybrid” pensions that provide a traditional defined benefit (DB) plan for all public employees up to a predetermined salary level and a mandatory defined contribution (DC) plan for all employees based on their salaries above the threshold.
--Undertake long term borrowing and use the proceeds to buy out the remaining obligations to one or more groups of fund participants.
--Address underlying causes of fiscal pressures affecting distressed municipalities.
--Taking advantage of low interest rates, issue pension obligation bonds to reduce unfunded liabilities.

Explore Innovative Paths to Meet Pension Funding and Reform Challenges
--Establish a task force of political, labor, and business leaders to forge consensus on legislation and labor contract changes needed to meet pension funding challenges.
--Negotiate labor contracts and devise legislative solutions to funding challenges that are mutually contingent.

PENNSYLVANIA PUBLIC PENSION SYSTEMS CONTINUE TO LOSE GROUND BUT CORP OPTIONS GAIN ATTENTION

Pennsylvania’s public pension systems continued to lose ground over the nearly two years since a Center on Regional Politics (CORP) bipartisan working group issued in June 2013 its report What to Do About Public Pensions: Options for Funding and Reform. Several of the report’s options, which are listed above, have been pursued unsuccessfully in Harrisburg and, in Philadelphia, have been both rejected or in one case partially implemented.

Although the assets of most funds gained market value in a recovering economy, actuarially inadequate employer contributions caused aggregate unfunded liability of the Commonwealth’s largest funds -- the Public School Employees’ Retirement System (PSERS) and the State Employees’ Retirement System (SERS) -- to grow from $47.3 to $50.5 billion, according to the 2013 official data shown in the nearby table. The aggregate liabilities of the state’s more than 3,000 municipal plans have grown from $6.7 to $7.9 billion, bringing the total for state and local pensions to more than $58.4 billion.¹

Under new industry accounting rules taking effect this year, the liabilities of many underfunded government pensions will be further inflated by a requirement that their assets be valued at lower discount rates than most plans use. Under these rules, aggregate liabilities of Pennsylvania’s state and local systems will exceed $64 billion. The 2014 liabilities of PSERS, the state’s largest system, for example, will grow from $35.1 billion to $39.6 billion. Although the new rules will not require governments to increase their contributions, they will appear on governments’ balance sheets and may result in higher borrowing costs.

The unfunded liability of Philadelphia’s pension system grew from $5.1 billion to $5.3 billion, with its funded ratio falling

¹. PSERS, which has since published 2014 valuation data, is reflecting further growth in its unfunded liability from $32.6 billion to $35.1 billion, which would bring the total unfunded liability of all state and local government plans to more than $60 billion. SERS will publish 2014 data in June.
from 50 to 47.4%. Many public pension experts view a funded ratio of 80% to be the minimal standard for a healthy fund, and some economists argue that funds should be maintained at 100%.

Within the five-county Southeast region, five municipal systems, including Philadelphia, have fallen from the moderately distressed (funded ratios between 50 and 69%) to the severely distressed category (funded ratio of less than 50%), according to an analysis of Public Employee Retirement Commission data. Philadelphia’s increasing liability results largely from the system’s adopting a more conservative assumption about future earnings, from lowering the expected returns from 7.95 to 7.80%. Although regarded as a long-term reform, the change has increased the system’s unfunded liability, requiring higher employer contributions to meet the state’s Mandatory Minimum Obligation, let alone its own, higher funding policy.

Here are admittedly incomplete highlights of pension activity:

As suggested by CORP’s working group report, the one percent of Philadelphia’s sales tax that was to expire on July 1, 2014, was extended by both the General Assembly and Philadelphia City Council, and a portion of its revenues have been committed to paying down the unfunded liability of the City’s pension system. The CORP report had recommended that all of the sales tax revenues be used to reduce the unfunded liability, contingent on new labor contracts that made the pension system sustainable. Most of the sales tax revenues, however, were required by state legislation to help fund the Philadelphia School District. The City’s labor contracts include voluntary defined contribution features that have largely been ignored by City workers but also include higher contribution rates by employees to achieve savings for taxpayers.

Although City Council President Darrell Clarke fought for the sales tax option to fund pensions, he and his Council colleagues rejected Mayor Michael Nutter’s proposed sale of the Philadelphia Gas Works to a private company, with the net proceeds used to help fund the pension system. Sales of physical assets and revenue streams were an option identified by the CORP report. Allentown sold its water utility to Lehigh County to fund pensions.

Governor Tom Wolf’s proposed budget package proposes dedicating a portion of state sales tax revenues, boosted by increases in the rate from 6 to 6.6% and a substantial broadening of its base, to help fund the state’s share of PSERS liabilities. He also proposes using new revenues from liquor store modernization to reduce the school districts’ share of PSERS obligations and to help pay for a $3 billion pension bond to reduce the overall PSERS unfunded liability. Earmarking existing or new revenue sources for pensions was a CORP working group option. The governor otherwise favors fully funding Act 120 reforms and giving them more time to work.

The governor’s proposals also include measures to keep Philadelphia’s sales tax at 8% (but on the broader base and with a narrower gap between the rates paid in the City and the suburbs) and to free up more of the City’s sales tax revenues to pay down pensions.

It remains to be seen whether legislation providing new revenue sources for state and local government pensions, if enacted at all, will include requirements that the additional resources must be used to reduce unfunded liabilities, not as a substitute for already inadequate contributions. That was a key recommendation of the CORP report, and the City and state legislation authorizing the extension of the sales tax

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**Updated Statuses of PA’s Largest Public Pension Systems**

<table>
<thead>
<tr>
<th>Membership</th>
<th>PSERS</th>
<th>SERS</th>
<th>Philadelphia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Members</td>
<td>267,428</td>
<td>105,186</td>
<td>26,788</td>
</tr>
<tr>
<td>Retired Members</td>
<td>209,204</td>
<td>120,052</td>
<td>36,889</td>
</tr>
<tr>
<td><strong>Market Value of Assets</strong></td>
<td><strong>$49.1 billion</strong></td>
<td><strong>$27.4 billion</strong></td>
<td><strong>$4.4 billion</strong></td>
</tr>
</tbody>
</table>

**Key Financial Data**

| Current Unfunded Liability | PSERS 32.6 billion | SERS 17.9 billion | Philadelphia 5.3 billion |
| Current Funded Ratio (Actuarial) | 63.8% | 59.2% | 47.4% |
| 2013 Employer Contributions | $1.6 billion | $795 million | $552 million* |

**5-Year Projections (2018)**

| Unfunded Liability | PSERS $42.9 billion | SERS $16.87 billion | Philadelphia $5.7 billion |
| Funded Ratio       | 56.6% | 65.3% | 46.6% |
| Employer Contributions | $4.3 billion | $1.92 billion | $633.7 million |
| Actuarial Value of Assets | $57.4 billion | $26 billion | $4.9 billion |

**Notes:** Actuarial Data for PSERS is FY 2013, for SERS is CY 2013, and Philadelphia is FY 2013.


* Does not include $230 million in deferred contributions repaid during the year.
failed to include it, although the Nutter administration has made a policy determination to follow that path. Future City administrations might not.

In the 2013-14 legislative session, State Rep. Mike Tobash, R-Dauphin and Schuylkill, proposed a stacked hybrid pension plan much like one described as an option in the CORP report, and although it attracted a fair amount of publicity, it never came to a vote. State Rep. Glenn Grell, R-Cumberland, proposed borrowing at low interest rates to help fund the Commonwealth’s systems, another CORP option, but his proposal also failed to attract sufficient support, as did a proposal by State Rep. Warren Kampf, R-Chester and Montgomery, for a mandatory defined contribution plan for newly hired state and school employees. Kampf has reintroduced his legislation in the current session.

The CORP report called attention to the high administrative costs of many municipal pension plans and the moral hazard posed by Act 205 subsidies that for many plans fully fund both benefits and administrative costs. The report suggested requiring administrative costs to be incorporated into municipal general fund budgets and paid from locally generated revenues, which might also induce further consolidation of plans into the Pennsylvania Municipal Retirement System (PMRS). Governor Wolf proposes to reduce administrative costs associated with investment advisors by directing state and local pension systems to rely on passive, index-fund investments, such as has been done in Montgomery County under Josh Shapiro, chair of the county commissioners and CORP Executive Committee member.
The Honorable Steven J. Santarsiero*  
Member, Pennsylvania House of Representatives

The Honorable John J. Taylor  
Member, Pennsylvania House of Representatives

The Honorable W. Curtis Thomas  
Member, Pennsylvania House of Representatives

LOCAL ELECTED OFFICIALS

The Honorable Cindy Bass  
Member, Philadelphia City Council

The Honorable Kathi Cozzone  
Vice Chair, Chester County

The Honorable Mario Civera, Jr.  
Chair, Delaware County

The Honorable Darrell L. Clarke  
President, Philadelphia City Council

The Honorable Robert G. Loughery*  
Chair, Bucks County

The Honorable Michael A. Nutter*  
Mayor, City of Philadelphia

The Honorable Brian J. O’Neill  
Minority Leader, Philadelphia City Council

The Honorable Maria D. Quiñones-Sanchez  
Member, Philadelphia City Council

The Honorable Josh Shapiro*  
Chair, Montgomery County

COMMUNITY/CIVIC/GOVERNMENTAL

Laurie Actman  
Chief Operating Officer, Penn Center for Innovation

Joseph M. Casey  
General Manager, SEPTA

Jim Cawley*  
President and CEO, United Way of Greater Philadelphia and Southern NJ

Mark Edwards  
President and CEO, Philadelphia Works

Jack P. Ferguson  
President and CEO, Philadelphia Convention & Visitors Bureau

John Grady  
President, Philadelphia Industrial Development Corporation (PIDC)

Feather Houstoun*  
Former President, The William Penn Foundation; Former CFO, SEPTA

Patrick Killian  
Director, Delaware County Commerce Center

Meryl Levitz  
President and CEO, Visit Philadelphia

John McNichol  
Executive Director, Center City District

Robert F. Powelson  
President, Greater Philadelphia Cultural Alliance

Gary Smith  
Chief Executive Officer, Philadelphia Convention Center

David B. Thornburgh  
Executive Director, Delaware Valley Regional Planning Commission

Sharmain W. Matlock-Turner  
President, Greater Philadelphia Urban Affairs Coalition

Barry Seymour  
Executive Director, Economy League of Greater Philadelphia

BUSINESS/LABOR

Emily L. Bittenbender  
Managing Partner, Bittenbender Construction, LP

Ryan N. Boyer  
Business Manager, Laborers’ District Council of Philadelphia and Vicinity

Steven Scott Bradley  
Chair, African American Chamber of Commerce of PA, NJ and DE

Nick DeBenedictis*  
Chair and CEO, Aqua America, Inc.

Patrick J. Eiding*  
President of Philadelphia Council AFL-CIO

Varsovia Fernandez  
President and CEO, Greater Philadelphia Hispanic Chamber of Commerce

Patrick B. Gillespie  
Business Manager, PBCTC, AFL-CIO

Trish Judge McFarland  
President, Delaware County Chamber of Commerce

RoseAnn B. Rosenthal  
President and CEO, Ben Franklin Technology Partners of SE Pennsylvania

Stephen S. Tang  
President and CEO, The Science Center

Anthony Wigglesworth  
Associate Director, Phila. Area Labor-Management Committee

Rob Wonderling*  
President and CEO, Greater Philadelphia Chamber of Commerce

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Mark Alan Hughes  
Professor of Practice at PennDesign and Faculty Director of The Kleinman Center for Energy Policy, University of Pennsylvania

Kenneth E. Lawrence, Jr.  
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J. Wesley Leckrone  
Associate Professor, Department of Political Science, Widener University

Joseph R. Marbach  
Provost and Vice President for Academic Affairs, LaSalle University

Randall Miller  
Professor, Department of History, Saint Joseph’s University

William J. Stull  
Professor, Department of Economics, Temple University

Craig Wheeland  
Associate Vice President and Professor, Villanova University
SAVE THE DATE!

The University Consortium to Improve Public School Finance and Promote Economic Growth will hold a symposium on:

“Beyond a New School Funding Formula: Lifting Student Achievement to Grow Pennsylvania’s Economy”

When: Wednesday, May 6, 2015
7:30 am • Registration and Breakfast
8:00 am to 10:00 am • Program

Where: Harrisburg University Auditorium, Harrisburg, PA

Register at temple.edu/corp