

ROCK CAPITAL

Testimony of Eric Epstein

May 12, 2015

- Fact: Almost fourteen years ago to the day, Governor Ridge signed into law Act 9 with overwhelming support from the legislature.

Please refer to Rock the Capital's Exhibits A and B for a list of lawmakers who voted for the legislation.

- Fact: The legislation did not provide a revenue mechanism to fund increased benefits.

Please refer to Exhibit C - History of Act 9.

- Fact: Act 9 is not going to be repealed, rescinded or revoked based on legal precedents established by the Courts in 1934, 1960 and 1984.

Please refer to Exhibit D.

- Fact: We have a \$53 billion revenue hole that needs to be filled.
- Fact: The PEW Foundation found that Pennsylvania is 49th in funding its public employee pensions.

The solution to the pension crisis is not more borrowing.

The solution to the pension crisis is not artificial collars.

And we are not going to solve the pension crisis by creating another commission composed of the same people who created the problem.

We can not afford any more pension gimmicks.

We are not going to solve the crisis by pretending it does not exist.

The solution to the problem is to eliminate the unfunded liabilities of SERS and PSERS over 20 years with level dollar funding.

This is the standard established by the 2014 Blue Ribbon Panel on Public Pension Funding commissioned by the Society of Actuaries.

The financial solution will be painful and require shared sacrifice. In order to eliminate the unfunded liabilities, state and school district pension contributions will increase from \$4.1 billion in the current fiscal year to \$6.6 billion starting in Fiscal Year 2016.

If you voted to increase benefits without a commensurate revenue stream - and if you stand to gain from that legislation - then you can support and vote for a solution.

It's time for all legislators - from the back benchers to leadership - as well the Governor - to buckle up their chin straps, put on their shoulder pads and announce a special session to be held over this summer to deal with the pension crisis.

Waging pension peace is harder than waging pension war, but inaction has the same effect as placing a noose around the neck of our children's future.

We will need to make spending cuts.

Rock the Capital proposed \$559 million in budget cuts for FY 2009-2010.

We will need to create a dedicated and protected revenue stream.

Some of us have proposed a Financial Transaction Tax as a means of addressing skyrocketing property taxes, providing COLAs for the common pensioner, and securing dedicated pension revenues.

Please refer to Exhibit E - the Financial Transaction Tax.

Today we are announcing a campaign to liberate hostage taxpayers.

You can't be a bystander and watch a runaway train derail our children's future. You can either get on board or get out of the way. But being neutral is not an option.

EXHIBIT A

House of Representatives

COMMONWEALTH OF PENNSYLVANIA

LEGISLATIVE JOURNAL

TUESDAY, MAY 8, 2001

SESSION OF 2001

185TH OF THE GENERAL ASSEMBLY

No. 29

HOUSE OF REPRESENTATIVES

The House convened at 10 a.m., e.d.t.

THE SPEAKER (MATTHEW J. RYAN) PRESIDING

PRAYER

REV. DR. STEVEN AVINGER, SR., Chaplain of the House of Representatives and senior pastor of Greater Saint Matthew Baptist Church, Philadelphia, Pennsylvania, offered the following prayer:

To the only wise God and creator of all good things, we bless Your name today, and we invoke Your presence in this place as these men and women come together to do the business which You have charged them with. We pray for wisdom and knowledge. We ask nothing, God, but the deepest of blessings on the leadership and on those men and women that You have called. We pray that as they deliberate, they would consider the citizens of this Commonwealth first, as they have been elected to represent us, and then, God, their commitment to themselves and to our creator. We bless Your name. Amen.

PLEDGE OF ALLEGIANCE

(The Pledge of Allegiance was recited by members and visitors.)

JOURNAL APPROVAL POSTPONED

The SPEAKER. Without objection, the approval of the Journal of Monday, May 7, 2001, will be postponed until printed. The Chair hears no objection.

JOURNAL APPROVED

The SPEAKER. The Journal for Tuesday, February 13, 2001, is in print. Without objection, it will be approved. The Chair hears no objection.

DEMOCRATIC AND REPUBLICAN CAUCUSES

The SPEAKER. Members in their offices, you are advised that a caucus will take place at 10:15. There is no need to come to the floor. 10:15; it is an important caucus, and we ask that everyone go to the caucus rooms promptly.

HOUSE BILLS INTRODUCED AND REFERRED

No. 1541 By Representatives GANNON, M. BAKER, BELFANTI, CALTAGIRONE, CAPPELLI, CASORIO, L. I. COHEN, CORRIGAN, CREIGHTON, DALEY, DALLY, DeLUCA, FAIRCHILD, FLICK, GABIG, GEIST, GEORGE, HALUSKA, HERMAN, HORSEY, JAMES, KIRKLAND, McCALL, MELIO, PRESTON, READSHAW, RUBLEY, SAINATO, SCRIMENTI, SOLOBAY, STABACK, STEELMAN, STERN, WATSON, C. WILLIAMS, WILT, WOGAN and YOUNGBLOOD

An Act amending Title 42 (Judiciary and Judicial Procedure) of the Pennsylvania Consolidated Statutes, further providing for jurisdiction and venue.

Referred to Committee on JUDICIARY, May 8, 2001.

No. 1542 By Representatives MARSICO, CALTAGIRONE, CAPPELLI, COLAFELLA, COY, HARHAI, JAMES, MELIO, R. MILLER, PHILLIPS, SEMMEL, SOLOBAY, E. Z. TAYLOR, THOMAS and YOUNGBLOOD

An Act amending the act of February 11, 1998 (P.L.58, No.15), known as the Combustible and Flammable Liquids Act, further providing for self-service dispensing stations.

Referred to Committee on LABOR RELATIONS, May 8, 2001.

No. 1543 By Representatives CAPPELLI, ALLEN, BEBKO-JONES, BELFANTI, CREIGHTON, FAIRCHILD, FEESE, FORCIER, HARHAI, JAMES, KELLER, KIRKLAND, MANN, MARSICO, PALLONE, ROSS, SAINATO, SATHER, SAYLOR, B. SMITH, WOJNAROSKI, YUDICHAK, CALTAGIRONE, CLYMER and COSTA

An Act amending the act of June 23, 1931 (P.L.932, No.317), known as The Third Class City Code, further providing for residency requirements for vacancy appointments.

Referred to Committee on URBAN AFFAIRS, May 8, 2001.

No. 1544 By Representatives CAPPELLI, M. BAKER, BASTIAN, BROWNE, COLEMAN, CREIGHTON, FRANKEL, GEIST, HARHAI, HENNESSEY, HERSHEY, HORSEY, MANN, MUNDY, SAINATO, SATHER, SCRIMENTI, SOLOBAY, STURLA, E. Z. TAYLOR, WALKO, WANSACZ, C. WILLIAMS, WILT, YOUNGBLOOD, YUDICHAK, HARPER, MANDERINO, J. TAYLOR and LEH

Diven	Lucyk	Samuelson	Zug
Donatucci	Lynch	Santoni	
Eachus	Mackereth	Sather	Ryan,
Egolf	Maher	Saylor	Speaker
Evans, D.			

NAYS-0

NOT VOTING-0

EXCUSED-3

Cappabianca	Dailey	McNaughton
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The majority having voted in the affirmative, the question was determined in the affirmative and the resolution was adopted.

Mr. WALKO called up HR 216, PN 1886, entitled:

A Resolution commemorating the 100th anniversary of the Sarah Heinz House for its commitment to the youth and neighborhood of Pittsburgh's Northside.

On the question,
Will the House adopt the resolution?

The following roll call was recorded:

YEAS-199

Adolph	Evans, J.	Maitland	Schroder
Allen	Fairchild	Major	Schuler
Argall	Feese	Manderino	Scrimenti
Armstrong	Fichter	Mann	Semmel
Baker, J.	Fleagle	Markosek	Shaner
Baker, M.	Flick	Marsico	Smith, B.
Bard	Forcier	Mayemik	Smith, S. H.
Barley	Frankel	McCall	Solobay
Barrar	Freeman	McGeehan	Staback
Bastian	Gabig	McGill	Stairs
Bebko-Jones	Gannon	Mclhattan	Stelman
Belardi	Geist	Mclhinney	Stel
Belfanti	George	Melio	Stern
Benninghoff	Godshall	Metcalfe	Stetler
Birmelin	Gordner	Michlovic	Stevenson, R.
Bishop	Grucela	Micozzie	Stevenson, T.
Blaum	Gruitza	Miller, R.	Strittmatter
Boyes	Habay	Miller, S.	Sturla
Browne	Haluska	Mundy	Surra
Bunt	Hanna	Myers	Tangretti
Butkovitz	Harhai	Nailor	Taylor, E. Z.
Buxton	Harhart	Nickol	Taylor, J.
Caltagirone	Harper	O'Brien	Thomas
Cappelli	Hasay	Oliver	Tigue
Casorio	Hennessey	Pallone	Travaglio
Cawley	Herman	Perzel	Trello
Civera	Hershey	Petrarca	Trich
Clark	Hess	Petrone	Tulli
Clymer	Horsey	Phillips	Vance
Cohen, L. I.	Hutchinson	Pickett	Veon
Cohen, M.	Jadlowiec	Pippy	Vitali
Colafrilla	James	Pistella	Walko
Coleman	Josephs	Preston	Wansacz
Cornell	Kaiser	Raymond	Washington
Corrigan	Keller	Readshaw	Waters
Costa	Kenney	Reinard	Watson
Coy	Kirkland	Rieger	Williams, C.
Creighton	Krebs	Roberts	Williams, J.
Cruz	LaGrotta	Robinson	Wilt

Curry	Laughlin	Roebuck	Wogan
Daley	Lawless	Rohrer	Wojnaroski
Dally	Lederer	Rooney	Wright
DeLuca	Lch	Ross	Yewcic
Dermody	Lescovitz	Rubley	Youngblood
DeWeese	Levdansky	Ruffing	Yudichak
DiGirolamo	Lewis	Sainato	Zimmerman
Diven	Lucyk	Samuelson	Zug
Donatucci	Lynch	Santoni	
Eachus	Mackereth	Sather	Ryan,
Egolf	Maher	Saylor	Speaker
Evans, D.			

NAYS-0

NOT VOTING-0

EXCUSED-3

Cappabianca	Dailey	McNaughton
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The majority having voted in the affirmative, the question was determined in the affirmative and the resolution was adopted.

GUESTS INTRODUCED

The SPEAKER. The Chair is pleased to welcome to the hall of the House today the parents of Roy Reinard, Ethel and Roy; his sister, Holly Crane; his aunt and uncle, Vicky and Ray; and a number of his family friends. It must be a family outing here. They are seated in the back of the House. Welcome to the House. We now understand where his majority comes from.

The Chair is pleased to welcome to the hall of the House today Bobby Deaver, a student at the Community College of Philadelphia, who is shadowing Representative Dennis O'Brien today. Would this gentleman please rise. He is over to the left of the Chair.

SUPPLEMENTAL CALENDAR C

BILL ON CONCURRENCE
IN SENATE AMENDMENTS
AS AMENDED

The House proceeded to consideration of concurrence in Senate amendments to the following HB 26, PN 1905, as further amended by the House Rules Committee:

An Act amending Titles 24 (Education) and 71 (State Government) of the Pennsylvania Consolidated Statutes, further providing for public school employees' retirement and State employees' retirement; defining terms; providing for additional optional classifications for existing members, for new classifications for prospective members and for health insurance for retired school employees; and further providing for credible school and State service, for credible nonschool and nonstate service, for eligibility, for vesting, for regular member contributions, for return to service, for payments by employers and the Commonwealth, for termination of annuities, for actuarial cost methods, for member options, for funding of supplemental annuities, for administration, for reports to agencies and members, for applications and elections, for the composition of the Public School Employees' Retirement Board and of the State Employees' Retirement Board, for investment powers of the boards, for management of funds and accounts and for enforcement officers' benefit and supplemental annuity accounts.

On the question,
Will the House concur in Senate amendments as amended by the Rules Committee?

The SPEAKER. Agreeable to the provisions of the Constitution, the yeas and nays will now be taken.

The following roll call was recorded:

YEAS—176

- | | | | |
|--------------|------------|------------|---------------|
| Adolph | Donatucci | Lynch | Saylor |
| Allen | Eachus | Maher | Schroder |
| Argall | Egolf | Maitland | Schuler |
| Armstrong | Evans, D. | Major | Semmel |
| Baker, J. | Evans, J. | Manderino | Shaner |
| Baker, M. | Fairchild | Markosek | Smith, B. |
| Bard | Feese | Marsico | Smith, S. H. |
| Barley | Fichter | Mayernik | Solobay |
| Barrar | Fleagle | McCall | Staback |
| Bebko-Jones | Flick | McGeehan | Stairs |
| Belardi | Forcier | McGill | Steil |
| Belfanti | Freeman | McIlhatten | Stern |
| Benninghoff | Gabig | McIlhinney | Stetler |
| Birmelin | Gannon | Melio | Stevenson, R. |
| Bishop | Geist | Michlovic | Stevenson, T. |
| Blaum | George | Micozzie | Strittmatter |
| Boyes | Godshall | Miller, R. | Sturla |
| Browne | Gruitza | Miller, S. | Surra |
| Bunt | Haluska | Myers | Tangretti |
| Butkovitz | Hanna | Nailor | Taylor, E. Z. |
| Buxton | Harhai | O'Brien | Taylor, J. |
| Caltagirone | Harhart | Oliver | Thomas |
| Cappelli | Hasay | Perzel | Tigue |
| Cawley | Hennessey | Petrone | Trello |
| Civera | Herman | Phillips | Trich |
| Clark | Hershey | Pickett | Tulli |
| Clymer | Hess | Pippy | Veon |
| Cohen, L. J. | Horsey | Pistella | Walko |
| Cohen, M. | Hutchinson | Preston | Washington |
| Colafella | Jadlowiec | Raymond | Waters |
| Coleman | James | Readshaw | Watson |
| Cornell | Josephs | Reinard | Williams, C. |
| Corrigan | Kaiser | Rieger | Williams, J. |
| Costa | Keller | Roberts | Wilt |
| Coy | Kenney | Robinson | Wogan |
| Creighton | Kirkland | Roebuck | Wojnaroski |
| Cruz | Krebs | Rohrer | Wright |
| Curry | LaGrotta | Rooney | Yewcic |
| Daley | Laughlin | Ross | Youngblood |
| Dally | Lederer | Rubley | Zimmerman |
| DeLuca | Leh | Ruffing | Zug |
| Dermody | Lescovitz | Sainato | |
| DeWeese | Levdansky | Santoni | |
| DiGirolamo | Lewis | Sather | |
| Diven | Lucyk | | |

NAYS—23

- | | | | |
|----------|-----------|-----------|-----------|
| Bastian | Harper | Nickol | Travaglio |
| Casorio | Lawless | Pallone | Vance |
| Frankel | Mackereth | Petrarca | Vitali |
| Gordner | Mann | Samuelson | Wansacz |
| Gruccela | Metcalfe | Scrimenti | Yudichak |
| Habay | Mundy | Steelman | |

NOT VOTING—0

EXCUSED—3

- | | | |
|-------------|--------|------------|
| Cappabianca | Dailey | McNaughton |
|-------------|--------|------------|

The majority required by the Constitution having voted in the affirmative, the question was determined in the affirmative

and the amendments as amended by the Rules Committee were concurred in.

Ordered, That the clerk return the same to the Senate for concurrence.

SUPPLEMENTAL CALENDAR B

BILL ON CONCURRENCE
IN SENATE AMENDMENTS

The House proceeded to consideration of concurrence in Senate amendments to HB 157, PN 1786, entitled:

An Act amending Title 75 (Vehicles) of the Pennsylvania Consolidated Statutes, further providing for the establishment of the Pennsylvania Pedalcycle and Pedestrian Advisory Committee and its powers and duties.

On the question,
Will the House concur in Senate amendments?

The SPEAKER. We are about to have an unusual motion, and I think you should be aware of it. I do not believe anyone will disagree with it, but it is novel, and it has only been done once before, to my knowledge, and I would like you to pay attention to it.

RULES SUSPENDED

The SPEAKER. At this time the Chair recognizes the minority leader.

Mr. DeWEESE. Mr. Speaker, I request that there be a suspension of the rules for the purpose of adopting a temporary rule that will permit Mr. Tigue to cast an absentee vote by proxy for the gentleman, Mr. Cappabianca.

On the question,
Will the House agree to the motion?

The following roll call was recorded:

YEAS—199

- | | | | |
|-------------|-----------|------------|---------------|
| Adolph | Evans, J. | Mattland | Schroder |
| Allen | Fairchild | Major | Schuler |
| Argall | Feese | Manderino | Scrimenti |
| Armstrong | Fichter | Mann | Semmel |
| Baker, J. | Fleagle | Markosek | Shaner |
| Baker, M. | Flick | Marsico | Smith, B. |
| Bard | Forcier | Mayernik | Smith, S. H. |
| Barley | Frankel | McCall | Solobay |
| Barrar | Freeman | McGeehan | Staback |
| Bastian | Gabig | McGill | Stairs |
| Bebko-Jones | Gannon | McIlhatten | Steelman |
| Belardi | Geist | McIlhinney | Steil |
| Belfanti | George | Melio | Stern |
| Benninghoff | Godshall | Metcalfe | Stetler |
| Birmelin | Gordner | Michlovic | Stevenson, R. |
| Bishop | Gruccela | Micozzie | Stevenson, T. |
| Blaum | Gruitza | Miller, R. | Strittmatter |
| Boyes | Habay | Miller, S. | Sturla |
| Browne | Haluska | Mundy | Surra |
| Bunt | Hanna | Myers | Tangretti |
| Butkovitz | Harhai | Nailor | Taylor, E. Z. |
| Buxton | Harhart | Nickol | Taylor, J. |
| Caltagirone | Harper | O'Brien | Thomas |
| Cappelli | Hasay | Oliver | Tigue |
| Casorio | Hennessey | Pallone | Travaglio |

Ryan,
Speaker

EXHIBIT B

Senate

118

Senate of Pennsylvania
2001-2002 Regular Session

5/08/01

HB 26 PN 1905

Concur in House Amendments to Senate Amendments

Yea: 41 Nay: 8

PASSED

Yea: 41

Bell	Holl	Mowery	Thompson
Bodack	✓Hughes	Murphy	Tilghman
Brightbill	Jubelirer	Musto	Tomlinson
Conti	Kasunic	O'Pake	Wagner
✓Corman	Kitchen	Piccola	Wenger
✓Costa	Kukovich	Punt	White, Mary Jo
Erickson	LaValle	Rhoades	✓Williams
Fumo	Lemmond	Robbins	Wozniak
Gerlach	Logan	✓Scarnati	
Greenleaf	Madigan	Stout	
Helfrick	Mellow	Tartaglione	

Nay: 8

Boscola	Earll	Schwartz	Waugh
Dent	Orie	Stack	White, Donald

A constitutional majority of all the Senators having voted "aye,"
the question was determined in the affirmative.

EXHIBIT C

History of the Pension Law of 2001

Act 2001 – 9 (House Bill Number 26, Printer’s Number 1905).

Signed into law on May 17, 2001, Act 9 amended the Public School Employees’ Retirement Code and the State Employees’ Retirement Code to affect multiplier/accrual rate increases for members of PSERS and SERS, including members of the General Assembly; reducing vesting to 5-years for all members; changing the amortization period from 20 years to 10 years amortization; changing the way the employer contribution is made to PSERS for a charter school; membership eligibility for charter school employees; permitting board members to serve for 30 days past the end of their legislative terms or until appointment of their successors; changing the provisions on permitted venture capital investments; and various other benefit changes.

- Referred to STATE GOVERNMENT, Jan. 31, 2001
- Reported as amended, Feb. 7, 2001
- First consideration, Feb. 7, 2001
- Laid on the table, Feb. 7, 2001
- Removed from table, Feb. 7, 2001
- Re-referred to APPROPRIATIONS, Feb. 7, 2001
- Re-reported as committed, Feb. 12, 2001
- Second consideration, Feb. 12, 2001
- Third consideration, with amendments, March 13, 2001
- Final passage, March 13, 2001 (196-0)

In the Senate

- Referred to FINANCE, March 20, 2001
- Reported as committed, March 27, 2001
- First consideration, March 27, 2001
- Re-referred to APPROPRIATIONS, April 2, 2001
- Re-reported as amended, April 30, 2001
- Second consideration, May 1, 2001
- Third consideration and final passage, May 2, 2001 (49-0)

In the House

- Referred to RULES, May 2, 2001
- Reported as amended, May 8, 2001
- House concurred in Senate amendments, as amended by the House, May 8, 2001 (176-23)

In the Senate

- Referred to RULES AND EXECUTIVE NOMINATIONS, May 8, 2001
- Reported as committed, May 8, 2001
- Senate concurred in House amendments to Senate amendments, May 8, 2001 (41-8)
- Signed in House, May 8, 2001
- Signed in Senate, May 8, 2001

Governor Ridge

- In hands of Governor Ridge, May 8, 2001
- Last day for action, May 18, 2001
- Approved by the Governor, May 17, 2001

EXHIBIT D

ROCK CAPITAL

Pension Backgrounder

1917: The state establishes Public School Employees' Retirement System (“PSERS”) to provide retirement benefits.

1923: The state establishes State Employees' Retirement System (“SERS”).

1934: State Supreme Court rules that government cannot take away a pension benefit previously granted to a worker. No state court has wavered from the precedent since.

1960: Commonwealth Court rules governments can change workers' future retirement benefits to enhance the financial soundness of a pension system.

1968: Lawmakers start providing cost-of-living increases every four to five years to retired PSERS and SERS members.

1984: State Supreme Court rules the state cannot retroactively raise employees' pension contribution rates for existing school employees.

1987: Lawmakers vote to give themselves a mid-term raise of \$12,000 despite a Constitutional provision barring it. The salaries of judges, the lieutenant governor and the cabinet also increase. Pensions, which are tied to pay, also go up.

1988: State Rep. John Kennedy, (R-Cumberland), sues in Commonwealth Court to overturn the pay raise as unconstitutional; The court rejects the lawsuit.

1995: Legislators vote to raise their salaries by nearly 19 percent .

1995: New law gives annual cost of living increases to employees in all branches of state government.

1997: Employer contributions for the state and school districts reduced to nearly 0 percent because SERS and PSERS are flush with investment cash.

2000: SERS reaches surplus zenith of \$6.4 billion.

2001: Act 9 raises pensions for legislators by 50 percent and state workers and teachers by 25 percent. Since it is retroactive, all SERS and PSERS members benefit; also reduces the amount of time to become vested in the pension systems from 10 to five years. Because no new revenue offsets the expenses, this is seen as one of the biggest reasons for the current crisis; after Sept. 11, Wall Street goes into a tailspin that crushes SERS' and PSERS' investments.

2002: PSERS surplus plateaus at \$6.9 billion before it descends.

2002: Act 38 gives retirees a cost-of-living hike, which adds \$1.75 billion in unfunded costs for SERS and PSERS; also puts a one-year cap on employer contributions at 1.15 percent, which further underfunds SERS and PSERS.

2003: Act 40 spreads out employers' SERS and PSERS' pension obligations from 10 years to 30 years.

2005: In a late-night vote, legislators give themselves pay raises ranging of 16-34 percent and raise pay for the governor, cabinet, judges and university presidents, among others.

2005: Lawmakers repeal all pay raises amid voter outrage but the repeal does not affect pensions, which remain based on the four months of higher pay.

2006: State Supreme Court rules lawmakers' 2005 pay raise unconstitutional but says the Legislature could not reduce judges' raises, which were reinstated.

2008: SERS and PSERS investments take giant tumbles in worldwide financial crisis.

2010: Act 120 reduces formula used to calculate retirement benefits of employees hired after July 1, 2011. Retirement age goes to 55 and 65, depending on the job. Vesting time goes from five to 10 years.

July 16, 2012: Moody's Investors Service downgraded to Aa2 from Aa1 the rating on the Commonwealth of Pennsylvania's outstanding general obligation bonds, and assigned a Aa2 rating to the General Obligation Bonds

The downgrade to the Aa2 general obligation rating is based on the commonwealth's weakened financial position, and the expectation that large and growing pension liabilities and moderate economic growth will challenge the return to structural balance, contributing to a protracted financial recovery. (Source: Moody's Investor Services)

December 6, 2012 : The Public School Employees Retirement System Board of Trustees certified an annual employer contribution rate of 16.93 percent for fiscal year (FY) 2013/2014, which begins on July 1, 2013.

December 10, 2013: The PSERS Board of Trustees certified an employer contribution rate of 21.40% for fiscal year 2014/2015, which begins July 1, 2014.

July 17, 2013: The commonwealth's "failure to adequately address key fiscal pressures," including pension reform, prompted Fitch Ratings on Tuesday to downgrade the rating on \$10.9 billion in outstanding general obligation bonds.

Pennsylvania's GO bonds were downgraded to AA from AA+. (Source: *Central Pennsylvania Business Journal*.)

April, 2014: The Department of Education granted exceptions to 164 school districts to raise property taxes above the 2.1% index for the 2014-2015 school year.

Most of the exemptions were used to pay for increase pension payments. Some of the exemptions were applied to special education or grandfathered construction debt.

April 24, 2014: Fitch raised concerns that “Pennsylvania faces fiscal pressures in the form of a structurally unbalanced budget, depleted reserves, and a rapidly growing pension cost burden following years of underfunding and market-driven investment declines.”

July 21, 2014: Moody’s downgraded the rating on Pennsylvania general obligation bonds from Aa2 to Aa3. The ratings agency cited the state’s “large and growing pension obligation” and the number of one-time sources of revenue in the state budget.

September 23, 2014: Fitchcut Pennsylvania's rating on general obligation bonds to “double-A-minus, which is the fourth-highest investment-grade rating. The outlook was changed to stable from negative.

Fitch said the rating reflects the state's inability to address pressures from rising fixed costs, particularly pension obligations following years of underfunding and market-driven investment declines.

EXHIBIT E

An Out-of-the-Box Solution to Pennsylvania's \$50 Billion Pension Debt

Problems & Goals

1. Eliminate the Commonwealth's \$50 billion pension debt.
2. Provide large and lasting property tax relief for seniors, other homeowners, and renters, including a rollback to 2001 property tax rates for pensions.
3. Establish stability, including a regular Cost of Living Adjustment (COLA), for seniors who rely on their pensions for a secure retirement.
4. Create security for today's workers so that they can plan their retirement with confidence, including controls to make sure that lawmakers can't mess with pension funds again.

Solution

- **Fiscal Goals:** Restore the PA State Employees Retirement System and the PA Public School Employees Retirement System to their state of health prior to the enactment of Act 9 in 2001. This means that each system will have in hand the same ratio of assets to liabilities as on the date of the 2001 enactment.
- **Instrument: a financial transaction tax (FTT):** A dedicated, temporary tax applied like a sales tax to the value of the purchase of stocks, bonds, mutual funds, derivatives, and other financial instruments.
- **Rate:** The rate will be less than 1%, as compared to the 6% sales tax. A higher rate achieves the goals sooner than a lower rate.
- **Duration:** The FTT remains in effect until the fiscal goals of the temporary, dedicated tax are achieved, whereupon it ends by law unless the General Assembly acts to re-purpose the revenue.
- **Collection:** The FTT applies to any transaction made by a PA resident through a broker, regardless of where the broker is located. Brokers would program trades to collect and direct the tax electronically to the State Treasury for any clients who have a PA zip code. In this respect, collection carries minimal cost, operates like a payroll tax or an online sales tax, and is virtually impossible to evade.
- **Employer Contribution Rates:** Rates immediately return to a level actuarially consistent with the rates in effect in 2001, unless the funds' actuaries recommend otherwise. The rate in 2000-01 was 1.94% of payroll. For 2014-15, it's 21.4%.
- **Employee Contribution Rates:** Rates immediately return to a level actuarially consistent with the rates in effect in 2001, unless the funds' actuaries recommend otherwise.

- **Protection for Renters:** Landlords whose property taxes are lowered will have to rebate the tax savings to tenants or place those funds in an escrow account that may be used only to improve the rental property. No windfalls.
- **Vesting:** System actuaries will recommend vesting periods for new employees.
- **Multiplier:** System actuaries will recommend changes in multipliers.
- **Revenue Projections:** A federal proposal for an FTT of 3/10th of 1% yields an estimated \$177 billion to \$354 billion a year nationally.
 - Assuming that PA represents 5% of national economic activity subject to an FTT, it would yield \$8.85 billion to \$17.7 billion annually.
 - Assuming that PA represents 2% of national economic activity subject to an FTT, it would yield \$3.54 billion to \$7.08 billion annually.
 - PA has 3.8% of the national population.
- **Future:**
 - The State Treasurer would be required to pay into the retirement systems each year the amount estimated to be necessary by system actuaries, plus or minus no more than 10% in any five-year period.
 - The General Assembly would be prohibited from making use of, or commitments against, pension funds without public hearings in at least four media markets and without a majority vote of at least 75% of a constitutional majority. There are excellent economic reasons why pensions should be a sacred cow.

Background

A form of Financial Transaction Tax has existed since 1694 at the London Stock Exchange. In the past century, economists including John Maynard Keynes, James Tobin, and Paul Bernd Spahn have proposed FTTs in various forms and for various purposes. http://en.wikipedia.org/wiki/Financial_transaction_tax

The FTT exists in 40 countries around the world. In July 2013, the European Parliament approved an FTT, which now awaits ratification by the EU member nations. [http://europa.eu/rapid/press-release MEMO-13-652 en.htm](http://europa.eu/rapid/press-release_MEMO-13-652_en.htm)

The United States had an FTT from 1914 to 1966. A remnant still pays for the operation of the Securities and Exchange Commission. An FTT currently proposed in the US Senate would raise between \$177 billion and \$354 billion a year nationally. http://www.peri.umass.edu/fileadmin/pdf/working_papers/working_papers_201-250/WP212.pdf

New York State's FTT generated more than \$12 billion in 2012-13, all of which was rebated to the financial industry. In 2008, the year when Wall Street speculation caused worldwide economic recession and citizens lost 40% of the value of their 401(k)'s, New York rebated \$16.3 billion to the very people who caused the catastrophe. Like most states, they also cut programs for the poor. http://www.tax.ny.gov/research/collections/fy_collections_stat_report/2012_13_annual_statistical_report_of_ny_state_tax_collections.htm (Table 22, Column H)

Proposed Budget Cuts: 2009-2010

RocktheCapital.org released a “pain free” plan to trim \$559,083,601.60 million from the 2009-2010 fiscal year budget without impacting social services, education, health care or infrastructure. We recommended eliminating tourism promotion WAMS: **\$15.6 million**; dismantling the Independent Regulatory Review Commission: **\$2.1 million**; ending legislative Public Service Announcements: **\$1.35 million**; requiring a modest health care contribution by the House of Representatives and their staff of 1% of their gross pay: **\$1 million**; and, a 10% cut in the salary of the 22 highest paid Penn State vice presidents would save taxpayers: **\$583,601.60**.

1. Reducing non-lapsing, leadership accounts by 90% would result in an estimated savings of at least **\$217.35 million** based on last year’s avarice. The Senate R’s have talked a good game, and the House D’s claim to be under “new management,” now lets see if they can cut the fat off their taxpayer funded slush funds.

2. Allowing the Department of Public Welfare to directly purchase prescription drugs for 1.2 million Pennsylvanians receiving medical assistance would result in annual estimated savings of **\$146 million**. Not going happen. Why? Because Blue Cross/Blue Shield doesn’t want it to happen.

“In Pennsylvania, a cursory review of campaign contributions last election and so far this year shows Blues giving thousands of dollars to legislative leaders and campaign committees of both parties...Among recipients: Republican Senate President *Pro Tempore* Joe Scarnati (\$6,500); Democratic House Majority Leader Todd Eachus (\$4,290); House Republican Campaign Committee (\$6,050); House Democratic Campaign Committee (\$5,500). Drug companies do the same. Just one, Pfizer, gave to Democratic House Speaker Keith McCall (\$1,000), Senate Republican Majority Leader Dominic Pileggi (\$2,000), state Democratic Party (\$9,500), Senate Republican Campaign Committee (\$12,850).” (John Baer, *Philly Daily News*, April 8, 2009)

3. **Cutting \$75.5 million in tax breaks** movie makers receive for filming in Pennsylvania. Attendance and movie sales actually climbed nationwide during a recession. “Suddenly it seems as if everyone is going to the movies, with ticket sales this year up 17.5 percent, to \$1.7 billion, according to Media by Numbers, a box-office tracking company... Attendance has also jumped, by nearly 16 percent. If that pace continues through the year, it would amount to the biggest box-office surge in at least two decades. (“In Downturn, Americans Flock to the Movies,” *New York Times*, February 28, 2009)

4. **Shrinking the budget of the most expensive legislature in America by 20% would save taxpayers \$70 million.**

5. **Reduce DCED’s budget by the amount it appropriated to legislative non-profits.** “Six Pennsylvania lawmakers raked in **\$29 million** in taxpayer money to nonprofit groups controlled, created or fostered by those same politicians.” (*Tribune-Review*, April 24, 2006) The bipartisan mob includes former-Speaker John Perzel (R), former-Senator Vincent Fumo (D), former-House Minority Whip Mike Veon (D), House Appropriations Chairman Dwight Evans (D), and Mike Sturla (D), Chair of Policy & the House Democratic Campaign Committee.

6. **Eliminate tourism promotion WAMS:**
Estimated savings of \$15.6 million.

7. **Eliminate the Independent Regulatory Review Commission:**
Estimated annual savings of \$2.1 million.

8. **Eliminate Public Service Announcements:**
Estimated annual savings of \$1.35 million.

9. **Require health care contributions by the House of Representatives and their staff of 1% of their gross pay:**
The estimated annual savings - based on 203 representatives and 2,038 employees - is at least \$1 million.

10. **Ten percent cut in the salary of the 22 highest paid Penn State vice presidents:**
Estimated annual savings of \$583,601.60.