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Slicing Pennsylvania's Finances, Part 3: A Report on the Public Credit

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Summary

- Pennsylvania's total public debts are about $11,000 per resident.
- The state government uses special entities to borrow in excess of the constitutional debt limit and make loans and guarantees that would otherwise be illegal.
- Only about half of the state's bond debt was used to fund state-level public works projects. Most of the rest was used to subsidize localities and private businesses.
- The state's single largest debt item is its unfunded pension liability, which is double the amount of its bond debt. Government could shut down for nearly a year, funnel every dollar of tax collection into the pension system, and it still wouldn't be fully funded.
- Virus pandemic relief measures are likely to increase the debt burden.
- To start reducing the debt, state government should institute a borrowing moratorium at all public entities except the main government and the turnpike, simplify the state's elaborate financial structure and pursue comprehensive pension reform. Prudent asset sales and privatization should also be considered.

Introduction

Governments can and do go broke. Pennsylvania defaulted on its debts in the 1840s along with seven other states and the territory of Florida. Arkansas defaulted on its debts in 1933. Municipal bankruptcies are common: Orange County, California, declared bankruptcy in 1994. Jefferson County, Alabama, declared bankruptcy in 2011. Harrisburg and Detroit both declared bankruptcy in the last decade. As of this writing, the coronavirus pandemic is still ongoing, and the duration of economic harm is unknown. It appears clear, however, that most states and major localities will be weakened financially in the short term. New Jersey and Illinois, for example, both had their credit ratings downgraded in April.

Pennsylvania is not in the same situation as New Jersey or Illinois, but its rating was cut in 2017 and has not improved since.[1] It has been on a bad path for a very long time. The state constitution was amended in 1968 to try and impose financial prudence, but debt continued to grow nonetheless. The general government is subject to a debt limit, but public entities with their own revenue sources or a measure of legal separation from the government are not. To

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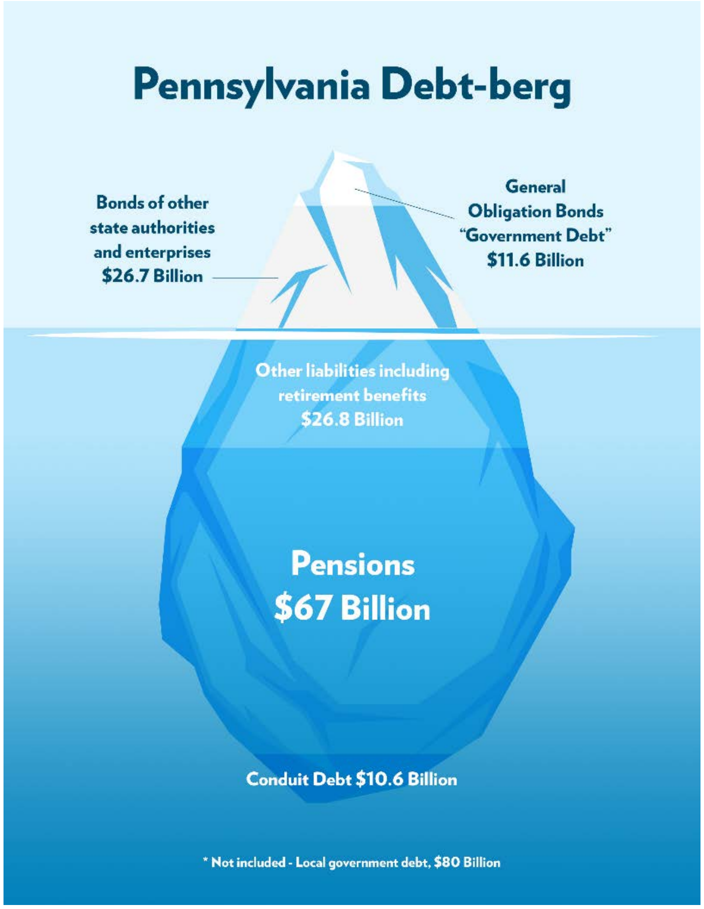
[1] "S&P Downgrades Pennsylvania Credit to A+, Cites Budget Problems," Reuters, September 20, 2017, https://www.reuters.com/article/us-pennsylvania-budget/sp-downgrades-pennsylvania-credit-to-a-plus-cites-budget-problems-idUSKCN1BV2FS.

enable borrowing, policymakers spun a web of such entities. Today, there are at least 12 public bodies with outstanding debt, denoted by confusing acronyms like PIDA, PHFA, PEDFA, PHEFA, PHEAA, PENNVEST, and CFA. This web of obscure entities allows the government to do what the state constitution prohibits: fund private business and real estate.

In total, Pennsylvania has about $11.6 billion of general government debt and $37 billion of bonds payable by other public entities. Additionally, the government has an unfunded pension liability of at least $67 billion and other retirement liabilities of about $24 billion. The government and its related bodies also have liabilities such as leases, installment purchases and self-insurance commitments of nearly $3 billion.[2] By this reckoning, Pennsylvania has a total public debt of about $143 billion, or $11,000 per resident.

Figure 1



The public debt is not properly summarized in official disclosures. The state's Comprehensive Annual Financial Report (CAFR) contains most of the relevant totals, but they are scattered across nearly 300 pages, with minimal explanation. The Commonwealth Foundation has pulled together in this report information from the CAFR, the Governor's Executive Budget, bond

[2] This report does not consider local government debt, which the 2016 U.S. Census estimated at about $80 billion. Unfunded pension liability is the sum of estimates given in the most recent actuarial reports of the State Employees Retirement System and Public School Employees Retirement System. The estimates are optimistic because these reports use the government's own investment return projections.

offering documents, and the financial statements of individual entities to draw a complete picture of how much Pennsylvania owes and for what purposes.[3]

Debt Limit & Credit Ratings are Not the Full Story

When politicians and press refer to the public debt, they are typically referring to general obligation bonds. These are bonds that the state government periodically sells to pay for major projects, chiefly public construction. The projects are approved by the legislature through their inclusion in the annual capital budget. The bonds are repayable through the general financial resources and taxing power of the state. No specific resource is pledged as security, only the state's reputation and creditworthiness.

General obligation bonds are subject to a constitutional limit. The state constitution of 1968 requires that general obligation debt, except where incurred for emergency relief or approved by referendum, not exceed 1.75 times the average annual tax revenue for the last five years.[4] The government currently has about $11.6 billion of general obligation bonds outstanding versus a constitutional limit of about $71 billion.[5] Interest costs on the general obligation debt are not currently burdensome. At about $340 million, they add up to just 1% of the general fund operating budget.

Unfortunately, the debt limit is false comfort because general obligation debt is only a small part of the total (Figure 1). Consolidated liabilities are close to double the debt limit if the broadest definitions are used, and the annual interest on all debt is about $1.5 billion. Moreover, the debt limit takes no account of the unfunded pension liability, which is the commonwealth's single largest debt by far.[6]

Similarly, although Pennsylvania's credit ratings of AA- (Fitch), Aa3 (Moody's), and A+ (S&P)[7] are in line with other states, they don't address the state's consolidated financial health. State credit ratings are based on the probability that a general obligation bond investor will get his money back on schedule. They discount other types of debt and assume, to a point, that politicians can raise taxes and cut services in order to make bond payments. They are a measure of investment safety, not taxpayer burden.[8]

[3] The CAFR and executive budget are available at https://www.budget.pa.gov/PublicationsAndReports. Both are dated June 30, 2019. Financial statements for most individual entities are dated June 30, 2019, but some are dated June 30, 2018. This report reflects no debt repayments or new borrowings that may have occurred between the last available reporting date and today, with the exception of $1 billion in unemployment compensation fund bonds that were repaid in January 2020.

[4] Article VIII, Section 7. Nonemergency debt may be incurred in excess of the limit if it is approved by referendum. The balanced budget requirement in Article VIII, Section 13a, was also added in 1968.

[5] CAFR, pp. 126, 282.

[6] The exact legal nature of pension obligations could be disputed. Only a court ruling would establish for certain the extent to which pensions are privileged above other contracts. Discussion is beyond the scope of this report, but an introduction is "Legal Constraints on Changes in State and Local Pensions," A. Munnell and L. Quinby, College Center for Retirement Research, August 2012, https://crr.bc.edu/wp-content/uploads/2012/08/slp_25.pdf.

[7] Aside from press releases, the rating agencies make their analysis available only for pay. The California State Treasurer maintains a list of state ratings at https://www.treasurer.ca.gov/ratings/current.asp, but timely updates are not guaranteed.

[8] Credit ratings help the bond market decide what interest rate to charge a government or corporation when it borrows money. Three firms provide institutional credit ratings: Standard & Poors, Moody's, and Fitch. The firms rate individual bonds based on the security pledged for payment. Consequently, a state's different bonds carry different credit ratings: the rating typically cited in the press is the general obligation bond rating. The agencies know that the states try to game the ratings process by pledging different security for different bonds and by borrowing through multiple entities. Rating criteria, described in papers on the agency websites, do try to account for such tricks. However, the rating agencies rate one group of bonds at a time: they do not consolidate all state borrowings into a single total and render a single credit opinion. Note also that states pay the rating agencies to obtain a rating.

Table 1

Summary of Pennsylvania Public Debt ($ millions)		
General Obligation Bonds	$11,573	
Capital Facility Bonds		$6,238
Refunding Bonds		$5,009
Infrastructure Investment Authority (PENNVEST)		$150
Growing Greener Bonds		$143
Water and Wastewater Treatment Bonds		$33
Not General Obligation Bonds (can be considered “Government Debt”)	$10288	
Commonwealth Financing Authority		$4,392
Higher Education Facilities Authority		$3,552
State System of Higher Education		$2,232
Infrastructure Investment Authority (PENNVEST, in addition to above)		$103
Philadelphia Regional Port Authority		$9
Bonds Issued by Semi-Independent Bodies (government liability is ambiguous)	$16,536	
Pennsylvania Turnpike		$12,842
Higher Education Assistance Agency		$3,694
Conduit Bonds (on behalf of other parties)	$10,581	
Housing Finance Authority		$3,055
Economic Development Financing Authority		$4,788
Public School Building Authority		$2,738
Unfunded Pension Commitments	$67,000	
Other Post-Employment Benefits	$24,194	
Other Liabilities	$2,614	
Grand Total	**$142,786**	
Pennsylvania Population (millions)	13	
Debt per Person	$10,984	

Sources: Commonwealth of Pennsylvania CAFR dated June 30, 2019. Actuarial reports of SERS and PSERS pension systems. Annual financial statements of individual borrowing entities. OPEB summed for all entities listed.

The True Taxpayer Burden

Taxpayers are liable for the great majority of the commonwealth’s debt irrespective of the formal legal security or the public entity that owes it. Differences between securities is still important, however, because they show the extent to which the state has hidden its activity from the public.

The key difference is between tax-backed debt and revenue-backed debt. Revenue-backed debt is secured by a distinct income source such as toll collection from a road or rent from a property. Instead of being issued by the government, it is often issued by state-controlled bodies that are essentially government-chartered businesses. In the CAFR, these bodies’ financial activities are recorded as “Enterprise Funds” and “Discretely Presented Component Units” distinct from “Government Funds.” Bond documents explicitly warn lenders that the government disavows repayment responsibility, and the distinction is important for investors.[9] Taxpayers, however, are not off the hook. Most debts of the Pennsylvania Turnpike, for example, are legally secured only by toll revenue. If the turnpike is in danger of missing its debt payments, tolls most likely will have to rise. If insolvency cannot be avoided by raising tolls, however, a government bailout is likely because the state would not want to surrender control of a prize asset.

Sometimes the only difference between taxpayer debt and other debt is a clever banker or bond lawyer. PlanCon school construction bonds are an example. The bonds are authorized by Act 25 of 2016 in an amount up to $2.5 billion. They are obligations of the Commonwealth Financing Authority, not the general government. The ultimate repayment source, however, is an appropriation from the government. Offering documents for a recent bond offering state the following (emphasis added):

> *"The Series A Bonds shall be payable from and secured by a lien upon and pledge of the Revenues as defined in the PlanCon Bond Indenture (the "PlanCon Revenues") and as described herein. The PlanCon Revenues include all amounts payable to the Authority pursuant to the PlanCon Service Agreement, between the Authority and the Commonwealth of Pennsylvania, acting through the PDE [Pennsylvania Department of Education]...**The PlanCon Service Agreement requires PDE to make payments sufficient to pay the principal and interest on the Series A Bonds when due...PDE has covenanted in the PlanCon Service Agreement that so long as the Series A Bonds remain outstanding, it shall include in its annual budget request an amount sufficient to pay all such amounts due and payable in the related fiscal year."***[10]

In plain English: the government promises to pay the Commonwealth Financing Authority (CFA), which promises to pay the bonds. For the avoidance of doubt, the state legislature passed Act 85 of 2016, which established an automatic appropriation of sales tax money directly for CFA debt service as needed. The arrangement lets the CFA borrow against government taxing power without having its debts count against the government debt limit.

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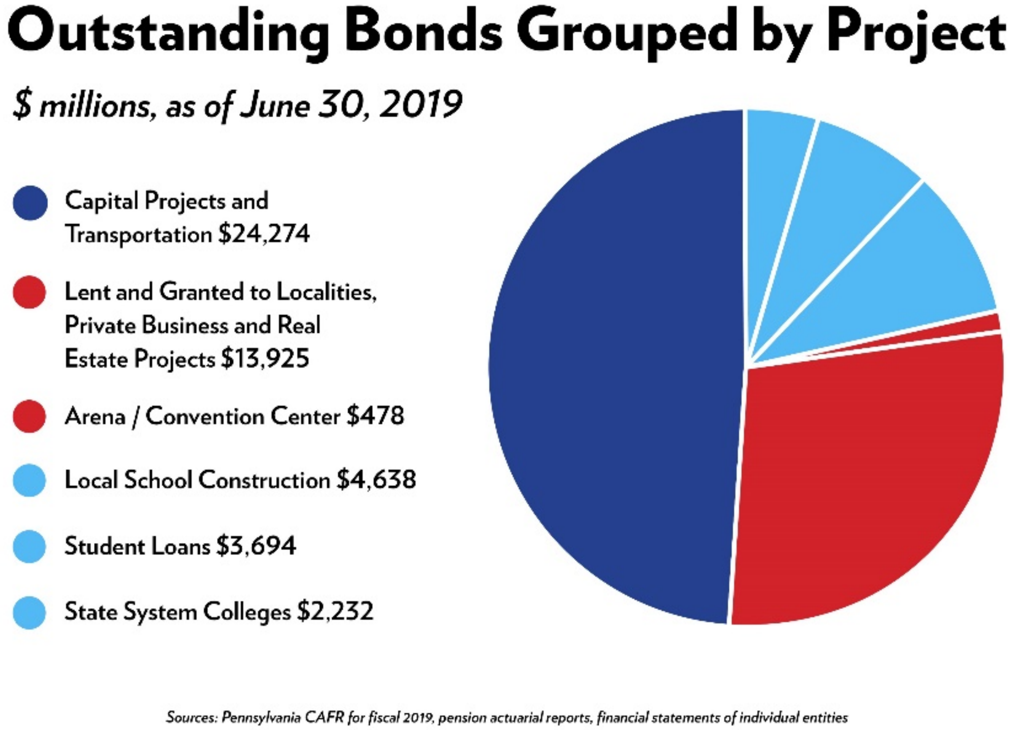
[9] Typical bond document language, from the cover of the offering statement for the Series 2008 Commonwealth Lease Revenue Bonds of the Philadelphia Regional Port Authority (all capital letters in original): "THE 2008 BONDS SHALL NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2008 BONDS OR THE INTEREST THEREON, NOR SHALL THE AUTHORITY BE OBLIGATED TO PAY THE 2008 BONDS OR THE INTEREST THEREON EXCEPT FROM THE REVENUES AND FUNDS OF THE AUTHORITY PLEDGED FOR THE PAYMENT THEREOF."

[10] Cover page of the offering statement for $412,520,000 of Commonwealth Financing Authority Revenue Bonds (Federally Taxable), Series A of 2018 (Plancon Program). Offering statements for commonwealth and local bonds are available on EMMA, a web site run by the Municipal Securities Rulemaking Board, https://emma.msrb.org/.

Figure 2



Some debts, often called conduit debts, truly are intended as standalone obligations. These are generally bonds that the state issues on behalf of local governments too small to issue bonds of their own, or on behalf of private parties for projects ostensibly for public benefit. For Pennsylvania, such debts total about $10.6 billion. The state government may indeed allow conduit bondholders to take a loss instead of encumbering the taxpayer. However, state-run borrowing conduits give selected projects and businesses preferential funding. This raises a different set of problems.

The Public Authority Shell Game

Taxpayers might be surprised to find out how much the state owes, but they would be outraged to find out how little of it was used for their benefit (Figure 2). Only about $24 billion, half of all bond borrowing, was spent on state government capital projects or on transportation. $14.4 billion, or one quarter of all bond borrowing, was re-lent or given to local governments and private businesses, used to fund private real estate development, or spent on the Pennsylvania Convention Center and Pittsburgh Penguins hockey arena. Borrowing at interest to funnel so much of it into private hands is neither responsible nor constitutional, but government does it anyway through a web of confusingly named entities called public authorities.[11]

[11] The enabling laws for Pennsylvania's public authorities and quasi-public corporations are given in Title 64 of the Consolidated Statutes of Pennsylvania, https://www.legis.state.pa.us/cfdocs/legis/LI/Public/cons_index.cfm.

Figure 3

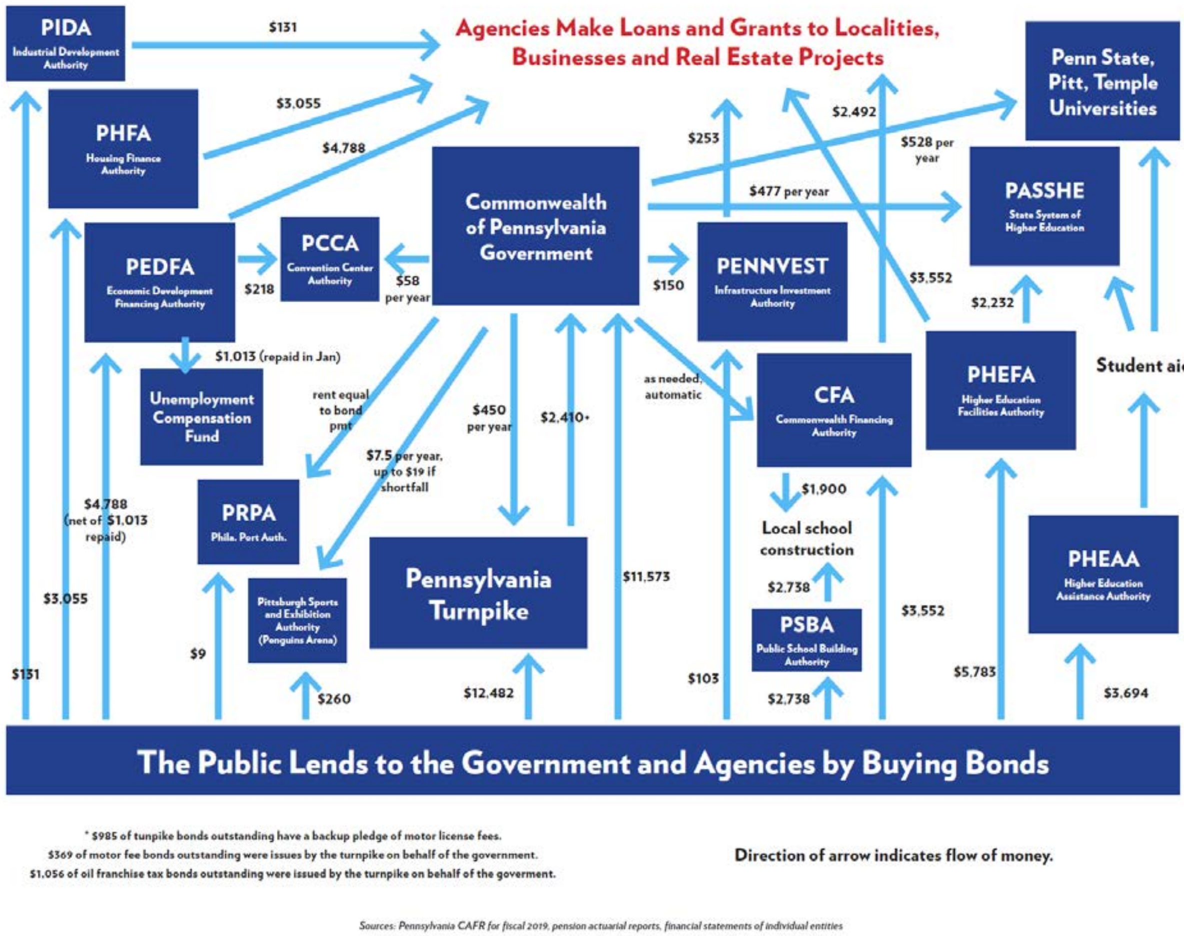


Figure 3 traces the bond proceeds and certain related payments of the core government, the public authorities, and certain other entities through to their ultimate uses. Details of each entity in the diagram are given in the "public debt details" section of this report. Figure 3 raises the immediate question: why does everything have to be so complicated?

Complexity is politically useful because it serves to hide the scope of state spending and size of the debt. Complexity is also legally necessary. The original constitutional design was simple, but politicians found it too restrictive. Efforts to elude the debt limit partly explain the proliferation of public authorities, as does the desire to spend money outside of the regular budget process.[12] The biggest reason for creating so many public authorities, though, is to elude Article VIII, Section 8 of the Pennsylvania constitution, titled "Commonwealth Credit Not to Be Pledged." It reads:

"The credit of the commonwealth shall not be pledged or loaned to any individual, company, corporation or association nor shall the commonwealth become a joint owner or stockholder in any company, corporation or association."

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[12] See "Slicing Pennsylvania's Finances, Part 2: Revenue on Autopilot," Commonwealth Foundation, October 28, 2019, https://www.commonwealthfoundation.org/policyblog/detail/slicing-pennsylvanias-finances-part-2.

To varying degrees, PIDA, PHFA, PEDFA, PHEFA, PENNVEST, CFA, PCCA, and the Pittsburgh Sports and Exhibition Authority all do precisely that. They might be separate from the commonwealth government in some legal sense, but they operate in practice under government control.

It is hard to see how some of these arrangements have been permitted to stand. CFA lends directly to businesses, yet its debts are backstopped by the state government, as previously discussed. PENNVEST lends directly to business while being funded in part by bonds issued on the commonwealth's general credit. The Pennsylvania Convention Center and the Penguins arena are, in fact, joint ventures with the private sector, whatever their form may be on paper.

Guarantees and Hidden Debt

Figure 3 is a simplified representation that excludes guarantees, that is, commitments to backstop the debts of others. The commonwealth government is committed to fund any financial deficiency at the Pittsburgh Penguins arena in the amount of up to $19 million per year, albeit subject to legislative appropriation. The Commonwealth Financing Authority has made $95 million of guarantees to private businesses under the First Industries Program, the Pennsylvania Venture Program, and tax increment financing programs. It has made $8 million in other unspecified loan guarantees, as well as guarantees of $4 million and $6 million, respectively, to support downtown redevelopment projects in Lancaster and Bethlehem, which were financially supported in turn by local governments. Because these liabilities are contingent, they don't show up any financial statements. They can only be found in the footnotes.[13]

The state has other hidden liabilities as well. In 2017, the Wolf administration announced a "lease-leaseback" of the Farm Show Complex, a state-owned convention center in Harrisburg. The state agreed to pay rent on property it already owns, essentially taking out a mortgage. It received about $200 million from a private company up front and agreed to pay it back with interest over 29 years through lease payments. This transaction is described nowhere in the CAFR's 294 pages.[14]

Debt Details

Commonwealth of Pennsylvania

Commonwealth of Pennsylvania Government ($ Millions)	
Bonds and Other Securities*	$11,573
Capital Leases, Installments, Self-Insurance, and Other	$1,662
OPED Retirement Benefits	$20,077
Total	$33,312
Last Reported Interest Expense	$344

**includes $150 million passed through to PENNVEST.*
Source: CAFR, pp. 47, 48, 124 (note 6).

The debts of the main government are primarily general obligation bonds and non-pension retirement liabilities called OPEB (pensions are obligations of the SERS and PSERS retirement systems). General obligation debt is subject to the ordinary constitutional debt limit except

[13] CAFR, pp. 165, 166 (note 14).
[14] Steve Esack, "Farm Show Complex 'Lease' Steams Legislators," *The Morning Call*, February 18, 2018, https://www.mcall.com/news/pennsylvania/mc-nws-wolf-legislature-farm-show-complex-20180228-story.html.

where approved by referendum. Government debt of $159 million was passed through to the Pennsylvania Infrastructure Investment Authority (PENNVEST).

Public Employee Pensions

Public Employee Pensions ($ Millions)	
PSERS Unfunded Commitments, Estimated	$44,100
SERS Unfunded Commitments, Estimated	$22,793
Total	$66,893

Source: Actuarial valuations available at psers.pa.gov and sers.pa.gov, pp.15 and 16, respectively.

Pennsylvania has two main public pension systems, which invest monies contributed by public workers and the government to provide income at retirement. The Public School Employee Retirement System (PSERS) and State Employee Retirement System (SERS) together have about 735,000 members and approximately $90 billion in invested assets. Their unfunded liabilities of over $67 billion are the commonwealth's single largest liability. PSERS and SERS unfunded liabilities are not shown in Figures 2 and 3, which emphasize bonded debt.

Pension liabilities are actuarial estimates, not firmly known amounts. The estimates are optimistic because they rely on investment return projections that are arguably too high. PSERS, for example, projects a 7.25% annual investment return.

The state's unfunded liability is so massive because it has accumulated over decades. Over many rounds of negotiation with the government, public employee unions won progressively more generous benefit packages. The promised benefits were not realistic given what employees were asked to contribute and the return on investment those contributions could earn. For its part, the government underfunded its own share of contributions. Irrespective of how the shortfall came about, though, taxpayers are liable for it. Act 5 of 2017 moved new public hires away from a defined benefit plan, but the liability for other pension members remains.

Each year the various state agencies and, in the case of PSERS, local school districts, make annual contributions intended to reduce the unfunded liability. Due in part to excessively long amortization periods, however, unfunded pension liabilities have not meaningfully declined.

Pennsylvania Turnpike

Pennsylvania Turnpike ($ millions)	
Bonds and Other Securities	$12,842
Capital Leases, Installments, Self-Insurance, and Other	$250
OPEB Retirement Benefits	$13
Total	$13,105
Last Reported Interest Expense	$621

Source: CAFR, p. 65; Turnpike financial statements, pp. 22, 52-54.

The Pennsylvania Turnpike Commission controls the Pennsylvania Turnpike, one of the most important highways in the eastern United States. It collected $1.4 billion in tolls in the 12 months ended May 2019. Unfortunately, the state government has borrowed heavily against this earning power and transferred the proceeds to itself, leaving the turnpike highly indebted.

Under Act 44 of 2007, the turnpike remits $450 million to the state annually through 2022, at which time annual payments will fall to $50 million through 2057. The Pennsylvania Department of Transportation has been using $250 million per year of the Act 44 funds to pay for public transportation in Philadelphia via the Public Transportation Trust Fund. The state currently has at least $10.4 billion of toll revenue debt outstanding and will have to keep borrowing to continue making Act 44 payments. The state has used the turnpike for other debt as well, including about $1 billion of oil franchise tax bonds and $370 million of outstanding motor license fee bonds.

Pennsylvania Economic Development Financing Authority (PEDFA)

PEDFA ($ millions)	
Bonds and Other Securities	$4,788
Last Reported Interest Expense	Not available: Paid by borrowers directly

Source: CAFR, pp. 72, 184; Governor's Executive Budget, p. G-10.

PEDFA is a pass-through entity which borrows money on behalf of other bodies but has no apparent activities of its own. According to the CAFR description and bond offering documents, "revenue bonds issued by PEDFA represent limited obligations payable solely from PEDFA project financed revenues." PEDFA's mission is ambiguous: "PEDFA finances projects on behalf of local industrial and commercial development authorities to promote economic growth within the commonwealth." Bond offering documents state that "the Authority provides such financing by issuing its limited obligation revenue bonds to make loans to fund qualified projects authorized and approved by local industrial and commercial development authorities, industrial development agencies, when necessary, and certain other governmental entities."

PEDFA has issued $218 million of debt on behalf of the Pennsylvania Convention Center and, up until January, had $1 billion of debt outstanding on behalf of the unemployment compensation fund. The remainder of PEDFA's outstanding debt appears to have been re-lent for purposes Commonwealth Foundation could not determine.

Commonwealth Financing Authority (CFA)

CFA ($ Millions)	
Bonds and Other Securities	$4,392
Capital Leases, Installments, Self-Insurance, and Other	$17
Total	$4,409
Last Reported Interest Expense	$138

Source: CAFR, pp. 57, 131 (note 6); CFA financial statements.

CFA was established in 2001 as an independent agency administered by the Department of Community and Economic Development. It has the vague purpose of funding programs and investments related to Pennsylvania's economic growth.

The CFA has $4.4 billion in what is nominally revenue-backed debt, but there is in fact a standing, automatic appropriation of sales tax to pay the debt. Act 85 of 2016 required the direct transfer of sales tax monies as needed to pay CFA bond debt service. Overall, the CFA received $319 million from the government in the 2017-2018 fiscal year through at least six government funds, including the diversion of sales tax. For example, monies for principal and interest on the authority's H20 program come from the Marcellus Legacy Fund, which collects gas drilling impact fees. Overall, the CFA received monies in its last reported fiscal year from the General Fund, the Multimodal Transportation Fund, the Marcellus Legacy Fund, the Gaming Economic Development and Tourism Fund, and the State Gaming Fund.

The PlanCon school construction borrowing program is run through the CFA, which issues PlanCon bonds. About $1.9 billion of PlanCon bonds are outstanding (revenue bond series 2018 A and 2019 A), out of $2.5 billion authorized. The PlanCon bonds appear to be payable solely through the transfer of sales tax. While the CFA does fund local public infrastructure projects, other funded projects listed on its website include private real estate development and business funding. The CFA's board meets infrequently, and little substantive deliberation is made public.

Pennsylvania Housing Finance Agency (PHFA)

PHFA ($ millions)	
Bonds and Other Securities	$3,055
Capital Leases, Installments, Self-Insurance, and Other	$244
OPEB Retirements Benefits	$90
Total	$3,389
Last Reported Interest Expense	$112

Source: PHFA financial statement, pp. 15, 41, 42.

PHFA was established in 1972 as a state affiliated body, but it is not part of the state government. It develops multifamily housing projects and makes mortgage loans. It is self-funding through loan fees and through borrowing. It has about $3.5 billion of debt outstanding, of which about $364 million is secured by individual multifamily properties, and $2.9 billion funds single-family mortgage lending.

State Public School Building Authority (PSBA)

PSBA ($ millions)	
Bonds and Other Securities	$2,738 in FY 2018
OPEB Retirements Benefits	$1,740
Total	$4,478
Last Reported Interest Expense	Not available: paid by borrowers directly

Source: PSBA financial statements; CAFR, p. 263 (nonmajor discretely presented units).

PSBA is a pass-through entity that issues bonds on behalf of local school districts and community colleges. These are obligations of the individual borrowers and not of the state: they are not included in the state's financial obligations. The availability of this conduit for localities to borrow directly calls into question why the state needs to issue PlanCon school construction bonds through the CFA.

State System of Higher Education (PASSHE) and Higher Education Facilities Authority (PHEFA)

PASSHE and Higher Education Facilities Authority ($ millions)	
Bonds and Other Securities (PASSHE)	$2,232
Bonds and Other Securities (HEFA)	$3,552
Capital Leases, Installments, Self-Insurance, and Other	$315
OPEB Retirements Benefits	$1,977
Total	$8,076
Last Reported Interest Expense	$42
Last Reported Interest Expense	Not available: paid by borrowers directly

Source: PASSHE financial statements, pp. 56, 21, 25; CAFR, pp. 65, 266.

PASSHE is a group of 14 state-administered colleges around the state originally intended to train teachers. PASSHE borrows money through PHEFA, which also provides conduit financing for the construction of college real estate at richly endowed institutions like the University of Pennsylvania and Bryn Mawr.

The PASSHE schools have $2.2 billion of debt directly outstanding and $3.6 billion of real estate debt. While PASSHE is a state body that will receive $477 million in funding this fiscal year, PHEFA is an independent body whose liabilities are not reported in the state CAFR. The PHEFA bond documents state that "debt instruments issued [by HEFA] represent limited obligations payable solely from payments made by the related borrowing institutions and related assets held by the trustees." As a practical matter, however, it is hard to conclude that the state would surrender control of its campus buildings as PASSHE's financial situation deteriorates. Enrollment at these schools has dropped 20% since 2010, according to the *Pittsburgh Tribune Review*. It lost $26 million in fiscal year 2019 and $90 million the year before. Its assets, as valued in its latest financial statement, are $1.6 billion less than its liabilities. PASSHE and PHEFA are likely to become a major drain on the state government's resources in the near future.

Pennsylvania Infrastructure Investment Authority (PENNVEST)

PENNVEST ($ millions)	
Bonds and Other Securities*	$103
Capital Leases, Installments, Self-Insurance, and Other	$117
OPEB Retirements Benefits	$8
Total	$228
Last Reported Interest Expense	$5

**The state government also borrowed $150 million of general obligation debt on PENVVEST's behalf. The most recent annual interest paid to the state on that debt as about $1.5 million.*
Source: PENNVEST financial statement, p. 9, 24-26 (notes 7,8), CAFR p. 65.

PENNVEST primarily gives loans and grants to fund public water and sewer projects, but it also has a broad mandate to fund other activity, including private business. According to the agency website, "funding also assists businesses to locate and expand their operations in Pennsylvania to create permanent well-paying jobs for our workers."

The mandate has allowed for highly questionable deals. In 2018, PENNVEST lent $50 million to Lyme Timber, an out-of-state investment firm, for the purchase of land on which Lyme Timber committed to just $750,000 of relevant water projects. The deal was suspicious enough that House lawmakers passed a resolution asking the auditor general to review the deal. To date, he has not. PENNVEST has $117 million of revenue debt outstanding. The government also borrowed $329 million of general obligation debt and passed the money through to PENNVEST.

Unemployment Compensation Fund

Unemployment Compensation Fund ($ millions)	
Bonds and Other Securities*	$0 ($1,013 via PEDFA repaid Jan. 2020
Last Reported Interest Expense	Not available

** These bonds were debts of the general government used to fill the fund after the Great Recession.*
Source: CAFR pg. 131 (note 6)

In January 2020, the state paid off about $1 billion of general obligation bonds, issued through PEDFA, for the purpose of funding Pennsylvania's unemployment trust fund account at the US Treasury. Each state has such an account, which is funded by unemployment insurance taxes assessed on businesses and from which unemployment benefits are paid to jobless workers who apply for them. During the banking crisis of the late 2000s, Pennsylvania's trust fund ran out of money due to both the severity of the recession and the fund's weak starting position: the fund has not met federal solvency guidelines since 1971.

As of February 2010, the commonwealth was paying out about $75 million per week in benefits, and it had borrowed from the federal government at interest. Eventually, the commonwealth refinanced its federal loan with a $2.8 billion bond offering, the last $1 billion of which was paid off only in January of this year. Pennsylvania's unemployment insurance fund has been debt free for less than two months in the past twelve years. At the present time, the nationwide virus epidemic has suspended most in-person business activity and resulted in new weekly unemployment claims far in excess of the last recession. New borrowing to refill the unemployment compensation fund appears inevitable.

Pennsylvania Industrial Development Authority (PIDA)

PIDA ($ millions)	
Bonds and Other Securities	$130
OPEB Retirements Benefits	$1
Total	$132
Last Reported Interest Expense	$5

Source: PIDA financial statement p. 17 (note 6), CAFR p. 263 (discretely presented component units)

PIDA makes low-interest loans to businesses that commit to creating and maintaining full-time jobs in the state, and for the development of multitenant industrial parks. PIDA also funds machinery and equipment purchases and finances working capital and receivables. For viable businesses under normal circumstances, there is no reason why such financing can't be obtained from a bank, albeit at a market rate of interest.

PIDA has $130 million of debt outstanding, which it uses to fund its loan book. Recent PIDA loans included $640,000 at 3% interest for 10 years to a company called Manning-MFG in Bucks County to buy a building, $165,000 at 2% for 15 years so that H3C Enterprises can buy a warehouse in Cumberland County, and $36,000 at 2% for 10 years to Wyoming Valley Chiropractic in Luzerne County covering 80% of the cost for a digital x-ray system, replacing an older film x-ray system. In its press release announcing the loan, the governor's office praised the environmental benefits of the machinery update.

The activities of PIDA and the CFA appear largely duplicative, but PIDA at least is self-funding, unlike the CFA, which draws money from the state. PIDA and CFA lending are administered by DCED.

Pennsylvania Convention Center Authority (PCCA)

PCCA ($ millions)	
Bonds and Other Securities	$218, issued through PEDFA
OPEB Retirements Benefits	$5
Last Reported Interest Expense	Total unknown, $58 million annually through 2024 is budgeted from Gaming Economic Tourism & Development Fund for debt service. The PCCA takes a 25% share of the Philadelphia Hotel Tax.

Source: CAFR p. 72 (note 1), 165 (note 14), 263, Executive Budget p. G-7, PA Consolidated Statutes, Title 64

The Pennsylvania Convention Center in Philadelphia and the Pittsburgh Penguins hockey arena are both complex real estate deals in which state money, local taxes, government guarantees, and private payments were combined with project borrowings. Debts currently outstanding to fund the convention center include $218 million borrowed through PEDFA and secured with a general obligation pledge from the state. Debt service is payable through the commonwealth's Gaming Economic Tourism and Development Fund in an annual payment of about $58 million. Project debts are also repayable from a share of the Philadelphia hotel tax.

Penguins Arena

The Pittsburgh Penguins arena was funded in part by Commonwealth Lease Revenue Bonds, of which $260 million are outstanding. The lease is between the commonwealth and the Sports and Exhibition Authority of Pittsburgh, and the payment amount equals the principal and interest due on the bonds. Bonds are payable through multiple revenue streams, including collections from the Penguins hockey team, casino revenue, and $7.5 million per year from the Gaming Economic Development Tourism Fund. The government support of the Penguins, however, extends significantly beyond that $7.5 million. The commonwealth is committed to fund any deficiency in the lease revenue up to $19.1 million per year, albeit subject to legislative appropriation.

Philadelphia Regional Port Authority (PRPA)

PRPA ($ millions)	
Bonds and Other Securities	$9
Capital Leases, Installments, Self-Insurance, and Other	$2
OPEB Retirements Benefits	$9
Total	$20
Last Reported Interest Expense	Not available

Source: CAFR p. 130 (note 6), 229 (Nonmajor Proprietary Funds)

PRPA is a commonwealth agency created in 1989 and tasked with managing the port of Philadelphia. The state government makes rent payments to the authority. The amount of the rent payment equals the scheduled principal and interest on the authority's bonds.

New challenges and future reform

As of this writing, the coronavirus pandemic is still ongoing, and the duration of economic harm is unknown. It appears, however, that most states and major localities will be weakened financially in the short term, and barring a quick recovery, Pennsylvania's debt problem will become more severe.

All the issues are the same as before, just bigger: the unemployment compensation fund, barely solvent before, will need a bailout. A decline in the stock market has increased the unfunded pension liability by billions of dollars.[15] Public authorities like PIDA, PEDFA, and CFA can now continue their business giveaways under the banner of virus relief. Politicians, meanwhile, will use the present situation as a pretext for proposing spending they would have proposed anyway.

Borrowing to fund relief proposals would be misguided. As documented above, public borrowing is only sometimes used for public benefit. Moreover, debt increases mean tax increases sooner or later. One of the best economic relief measures that government can propose is a debt reduction program. Low debt and a streamlined government mean low taxes, and low taxes benefit everyone.

To start reducing the debt, state government should do the following:

- Institute a borrowing moratorium at all public entities except the main government and the turnpike. This would take away the government's ability to borrow through public authorities and reduce its ability to pass money through to special interests. The government's ability to issue general obligation debt and fund transportation would be unimpeded.

- Wind down existing public authorities as their debt matures. This would simplify the state's elaborate funding structure and return government to its original constitutional design.

- Pursue comprehensive pension reform. Presently promised benefits are not payable under any scenario. Government could shut down for nearly a year, funnel every dollar of tax collection into the pension system, and it still wouldn't be fully funded. Benefits

[15] A $67 billion unfunded liability x 40% allocation to stocks x 25% decline in prices = $6.7 billion as a rough estimate.

earned should be respected, but benefits promised for work not yet performed must be renegotiated. As an intermediate step, pension reporting can be made more truthful, especially in light of the present bear market. Projecting a 7.25% return every year, as PSERS is required to do, denies both sides in the debate a realistic picture of the problem.

- Consider asset sales and privatization where practical. The state liquor monopoly, PHEEA's student loan business, PASSHE, and possibly the turnpike can all earn far more, and improve service, as private businesses. A well-supervised and transparent privatization would monetize that value for public use in the amount of tens of billions of dollars. It would also remove borrowing powers that the government has demonstrably failed to use responsibly.