

AN EXECUTIVE BRIEFING

TWELVE ACTS · ONE QUESTION · ONE MECHANISM

BY 2040, ERIE'S PENSION RECOVERY TAX COULD COLLECT AN ESTIMATED
THIS MUCH ABOVE THE ACTUARIAL MINIMUM REQUIRED:

\$318_M

How Erie's pension recovery created a structural surplus —
and why *home rule* is the mechanism to redirect it without
raising property taxes, cutting benefits, or touching a single
pension plan.

The \$318 Million Question

Why Erie's pension recovery tax exceeds the current statutory minimum, how home rule could redirect the difference without raising the tax rate or increasing property taxes, and what the general fund could recover.

2026 REVENUE \$32.0M Act 205 + state aid	2026 MMO \$23.1M Legal minimum (PFM)	2026 OVERPAYMENT \$8M Above the legal minimum	15-YEAR CUMULATIVE \$318M PFM baseline extended
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THE BOTTOM LINE

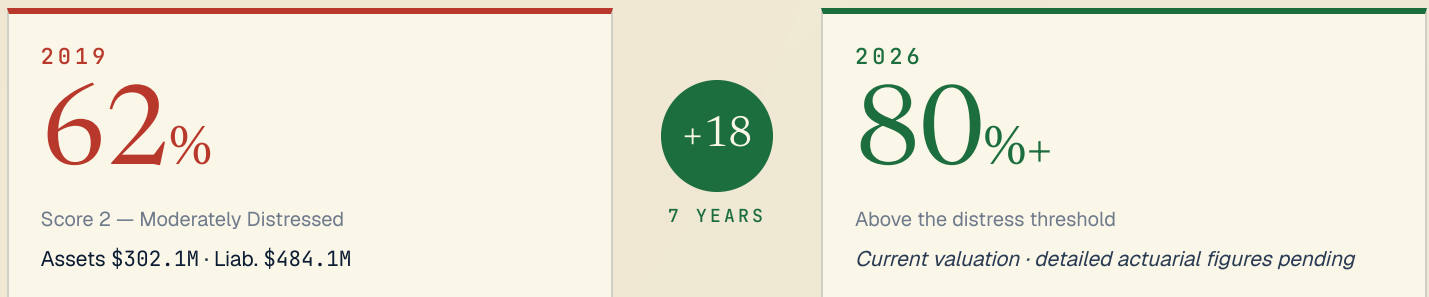
No structural changes are needed. The pension plans keep running exactly as they do today. Every retiree continues receiving full benefits. The legal minimum still gets paid every year. **Home rule simply gives Council the flexibility to direct the surplus to the general fund – protecting Erie from property tax pressure for years to come.**

SECTION 01 How a pension recovery turned into structural surplus

In 2020, Erie City Council enacted a **0.65% distressed municipal pension recovery tax under Act 205**. At the time, Erie's three pension plans — Police, Fire, and Officers & Employees — were moderately distressed, collectively 62% funded. The tax was designed to bring in enough annual revenue to satisfy the Minimum Municipal Obligation (MMO) and close the funding gap over time.

The strategy worked. By 2026, Erie's aggregate funded ratio has climbed to **above 80%** — an eighteen-point gain from the 2019 starting line. The state moved the plans out of distress. Plan assets grew by nearly \$94 million between the 2019 and 2023 audited valuations, and they have continued to grow since.

EXHIBIT A · THE FUNDING RECOVERY (2019 → 2026)



Source: PA Auditor General Act 205 Distress Score reports (2019 → 2023 audited); current funded ratio reflects ongoing recovery through 2026.

What the numbers say today

PFM's May 2026 financial trends analysis confirms it. Total 2026 pension revenue is \$32.0M (\$26.0M Act 205 EIT plus \$6.0M in state pension aid). The Minimum Municipal Obligation is only \$23.1M. PFM frames the difference in its own words: "**this year's General Fund budget effectively has an \$8 million shortfall because the City budgeted to use pension-restricted dollars on non-pension related costs**" (Slide 9). That money is locked into pensions by Act 205, unavailable for any other use.

THE INFLECTION POINT — 2023

In 2023, pension revenue exceeded the MMO for the first time. Every year since, the gap has widened. In its 2026 budget, PFM identifies an **\$8 million overpayment** — a structural surplus, not a one-time event.

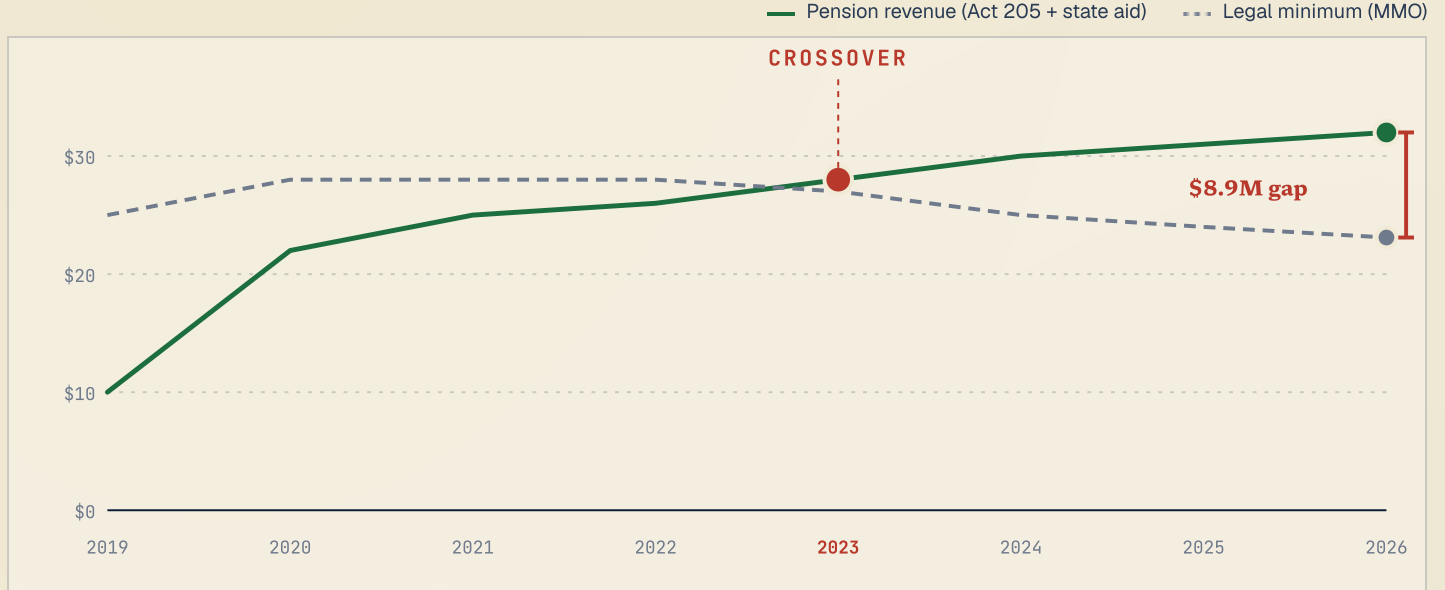
STATE AID — \$6.0M EVERY YEAR

On top of the 0.65% Act 205 tax, Erie receives \$6.0M per year in state pension aid from Pennsylvania — funded by the 2% foreign fire and casualty insurance premium tax. This is built into the \$32M total pension revenue and continues regardless of home rule status.

SECTION 02 The Overpayment – what we are paying above the minimum.

The Act 205 recovery tax grows every year because wages grow. The Minimum Municipal Obligation — the actuarial floor — moved within a tight band and has now declined to PFM's \$23.1M figure for 2026. The result: in 2023, pension revenue exceeded the legal minimum for the first time. Every year since, the gap has widened.

EXHIBIT A · REVENUE VS. LEGAL MINIMUM (2019 → 2026)



Source: Erie Council Books 2019–2026; PFM May 2026 Financial Condition Assessment for 2026 actual.

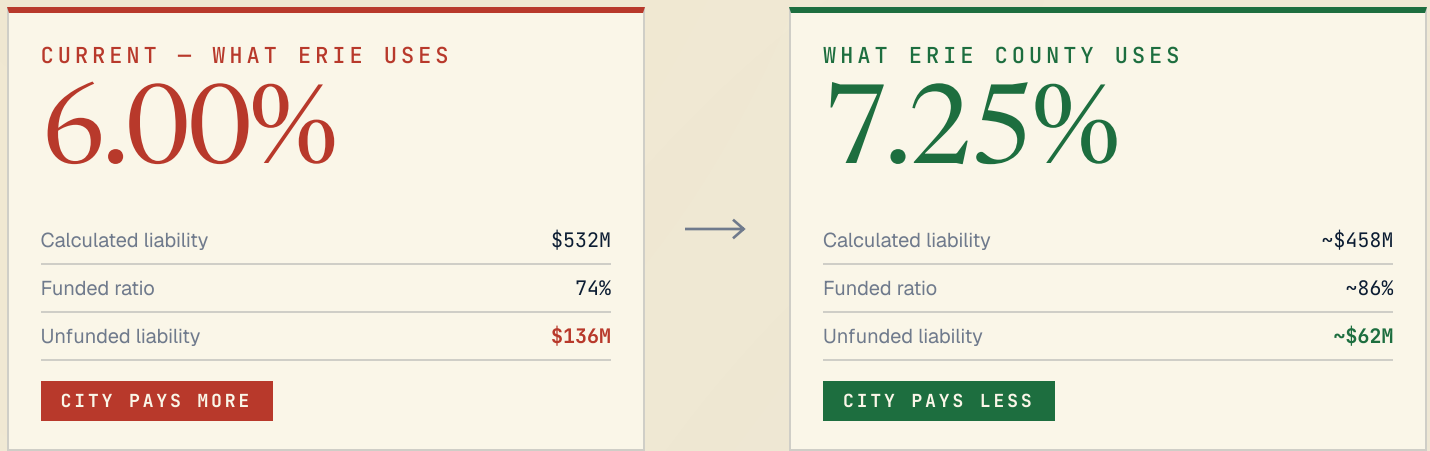
WHY THIS MATTERS

Before 2023, every dollar of the Act 205 tax was needed to meet the pension obligation. **From 2023 forward, the city has collected more than the law required** — and Act 205 mandates that surplus stay in the pension funds. The longer this continues, the larger the trapped surplus grows. PFM confirms an \$8 million overpayment in the 2026 General Fund budget that exists for exactly this reason (Slide 9).

SECTION 03 The 6% assumption is the most conservative in PA. The surplus is actually bigger than it looks.

Every pension plan uses an assumed rate of return to calculate liabilities. **The lower that guess, the more money the city has to put in today** to cover future retirement checks. Erie City uses 6.0%. Erie County uses 7.25%. The state's PSERS and SERS systems use 7.0%. **Erie City's 6.0% is an outlier on the conservative end.**

The practical consequence: Erie's actuary calculates a higher required MMO than a 7.25% assumption would produce. The city contributes more than a typical PA municipality would. Any revenue above the statutory minimum today is already *understated* relative to what every peer city would show.



Erie City at 7.25% would be 86% funded. Erie County at 7.25% is 87.7% funded. Same assumption. Same league.

PENNSYLVANIA PLAN	DISCOUNT RATE	NOTE
City of Erie (current)	6.00%	Outlier on the conservative end
PMRS (state municipal)	5.25%	More conservative; optional enrollment
PSERS (state schools)	7.00%	~\$77B in assets
SERS (state employees)	7.00%	~\$35B in assets
Erie County	7.25%	Standard municipal rate

Bottom line: Erie's 6.0% is defensible. It's also generating a higher-than-necessary contribution. The case for home rule doesn't require changing the assumption — but it becomes even stronger if the assumption is updated.

SECTION 04 Home rule lets Erie opt out of the Act 205 mandate – and redirect the same dollars to the general fund.

Erie is currently governed by Pennsylvania's **Third Class City Code** — a one-size-fits-all rulebook written in Harrisburg that decides what every third-class city can and cannot do. **Home rule lets Erie write its own charter instead**, tailored to Erie, and gives Council the flexibility to direct the Act 205 surplus to the general fund without raising the tax rate or touching the pensions. Over 80 PA municipalities — including 16 of 53 third-class cities — already operate this way.

WHAT CHANGES

Council gets the flexibility to use the surplus. The 0.65% recovery tax rate stays exactly where it is. The MMO still gets paid in full every year. The Act 205 restriction on how proceeds *must* be used — that's the part that goes away. Everything above the MMO flows to the general fund instead of being locked in the pension funds.

WHAT DOES NOT CHANGE

Every retiree continues to receive full benefits. Every active employee continues to accrue benefits under the existing plan. The MMO is paid in full every year. Collective bargaining agreements remain in force. The three pension plans operate exactly as they do today. Home rule does not touch Act 205 funding standards.

Pennsylvania home rule by city class

<p>1ST CLASS > 1,000,000 Philadelphia <i>Home rule since 1951</i></p>	<p>2ND CLASS 250K-1M Pittsburgh <i>Home rule since 1974</i></p>	<p>2ND CLASS A 80K-250K Scranton <i>Home rule since 1974</i></p>	<p>3RD CLASS · HR 16 of 53 Allentown Reading Bethlehem Harrisburg Lancaster (2024) <i>Adopted by ballot</i></p>	<p>3RD CLASS · DEFAULT Erie is here Erie Altoona Williamsport + 34 others <i>No home rule charter</i></p>
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What the home rule process looks like

- 1. Government Study Commission.** A 7, 9, or 11-member commission is elected by voters at the next primary, general, or municipal election. The commission has 9–18 months to study the existing form of government and recommend adoption of a home rule charter (or not).
- 2. Charter Drafting.** If the commission recommends home rule, it drafts a charter that replaces the default Third Class City Code. The charter defines structure, powers, and taxing authority.
- 3. Voter Approval.** The charter goes on the ballot for a simple majority vote. Nothing changes without voter approval.
- 4. Implementation.** The charter takes effect on a specified date, typically the following January 1. Existing ordinances, contracts, and collective bargaining agreements remain in force until amended.

SECTION 05 Two sample scenarios Council could choose with home rule.

Erie's resident Earned Income Tax rate is currently 1.65% (1.00% base under Act 511, plus 0.65% Act 205 pension recovery tax). Applying PFM's own baseline assumptions — 4.5% EIT growth, declining MMO trajectory — two sample scenarios emerge over the 15-year window. Sample A keeps the rate exactly where it is. Sample B adds a modest 0.20 percentage point increase — bringing Erie to 1.85%, still well below Allentown (1.975%), Harrisburg (2.00%), Scranton (3.40%), and Reading (3.60%).

Sample A

Redirect the surplus.

The MMO is paid in full every year. Everything collected above the MMO flows to the general fund. No resident pays more. No retiree loses anything.

RESIDENT EIT	1.65%	No change
2026 ANNUAL	2040 ANNUAL	15-YR CUMULATIVE
\$8.9M	\$33.9M	\$318M

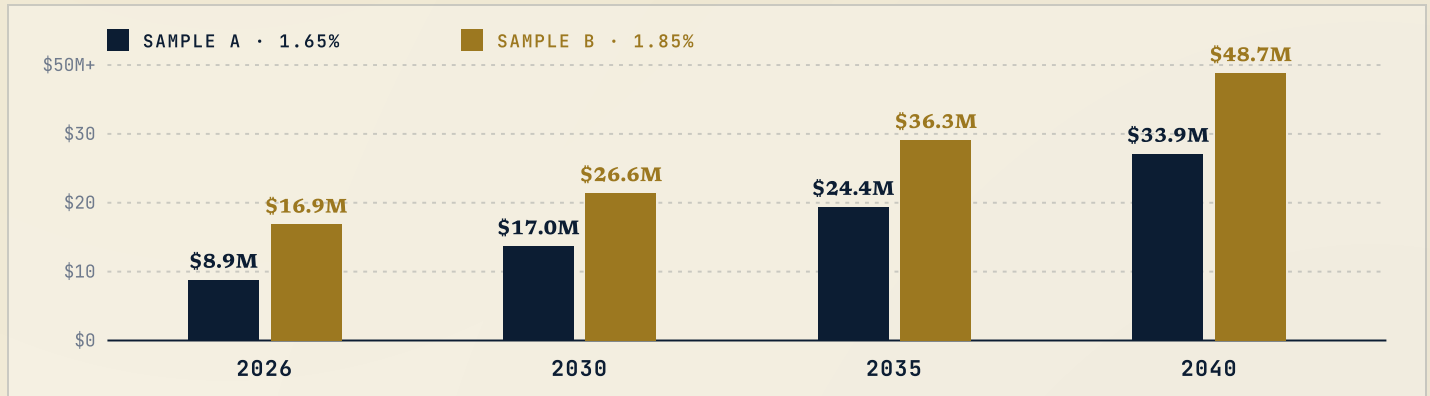
Sample B

Redirect plus a modest adjustment.

Roughly \$160 / year for a resident earning \$80,000. Recovers the surplus plus approximately \$8M / year of new general fund revenue.

RESIDENT EIT	1.85%	+0.20 pp
2026 ANNUAL	2040 ANNUAL	15-YR CUMULATIVE
\$16.9M	\$48.7M	\$484M

Annual general fund addition – under PFM's own baseline assumptions, if home rule gave Council the power



SECTION 06 Why this protects retirees, the disabled, and homeowners.

Here is the critical political point. The Earned Income Tax only applies to **wages**. A small EIT adjustment under home rule could mean **no property tax increase for years to come** — protecting Erie residents who are most vulnerable to rising property taxes.

THE PROPERTY TAX SHIELD

Under home rule, with either Sample A or Sample B, Erie's general fund gains millions every year — **without the need to raise property taxes for years to come**. Workers contribute slightly more (or, in Sample A, the same as today), but the most vulnerable Erie residents pay **nothing extra**.

RETIREEES ON FIXED INCOMES

Protected.

Retirees living on pensions, Social Security, or savings draws have watched property assessments climb year after year. The EIT does not apply to retirement income — so an EIT-only adjustment leaves their tax burden untouched while the city closes its budget gaps.

RESIDENTS ON DISABILITY

Protected.

Erie residents living on Social Security Disability or similar fixed benefits don't pay the EIT on those benefits. Closing the general fund gap through wages-only revenue — rather than property taxes — means the disabled aren't hit by every annual tax decision.

HOMEOWNERS WITH RISING ASSESSMENTS

Protected.

Property assessments have climbed sharply. Each property tax increase compounds on top of that. An EIT-only path lets Erie close its general fund gap without piling another bill onto homeowners who are already absorbing assessment growth.

The Bottom Line

No structural changes are needed. The pension plans keep running exactly as they do today.

PENSION PLANS UNCHANGED

Same plans. Same actuary.

All three plans — Police, Fire, Officers & Employees — continue operating exactly as they do today. Same benefits. Same administration. Same actuary.

RETIREEES FULLY PROTECTED

Every check goes out.

Every retiree continues receiving full benefits. Every active employee continues to accrue. MMO paid in full every year. Collective bargaining agreements untouched.

TAX RATE UNDER COUNCIL CONTROL

Council decides.

Under home rule, Council decides. Sample A keeps EIT at 1.65% (no change). Sample B adjusts to 1.85% — still below every PA peer city. No increase is required by the mechanism itself.

READ THE FULL BRIEFING & WATCH THE ANIMATION

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