Policy Option 5

EXPLORING DEDICATED REVENUE STREAM

In some cases a state or local government can create or dedicate an existing revenue stream to address pension funding needs. A few examples of this approach follow.

The Pennsylvania State legislature authorized Philadelphia to collect an additional 1 percent sales tax for five years to offset increased pension contributions. Later, the legislature made the sales tax permanent. A fixed amount was dedicated to school funding, with the remainder dedicated to pension funding.

The city charter of Portland, Oregon, authorizes a special property tax levy to generate the amount of revenue required to pay all estimated expenses for its Fire & Police Disability, Retirement & Death Benefit Plan.

The Kansas legislature passed a law in 2012 that allows gaming revenues from state-owned casinos (approximately $30 million a year) to be directed to the Kansas Public Employee Retirement System, along with 80 percent of revenue from the sale of any surplus public real estate.

The Montana legislature approved a bill in 2013 that dedicates a portion of the coal extraction tax to the state's unfunded pension liabilities.

The New Jersey legislature passed a law in 2017 that directed that a portion of lottery proceeds go into pension funds. In 2018, for example, of the $2.5 billion contribution, $1 billion came from the proceeds of the state lottery.

Some states supplement funding of their pension plans through a revenue stream generated by tax on insurance premiums. For example, in Oklahoma, police and fire pension funds are funded by 41 percent of total insurance premium tax revenues. In Florida, there is a 1.85 percent excise tax on property insurance and a 0.85 percent excise tax on casualty insurance – proceeds of these taxes are used to pay for police and fire pensions. Similarly, in Arizona, Colorado, Florida, Idaho, Pennsylvania, and Washington, police and fire pension systems are funded by a portion of the insurance premium tax.