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JIM JUSTICE
GOVERNOR

DAVE HARDY
CABINET SECRETARY

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CONTACT
Lalena Price | 304.558.1017 | Lalena.D.Price@wv.gov

OP-ED: Refinancing state pension debt would cost taxpayers an additional $3 billion

We should be proud of how far we've come
In funding Public Employees, Teachers pensions

By Dave Hardy, Secretary of Revenue

In these days of turmoil over how best to solve West Virginia's budget crisis, I hear a disturbing idea echoing throughout the marble halls of the State Capitol. The message is coming from one of our legislative Finance Committees: Refinance the state's pension fund debt to save money.

Make no mistake, refinancing the Public Employees Retirement System (PERS) and the Teachers' Retirement System (TRS) is not a responsible solution to our budget crisis. Our retirement systems used to be among the worst in the country. In 1994, visionary leadership committed us to a 40-year payment plan to fully fund our pensions. Their foresight and financial discipline has us trucking right along to make this a reality in 2034. We should be proud of how far we have come.


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First and foremost, everyone needs to understand that the state's pension debt is not a just a problem for our public employee and teacher retirees. The situation affects everyone in the Mountain State. Should we choose to refinance the debt with fewer than 20 years to go, we will saddle current and future taxpayers with billions of dollars in additional debt. Billions.

How could that be? you may ask. Refinancing is usually very beneficial, you may say.

The fine print is where perception and reality part ways: This is not refinancing as most of us know it. We refinance a home to take advantage of a lower interest rate for savings over the life of the mortgage. The pension version simply takes the amount we still owe and stretches it out to 30 years. The interest rate remains the same, payments lower, and then we all look forward to paying an additional $3 billion over the next 30 years. Any perceived savings would be negated by long-term interest.

Consider if we had refinanced the pension fund in Fiscal Year 2017, the numbers would look like this: the amortization contribution to the PERS fund would be lowered to $59,357,000 for a savings of $11,035,000 in Fiscal Year 2017. The amortization contribution to our TRS would be reduced from $403,560,000 to $331,654,000 for a savings of $71,906,000.

So, when the math is all done, we all lose an additional $3 billion just to lower our payments now. Our parents and grandparents would tell us this plan is pennywise and pound foolish. And, they would be right on the money.

Representatives from bond rating agencies tell us our Rainy Day Fund and our commitment to funding our pensions are the big reasons our ratings have dipped no lower during this budget crisis. (Thanks again to visionary leadership from the 90s.) Think of bond ratings as the state's credit score. If we go down the refinancing path, we may experience a ratings downgrade leading to higher interest rates. If that happens, we all lose again because it will be more expensive to build infrastructure in West Virginia – roads, bridges, schools or sewer systems. Most communities in need will not be able to take that kind of hit in interest to build a new water treatment plant.

How will prospective businesses and tourists like us with crumbling infrastructure?

So, there it is in black and white: an irresponsible idea intended to save us money that in reality would cost us an extra $3 billion dollars. Governor Justice has a plan to save the state. His budget gives us a way out of our current crisis and puts us on a pathway to prosperity. We need big ideas. We cannot faux finance our way into a balanced budget. We cannot pave our roads with good intentions. Do not be fooled for one second into thinking that we can.

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Dave Hardy is the cabinet secretary for the West Virginia Department of Revenue. He is a lawyer, C.P.A., former Kanawha County Commissioner and Charleston City Council member.