

Strengthening the Philadelphia Economy through Targeted Local Pension Investment

The Philadelphia Public Banking Coalition proposes that the City Pension Fund target \$160 million (2%) of its portfolio to a new asset class for local Economically Targeted Investments (ETIs).

I. Overview

The primary responsibility of the Philadelphia Pension Fund is to assure the continuing financial security promised to City workers when they retire. Nevertheless, the ultimate welfare of City employees, at any age, depends on the economic and social condition of the city itself. Critics voice concern about risk and return with funding social concerns. Yet Economically Targeted Investments (ETIs) provide opportunities for the Pension Fund to address social policy goals while managing a portfolio that is as safe and provides returns as strong or stronger than many of the Fund's current asset classes.

The Pension Fund is not particularly risk-averse currently, as seen in a 2021 Audit Report by the City Controller describing investments in options, futures, forwards, and swap agreements. Private equity investments, targeted for 12% of the entire Fund, are described in the report as "one of the riskiest financial asset classes." Precedent for public policy considerations exists, for example, in prohibitions on investments in Russian companies, private prisons, and arms manufacturers. The portfolio exhibits a strong real estate focus, but without direction that Fund managers give any preference to Philadelphia projects.

II. Investment opportunities in housing

New York City has had a [Targeted Investment Program](#) in place since the 1980s, placing investments valued at \$4.3 billion in affordable housing. The Program allocates 2% of pension assets towards Economically Targeted Investments (ETI), addressing market inefficiencies by providing liquidity to underserved communities and populations citywide.

A federal General Accounting Office report in 1992 found 15 public pension fund investments in affordable housing, most of which involved collaboration with other programs. Around the world there is a growing movement to create a housing supply that is permanently affordable to those in need and can anchor economically diverse neighborhoods. Called social housing, it is directly owned by local government. Seattle also [has such a program](#). Other cities, like [Vienna](#) and [Singapore](#) have had such programs for decades.

In addition, unions, representing the workers who are direct pension beneficiaries, have long understood that their pension funds can be well and safely used to promote affordable housing, and [have robust programs to do so](#).

III. Investment opportunities in environmental sustainability

The Philadelphia Green Capital Corporation (PGCC) could leverage financing from the pension funds for programs promoting renewable energy and energy efficiency. The New York State Energy Research and Development Authority (NYSERDA) provides examples of such financial structures.

The Pension Fund could also help the PGCC leverage grants and capital investment from private sources. For example, a PGCC grant under the Inflation Reduction Act (IRA) to implement a Clean Communities Investment Accelerator program could collateralize a loan from the Pension Fund, thereby further expanding its capacities.

Financial incentives provided by the Inflation Reduction Act (IRA) and other recent legislation now remit 30% to 50% of renewable energy and energy efficiency project costs in the form of tax credits or direct payments. Because such projects require upfront capital outlays, the availability of financing from the Fund will expedite program implementation.

IV. Investment opportunities in cooperative development projects

The capital components that are assembled to finance specific cooperative development projects can be of sufficient size to be a stand-alone investment for a pension fund, as the Weavers Way Cooperative expansion to stores in Ambler and Germantown, demonstrates.

For smaller scale cooperative ventures, credit unions—which are a form of cooperative organization for financial purposes—have created investment vehicles in other countries. This could provide a model for the local credit unions and the Philadelphia Pension Fund.

Community land trusts could hold property of a size and for a purpose suitable for investment by the Pension fund. Financing very long-term investments in community land trust properties could be useful as a capital source for refinancing “expiring use” properties.

V. Prospective Role for the Philadelphia Public Financial Authority (PPFA)

To make this proposal operational, an entity is needed to do the due diligence to determine if an investment opportunity meets size, risk, return and impact criteria, and also to buffer against political favoritism in choosing projects. One such entity could be the Philadelphia Public Financial Authority (PPFA), which was enacted by the City of Philadelphia in March of 2022 (Ordinance #210956) and specifically designed to facilitate Philadelphia ETI financing.

VI. Conclusion

There are many other possibilities: employer assisted housing programs for city employees; geriatric-focused Federally Qualified Health Centers and senior housing that diverts people from nursing homes, both backed by Medicare and Medicaid; PGW energy conservation activities repaid with PGW loans; Neighborhood Improvement Districts lines of credit for capital improvement, energy conservation, or storm water management.

The bottom line is clear: \$160 million from the City Pension Fund—just 2% of its portfolio—could be invested in such projects, with market rate returns at normal, or even lesser, risk than many current Fund investments. These investments can stimulate the local economy and expand jobs and economic opportunities, thereby improving the City’s tax base and supporting the beneficiaries of the pension fund—in the present as well as upon retirement.