Financial Condition Assessment of the City of Chester

Municipalities Financial Recovery Act

Report Prepared by:
Econsult Solutions, Inc. and McNees Wallace & Nurick LLC

On behalf of:
Pennsylvania Department of Community and Economic Development

May 22, 2018

Purpose of Financial Condition Assessment

- Econsult Solutions, Inc. and McNees Wallace & Nurick LLC have served as Recovery Coordinator to the City of Chester since 2015
- Act 199, which amended Act 47, provides that municipalities operating under a recovery plan shall be subject to a termination date five years from the date of the most recent plan in effect as of 2014
- Recovery Coordinator is required to prepare a report stating financial condition of the City and make one of following recommendations:
  - 1) Terminate distressed status
  - 2) Disincorporation
  - 3) Fiscal emergency
  - 4) Three-year extension plan

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Summary History of Fiscal Distress in Chester

- Chester entered Act 47 in 1995
- Original Recovery Plan adopted in 1996; significant amendments in 2006, 2013, and 2016
- At beginning of 2017, City had accumulated approximately $28 million of unpaid obligations
  - Defaulted on TRAN
  - Had fallen behind on pension "MMOs" resulting in a severely underfunded pension
- In August 2017, City closed on a debt issuance which included $12 million of unfunded debt to support operations
- By end of 2017, $17 million of past due pension MMO payments remained

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Summary of Recent Progress Addressing Fiscal Challenges

- Increased the resident EIT to 2.75% and reduced the non-resident EIT to 1.00% (level allowed by law for non-Act 47 municipalities)
- Reached agreements with all three collective bargaining units that conformed with the 2016 Recovery Plan
- Increased contributions to pension in 2017 (though still fell short of MMO)
- Took steps to address blight with help of PA Housing Alliance
- Reversed a multi-year trend of $4 million-plus operating deficits

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Legacy Costs – Pension and OPEB

- The City Police Pension Fund is dangerously underfunded
- Funding level is actually more severe than shown in table below because the financial statements include pension receivables as assets
- Actual police pension assets as of March 2018 are just $6.4 million
- In addition, the City has a $218 million OPEB liability

Summary of Actuarial Data as of 1/1/17

Actuarial Categories	Fire	Police	Officers & Employees
Actuarial Accrued Liability	$37,679,820	$83,380,853	$8,350,535
Actuarial Value of Assets	$32,822,001	$25,498,629	$2,019,149
Unfunded Actuarial Accrued Liability	$4,857,819	$57,882,224	$6,331,386
Funded Percentage of Accrued Liability	87%	31%	24%

Source: Pension Actuarial Reports as of 1/1/17

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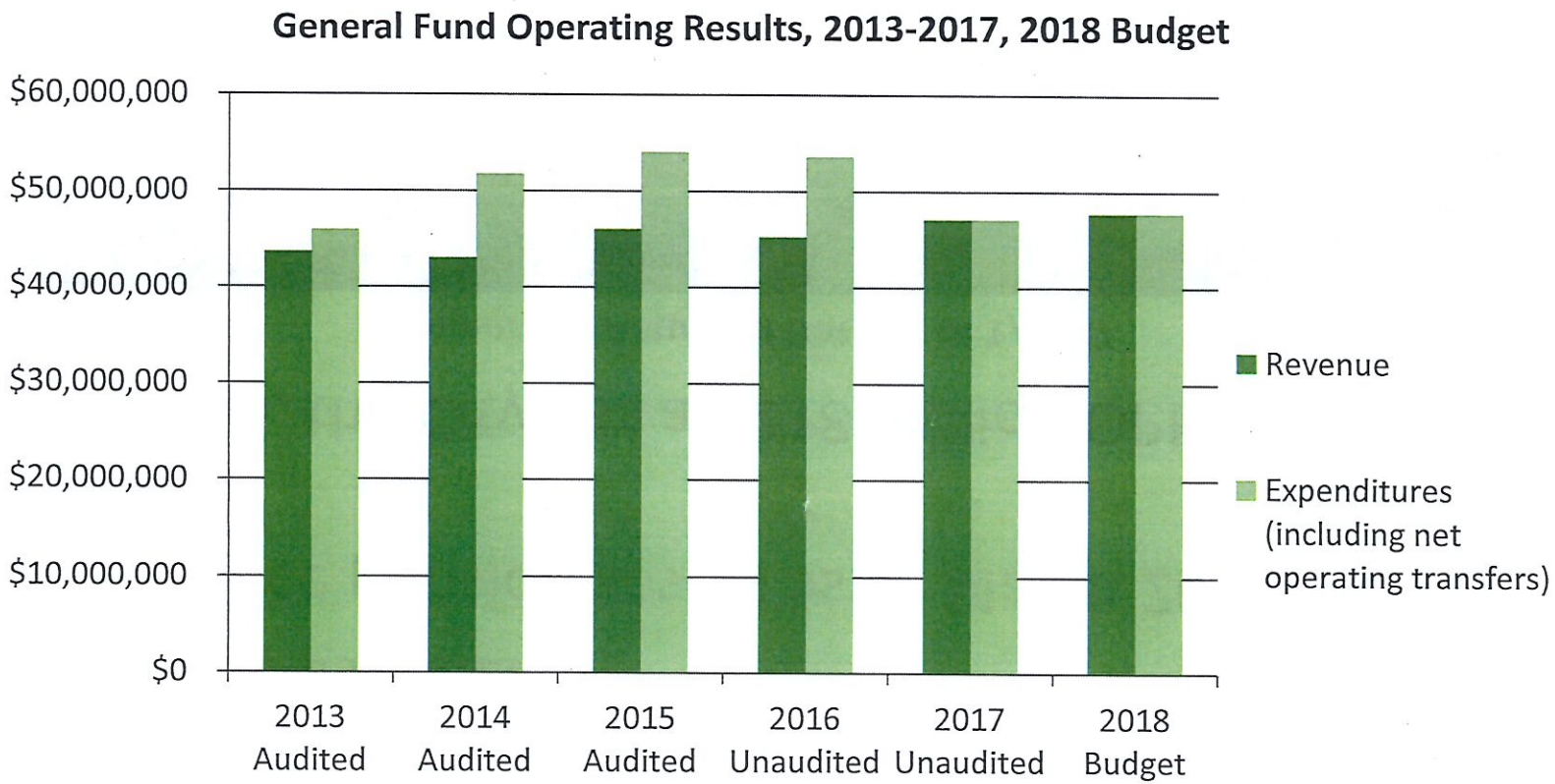
General Fund Operating Results



	2013 Audited	2014 Audited	2015 Audited	2016 Unaudited	2017 Unaudited	2018 Budget
End Cash Balance	$2,573,436	$1,025,731	$494,211	$100,000	$100,000	$100,000
End Accts Payable	$5,780,677	$13,655,207	$21,503,130	$27,979,552	$18,327,529	$18,327,529

Source: City of Chester Financial Audits (2013-2015), City of Chester Financial Department (2013-2018)

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Recommendation

- Three-year exit plan narrowly warranted
- Chester could be facing a fiscal emergency within the next one to three years, so City's fiscal condition will be reviewed on a quarterly basis during the three-year period to assess if conditions merit a fiscal emergency at that time
- City must address underlying causes of financial distress and focus on efforts that expand its economic base
- City must continue to consider asset monetization options
- Corrective budgetary actions should, to greatest extent possible, limit negative implications to economic development efforts

Schedule

Date	Action
Tues. 5/22/18	Recovery coordinator conducts public meeting on the Financial Condition Assessment If the recovery coordinator decides to revise the Financial Condition Assessment, the recovery coordinator may, after consultation with the DCED Secretary and the Mayor, do so and must file the revised, final report within 10 days of the public meeting.
By Mon. 8/20/18	Recovery coordinator files Three-Year Exit Plan (within 90 days of public meeting).
By Tues. 9/4/18	Receive written comments on Exit Plan (public has 15 days after filing of the Exit Plan to submit comments).
By Mon. 9/10/18	Conduct public meeting on Exit Plan (must be held within 20 days of the filing of the Exit Plan).
By Thurs. 10/25/18	Council enacts ordinance adopting Exit Plan (must be held within 45 days of the meeting on the Exit Plan).

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