

Update on Key City Financial Issues

MFRAC Meeting
May 10, 2022

Purpose of Today's Presentation

- This presentation will update the Committee and the public on the key, critical financial issues facing Chester as they stand now including the pension situation and water system monetization.
- At the next MFRAC presentation, we will provide potential solutions in light of the current situation.

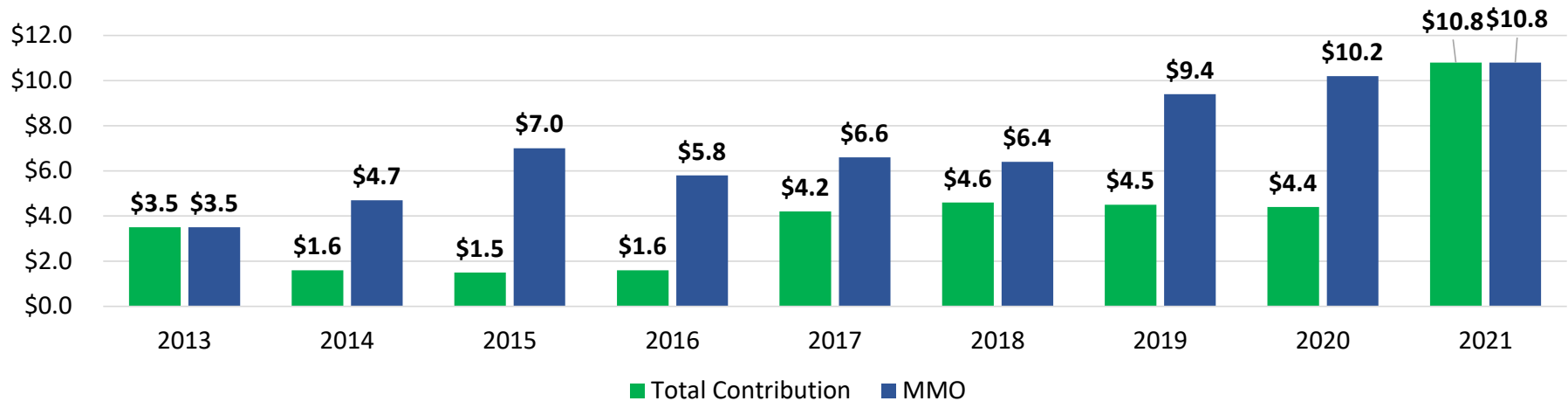
City Pension Plans

- **Chester has three (3) employee pension plans:**
 - Police Pension Plan (PPP) for police retirees and beneficiaries
 - Fire Pension Plan (FPP) for fire retirees and beneficiaries
 - Officers and Employees Pension Plan (O&E) for eligible retirees and beneficiaries not in the PPP or FPP (non-union/non-uniformed, elected officials, and Teamsters)

Annual City Pension Payments (MMOs)

In 2021, the City made its full annual pension payment (called MMOs – minimum municipal obligations) for the first time since 2014. In addition to needing to make up these shortfalls, they also accrued interest penalties. Those amounts are referred to as “receivables”

City Contributions Relative to MMOs (\$ Millions)
2013-2021



Money Owed to Pension Funds

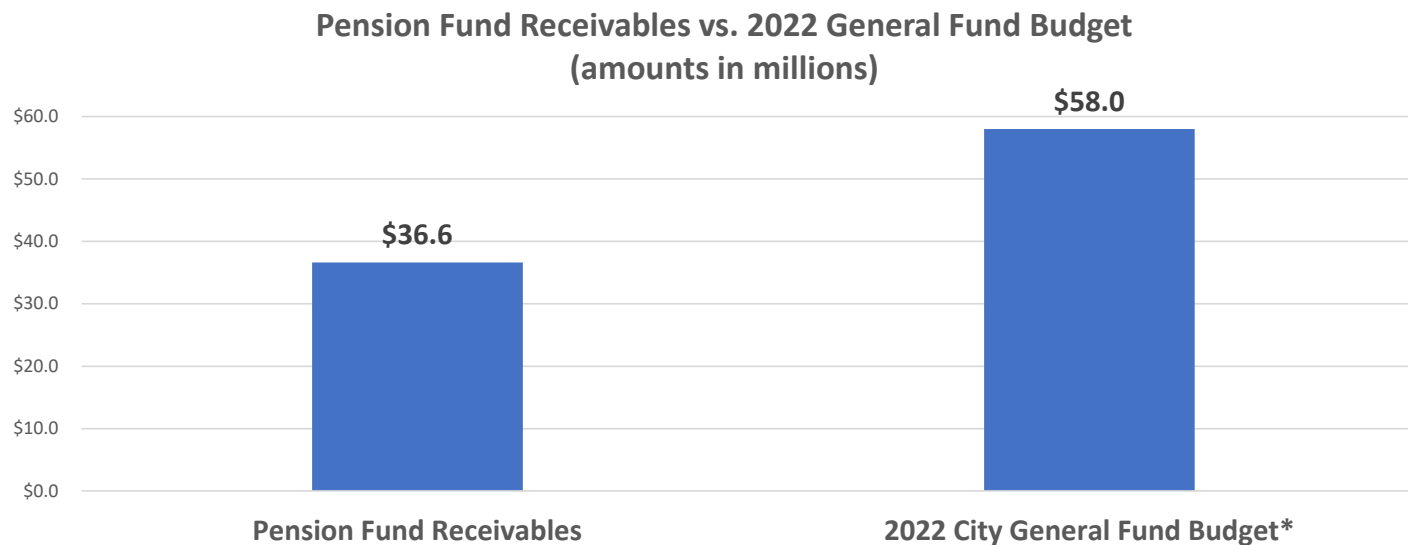
- When calculating how much the City needs to contribute to its pension funds, **the actuary assumes that money that should have been previously contributed into the plans but was not, is actually already in the plan assets.** These amounts are the *receivables*
- Per the 2021 actuarial valuations, the receivable amounts were:

Police	Fire	O&E	Total
\$32,409,383	\$2,134,220	\$2,064,368	\$36,607,971

- This means that the City's legal minimum pension obligation is both the **\$36,607,971** owed **as well as its annual pension contribution (MMO)**. Outside of monetization, the City does not have the ability to make such a contribution which, even if made, would still result in an unaffordable annual MMO amount.

Receivables Compared to 2022 General Fund

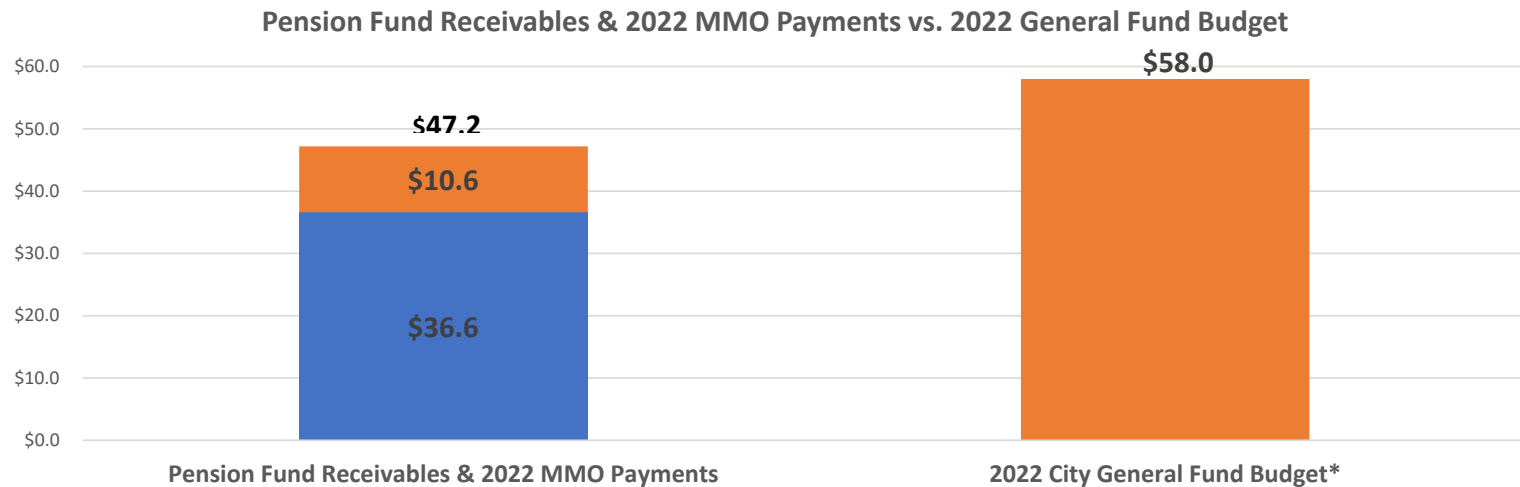
The \$36.6 million owed as receivables is equivalent to approximately 63.1% of the City entire general fund budget for 2022. Put another way, the City would need to divert nearly 2 out of every 3 general fund dollars it collected in 2022 just to pay for the receivables.



* Excludes \$5 million emergency loan from DCED.

Receivables & MMO Compared to 2022 General Fund

The \$36.6 million owed as receivables and \$10.6 million for the City's 2022 MMO payment (total \$47.2 million) is equivalent to approximately 81.4% of the City's entire general fund budget for 2022.



* Excludes \$5 million emergency loan from DCED.

Chester's Pension Funding Levels

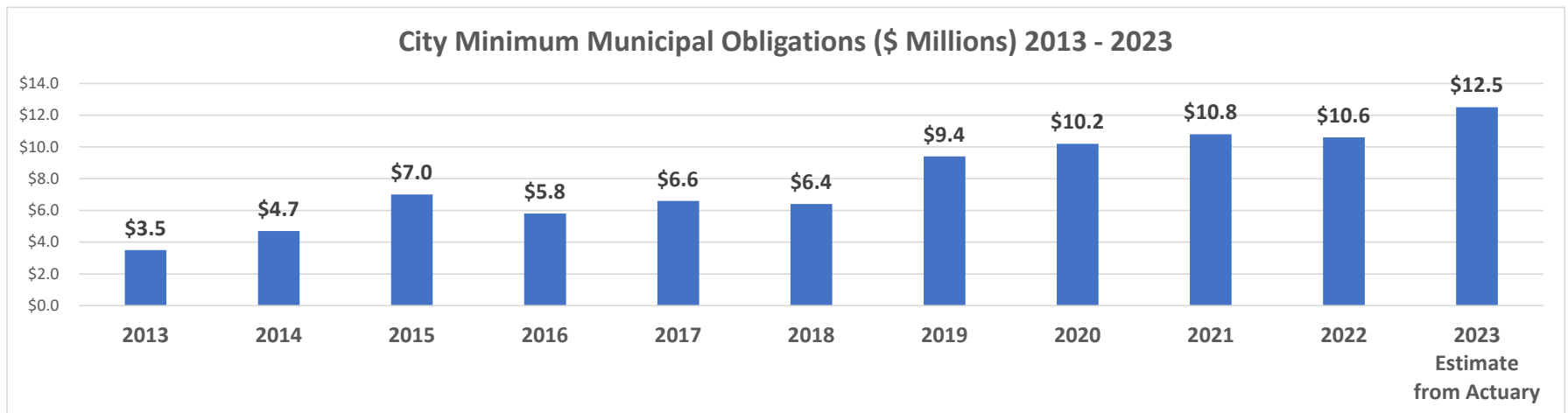
- When the funding levels are reflected using the **Market Value of Assets** (i.e., excluding the receivables from the Plan's assets), the magnitude of the pension problem becomes clear
- The table below reflects pension liabilities as of January 1, 2021, from the actuarial valuations and the market value of assets as of March 31, 2022, from the PNC quarterly report. While we have made some improvement in the police plan assets, overall assets are completely inadequate to pay for the current level of benefits provided.

	Police	Fire	O&E	Total
Liabilities*	\$98,405,971	\$47,775,979	\$8,715,193	\$154,897,143
Assets (<u>Excl</u> Receivables)	\$4,719,093	\$31,758,912	\$2,398,959	\$38,876,964
Unfunded Liability	(\$93,686,878)	(\$16,017,067)	(\$6,316,234)	(\$119,411,460)
Funded %	4.8%	66.5%	27.5%	25.1%

*Note: Pension liabilities have increased since the 1/1/2021 valuation and thus the table above reflects a better funded % level than in reality.

MMO Cost Growth

- The City's combined MMO more than tripled from 2013 through 2022. Importantly, the MMOs should have been even higher than what is reflected in the chart since they assumed receivables were plan assets when they really were not. **Our 2023 MMO estimate is approximately \$12.5 million and again assumes that the City has already deposited the \$36.6 million in receivables.**



2022 Budget and MMO Cost Growth

- In order to balance the 2022 budget, the City is relying upon approximately \$2.9 million in one-time funds from the American Rescue Plan Act (ARPA)
 - That means that the City's budget is not structurally balanced
 - ARPA funds may be used to cover qualifying costs obligated between March 3, 2021 and December 31, 2024 and expended by December 31, 2026.
- The previous slide showed that the City's annual pension contribution obligation will increase by \$2 million or 19% next year. Because City revenue growth will not cover this increase, the structural imbalance only grows. Again, this also assumes that the \$36.6 million in receivables have already been contributed
- Not shown here are the millions of dollars needed for capital projects to improve roads, buildings, and other infrastructure

Actuarial Analysis of Money City Really Needs for An Affordable Pension Payment

- As noted in previous meetings, the Receiver engaged an independent actuary to calculate how much the City needs to put into the pension plans in order for the City to have an affordable annual pension payment
 - The better funded the plans, the lower the annual pension payment
- The actuary estimates that for the City to fully fund its pension plans and consequently have an affordable pension payment, **it needs to add approximately \$128 million to its pension funds**

Water System Monetization

- There is no reasonable way that Chester will be financially viable without reducing its pension and retiree health care costs and depositing significant amounts of money into its underfunded pension plans.
- The only realistic way for Chester to deposit the amount of money needed in its pension funds to have an affordable pension payment is to monetize the Chester Water Authority.

Water System Monetization Litigation

- Whether the City has the ability to repossess the water system to monetize the water system remains in litigation
- Although the City won at the Commonwealth Court level, the Pennsylvania Supreme Court agreed to hear the case
- Briefs for Chester Water Authority are due on May 23, 2022, and responses from the City are due 30 days after. There will likely be oral argument some time in the Fall
- We do not expect a decision in the case to occur until some time next year

Next Steps

- At the next MFRAC meeting on May 24th, we will provide possible solutions in light of the current situation.