



Parking Contract, City Cash Flow and Pension Update

MFRAC Meeting
February 8, 2022

Previous MFRAC Presentations



- Previous MFRAC presentations can now be found on the Receiver's website at www.chesterreceivership.com/mfrac
 - There is a link to view previous recordings on YouTube in the second paragraph on that page
 - Additionally, previous minutes and presentation decks can be found on the page

Overview

- Parking Contract Update
- City Cash Flow Projection
- Police Pension Recalculation Update
- Pension and Retiree Health Benefit Update





Parking Contract Update



Parking Contract Update

- On Friday, February 4th, 2022, the Receiver's attorneys sent a letter to the parking manager's attorneys informing them that the Receiver was invoking Section 706(a) of Act 47 to modify the contract (effective immediately) between the City and the Parking Manager in order to eliminate the \$12.1 million penalty the City would need to pay if the City terminated the contract within the first five years.
- The letter also stated that the Receiver reserves the right to take further action including but not limited to modification or termination of the parking contract.



City Cash Flow Projection



Three Views of Financial Stability

Throughout this engagement, the Receiver's team has been evaluating and monitoring the City government's financial stability in three ways:

- **Cash position:** Does the City have enough cash on hand to pay its employees, vendors, creditors in others in full and on time?
- **Budgetary position:** Does the City balance its operating revenues with its operating expenditures on an annual basis?
- **Structural position:** Can the City balance its revenues with its expenditures on a recurring basis (i.e over multiple years) in a way that also funds vital and necessary services?

Today's discussion is an update on the City's cash position.

2021 Milestones



December 2020: City enters 2021 with \$1.2 million in cash in General Fund

January 2021: City borrows \$5.9 million for cash flow, puts \$1 million in the Police Pension Plan to prevent insolvency there.

February 2021: City receives largest quarterly casino revenue payment of year (\$2.9 M) and first of four large EIT payments (\$2.7 M)

March 2021: No major events

April 2021: City receives \$4 M from real estate tax. It has three biweekly payrolls and pays/sets aside \$1.7 M for debt

May 2021: Largest revenue month of year (2nd big EIT and casino month) and cash peaks at \$8.6 M

June 2021: City makes full budgeted contribution to Officers & Employees pension plan (\$1.1 M)

July 2021: City makes part of budgeted contribution to Fire Pension Plan (\$0.4 M of \$1.1 M)

August 2021: 3rd of four large EIT months (\$2.8 M); City completes repayment on \$5.9 million cash flow borrowing

September 2021: City receives \$1.3 M in state pension aid and deposits it into Police Pension Plan in October

October 2021: City takes \$2.1 M for ARPA revenue replacement; cash hits low point of \$1.2 M (about 8 days worth of budget)

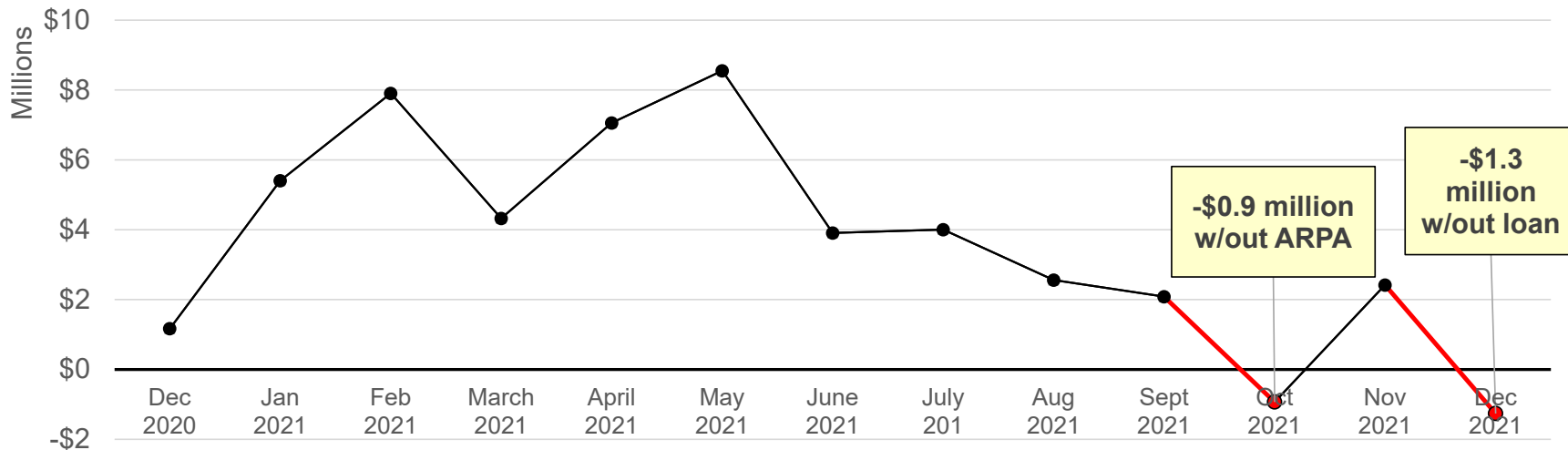
November 2021: City receives final large EIT payment (\$3.4 M) and makes remaining budgeted contribution to Fire Pension Plan

December 2021: City receives \$5.0 million loan for 2022 cash flow and makes remaining budgeted contribution to Police Pension Plan



2021 Without Federal & State Help

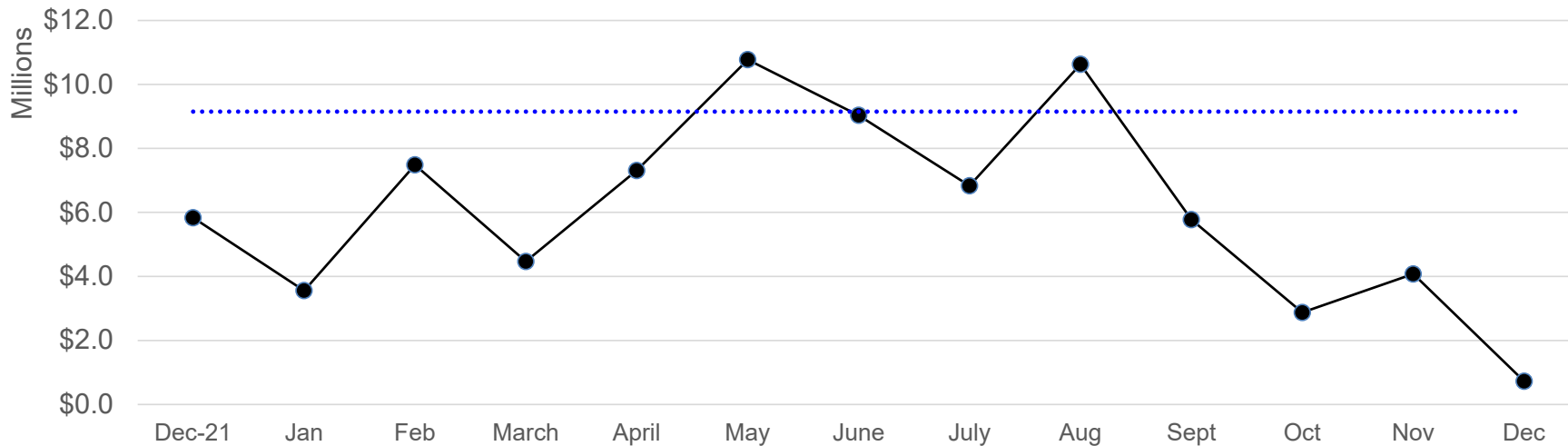
In the Fall, the City used \$2.1 million of its federal allocation under the American Rescue Plan Act of 2021 (ARPA) for “revenue replacement.” **Without ARPA funds, the City would have run out of money in October.** In December, the City received \$5 million for 2022 cash flow needs from a Commonwealth emergency loan. **Without the Commonwealth’s \$5 million emergency loan, the City would have run out of money in December.**





2022 Cash Flow Projection

We have projected the City's cash balance at the end of each month during 2022. The 2022 budget assumes \$2.1 million in federal "revenue replacement" to fund capital projects (e.g. City Hall roof repairs, 6th street bridge repairs, playground improvements). **The City starts the year with \$5.8 million (including cash flow loan) and ends it with \$0.7 million which is less than 1 week of expenses, an extremely low amount and without any other reserves.** This does not include any of the approximately \$34.5 million in past due payments to its pension funds.





Police Pension Recalculation Update

Police Pension Recalculation Update



- At the October 26, 2021, MFRAC meeting, the Receiver’s team discussed the Receiver’s order to the City’s pension board to begin to properly calculate the pensions of police officers hired after January 1, 1988, and prior to February 1, 2017, by using final pay as the average of the last 3 years rather than the last 12 months. The last 12 months definition allows police officers to artificially “spike” their pensions.
- On December 16, 2021, the Receiver’s attorneys sent a memorandum with newly provided additional relevant documents that confirmed the October 26th order that the pension board was improperly utilizing the incorrect final salary formula
- Additionally, the December 16, 2021, memorandum noted that the documents appeared to show the City’s then-Controller and pension board (with the exception of one member) unilaterally and improperly directed that police officer pensions be calculated using the last 12 months. The pension board’s action occurred on April 22, 2009

Police Pension Recalculation Update (continued)



- Since the Receiver's order in October 2021, the City's actuary has been recalculating the pensions of police officers hired after January 1, 1988 and prior to February 1, 2017, beginning with the most recent retirees and working backwards
 - To date, the actuary has recalculated the pensions of 27 police officers (8 currently in the DROP program and 19 who have left service). Based on the new calculations of just these 27 police officers, we estimate that the police pension fund will save approximately \$445,425 per year going forward
 - Additionally, if DROP overpayments were recouped from the 19 police officers who left service, we estimate that the police pension fund would receive an additional \$814,688. Applying the new calculation to the DROPs of those still in the program saves \$167,125
 - If previous pension payments were recouped from the 19 police officers who left service, we estimate that the police pension fund would receive an additional \$908,516
 - **Therefore, assuming recoupment from the 27 police officers, the police pension fund would receive ongoing of savings of \$445,425 and one-time savings of \$1,890,329 for a total of \$2,335,754 in one year which is approximately 35% of total pension payments of the fund in one year**



Actual Impact - Annual Pensions

8 Current DROP Enrollees

- The average annual pension for the 8 DROP enrollees was originally calculated at \$88,654 per year
- Under the Receiver's Order the average benefit will reduce to \$74,347 per year

Employee	Annual Pension			
	Original	Revised (Oct. 2021)	Variance (\$)	Variance (%)
1	\$106,957	\$91,993	(\$14,964)	-14.0%
2	\$50,845	\$51,542	\$697	1.4%
3	\$96,435	\$90,275	(\$6,160)	-6.4%
4	\$80,565	\$70,319	(\$10,246)	-12.7%
5	\$90,656	\$78,222	(\$12,434)	-13.7%
6	\$108,073	\$77,768	(\$30,305)	-28.0%
7	\$65,673	\$58,888	(\$6,785)	-10.3%
8	\$110,027	\$75,767	(\$34,261)	-31.1%
Average	\$88,654	\$74,347	(\$14,307)	-14.4%
Total	\$709,232	\$594,775	(\$114,457)	-14.4%

Ongoing Annual Savings = \$114,457



Actual Impact - DROP Balances

8 Current DROP Enrollees

- The account balances were reduced for 7 of 8 DROP enrollees as well
- The average reduction in DROP account balance across the 8 enrollees was \$20,891

Employee	DROP Account Balance			
	Original	Revised (Oct. 2021)	Variance (\$)	Variance (%)
1	\$240,654	\$206,985	(\$33,668)	-14.0%
2	\$50,845	\$51,542	\$697	1.4%
3	\$120,544	\$112,844	(\$7,700)	-6.4%
4	\$93,992	\$82,039	(\$11,953)	-12.7%
5	\$181,313	\$156,444	(\$24,868)	-13.7%
6	\$153,104	\$110,172	(\$42,932)	-28.0%
7	\$120,400	\$107,961	(\$12,439)	-10.3%
8	\$110,027	\$75,767	(\$34,261)	-31.1%
Average	\$133,860	\$112,969	(\$20,891)	-14.4%
Total	\$1,070,879	\$903,754	(\$167,125)	-14.4%

Total One-Time Savings = \$167,125



Additional 19 Police Pensioners

- The City recently re-calculated the monthly pension benefit for an *additional* 19 retirees, all of whom are already retired and receiving a pension. 13 of the 19 retirees also participated in DROP

	Original Pension	Revised Pension	% Decrease	Ongoing Pension Savings	Historical Pension Overpayments	Original DROP	Revised DROP	% Decrease	DROP Savings
1	\$102,481.80	\$67,654.08	-34.0%	(\$34,827.72)	(\$102,956.47)	\$314,451.95	\$207,587.66	-34.0%	(\$106,864.29)
2	\$75,177.96	\$54,464.64	-27.6%	(\$20,713.32)	(\$61,231.98)	\$230,673.67	\$167,117.59	-27.6%	(\$63,556.08)
3	\$52,595.28	\$48,834.72	-7.1%	(\$3,760.56)	(\$9,252.01)	\$131,025.52	\$121,657.17	-7.2%	(\$9,368.35)
4	\$55,056.36	\$51,544.68	-6.4%	(\$3,511.68)	\$0.00	\$41,292.27	\$38,658.51	-6.4%	(\$2,633.76)
5	\$75,818.52	\$54,617.64	-28.0%	(\$21,200.88)	(\$62,673.29)	\$390,594.40	\$281,373.80	-28.0%	(\$109,220.60)
6	\$123,269.04	\$68,999.04	-44.0%	(\$54,270.00)	(\$128,909.84)	\$295,612.92	\$165,467.40	-44.0%	(\$130,145.52)
7	\$80,934.60	\$57,221.88	-29.3%	(\$23,712.72)	(\$119,538.10)	\$0.00	\$0.00	0.0%	\$0.00
8	\$69,360.48	\$53,398.44	-23.0%	(\$15,962.04)	(\$47,186.41)	\$201,263.42	\$154,946.37	-23.0%	(\$46,317.05)
9	\$67,740.72	\$64,780.08	-4.4%	(\$2,960.64)	(\$6,042.95)	\$0.00	\$0.00	0.0%	\$0.00
10	\$101,829.72	\$66,219.12	-35.0%	(\$35,610.60)	(\$31,220.25)	\$84,858.10	\$55,182.60	-35.0%	(\$29,675.50)
11	\$77,874.24	\$63,630.00	-18.3%	(\$14,244.24)	(\$35,044.73)	\$395,175.66	\$322,892.75	-18.3%	(\$72,282.91)
12	\$41,114.16	\$39,621.24	-3.6%	(\$1,492.92)	(\$7,525.95)	\$0.00	\$0.00	0.0%	\$0.00
13	\$98,850.12	\$68,936.88	-30.3%	(\$29,913.24)	(\$86,133.74)	\$293,580.71	\$204,739.63	-30.3%	(\$88,841.08)
14	\$39,125.88	\$29,888.88	-23.6%	(\$9,237.00)	(\$50,436.55)	\$0.00	\$0.00	0.0%	\$0.00
15	\$71,517.84	\$69,361.68	-3.0%	(\$2,156.16)	(\$2,959.55)	\$0.00	\$0.00	0.0%	\$0.00
16	\$99,037.68	\$75,337.20	-23.9%	(\$23,700.48)	(\$58,309.67)	\$246,722.96	\$187,680.25	-23.9%	(\$59,042.71)
17	\$57,642.24	\$52,097.04	-9.6%	(\$5,545.20)	(\$15,967.14)	\$142,373.92	\$128,677.50	-9.6%	(\$13,696.42)
18	\$91,448.64	\$64,384.08	-29.6%	(\$27,064.56)	(\$80,007.29)	\$280,598.11	\$197,554.07	-29.6%	(\$83,044.04)
19	\$54,325.80	\$53,242.32	-2.0%	(\$1,083.48)	(\$3,119.83)	\$0.00	\$0.00	0.0%	\$0.00
				(\$330,967.44)	(\$908,515.74)				(\$814,688.31)

Combined Savings



ESTIMATES AS OF JANUARY 2022	Ongoing	1X Savings
8 Current DROP Enrollees		
Pension	\$114,457	
DROP		\$167,125
19 Additional Retirees		
Pension	\$330,968	
Historical Pension Overpayment*		\$908,516
DROP Overpayment*		\$814,688
Total	\$445,425	\$1,890,329

** Reflects funds that have already been paid to existing retirees.*

Next Steps



- The Receiver has been asked whether he will also seek to recoup the pension amounts paid as a result of the pension board's improper decision in 2009. The Receiver has not yet made that decision.
- The Receiver has also been asked whether he will seek to recover funds for the police pension plan from the elected officials and pension board members who took action in 2009 to improperly change the pension calculation.
 - The Receiver's team is in the process of investigating and will take all possible steps (including potentially legal action) to recover funds from the elected officials and the pension board members who should have been bonded and who took action in 2009 to improperly change the pension benefit at great cost to the City.



Pension and Retiree Health Benefit Update

Retiree Virtual Information Session



- On Tuesday, February 15th, from 5:30pm to 7:00pm, the Receiver's team will be holding a virtual information session on the City's pension and retiree health care situation
- The session will be held on the Receiver's Facebook page at: www.facebook.com/ChesterReceivership
- The session will also be recorded and a link will be posted on the Receiver's website
- The purpose of the session is to provide retirees and other interested individuals will information regarding the City's pension and retiree health care situation
- Those who have questions should submit them ahead of the meeting via email at: info@chesterreceiversip.com



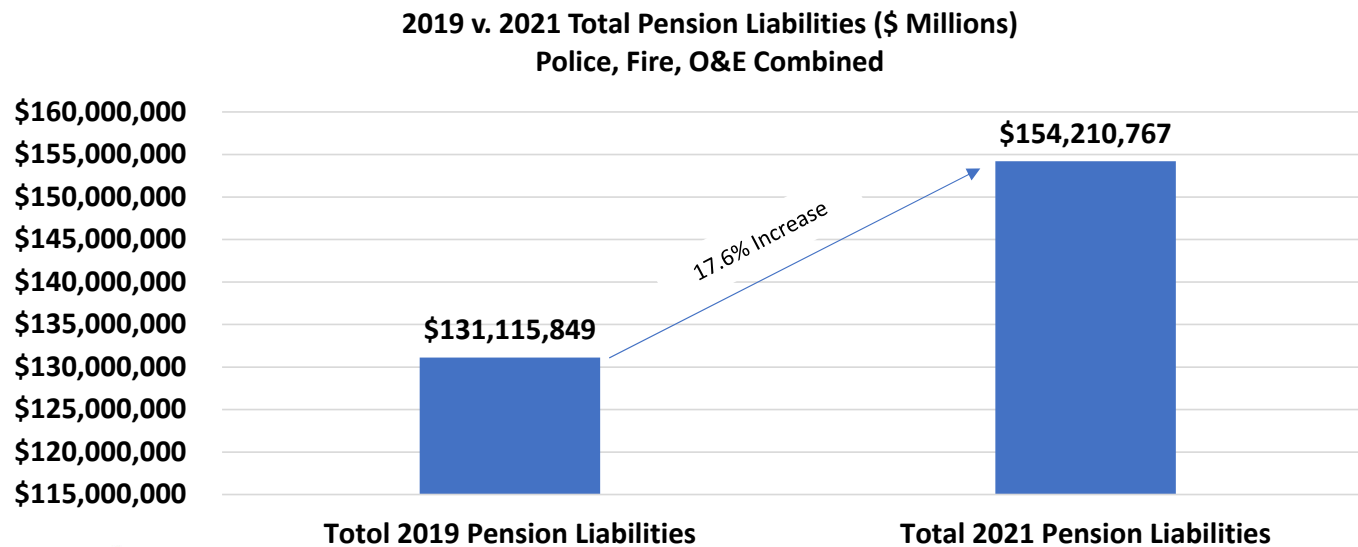
Updated Numbers, Worse Situation

- Every two years, the City's actuary conducts a valuation to calculate how well the pension funds are doing and how much the City will owe to them
- Because they were not yet available, we had been using numbers from the January 1, 2019, valuation. On January 28, 2022, we received the updated January 1, 2021, valuations for the police and fire pension funds which showed significantly worse numbers than the 2019 valuation due in part to the fact that the 2021 valuations are using assumptions that better capture what is actually occurring



Significant Increase in Pension Liabilities

- The 2021 valuations reflect a 17.6% increase in total pension liabilities compared with 2019. This significant increase is largely due to changes in actuarial assumptions that better reflect actual outcomes, including a reduction in the expected rate of return from 7.5% to 6.5%





Money Owed to the Fund

- 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 called “receivables.”
- As of the 2021 valuation, there was \$2,134,220 in receivables owed to the fire pension plan and \$32,409,383 in receivables owed to the police pension plan for a total of \$34,543,603 owed
 - Note: there is also an amount owed to the O&E pension fund that we will provide when we get that information
- This means that for the City to be current on its pension payments, it will need to pay both the \$34,543,603 owed as well as its annual pension contribution



Chester's 2021 Funded 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 financial problem becomes clear
- As shown below, the Police Pension Plan had **\$1.52 million** in assets and a funded ratio of **1.5%**. Across all three plans, the City's aggregate pension funding level is 23.4% when the receivables are excluded. Unfortunately, no matter how the funding levels are examined, they are completely inadequate to pay for the current level of benefits provided

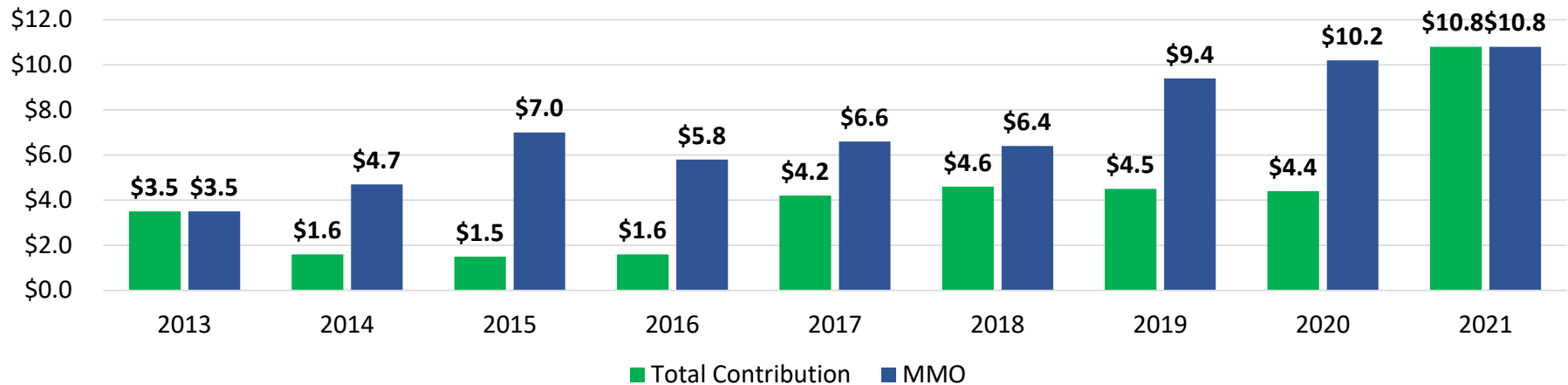
	Police	Fire	O&E (2019)	Total
Liabilities	\$98,405,971	\$47,775,979	\$8,028,817	\$154,210,767
Assets (Excl Receivables)	\$1,520,484	\$31,912,899	\$2,674,647	\$36,108,030
Unfunded Liability	(\$96,885,487)	(\$15,863,080)	(\$5,354,170)	(\$118,102,737)
Funded %	1.5%	66.8%	33.3%	23.4%



MMO Payments

- In 2021, the City made its MMO payment for the first time since 2014. However, these MMOs assumed the receivables were in the fund and therefore the “true” MMOs should have been higher.

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

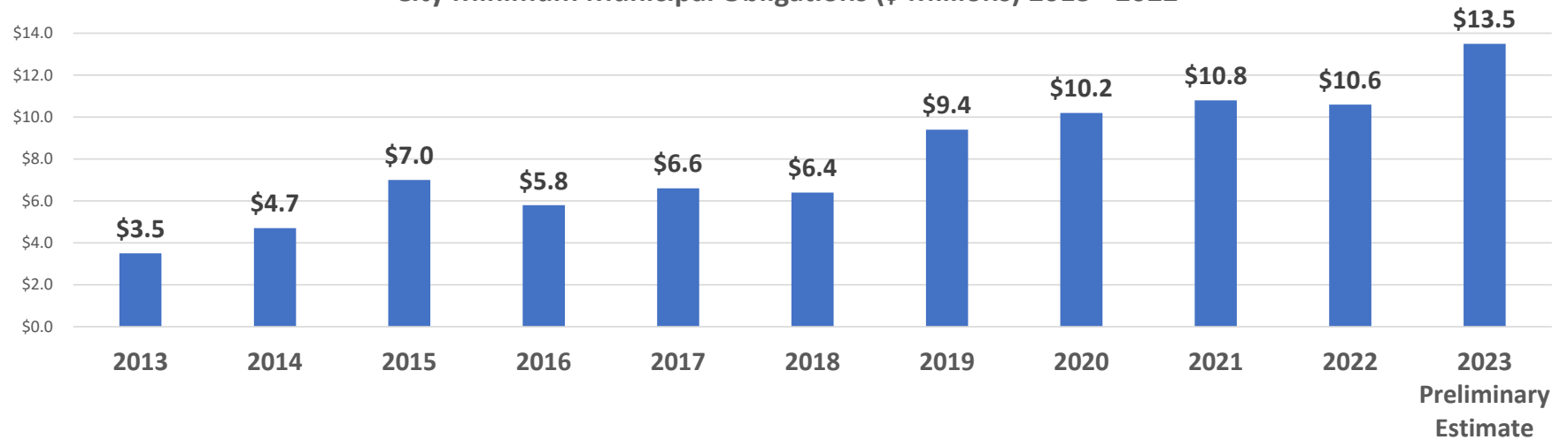




MMO Cost Growth

- 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 assume “receivables” were plan assets when they really were not. Our preliminary 2023 MMO estimate is approximately \$13.5 million (note that this will need to be calculated by the actuary).

City Minimum Municipal Obligations (\$ Millions) 2013 - 2022





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