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RECEIVERSHIP REPORT

Water Systems Monetization &
the Chester Water Authority

Water Authority Update

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for the City of Chester



Dear Residents and Faithful Members of the City of Chester:

Given that the Commonwealth Court ruled in favor of the City of Chester (the “City”) on its statutory ability to obtain the assets of the Chester Water Authority (the “CWA”), I want to provide my thoughts regarding monetization of the water system. Under the City’s Recovery Plan, the City may not sell the CWA without my prior express written consent.

As the Commonwealth Court made clear, although it found that the City, in general, has the power to obtain the CWA’s assets, it did not rule on the extent to which the City could actually exercise that power. This means that the litigation about whether the City can actually sell the water system will continue. In fact, the Commonwealth Court warned that until that litigation is complete, “the City’s plans and future expectations with respect to the Authority’s assets are nothing more than a surmised contingency.”

At the moment, the City has received three bids for the CWA. Aqua America has bid \$410,000,000; American Water has bid \$425,000,000; and the CWA itself has offered \$60,285,000. As part of its bid, Aqua America has offered an \$11.8M advance irrespective of the litigation outcome, although my counsel has advised me that the law is not clear as to how such proceeds could be spent. I also had an independent valuation of the CWA completed which estimated its fair market value to be between \$385 million and \$400 million.

Chester needs a significant influx of money to regain financial stability and ensure that the City government can provide vital and necessary services on a recurring basis. The only way that can occur is if we address the pension funding crisis.

As I laid out in the 2021 Recovery Plan, the City’s pension plans are severely underfunded. At the end of August, the Police Pension Plan had a little less than \$2 million in cash available to make monthly benefit payments to retired officers and their families. That’s about four months’ worth of benefit payments.

By the end of this year, we plan to contribute more than \$10 million to the City’s three pension plans – more than the City contributed in 2019 and 2020 combined. Even at that level, the contribution will only bring the City current on its police pension payments through 2016. Meanwhile, the City continues to pay pension benefits at a level it simply can’t afford with officers leaving the city in their early 40s with six-figure pensions they’re likely to receive for decades. So we continue to fall farther behind. The only way to get off this treadmill of rising contributions and flat or falling funding levels is to address the unaffordable benefit costs and make a large one-time contribution to the plan -- much larger than any advance.

Since the City does not have any other asset that would come close to generating the level of proceeds the City needs, it must monetize the water system. However, that does not necessarily mean that the water system needs to be privatized. I have no issue with the water system remaining in public hands if the City can receive a fair price for the system.

In light of the Commonwealth Court’s decision, I have directed my team to do our due diligence to see whether the City could receive a fair price for the water system while at the same time keeping it in public hands. I have not made a decision yet and I will continue to keep all options on the table.