

BY EMAIL TO MARKELLEY@PA.GOV

September 14, 2018

Marita J. Kelley, MPA
Deputy Director, Governor's Center for Local Government Services
Pennsylvania Department of Community and Economic Development
Commonwealth Keystone Building
400 North Street, 4th Floor
Harrisburg, PA 17120-0225

Re: Delivery of Final Financial Exit Plan related to City of Chester

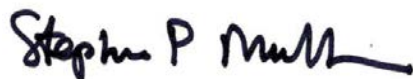
Dear Ms. Kelley:

We, as the recovery coordinator, delivered to you and to the officials of the City of Chester our draft Exit Plan of the City of Chester dated May 4, 2018 (the "Report"), and, after the proper notices were given, we conducted a public hearing in Chester on September 6, 2018, all in accordance with Section 256 of Act 47 of 1987, as amended ("Act 47").

We considered the information we received at the public hearing and the written comments we received from the public, and we made several changes to the Exit Plan which we sent to you and to the Mayor last Friday. Attached is our final Exit Plan dated September 17, 2018.

In accordance with Section 256(c)(1) of Act 47, the City Council has 45 days from the date of the September 6, 2018 public hearing to approve the implementation of the Exit Plan (being by Monday, October 22, 2018).

Very truly yours,



Stephen P. Mullin
President, Econsult Solutions Inc.

CITY OF CHESTER ACT 47 EXIT PLAN



September 17, 2018

EXIT PLAN SUBMITTED TO:
City of Chester
Delaware County, Pennsylvania

EXIT PLAN SUBMITTED BY:
Econsult Solutions, Inc.
1435 Walnut Street, 4th Floor
Philadelphia, PA 19102

ESI ECONSULT
SOLUTIONS INC.

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1.0 EXECUTIVE SUMMARY

1.1 CHESTER AND ACT 47

Devastated by decades of deindustrialization and population loss, the City of Chester is one of Pennsylvania's poorest jurisdictions, with a weak economy exhibiting little or no growth, and correspondingly high unemployment with few job opportunities to reverse the course. As a result, over the years the city government's fiscal condition is bleak, characterized by a large and practically insurmountable structural deficit, large outstanding payables, and legacy costs taking increasingly large bites out of future revenues. In real terms, the City cannot pay all of its bills and is unable to adequately provide public infrastructure and services for its citizens, and this is ultimately due to the weakness of its local economy. Fiscal balance and stability cannot be achieved without economic growth in the City. This is the overall context in which this 3-year exit plan (the "Exit Plan") is developed.

1.2 HISTORY OF FISCAL DISTRESS

The City of Chester entered the Act 47 program in 1995. The City adopted its original Recovery Plan in 1996 and adopted Recovery Plan amendments in 2006, 2013, and 2016. After the initial declaration of financial distress, the City's fiscal condition continued to deteriorate from 1996 to 2006 when the City needed to borrow money to meet payroll and deliver basic services. The City's fiscal situation improved as several economic development initiatives came to fruition, most notably the opening of Harrah's Philadelphia Casino and Racetrack in 2008 whereupon the City began receiving significant host fees. The City was able to establish a reserve fund with excess revenues, invest in capital improvements, and reduce earned income tax rates, which were the highest in Delaware County. The large infusion of new revenues provided only temporary respite, since the City's expenses continued to grow at a faster rate than revenues. A primary cause was significant increases in personnel costs, particularly in the police and fire ranks, due to historically bad interest arbitration awards. Gaming host community revenues (which represented approximately a third of the General Fund revenues) declined while other major revenue sources showed little or no growth. Meanwhile, the City's General Fund expenditures continued to increase at a faster rate than revenues. The City failed to pay its minimal municipal obligations ("MMOs") on the police, fire and non-uniform pensions in the years 2014 to 2016, leading to a severely underfunded pension situation, particularly with the Police and Officers & Employees (non-uniform) plans. In addition, the City underpaid for its healthcare costs, accumulating an outstanding balance to its health insurance provider of almost \$8 million by the end 2016.

By the beginning of 2017, the City had accumulated approximately \$28 million of unpaid obligations (essentially a large negative General Fund balance). In addition, the City had defaulted on its 2016 Tax and Revenue Anticipation Note. In January 2017, DCED issued an

emergency \$2 million loan and arranged an advance on gaming host revenues from Harrah's to the City to help with immediate cash flow needs. Addressing these obligations and funding day-to-day operations left the City facing another cash deficit by the late summer of 2017. In August 2017, the City closed a debt issuance with a principal amount of \$19.21 million, including a \$12 million unfunded debt borrowing to address a portion of its outstanding liabilities. A planned borrowing to finance a portion of the overdue pension payments could not be accomplished. However, by the end of 2017, the City still owed significant unpaid obligations the largest of which was over \$17 million of past due pension MMO obligations, without a clear plan for repayment. The City's **legacy costs**, which consist of debt, pension, and other post-employment benefits, continue to place enormous pressure on the City's finances, including both the month-to-month cash flow and the long-term liabilities. The City was forced to basically abandon its capital program and had no ability to support economic development efforts.

1.3 PROGRESS ADDRESSING FISCAL CHALLENGES: 2016 RECOVERY PLAN

Since Mayor Kirkland's administration took office in January 2016, the City and the Recovery Coordinator have forged a cooperative working relationship and took important steps to move the City in the direction of structural fiscal balance. The key was the development and implementation of the 2016 Amended Recovery Plan. The 2016 Recovery Plan called for significant adjustments (over 100 specific recommendations) to both revenues and operating activities in order to create a path to structural fiscal balance by reducing the structural deficit and addressing large outstanding payables. To date, the City has successfully implemented a significant number of recommendations, resulting in moderate improvement in its fiscal condition. However, these positive steps have not been sufficient to restore fiscal balance.

The City hired a full-time Chief Financial Officer ("CFO") and a Deputy CFO, key Amended Recovery Plan recommendations, whose salaries are paid from a DCED grant. This has strengthened the City's finance, accounting, budget, debt and related functions, and has improved the ability of the City to understand and address its fiscal problems. In addition, with the assistance of the Recovery Coordinator, the City made significant progress toward financial stability by negotiating three labor agreements in compliance with the Amended Recovery Plan. Notably, the City and the Fraternal Order of Police ("FOP"), the labor union representing the City's police officers, took a critical first step to solving the pension crisis by enacting provisions in the new collective bargaining agreement, which increased employee contributions and reduced benefits. In addition, the City took the following steps:

- Increased the resident earned income tax ("EIT") rate to 2.75% and reduced the non-resident EIT rate to 1.00%;
- Transitioned to a self-insured health benefits structure for its employees, saving approximately \$2-3 million annually;
- Contributed \$4.2 million (including state pension aid) toward its MMO, the first City funding in three years;
- Implemented a new anti-blight program with third-party and state grant support; and

- The City's 2017 revenues were basically equal in expenses, which represented significant progress compared to previous years.

Despite these accomplishments, as early as 2018, Chester continues to suffer a significant (though smaller) structural deficit with the additional fiscal strain caused by a large amount of unpaid expenses, most notably the unpaid annual pension payments.

1.4 ACT 47 ASSESSMENT AND RECOMMENDATION TO DCED

Act 199, which amended Act 47 and was enacted in 2014, provides that municipalities operating under a recovery plan shall be subject to a termination date five years from the effective date of the most recent recovery plan. For the City of Chester, the relevant recovery plan for this timeline is that which was adopted as of May 2013. Further, Act 199 requires that the Recovery Coordinator complete a report, prior to the end of the five-year period, stating the financial condition of the municipality and including one of the following findings: 1) conditions within the municipality warrant a termination of distressed status, 2) conditions are such that the municipality should be disincorporated, 3) conditions are such that the DCED secretary should request a determination of a fiscal emergency, or 4) a three-year extension plan is warranted. This Financial Condition Assessment report reflects the Recovery Coordinator's assessment as required by Act 199.

Though the City still suffers from structural budgetary imbalance, Chester has made material progress since it adopted the 2016 Amended Recovery Plan. Though Chester is clearly not in a position to emerge from distressed status, based on the City's new fiscal trajectory and recent operational improvements, the Recovery Coordinator recommended a three-year extension in the Act 47 program. This Exit Plan presents a series of recommendations to address past obligations and the fiscal imbalance. It also includes the beginning of an economic development strategy to address several of the underlying causes of the City's financial distress and support the expansion of the local economy.

1.5 KEY RECOMMENDATIONS

This Exit Plan is organized into three sections with nine chapters, including this Introduction chapter. The first section describes the City's financial history and trends analysis to provide an understanding of Chester's current financial state and establish a baseline for its future financial position.

This Exit Plan then develops a program to improve the City's financial position through a combination of reductions in expenditures, improvements in productivity, strategies to expand the local economy, and increases in revenue. This section includes recommendations regarding the City's legacy costs, workforce, asset monetization alternatives, and economic development strategies.

Finally, the third section includes a revised three-year financial forecast which incorporates the financial implications of the recommendations in this report. While a detailed listing of our

recommendations are described in the body of the document, below is a summary of several main initiatives in the Exit Plan

REVENUE ENHANCEMENT

Though the City has made progress in closing its structural deficit, significant challenges remain. Chester's pension MMO will increase by \$3 million annually beginning in 2019 while other operating expenses are expected to increase at a rate faster than that of revenues. To offset the resulting deficit, the City should increase its earned income tax rate to fund the pension as allowed in the Municipal Pension Plan Funding and Recovery Act. The City should increase the non-resident rate from 1.00 to 2.00%, which would generate approximately \$5.5 million in new annual funding for the pension program.

It should be noted that if the City is able to realize a different income source to fund the pension or could reduce its MMO through a significant one-time pension funding, the City should avoid increasing its earned income tax rates. The most likely alternative pension funding source would come from an agreement related to City assets, which is described further below.

The City should also collaborate with the newly created Stormwater Authority of the City of Chester to identify overlapping activities between the two entities. The City should continue its discussions with the Stormwater Authority to identify ways to defray Chester General Fund expenditures through subcontracting or reimbursement for services provided by the City or hiring existing City employees to perform Stormwater Authority tasks. While the level and nature of subcontracting activities are still being discussed by the Stormwater Authority and the City, City officials have identified over \$900,000 in annual General Fund expenditures that currently support Stormwater Authority related activities. The City should seek full reimbursement of these costs from this partnership and apply no less than half of these proceeds towards reducing the Business Privilege and Parking taxes.

CITY ASSETS

The City of Chester has two significant business-type assets, the water system owned by the Chester Water Authority (the "Authority"), and the parking system owned by the City. The City and the Authority are currently in negotiations regarding the future of the water system.

The Recovery Coordinator has not taken a position on whether or not the City should monetize the water system or any other City asset. The Recovery Coordinator's sole recommendation has been for the City to retain qualified financial and legal advisors to help the City formulate its positions with respect to any potential asset monetization.

Should the City and the Authority come to an agreement as a result of their negotiations, and if that agreement includes an up-front payment to the City, then the City should apply that up-front payment, first, to address the City's pension problems, second, to establish and fund a trust to address the City's OPEB liabilities, third, to fund capital improvements to the City's capital

assets, fourth, to establish a General Fund reserve account, and fifth, in cooperation with a non-profit economic development corporation, to undertake economic development projects in the City.

Should the City's pension fund benefit from a one-time revenue infusion, it would have the dual effect of improving the funding ratio of the plan and reducing the ongoing annual required contributions from the City's General Fund. **Any recurring General Fund relief that is achieved through a one-time revenue and pension funding should be applied to offset the recommended increases in the City's earned income tax rates.**

COST CONTAINMENT

Like virtually every municipality in the country, the City's operating expenses are driven primarily by personnel costs. Chester made huge strides towards controlling these costs when the City and its unions agreed to new collective bargaining agreements in 2017. The City must build on this progress and continue to implement the cost reduction reforms in these agreements. This Exit Plan includes a number of recommendations on limiting salary and benefits costs, but it also includes important recommendations to reduce pension fraud and abuses that have contributed to the pension system's significant unfunded liability and have placed enormous pressure on the General Fund.

ECONOMIC DEVELOPMENT

If implemented in full, this Exit Plan will set a course for the City to balance its operating budget over the next three years and begin to address its other past due obligations. However, the key to securing the City's long-term fiscal health is expanding its economic base and therefore the growth of its own local tax revenues. Chester must successfully implement a strategy to stimulate community and economic development and improve the overall quality of life for its residents and businesses. The City cannot continue to provide the current level of services to its residents without increasing the capacity of the tax base and generating more revenue. A stronger economy will not only result in more revenues to the government, but it will also likely relieve pressure on service demands, too. It is imperative that the Mayor, who has been a very effective advocate for the City in so many respects, continues his role as a champion for economic development in Chester.

The Recovery Coordinator and Chester officials have collaborated to implement key recommendations that have resulted in positive momentum for the City. The successful implementation of this Exit Plan will require similar collaboration and discipline. The Recovery Coordinator is dedicated to working with City officials to help the City emerge from distressed municipality status.

Though the City has made progress since adopting the 2016 Amended Recovery Plan, severe fiscal distress is still present and a three-year extension in the Act 47 program is just narrowly justified. If decisive corrective action is not implemented, a fiscal emergency sometime within

the next three years is a distinct possibility. The Recovery Coordinator will reassess the City's financial position on a quarterly basis and determine if fiscal emergency declaration is warranted. The City has little room for error and must demonstrate a firm commitment to this Exit Plan to secure a lasting recovery.

2.0 RECENT FISCAL HISTORY AND GENERAL FUND FORECASTS

2.1 INTRODUCTION

This chapter presents a summary of changes in Chester's fiscal health since 2012. It focuses on the General Fund, which is the City's general operating fund and accounts for all tax revenues, and the Debt Service Fund, which is used to account for the accumulation of resources for the payment of general long-term debt principal, interest, and related costs.

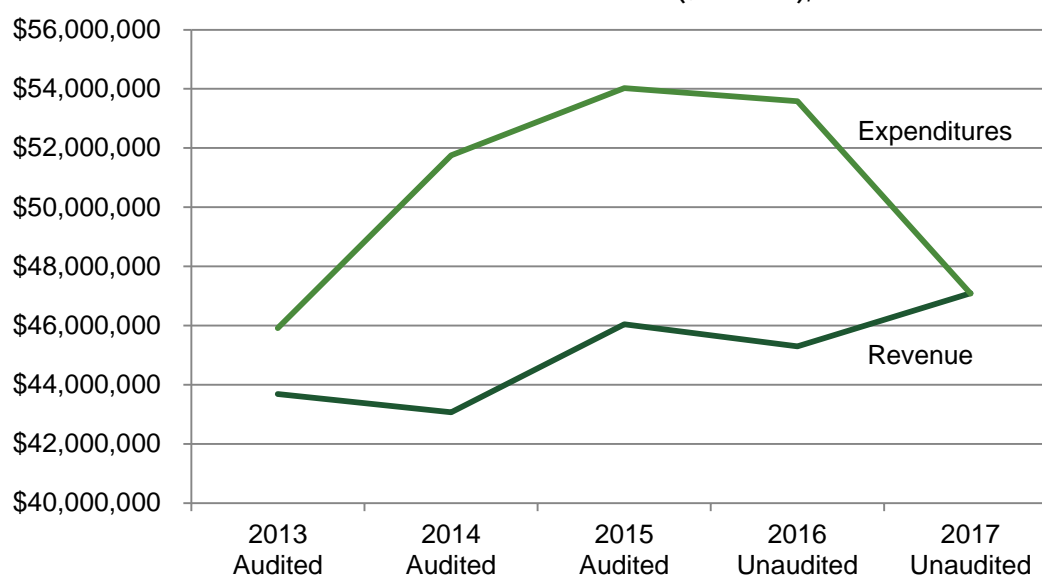
The City accounts for its financial activity within the structure of five major governmental funds: General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, Liquid Fuels Fund, and Reserve Fund.

The City also has "non-major governmental funds" including Special Revenue Funds, the Capital Projects Fund, Liquid Fuels Fund, and the Reserve Fund. In addition to the governmental funds, the City is responsible for Trust and Agency Funds that are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other government units. These funds are not available for use by the City to meet operating or capital expenditures. Trust and Agency funds include the Police Pension Fund, Paid Firemen's Pension Fund, and Officers & Employees Retirement System.

2.2 RECENT OPERATING RESULTS AND FUND BALANCES, 2013-2017

The General Fund is the City's general operating fund and is critical to understanding Chester's financial position. For several years, Chester achieved significant improvement in its operating results and fund balance position due in large part to new income associated with gaming activity at Harrah's Racetrack and Casino. However, from 2013 through 2016, Chester ran operating deficits. In 2014, the City began delaying health insurance premium payments and substantial portions of its minimum municipal obligation (MMO) in order to meet payroll. To accurately portray the General Fund condition, all health care and MMO obligations are included in the expenditures, regardless of whether these expenses were actually funded in the year the expense was incurred. By the end of 2013, as the City's fund balance had dropped to \$1.9 million and accelerated to over -\$23.0 million by 2016, primarily as a result of outstanding pension MMO and health insurance expenses. At the end of 2016, the City defaulted on its 2016 Tax and Revenue Anticipation Note.

EXHIBIT 2.1 —OPERATING REVENUES AND EXPENSES (\$ MILLIONS), 2013-2017



Source: Independent Financial Audits (2013-2015) and City of Chester Financial Reports (2013-2017)

EXHIBIT 2.2—OPERATING RESULTS AND CHANGE IN GENERAL FUND BALANCE, 2013-2017

	2013 Audited	2014 Audited	2015 Audited	2016 Unaudited	2017 Unaudited
Revenue	\$43,689,738	\$43,064,682	\$46,045,683	\$45,300,071	\$47,090,929
Expenditures ¹	\$45,916,833	\$51,752,132	\$54,025,016	\$53,583,640	\$47,086,384
Operating Surplus (Deficit)	(\$2,227,095)	(\$8,687,450)	(\$7,979,333)	(\$8,283,570)	\$4,545
Beginning Fund Balance	\$4,088,224	\$1,861,129	(\$6,826,321)	(\$14,805,654)	(\$23,089,224)
Series 2017 Debt Proceeds					\$10,800,000
Act 47 Loan					\$2,000,000
Ending Fund Balance	\$1,861,129	(\$6,826,321)	(\$14,805,654)	(\$23,089,224)	(\$10,284,678)
Ending Cash Balance	\$2,573,436	\$1,025,731	\$494,211	\$100,000	\$100,000
Ending Accounts Payable	\$5,780,677	\$13,655,207	\$21,503,132	\$27,979,552	\$18,327,529

Source: Independent Financial Audits (2013-2015), City of Chester Financial Reports (2013-2017)

At the beginning of 2017, the City had accumulated approximately \$28 million of unpaid obligations². In January 2017, DCED issued an emergency \$2 million loan and arranged an

¹ Including net operating transfers.

advance on gaming host revenues from Harrah's to the City to help with immediate cash flow needs. Addressing these obligations and funding day-to-day operations left the City facing another cash deficit by the late summer of 2017. In August 2017, the City closed a debt issuance with a principal amount of \$19.21 million, including a \$12 million unfunded debt borrowing to address a portion of its outstanding liabilities. However, by the end of 2017, over \$17 million of past due pension MMO obligations remained without a clear plan for repayment. The City's legacy costs, which consist of debt, pension, and other post-employment benefits, continue to place enormous pressure on the City's finances, including both the month-to-month cash flow and the long-term liabilities.

The implementation of the Amended Recovery Plan recommendations and other initiatives helped improve operating results in 2017; however, overall, the City fell short of the targets set forth in the plan. Assuming the full and timely implementation of the Amended Recovery Plan recommendations, the forecasts called for "surpluses" of \$4 million to \$5 million beginning in 2017, which would have been used to address the City's daunting levels of unpaid obligations. The City's estimated 2017 revenues were basically equal to expenses, which represented significant progress compared to previous years; however, the City failed to make headway in reducing its liabilities. Despite essentially balanced operating revenue and expenses in 2017, the City did not make its full pension MMO payment. The City fell short of the full MMO by \$2.5 million, but repaid \$2.5 million in past due expenses from prior to 2017.

2.3 BASELINE GENERAL FUND FORECASTS, 2018-2021

Despite a significant financial improvement in 2017, the City faces major challenges ahead. Absent corrective action, the financial forecast based on known current and future developments, and reasonable growth assumptions indicates accelerating operating deficits from 2019-2021.

REVENUE FORECAST

Overall, revenue growth is anticipated to remain essentially stagnant. Highlights of the revenue growth assumptions include:

- Real estate tax revenue annual growth of 1.5% due to modest increases in collection rates and assessed values.
- Earned income tax annual growth of 2.5% in line with inflation.
- Local services and business privilege tax revenue growth of 1.5%, which is line in with historic performance.
- Slots host community revenue will remain at the minimum \$10 million in annual revenue as determined by state law; Table gaming host community revenue will remain relatively flat.

² This was nearly \$10 million more than what was assumed in the 2016 Recovery Plan; indicative of not only unsound fiscal condition, but also the lack of capacity to monitor and know the City's financial condition at any point in time.

EXHIBIT 2.3—GENERAL FUND REVENUE SOURCES BY CATEGORY, 2018-2021

Revenues	Annual Growth Rate	2018 Estimate	2019 Forecast	2020 Forecast	2021 Forecast
Real estate taxes	1.5%	\$9,710,000	\$9,860,000	\$10,010,000	\$10,160,000
Earned income tax	2.5%	\$10,280,000	\$10,540,000	\$10,800,000	\$11,070,000
Local services tax	1.5%	\$490,000	\$500,000	\$510,000	\$520,000
Business privilege tax	1.5%	\$1,420,000	\$1,440,000	\$1,460,000	\$1,480,000
Gaming - Slots	n.a.	\$10,840,000	\$10,000,000	\$10,000,000	\$10,000,000
Gaming - Table games	1.0%	\$1,940,000	\$1,940,000	\$1,940,000	\$1,940,000
Waste-Energy Host Fee	2.3%	\$5,030,000	\$5,130,000	\$5,230,000	\$5,330,000
Fines	0.0%	\$250,000	\$250,000	\$250,000	\$250,000
Licenses and permits	0.0%	\$1,170,000	\$1,180,000	\$1,190,000	\$1,200,000
Cable TV Franchising Fee	n.a.	\$450,000	\$460,000	\$470,000	\$480,000
Interest/rents/royalties	n.a.	\$110,000	\$120,000	\$130,000	\$140,000
Inter govt revenue	2.5%	\$1,240,000	\$1,210,000	\$1,030,000	\$1,060,000
State pension aid	2.0%	\$1,785,000	\$1,800,000	\$1,850,000	\$1,900,000
Rubbish fees	2.0%	\$1,290,000	\$1,320,000	\$1,350,000	\$1,380,000
Charges for services	2.0%	\$600,000	\$357,000	\$360,000	\$370,000
Reimbursements	2.0%	\$1,410,000	\$1,440,000	\$1,470,000	\$1,500,000
Miscellaneous	0.0%	\$1,200,000	\$1,600,000	\$900,000	\$900,000
Total Revenue		\$49,215,000	\$49,147,000	\$48,950,000	\$49,680,000

Source: City of Chester Financial Reports (2017-2018), Econsult Solutions (2018)

EXPENSE FORECAST

Multiple factors underlie the growth rate assumptions employed in our base case expenditure forecasts. As with virtually every government, the primary expense driver in the operating budget is personnel-related costs, which represent over 75% of the City's budget. Though the City has made progress in controlling expenses, the cost of doing business in the City is expected to continue to increase, albeit at slightly lower growth rates due to some of the actions from the 2016 Recovery Plan. Highlights of the expense growth rate assumptions include:

- Based on the collective bargaining contracts in 2017, we forecast the growth of aggregate personnel costs including salaries and wages to be 1.5% annually.
- Health insurance costs are projected to increase 7.5% annually, based on Congressional Budget Office forecasts and Chester's recent experience with its new health insurance program.
- Most other non-personnel expenses, including insurances, professional services, utilities, materials and supplies, and equipment and maintenance, are projected to grow at the rate of inflation, roughly 2.5%.
- Annual debt service expense is based on the City's existing debt service schedule with no additional borrowings.

EXHIBIT 2.4—GENERAL FUND OPERATING EXPENSES BY CATEGORY, 2018-2021

Expenses	Annual Growth Rate	2018 Estimate	2019 Forecast	2020 Forecast	2021 Forecast
Salaries	1.5%	\$17,040,000	\$17,300,000	\$17,560,000	\$17,820,000
Overtime	1.5%	\$1,900,000	\$1,930,000	\$1,960,000	\$1,990,000
Health Insurance	7.5%	\$9,460,000	\$10,170,000	\$10,930,000	\$11,750,000
Other Benefits	2.0%	\$3,960,000	\$4,040,000	\$4,120,000	\$4,200,000
Pension	n.a.	\$6,500,000	\$9,320,000	\$9,320,000	\$9,320,000
Total Employee Costs		\$38,860,000	\$42,760,000	\$43,890,000	\$45,080,000
Insurances	2.5%	\$1,220,000	\$1,250,000	\$1,280,000	\$1,310,000
Contract/Professional services	2.5%	\$2,190,000	\$2,240,000	\$2,280,000	\$2,330,000
Utilities	2.5%	\$1,260,000	\$1,290,000	\$1,320,000	\$1,350,000
Materials and supplies	2.5%	\$260,000	\$270,000	\$280,000	\$290,000
Equipment and maintenance	2.5%	\$810,000	\$830,000	\$850,000	\$870,000
Other expenses	2.5%	\$390,000	\$400,000	\$410,000	\$420,000
Debt service	Schedule	\$4,293,509	\$4,248,978	\$4,288,455	\$4,285,458
Transfers	0.0%	\$470,000	\$470,000	\$470,000	\$470,000
Total General Fund		\$49,753,509	\$53,758,978	\$55,068,455	\$56,405,458

Source: City of Chester Financial Reports (2017-2018), Econsult Solutions (2018)

The baseline forecast estimates an operating deficit of almost \$850,000 in 2018, as the City continues to fund payments deferred from 2017. The City entered 2018 with approximately \$1 million in outstanding vendor payments and is expected to reduce the liability to \$600,000 in 2018. In addition, the City is expected to contribute roughly \$5.0 million (including state pension aid) to the pension fund in 2018 in comparison to the 2018 MMO totaling \$6.5 million. The forecast indicates worsening operating deficits as operating expense growth outpaces revenue growth resulting in alarming negative fund balance levels.

EXHIBIT 2.5—BASELINE GENERAL FUND BALANCE FORECAST, 2018-2021

	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Revenues	\$49,215,000	\$49,147,000	\$48,950,000	\$49,680,000
Expenditures	\$49,753,509	\$53,758,978	\$55,068,455	\$56,405,458
Operating Surplus(Deficit)	(\$538,509)	(\$4,611,978)	(\$6,118,455)	(\$6,725,458)
Interest on Past Due Pension	(\$1,320,000)	(\$1,530,539)	(\$1,555,868)	(\$1,571,847)
Beginning Fund Balance	(\$10,284,678)	(\$12,143,187)	(\$18,285,704)	(\$25,960,027)
Ending Fund Balance	(\$12,143,187)	(\$18,285,704)	(\$25,960,027)	(\$34,257,332)

Source: City of Chester Financial Reports (2017-2018)

EXHIBIT 2.6—OUTSTANDING OBLIGATIONS FORECAST, 2018-2021

Outstanding Obligations	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Year-End Pension MMO and Interest	\$20,410,000	\$26,550,000	\$34,660,000	\$43,980,000
Year-End Other Obligations	\$600,000	\$0	\$0	\$0
Total	\$21,010,000	\$26,550,000	\$34,660,000	\$43,980,000

Source: City of Chester Financial Reports (2017-2018), Pension Actuarial Reports as of 1/1/17

Maintaining operations, given this trajectory, is not sustainable. In order to meet payroll, the City would be forced to continue to delay other obligations. Continuing to defer pension payments is not feasible due to the dangerously low police pension funding level and the self-insured health benefits structure limits the ability to delay medical expenses.

The City's finances have been suffering from stagnant revenues, increasing expenses, and weak fund balance positions. Correcting the imbalance in the near-term must include a combination of cost cutting and revenue enhancing initiatives. However, Chester's long-term financial viability rests in its ability to encourage growth in the private economy and expand the tax base. The following chapters outline the corrective actions required to close the projected operating deficit in the next three years and also includes an initial strategy to support economic development.

3.0 LEGACY COSTS

Legacy costs, including pension liabilities, other post-employment benefit (OPEB) liabilities, and outstanding debt, are enormous obstacles to the City's sustained financial recovery. These liabilities have been a major challenge for the City for many years, but have exploded recently due to generous employee benefits, chronic pension underfunding, overtime spiking, and expense mismanagement. Legacy costs are putting significant strain on the operating budget and have limited the City's ability to address deferred capital maintenance and investment in economic development and other tax base expansion initiatives. Chester must adopt a strategy to address remaining past due pension liabilities and reduce the ongoing annual costs associated with servicing its pension and OPEB liabilities.

3.1 DEBT ISSUANCE

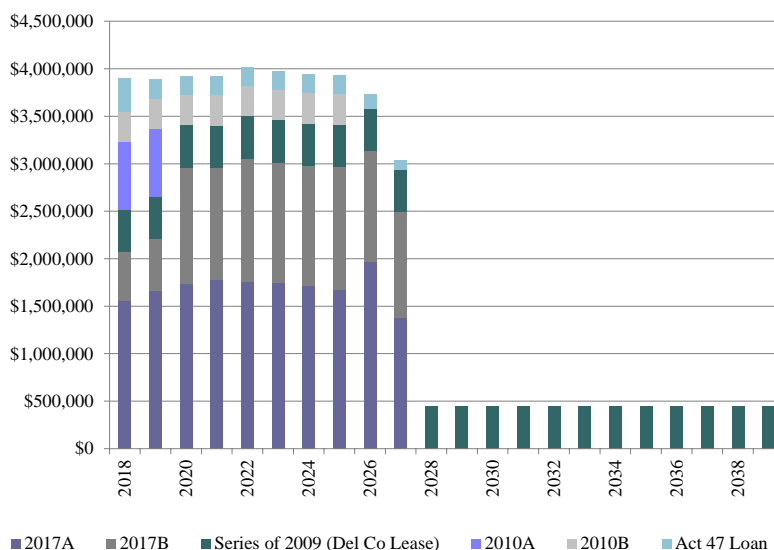
At the beginning of 2017, the City had accumulated approximately \$28 million of unpaid obligations including over \$14 million in past due pension MMOs, \$6.9 million of health insurance premium payments, \$1.1 million of workers compensation premiums, and \$2.3 million of other vendor payments. In addition, the City defaulted on its 2016 Tax and Revenue Anticipation Note and did not immediately contribute its 2016 state pension aid to the pension fund.

In January 2017, DCED issued an emergency \$2 million loan and arranged an advance on gaming host revenues to the City to help with immediate cash flow needs. Addressing these obligations and funding day-to-day operations left the City facing another cash deficit by the late summer of 2017.

On August 31, 2017, the City closed a debt issuance with a total par amount of \$19.21 million. The issuance was comprised of a \$12 million unfunded debt borrowing to address a portion of its outstanding liabilities and a \$7.21 million refunding component that restructured a direct bank loan, which was issued in 2015. The unfunded debt component resulted in \$10.8 million of proceeds after costs of issuance and the funding of required reserves. The debt issuance increased annual debt service by approximately \$700,000 in 2018. The City's annual debt service obligations will be between \$3.9 million and \$4.0 million through 2025. Though the unfunded debt issuance did not increase the City's annual debt service significantly, the borrowing carried a high interest rate and limited the City's ability to borrowing capacity for capital needs.

The following chart shows the City's annual debt service obligations from 2018 through 2039:

EXHIBIT 3.1 – ANNUAL DEBT SERVICE, 2018-2039



Source: City of Chester Financial Reports

3.2 PENSION OBLIGATIONS

Chester administers three single-employer defined benefit pension plans: the Police Pension Fund, Paid Firemen's Pension Fund, and Officers & Employees Retirement System. These plans essentially cover all full-time employees.

The Police and the Officers & Employees' pension funds are severely underfunded and had unfunded actuarially accrued liabilities of approximately \$57.9 million and \$6.3 million, respectively, as of January 1, 2017. Police Pension Fund assets covered 31% of its fund's accrued liability, while Officers & Employee Pension Fund assets covered only 24% of its fund's accrued liability. The unfunded liability of the Police Pension Fund is actually much worse than it appears because the calculations show pension receivables from Chester's General Fund as plan assets. As noted above, the City entered 2018 owing approximately \$17.6 million in MMO payments which must be taken into account when doing a true evaluation of the plan's assets. Assets, not including account receivables, equal just 9.5% of actuarial accrued liability. More descriptively, the Police Pension Fund's actual liquid assets cover less than one full year of benefits, and the system is essentially on pay-as-you-go funding.

EXHIBIT 3.2 - 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

The dangerously low funding levels are a result of increased benefit payouts and inadequate employer contributions. The following is a summary of the City's MMO over the past four years compared to actual contributions:

EXHIBIT 3.3 – PENSION MMO CONTRIBUTION SUMMARY, 2013-2017

MMO by Pension Plan	2013	2014	2015	2016	2017
Police	\$2,906,548	\$3,824,942	\$5,408,043	\$4,741,872	\$5,235,369
Fire	\$0	\$207,303	\$607,372	\$118,972	\$561,281
Officers & Other Employees	\$606,847	\$709,116	\$1,032,155	\$1,027,873	\$754,857
Total	\$3,513,395	\$4,741,361	\$7,047,570	\$5,888,717	\$6,551,507
<u>Payments</u>					
State Aid	\$1,491,594	\$1,560,690	\$1,497,759	\$1,622,994	\$1,766,478
City Contribution	\$2,021,801	\$0	\$0	\$0	\$2,400,000
Outstanding Year-End Balance	\$0	\$3,180,671	\$5,549,811	\$4,265,723	\$2,385,029

Source: Independent Financial Audits (2013-2015), City of Chester Financial Reports (2013-2017)

The City and its unions have taken important steps to address the pension crisis, as described in more detail below. Still, the police pension fund faces an immediate funding emergency. The City's pension consultant estimates that actual assets in the fund are sufficient to cover approximately 12 months of benefit distributions. In 2018, the City began making monthly deposits into the fund rather than waiting until year end to make its MMO payment; however, if the City does not identify a new funding source through revenue enhancement, expense reduction, or asset monetization, the fund's future is in serious jeopardy. If the police pension fund is depleted and no other revenue source is established, the City would have to pay the pension benefits from current General Fund revenues, which it cannot afford to do.

EXHIBIT 3.4 – PAST DUE PENSION FUND MMOs (AS OF JUNE 1, 2018)

Year	Police ³	Fire	Officers & Employees
2015	\$5,628,621	\$0	\$0
2016	\$5,187,004	\$0	\$0
2017	\$5,352,919	\$0	\$0
Total	\$16,168,545	\$0	\$0

Source: Independent Financial Audits (2013-2015), City of Chester Financial Reports (2013-2017)

The critically low funding status of the Police Pension Plan and the potentially disastrous impact of its insolvency on the City's General Fund cannot be overemphasized.

CORRECTIVE ACTIONS IMPLEMENTED

Stabilize General Fund

The City has taken a number of corrective actions to improve the pension funding status since the Amended Recovery Plan was adopted in 2016. First and most basic step the City can take is to stabilize the General Fund budget deficit, which is at the center of the Chester's chronic pension underfunding. As described in previous chapters, while work still remains to achieve sustained budgetary balance, the City made significant progress in 2017 and 2018. Even though the City did not make its full MMO payment in 2017 and does not expect to make the full payment in 2018, its pension contributions are higher than any year from 2013-2016.

Regular Pension Contributions

Next, in 2018, the City began making monthly contributions to the pension fund. In the past, the City waited until the end of the year when it received its state pension aid to make the contribution. When faced with year-end budget pressures, the pension payment was deferred. The monthly contribution strategy has instilled more discipline and has also provided much needed funding to a near depleted pension fund. The City has set the goal to contribute \$500,000 per month, which roughly equals the monthly payout to pension beneficiaries.

New Labor Contract Provisions

Finally, the City negotiated new collective bargaining agreements with each of its three unions, which included provisions to increase member contributions to pension and reduce pension benefits, significantly reducing long-term pension liabilities. Among the new provisions include:

- Limited pension benefits to Third Class City Code minimum for new hires (FOP)
- Increased pension contributions to 5% of salary increased by 1% each year until reaching 8%. New hires will contribute 8% immediately (FOP)

³ Past due MMOs accrue interest at 7.5% annualized, monthly compounding.

- Increased years of service and age requirement for full pension and DROP eligibility for new hires (FOP)
- Reduced service-related disability retirement benefit (FOP)
- Eliminated non-service related disability benefit for new hires (FOP)
- New provision to use the pension board to evaluate disability claims
- Capped longevity compensation, which was part of the pension benefit calculation (IAFF and FOP)
- Implemented a new shift schedule that reduces overtime and shift differential expense (FOP)
- Vesting provision changed for consistency with Third Class City Code (FOP)
- Amended DROP for Act 44 compliance (FOP)
- Implemented a light duty policy, which reduces early retirements

The City's actuary is not able to estimate the present value benefit of most new contract provisions, so any short-term impact on the MMO is limited, but will improve the long-term position over time.

3.3 OTHER POST-EMPLOYMENT BENEFITS

Other Post-Employment Benefits ("OPEB") include benefits other than pension that are provided to retirees including medical, prescription drug, dental, vision, hearing, life insurance, long-term disability, long-term care, death benefits, and any payments made to the retiree that are to be used for such coverage.

The new GASB rules require the use of accrual based accounting methods for disclosure of the liabilities related to OPEB costs. The accrual based accounting recognizes costs when benefits are earned, not when the benefit is actually paid.

Like most other governments, Chester uses a "pay-as-you-go" approach for funding OPEB costs. Though the City is not required to pre-fund its OPEB obligation, this does not mean it is not a critical financial concern. The City has begun to address this liability with new provisions in the collective bargaining agreements that were ratified last year.

EXHIBIT 3.5 – CITY OF CHESTER, OPEB LIABILITY, 2015

Category	Amount
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability	\$218,494,504
Annual OPEB Cost	\$18,929,357
Pay-as-you-go Contribution for 2015	\$5,016,917
Net OPEB Obligation Beginning of Year	\$48,975,115
Net OPEB Obligation Year End	\$62,887,555
Net Change in OPEB Obligation	\$13,912,440

Source: Independent Financial Audit (2015)

3.4 RECOMMENDATIONS

LEG01 - UTILIZE PROVISIONS IN THE MUNICIPAL PENSION PLAN FUNDING AND RECOVERY ACT ("MPPFRA") TO INCREASE EARNED INCOME TAX RATES TO FUND THE PENSION

The MPPFRA allows municipalities with distressed pensions to increase their tax rates on either earned income above the maximum rates otherwise allowed by law. This provision does not require a municipality to be in the Act 47 distressed municipalities program and may remain in effect if the City exits the Act 47 program as long as the requirements outlined in the MPPFRA are met. The MPPFRA requirements include:

1. The municipality is currently at the statutory maximum for EIT;
2. The municipality's pension plan is underfunded as determined by the Office of the Auditor General, and the underfunding results in the plan being moderately or severely distressed as determined by the Auditor General;
3. The municipality notifies the Auditor General's Office prior to implementation of an increased EIT;
4. The additional EIT be used solely for the costs required to be paid under the MPPFRA to the pension plan; and
5. The municipality shall maintain its pre-increase funding of the plan (i.e., the tax cannot replace the prior municipal funding).

The City meets (or will meet) each of the criteria listed above and should move forward to implement this EIT rate increase.

The City's MMO will increase by approximately \$3 million in 2019. As noted above, the City also entered 2018 owing approximately \$17.6 million in past due MMOs, which accrue interest at an annualized rate of 7.5%.

The City shall increase its non-resident rate from 1.00% to 2.00%. This increase will generate approximately \$5.5 million in annual funding for the pension program.

The City shall keep these tax rates in place until 1) the pension is no longer in level two or three distress, as defined by the Auditor General and 2) the City has identified a sustainable substitute pension funding mechanism. If the City is able to realize a different income source to fund the pension or could reduce its MMO through a significant one-time pension funding, the City should avoid increasing its earned income tax rates.

It should be noted that the 2016 Amended Recovery Plan recommended gradual reductions in the resident EIT rate until it reached 2.0%. The City's current financial condition and pension funding position does not allow for any reductions in the resident EIT rate at this time. The City should maintain a 2.75% resident EIT rate at least until the pension is no longer in level two or three distress.

LEG02 - CONTINUE MONTHLY PENSION CONTRIBUTIONS FROM GENERAL FUND

As described above, in the past, the City has waited until the last quarter of the year to make its pension MMO payment. From 2013-2015, the City did not make any pension contributions above the amounts allotted from state aid.

The City shall make monthly payments into the pension after the distressed pension EIT rates are implemented. The City shall aim to contribute at least \$500,000 per month and will develop a monthly cash projection of receipts and expenditures to ensure a positive cash position throughout the year. The monthly funding strategy will improve funding in the severely depleted plans, instill budgeting discipline, reduce the interest accrued on its past due MMOs, and take advantage of dollar-cost averaging in pension investments.

LEG03 - ELIMINATE PENSION FRAUD AND OTHER ABUSES

Preventing pension fraud and abuse is a common-sense goal for any pension system, but is especially important for Chester given its low funding levels. As noted above, the City has experienced significant over time spiking in recent years, which exacerbated its pension liabilities. The Pennsylvania Auditor General's report on Chester's pension system from December 2016 noted several of the more egregious examples of overtime spiking and their negative effect on the City's finances. The City has partnered with the Auditor General's office to review these cases for potential fraud and should continue to do so.

The City also has had a relatively high number of disability pensions, which were significantly more costly to the pension fund than a non-disability pension. The City and its unions reached new collective agreements in 2017, which significantly reduced disability pension benefits and also introduced fraud prevention mechanisms such as the Work-Related Injury Review Panel described in the Workforce Chapter (Chapter 4). To the extent allowed by labor law, the City should review recent disability pension awards to confirm their legitimacy and discourage future fraudulent claims.

LEG04 - MONITOR AND MANAGE OVERTIME

The City's overtime costs grew out of control from 2012 through 2016, which not only hurt the current year's budgets, but also enhanced pension benefits and added to Chester's annual required pension contributions. After peaking at nearly \$4 million in 2015, overtime costs dropped to \$2.1 million in 2017 and are on track to stay near \$2.0 million in 2018. The City has recently refocused its overtime cost monitoring and reporting practices, which will help managers control overtime spikes and more efficiently deploy resources.

LEG05 - PRIORITIZE PENSION FUNDING FOR ONE-TIME REVENUES

As noted in the City Assets Chapter (Chapter 5), the City should consider strategies that could result in one-time or recurring payment streams into the General Fund. The City should prioritize eliminating past due MMOs owed with one-time revenues. The City has many funding needs including, but not limited to, deferred capital maintenance, economic development, and OPEB liabilities, however, the severely underfunded police pension is the most immediate and glaring priority.

LEG06 - ELIMINATE OTHER POST-EMPLOYMENT BENEFITS FOR NEW HIRES

The City must take action to reduce its future OPEB liability and shall eliminate non-pension retirement benefits for non-union employees. See also the Workforce Chapter (Chapter 4).

4.0 WORKFORCE

4.1 OVERVIEW OF WORKFORCE EXPENSES

The services provided to residents by the City of Chester are labor intensive, and as a result, personnel costs, including wages and benefits, constitute a significant portion of the City's expenditures. In 2017, employee salaries, wages, and overtime accounted for \$37.2 million in costs, or about 40% of the City's 2017 expenses (see Exhibit 4.1).

As noted in the 2016 Amended Recovery Plan, personnel costs for police and fire services soared from 2013-2016 due to problematic interest arbitration awards that failed to recognize the City's financial position, and in fact made it worse. Understanding that controlling personnel costs is essential to its financial recovery, the City and its bargaining units negotiated new labor agreements in 2017. Employee wages and benefits must be brought in line with the City's revenues. If the City's deficit will be reduced or eliminated, it is essential that the City make the difficult choices necessary to appropriately address personnel and labor costs.

EXHIBIT 4.1 – ACTUAL WORKFORCE AND COLLECTIVE BARGAINING EXPENSES, 2013-2017

Expenses	2013	2014	2015	2016	2017
Salaries and Wages	\$16,823,388	\$16,505,011	\$16,400,000	\$16,462,637	\$16,709,797
Overtime	\$3,474,869	\$3,650,094	\$4,121,101	\$2,771,976	\$2,188,871
Health Insurance ⁴	\$8,823,218	\$9,386,009	\$10,740,000	\$11,920,000	\$8,422,706
Other Benefits	\$4,010,669	\$4,550,497	\$4,781,336	\$5,428,506	\$3,415,104
Pension – Actual MMO	\$3,513,395	\$4,741,361	\$7,047,570	\$5,888,717	\$6,551,507
Total	\$36,645,539	\$38,832,972	\$43,090,007	\$42,471,836	\$37,287,985

Source: Independent Financial Audits (2013-2015), City of Chester Financial Reports (2013-2017)

EXHIBIT 4.2 –WORKFORCE AND COLLECTIVE BARGAINING EXPENSE FORECAST, 2018-2021

Expenses	2018 Estimate	2019 Forecast	2020 Forecast	2021 Forecast
Salaries and Wages	\$17,040,000	\$17,300,000	\$17,560,000	\$17,820,000
Overtime	\$1,900,000	\$1,930,000	\$1,960,000	\$1,990,000
Health Insurance	\$9,460,000	\$10,170,000	\$10,930,000	\$11,750,000
Other Benefits	\$3,960,000	\$4,040,000	\$4,120,000	\$4,200,000
Pension – Actual MMO	\$6,500,000	\$9,320,000	\$9,320,000	\$9,320,000
Total	\$38,860,000	\$42,760,000	\$43,890,000	\$45,080,000

Source: City of Chester Financial Reports (2017-2018)

⁴ Health insurance costs only include the costs of health benefits plans. Vision and dental benefits are included in the other benefits category.

4.2 EMPLOYEE COMPLEMENT

In 2018, the employee complement dropped 9% (see Exhibit 4.3); however, most of the decline was through the elimination of vacant positions. The City currently has a complement of 331 total positions, of which 311 are full time and 20 are part-time, many of which are seasonal positions. There are also approximately 20 vacant full-time positions, with most in the Police Department.

EXHIBIT 4.3 — TOTAL CITY POSITION COUNTY BY UNION, 2013-2018

Union	2013	2014	2015	2016	2017	2018
FOP	107	109	113	109	106	98
Police Cadets	3	3	3	3	8	4
IAFF	57	62	63	67	67	59
Fire Cadets	2.5	2.5	7.5	2.5	10	4
Teamsters	80	79	75	75	75	73
Crossing Guards (Teamsters)	32	32	32	32	32	32
Nonunion Full-Time	72	62	59	59	46	49
Nonunion Part-Time	10	12.5	9.5	24	20	12
Total Position Count	363.5	362	362	371.5	364	331

Source: City of Chester Salary Ordinances (2013 -2018)

The City is organized into four (4) main entities and numerous departments and offices. Three (3) labor unions represent a significant number of City employees (see Exhibit 4.4).

EXHIBIT 4.4 – CITY FTE POSITION COUNT BY UNION IN 2018

Union	Covered Positions	FTE Position Count	Contract Term
FOP	All full-time Police Officers, except those at the rank of Chief of Police and above	98	January 1, 2017 through December 31, 2021
IAFF	Fire Fighters, except Commissioner	59	January 1, 2017 through December 31, 2021
Teamsters	Clerks, highway department employees, code enforcement officers, crossing guards	105	January 1, 2017 through December 31, 2020
Non-Union Employees	Various, includes FOP and IAFF cadets	69	N/A
Total		331	

Source: City of Chester Salary Ordinance (2018)

PUBLIC AFFAIRS

The Public Affairs Department includes the Mayor's office, the Office of City Planning, the City Solicitor's Office, and the Police Department. There are 130 positions in the Public Affairs Department (not including crossing guards), the vast majority of which are in the Police Department. There are currently a number of vacant positions within the Police Department. In 2008, the City obtained a Police on Patrol grant, which initially paid for an additional five (5) Police Officers. The grant supported an additional three (3) officers above the base complement at the time of 106 full time officers. However, now that the grant has expired, the City is responsible for the costs of any additional officers. The overall complement of Police Officers has declined recently due to retirements and staff turnover. The 2018 Salary Appropriation reflects a police complement of 101 uniformed police positions, an additional 10 police administration positions, and a Chief of Staff position. Specific recommendations are contained in other sections of this Plan.

ACCOUNTS AND FINANCE

The Accounting and Finance Department includes the Director's Office, the Treasurer's Office, the Assessor's Office, the Office of the City Clerk, the Human Resources Office, the Purchasing Office and the Controller's Office. There are 20 positions in the Accounting and Finance Department, plus a temporary, grant-funded Deputy CFO. The Financial Management Infrastructure chapter includes several recommendations related to the department's current staffing structure and ways to optimize the skills and talents of the employees.

PUBLIC SAFETY

The Public Safety Department consists of the Director's Office, the Fire Department, Licenses and Inspections Department, the Health Department and the Community Health Education Department. Overall, the Public Safety Department has 85 budgeted positions, of which 62 are within the Fire Department. The Fire Department has a significant command structure, which includes 14 positions above the rank of Fire Fighter. There are currently 31 Fire Fighter positions, 17 apprentice positions and 4 vacant "cadet" positions. Specific recommendations are contained in other sections of this Plan.

STREETS

The Streets Department includes the Director's Office, the City Engineer's Office and the Highway Department. There are 30 full time positions and four part time positions in the Streets Department. As with the other Departments, the Streets Department will need to reevaluate its employee complement and identify opportunities for outsourcing and other costs reductions including personnel costs.

PARKS, RECREATION, AND PUBLIC PROPERTY

The Parks, Recreation, and Public Property Department includes the Director's Office, Building Maintenance Department, Parks Department, Recreation Department, and the Summer Food program. There are 26 full time positions and six part time positions in the Parks, Recreation, and Public Property Department. As with the other Departments, the Parks, Recreation, and Public Property Department will need to reevaluate its employee complement and identify opportunities for outsourcing and other costs reductions including personnel costs.

4.3 SALARIES AND COMPENSATION

As noted, personnel costs are significant, and salaries and other forms of cash compensation constitute a significant portion of those costs. In addition to making the difficult, but necessary, decisions with respect to the employee complement, the City must take the necessary steps to control wages and salaries. Both the Police and Fire Departments experienced significant wage growth due to lopsided interest arbitration awards that failed to recognize the City's financial position. Since 2013, the City has increased wages from 9% to 18% depending on bargaining unit (see Exhibit 4.5), well above the rate of inflation which was less than 2% (source: U.S. Bureau of Labor Statistics).

EXHIBIT 4.5 – WAGE INCREASES, 2017-2021						Avg Ann Incr 2013-2016
Bargaining Unit	2017	2018	2019	2020	2021	
FOP	0%	1%	2%	2%	2%	5%
IAFF	0%	1%	2%	2%	2%	4%
Teamsters	7%	4%	3%	3%	NA	3%
Nonunion	0%	3%	3%	3%	3%	2%

Source: City of Chester FOP, IAFF, and Teamsters Collective Bargaining Agreements, City of Chester Salary Ordinances (2016-2018)

OVERTIME AND PREMIUM PAY

The City's overtime expenditures have been significant in recent years. Overtime costs in the Police Department have historically totaled approximately \$2 million annually. Various factors have led to these significant overtime costs, and many of those factors are addressed elsewhere in this Plan. For example, past minimum staffing provisions and the amount of time positions remained vacant contributed to excessive overtime expenses.

The City's collective bargaining agreements historically had overly lenient definitions of what time could be counted toward an employee's eligibility for overtime. In some of the new bargaining agreements, these provisions have been amended to track the obligations under the Fair Labor Standards Act for calculating overtime. However, the Teamsters agreement still provides for the overtime rate to be paid for all hours worked over eight hours per day. In addition, Saturday and Sunday work is at the overtime rate. These provisions could drive up the

City's overtime costs, and continued effort should be made to ensure the overtime practices reflect the City's obligations under the FLSA only. The City must also work to develop work schedules and deploy staff in a manner to improve efficiency and reduce overtime. Each department head must be accountable for his or her overtime expenditures.

PAID LEAVE COSTS

City of Chester employees currently receive a significant number of paid leave days annually, well in excess of many public employers and far greater than those provided by private employers. This impacts the City both in the level of services provided as well as financially. Days off, especially paid vacation and personal leave, generally require hiring additional employees to provide the services when other employees are on leave. Depending on the position, paid leave often requires other employees to fill the position on an overtime basis.

Like any kind of paid leave, sick leave can drive overtime expenses higher by creating vacancies that must be filled or work backlogs that must be reduced by employees working overtime. That potential is especially high with sick leave since the employee absences are unplanned and management has less time to adjust staff schedules to compensate for the absence. If overtime is not used, then fewer services are provided by the City.

In the Recovery Plan, it was recommended that the City undertake a thorough analysis and study, and jointly develop with the relevant bargaining units a reduction in the number of paid leave days, following the guidelines set forth in the Plan. In addition, it was recommended that the City explore other leave models, such as paid time off. The expectation was that changes would be implemented effective January 1, 2017.

Although it appears that some limited changes may have been implemented as it relates to leave in the most recent bargaining agreements, the majority of the guidelines set forth in the Plan to address paid leave days were not implemented. These guidelines should continue to be explored by the City and are included below in the Exit Plan recommendations.

The guidelines include the following:

- Each paid leave day shall be paid at the employee's regular base hourly rate of pay for the number of hours usually worked by that employee on his or her regular work shift or by the average hours usually worked by that employee on his or her regular work shifts; where applicable the paid leave shall be expressed in hours rather than days.
- There shall be no premium pay for those services provided on a 24 hours per day, 7 days per week basis, including police and fire services, with the exception of Christmas, Thanksgiving, and New Year's.
- Management shall have the right to determine the maximum number of employees from each platoon, shift, department or other organizational unit who can take vacation, compensatory, and personal leave at any given time and to set different thresholds throughout the year. This will help the City reduce overtime and provide services

associated with several employees taking vacation and other forms of leave at the same time.

- Employees who work less than 75% of their scheduled hours per month shall not earn paid leave for that month. The 75% shall be calculated by including hours actually worked, plus hours paid as vacation leave, compensatory time, personal leave, holidays, jury duty leave and bereavement leave.
- The City will eliminate sick leave payout at the time of retirement/resignation for all new hires, eliminate the annual payment of unused sick leave for all employees, and cap sick leave payouts, including those termed “severance pay,” at the time of retirement/resignation for current employees at \$10,000.
- The City will eliminate the payment of holiday pay/time on an annual or semi-annual basis, and provide employees paid time off on holidays as operations allow.

4.4 HEALTHCARE AND OTHER FRINGE BENEFITS

Employee benefit costs include spending for health care, insurance, pensions, uniforms, and Social Security contributions. In 2018, as a percentage of total costs, employee benefits will represent 27% of total operating spending. Health care and police pension costs are the most volatile and the most expensive components of employee benefits.

HEALTH BENEFITS

Health insurance expenses have placed an enormous burden on the City’s operating budget.⁵ The City transitioned to a self-insurance structure in 2017. Under the new plan, the City pays premiums based on actual medical expenses incurred by its employees rather than a set monthly premium. As a result of the new self-insurance structure, annual health insurance costs dropped by \$1.75 million in 2017. However, despite the cost reduction in the short-run, expenses under this structure have been more volatile and there is a risk of large unexpected expense spikes, potentially affecting long-term costs. The City does carry a stop-loss policy provision to help control large cost fluctuations. Overall, the City should continually reevaluate the costs and benefits of the self-insurance structure as a part of an overall strategy to control employee benefit expenses.

OTHER BENEFITS

In addition to health insurance, the City provides a variety of other benefits including dental and vision benefits. In many cases, these fringe benefits are required by a collective bargaining agreement. As with all other City expenses, the costs to provide these benefits must be controlled to the greatest extent possible. In most, if not all, instances, the City is responsible for the full cost of providing these additional benefits.

⁵ The costs associated with the City health insurance plans are included in the Health Insurance category. Vision and dental expenses are included in the other benefits category.

OTHER POST-EMPLOYMENT BENEFITS

The Government Accounting Standards Board (“GASB”) now requires governments to measure and report the cost of Other Post-Employment Benefits (“OPEB”) for public employees. OPEB includes benefits other than pension that are provided to retirees including medical, prescription drug, dental, vision, hearing, life insurance, long-term disability, long-term care, death benefits, and any payments made to the retiree that are to be used for such coverage.

The new GASB rules require the use of accrual based accounting methods for disclosure of the liabilities related to OPEB costs. The accrual based accounting recognizes costs when benefits are earned, not when the benefit is actually paid.

Like most other governments, Chester uses a “pay-as-you-go” approach for funding OPEB costs. The new rules do not require Chester to pre-fund its OPEB liability. The table below illustrates Chester’s enormous actuarially unfunded OPEB liability of \$218 million. This liability will grow approximately \$4.6 million annually unless material changes are made to the City’s benefits structure or funding policy.

EXHIBIT 4.6 — OTHER POST-EMPLOYMENT BENEFITS ACTUARIAL VALUATION RESULTS, 2015

Category	Amount
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability	\$218,494,504
Annual OPEB Cost	\$18,929,357
Pay-as-you-go Contribution for 2015	\$5,016,917
Net OPEB Obligation Beginning of Year	\$48,975,115
Net OPEB Obligation Year End	\$62,887,555
Net Change in OPEB Obligation	\$13,912,440

Source: City of Chester Audited Financial Statements (2015)

WORK RELATED INJURY AND OTHER EMPLOYEE LEAVE COSTS

As noted elsewhere in this Recovery Plan, workers’ compensation and work-related injury leave costs are significant. These costs include direct costs, such as the costs for workers’ compensation self-insurance plan and the overtime costs incurred in replacing injured workers, as well as indirect costs, such as the costs to the various pension plans that result from increased disability retirements. There are currently a number of Police Officers, Fire Fighters, and non-uniform employees on work-related injury leaves.

In addition to the recommendations contained elsewhere in this Recovery Plan, the City must work to address the number of work-related injuries suffered by employees and to actively address those employees currently on a leave of absence.

4.5 IMPACT OF 2016 RECOVERY PLAN IMPLEMENTATION

As described above, the City's personnel costs are significant and controlling these costs is critical to Chester's fiscal stability. In late 2016 and early 2017, the City was able to reach terms for successor collective bargaining agreements with each of the three labor unions representing City employees. The terms of the agreements with the Fraternal Order of Police, Lodge No. 19 ("FOP"); the International Association of Fire Fighters, Chester City Fire Fighters Association, Local No. 1400 ("IAFF"); and the International Brotherhood of Teamsters, Local 312 ("Teamsters") generally exceed the three year exit plan period. The FOP and IAFF contracts are each for the period January 1, 2017 through December 31, 2021, while the Teamsters contract covers January 1, 2017 through December 31, 2020. The agreements were previously determined to conform to the requirements of the then existing Recovery Plan. The City must continue to implement those agreements consistently in order to control costs.

The City's efforts in securing voluntary agreements with the FOP and the IAFF, without the need for interest arbitration, saved the City significantly in terms of transaction costs. In addition, the overall impact of the adoption and implementation of the agreements, consistent with the terms of the Recovery Plan, saved the City approximately \$24.6 million from 2018 to 2021 as compared to the projected costs without the new provisions.

Despite its success with the labor unions, a number of key initiatives from the prior Recovery Plan have not been implemented and new financial challenges have emerged. Therefore, overall, cost savings have fallen short of expectations. The City will need to continue its conservative approach to personnel costs, implement certain key recommendations from the Prior Recovery Plan, and implement new initiatives in order exit Act 47 status at the end of the three year period.

EXHIBIT 4.7 — IMPACT OF CBA PROVISIONS, 2018-2021

Union	2018 Estimate	2019 Forecast	2020 Forecast	2021 Forecast
Without 2017 CBA Provisions	\$43,560,000	\$48,180,000	\$50,120,000	\$52,140,000
With 2017 CBA Provisions	\$38,860,000	\$42,760,000	\$43,890,000	\$45,080,000
Difference	\$4,700,000	\$5,420,000	\$6,230,000	\$7,060,000

Source: 2016 Amended Recovery Plan, City of Chester Financial Statements (2017-2018)

4.6 RECOMMENDATIONS

WF01 - ENSURE THE COSTS FOR EACH BARGAINING UNIT REMAIN WITHIN ESTABLISHED CAPS

In 2017, the City made a critical step toward financial stability with the negotiation of three labor agreements in compliance with the Amended Recovery Plan. Moving forward, the City must strictly adhere to the negotiated agreements while continuing to implement policies to manage and control personnel costs as outlined below. Exhibit 4.9 sets forth total personnel expenditure limits by bargaining unit.

EXHIBIT 4.8— PERSONNEL EXPENDITURE LIMITS PER BARGAINING UNIT

Union	2019 Forecast	2020 Forecast	2021 Forecast
FOP	\$20,430,000	\$20,840,000	\$21,280,000
IAFF	\$9,490,000	\$9,760,000	\$10,050,000
Teamsters	\$6,150,000	\$6,390,000	\$6,640,000
Nonunion	\$6,690,000	\$6,900,000	\$7,110,000
Total	\$42,760,000	\$43,890,000	\$45,080,000

Source: Econsult Solutions (2018)

EMPLOYEE COMPLEMENT

WF02 - REDUCE PERSONNEL

It is imperative that the City maintain its current complement levels, and where appropriate, reduce the employee complement. The prior Recovery Plan included a requirement that the City reduce the non-uniform employee complement by 10%. The City has reduced the total number of non-uniform employee positions in the salary ordinance from 134 to 122, which is just shy of 10%. Of the 12 eliminated positions, 5 were already vacant, so there was not the intended impact on the bottom-line operating results. It is crucial that the City reduce the number of filled non-uniform positions by 5. This recommendation must be implemented to control personnel costs.

In addition, the prior Recovery Plan provided for the elimination of certain police and fire positions. To the extent those positions were not yet eliminated, those prior recommendations shall be implemented. Elimination of some of these positions is contingent on the outcome of the recommended fire service feasibility study described later in this chapter.

In addition, the City should continue to identify opportunities for outsourcing. The City should explore additional subcontracting opportunities for snow plowing, streets repair, and code enforcement to name a few.

The City will also work to develop work schedules and deploy staff in a manner to improve efficiency and reduce overtime. Each department head must be accountable for his or her overtime expenditures.

COLLECTIVE BARGAINING UNITS

FOP Collective Bargaining Agreement

The FOP has indicated that morale is low and officers are unwilling to work overtime for a number of reasons. The FOP has indicated that the current schedule is ineffective and is negatively impacting morale. The City should explore whether the current shift schedule, implemented in early 2017, has had the expected impact of reducing personnel costs within the Department. One of the benefits of the new schedule was the opportunity to eliminate certain

supervisory positions and ensure more staff on each shift. The City must ensure that the positions identified for elimination have in fact been eliminated.

In addition, it was reported that a number of the non-patrol positions were not reduced as recommended. The City should evaluate the 43 non-patrol positions within the Department and appropriately re-allocate those positions in an effort to improve public safety.

WF03 - ELIMINATE SPECIALTY ASSIGNMENTS AND UTILIZE CIVILIAN PERSONNEL

The City continues to maintain a number of non-patrol administrative positions and “specialty assignments.” It was previously recommended that the City explore eliminating these positions and redeploy the officers to patrol-related functions to improve efficiency and enhance public safety. At this time, this recommendation has not been fully implemented. The City will eliminate several of these non-patrol positions. The City will identify those positions, which are critical to effective police services, which positions can be eliminated, and which positions can be assigned to civilian, non-police employees. The City must be aware of its bargaining obligations with the FOP as it proceeds with eliminating these positions and/or reassigning the positions to non-Police Officers.

WF04 - FULLY IMPLEMENT EXPEDITED WORK RELATED INJURY REVIEW PANEL & UNDERTAKE REVIEWS OF DISABILITY PENSION BENEFITS AS APPROPRIATE

The City continues to have a number of officers off on work-related injury leaves. It was reported that the expedited work-related injury review panel has not been convened to address these long-term leaves of absence. The number of officers on work-related injury leaves has had a negative impact on the City’s overtime budget and staff morale. The City must exploit the expedited review panel that was created by the January 2012 interest arbitration award and take appropriate action to address the current number of work related injury leaves.

In addition, it has been reported that a number of officers previously granted disability pension benefits may no longer be disabled and unable to perform the duties of a police officer. In accordance with the Pension Ordinances, the Mayor or the Pension Board have the authority to request that individuals on a disability pension be reviewed by appropriate medical personnel for the purpose of determining whether the individual is physically or mentally fit for active service as a police officer. The City will evaluate each and every officer currently receiving a disability pension benefit and determine whether the employee should remain on a disability pension or be ordered to report for active duty by the Mayor as appropriate. If ordered back to duty, the disability pension will end as appropriate and consistent with the terms of the Police Pension Plan. The City shall consider working with a third-party contractor for these reviews and recommendations.

The City will also work to ensure that only those officers actually fully disabled shall receive a disability pension benefit moving forward.

WF05 - ANALYZE SHIFT SCHEDULE AND UTILIZE PART TIME OFFICERS

As noted above, the City, in conjunction with the Recovery Coordinator, should study the new police patrol schedule and determine if the new schedule has reduced overall costs. If appropriate, other shift scheduling options should be considered and implemented. If a new schedule will be implemented, the City must comply with any bargaining obligation it may have with respect to the FOP.

Manpower and overtime continue to be concerns for the Department. The City should take steps to hire and utilize part-time officers. The City will need to negotiate over the pay and benefits of these officers with the FOP prior to implementation. Any agreement governing the use of part-time officers shall only provide for an hourly wage rate, and no other benefits will be provided to part-time officers.

WF06 - AMEND HOME RULE CHARTER TO ENSURE CONSISTENCY

The residency provision of the FOP agreement is inconsistent with the residency requirements of the City's Home Rule Charter. The City will amend its Home Rule Charter to ensure consistency.

Fire Fighters Local 1400 Collective Bargaining Agreement

WF07 - COMMISSION A FEASIBILITY STUDY ON FIRE COMPANY CONSOLIDATION

The previous Recovery Plan required that the City explore whether the Fire Departments two companies could be consolidated safely. The Department currently operates out of two Fire Companies, East and West. It is possible that the Fire Department could maintain an adequate response time from one location and eliminate one Fire Company.

Local 1400 did its own investigation regarding this possibility, and a report was produced by the International Association of Fire Fighters, the Local Union's national affiliate. That report, titled Geographic Information System Emergency Services Response Capabilities Analysis, concludes that the Department should not reduce staff and that the Department should maintain Stations 81 and 82 to ensure adequate response times. The City should not rely exclusively on the analysis conducted by the union. Instead, the City should work with the Recovery Coordinator to conduct its own analysis of the potential consolidation. Such an analysis would include a review of actual City data, including population density, historic call figures, etc. If it is determined that adequate response times can be maintained from one location, then the Department should consolidate the two existing companies.

The Fire Department should ensure that it complies with its obligations with respect to the Fire Fighters Local 1400 in the event a Fire Company is closed. Eliminating one fire company would allow the City to reduce staff by approximately 20 Fire Fighters, 1 Battalion Chief, and 2 Captains.

During the Recovery Coordinator's public meeting on the Three-Year Exit Plan, many members of the local community and surrounding municipalities expressed their sincere concerns regarding fire station consolidation and the reduction of manpower in the Chester Fire Department. The Recovery Coordinator acknowledges these concerns and that high quality fire service is essential to public safety in the City of Chester. The City has the very difficult responsibility of correcting severe budget distress without unduly harming vital services. The City must consider all options to address its distressed condition, which, left unchecked, would have compounding negative repercussions for municipal services.

It is in this context that this Exit Plan recommends that the City administration conduct its own feasibility regarding fire service coverage and fire company consolidation. The City shall engage a qualified consultant to conduct this analysis, and work with Local 1400 in good faith to discuss and resolve any potential conflicts between the two studies. The City shall also work with Local 1400 in good faith to identify other potential costs savings opportunities and operational efficiencies that may generate budgetary relief.

WF08 - AMEND HOME RULE CHARTER TO ENSURE CONSISTENCY

The residency provision of the IAFF agreement is inconsistent with the residency requirements of the City's Home Rule Charter. The City will amend its Home Rule Charter to ensure consistency.

WF09 - FULLY IMPLEMENT EXPEDITED WORK RELATED INJURY REVIEW PANEL & UNDERTAKE REVIEWS OF DISABILITY PENSION BENEFITS AS APPROPRIATE

The City continues to have a number of fire fighters off on work-related injury leaves. It was reported that the expedited work-related injury review panel has not been convened to address these long-term leaves of absence. The City should take steps to convene the panel and eliminate Heart and Lung, and other benefits, if appropriate.

In addition, as with the Police Department, it has been reported that a number of fire fighters previously granted disability pension benefits may no longer be disabled and unable to perform the duties of a fire fighter. In accordance with the Pension Ordinances, the Mayor or the Pension Board have the authority to request that individuals on a disability pension be reviewed by a medical commission established for the purpose of determining whether the individual is physically or mentally fit for active service as a fire fighter. The City should explore whether the employee should remain on a disability pension benefits or be ordered to report for active duty by the Mayor as appropriate. If ordered back to duty, the disability pension will end. The City should consider working with a third party contractor for these reviews and recommendations.

WF10 - EVALUATE WHETHER AN ALTERNATIVE WORK SCHEDULE COULD INCREASE EFFICIENCY AND IMPROVE OPERATIONS

According to Local 1400 representatives, the fire fighters' schedule could be modified to produce cost savings to the City. The City will work with the Recovery Coordinator to explore whether a modification of the fire fighter schedule would produce cost savings to the City. If an alternative schedule is identified, the City will need to work with Local 1400 to appropriately implement the schedule.

WF11 - EXPLORE SALE OF SERVICES TO SURROUNDING MUNICIPALITIES

The City has a full-time paid Fire Department. Many of the surrounding municipalities utilize volunteer departments to provide fire services. Often, the City responds to provide fire protection services in the surrounding municipalities, and in many instances, the municipality does not have sufficient volunteers to respond. This arrangement is not fair to the City or its residents, who are paying for the fire fighters to provide fire protection services to the surrounding municipalities for free.

The City should work with Recovery Coordinator to explore the possibility of providing fire protection and fire prevention services to neighboring municipalities for a fee. This arrangement would be fair to the City and may work to the benefit of a number of municipalities who struggle to find volunteers to adequately staff volunteer departments.

The Department and the Solicitor's office should work together to identify possible partners and then document appropriate terms. The City should only enter into a mutual aid agreement if responsiveness to City needs is not diminished, the City is reimbursed for the full cost of providing service, and no additional costs are incurred by the City.

WF12 - EXPLORE IN-HOUSE AND OTHER LOCAL TRAINING OPTIONS

The City should consider in-house and other statewide or local training options that would allow for smaller, more frequent fire training opportunities for new firefighters.

Teamsters Collective Bargaining Agreement

As with the FOP and Local 1400, the City negotiated and implemented a new collective bargaining agreement that significantly reduced costs. However, the City has not yet implemented a number of recommendations from the prior Recovery Plan.

WF13 - UTILIZE ALTERNATIVE WORK SCHEDULES TO REDUCE OVERTIME COSTS

The City will explore alternative scheduling options to allow for employee availability outside of traditional business hours without the need for overtime costs. This arrangement will allow the City to staff and utilize the Community Room more frequently to generate additional revenue without increasing personnel costs.

Personnel Policies Generally

WF14 - CARRY FORWARD KEY RECOVERY PLAN RECOMMENDATIONS DESIGNED TO CONTROL COSTS

The City shall adhere to the following guidelines for all agreements, and policies and procedures applicable to employees, whether union or non-union:

- Each paid leave day shall be paid at the employee's regular base hourly rate of pay for the number of hours usually worked by that employee on his or her regular work shift or by the average hours usually worked by that employee on his or her regular work shifts; where applicable the paid leave shall be expressed in hours rather than days.
- There shall be no premium pay for those services provided on a 24 hours per day, 7 days per week basis, including police and fire services, with the exception of Christmas, Thanksgiving, and New Year's.
- Management shall have the right to determine the maximum number of employees from each platoon, shift, department or other organizational unit who can take vacation, compensatory, and personal leave at any given time and to set different thresholds throughout the year.
- Employees who work less than 75% of their scheduled hours per month shall not earn paid leave for that month. The 75% shall be calculated by including hours actually worked, plus hours paid as vacation leave, compensatory time, personal leave, holidays, jury duty leave and bereavement leave.
- The City will eliminate sick leave payout at the time of retirement/resignation for all new hires, eliminate the annual payment of unused sick leave for all employees, and cap sick leave payouts, including those termed "severance pay," at the time of retirement/resignation for current employees at \$10,000.
- The City will eliminate the payment of holiday pay/time on an annual or semi-annual basis, and provide employees paid time off on holidays as operations allow.
- The City will develop work schedules and deploy staff in a manner to improve efficiency and reduce overtime.
- The City shall explore other leave models, such as paid time off.
- The City will not bargain over non-mandatory subjects of bargaining. Any provisions governing non-mandatory subjects of bargaining will be stricken from collective bargaining agreements, arbitration awards, memoranda of understanding, settlements and other labor agreements entered into following the adoption of this Recovery Plan.
- The City will provide for healthcare benefit coverage for employees on leaves of absences for only the minimum amount of time required by applicable law.

WF15 - DEVELOP EMPLOYEE PERFORMANCE APPRAISAL SYSTEM

As the City continues to do more with less, it must ensure that it is achieving the maximum productivity from all employees. Accordingly, all employees should be evaluated on an ongoing, consistent basis. For example, performance appraisal should include accounts payable performance measures. Performance measures help management determine areas for improvement and recognition of a job well done.

WF16 - REGULARLY EVALUATE THE SUCCESS OF TRANSITION TO SELF-INSURED HEALTHCARE MODEL

The City should evaluate the success of its movement to a self-insured funding model. It appears that the self-insured approach has resulted in savings to the City.

Chester's actuarially unfunded OPEB liability continues to present a challenge for the City. As noted, the City should use any monetization of City assets to help address the City's significant unfunded OPEB liability.

5.0 CITY ASSETS

5.1 INTRODUCTION

The City of Chester has two significant business-type assets, the water system owned by the Chester Water Authority, and the parking system owned by the City.

This chapter focuses on recommendations the City may wish to consider that could improve the overall financial results for the City, including a restructuring of one or both assets.

5.2 WATER SYSTEM

Mutual Letter of Intent. In March 2018, the City and the Authority entered into a Mutual Letter of Intent under which they agreed, for a period ending December 31, 2018, to negotiate towards a definitive agreement regarding the operational aspects of the system. During this period, the City has agreed not to exercise any rights it may have under Sections 5619 or 5622 of the Authorities Act with respect to the Authority.

The City and the Authority are in the process of conducting the negotiations contemplated in the Mutual Letter of Intent. The Recovery Coordinator encourages these negotiations which have the potential to benefit both the City and the Authority.

5.3 PARKING ASSETS

The City has engaged a private manager with respect to certain assigned parking assets in Chester. Under the master agreement related to this transaction, the City assigned to the manager the sole and exclusive provider of management, enforcement, and collection services with respect to the assigned parking assets. In return for assigning the parking assets to the manager, the manager will make certain capital investments in the City's parking assets and will also pay the City an upfront payment and recurring payments. The level of recurring payments to the City will be based on fee collections and related parking expenses. As of this writing, this transaction has not closed, so no additional revenues are included in the baseline operating forecasts.

5.4 RECOMMENDATIONS

AM01 - HIRE PROFESSIONALS TO ADVISE ON MONETIZATION ALTERNATIVES

The Recovery Coordinator has not taken a position on whether or not the City should sell the water system or any other City asset. The Recovery Coordinator's sole recommendation has

been for the City to retain qualified financial and legal advisors to help the City formulate its positions with respect to any potential asset monetization.

AM02 - PRIORITIZE USE OF POTENTIAL MONETIZATION PROCEEDS

Should the City and the Authority come to an agreement as a result of their negotiations, and if that agreement includes an up-front payment to the City, then the City should apply that up-front payment, first, to address the City's pension problems, second, to establish and fund a trust to address the City's OPEB liabilities, third, to fund capital improvements to the City's capital assets, fourth, to establish a General Fund reserve account, and fifth, in cooperation with a non-profit economic development corporation, to undertake economic development projects in the City.

Should the City's pension fund benefit from a one-time revenue infusion, it would have the dual effect of improving the funding ratio of the plan and reducing the ongoing annual required contributions from the City's General Fund. **Any recurring General Fund relief that is achieved through one-time revenue and pension funding should be applied to offset the recommended increases in the City's earned income tax rates.**

6.0 ECONOMIC DEVELOPMENT

6.1 BACKGROUND

The City of Chester, settled in 1644 by the Swedish, established as a safe haven for Quakers by William Penn in 1681, and later considered as a candidate for the capital of Pennsylvania, is the oldest city in the state. Chester's prime location just 19 miles south of Philadelphia along the Delaware River supported the City's emergence as an industrial powerhouse focusing on metal, locomotive, shipbuilding, and textile manufacturing. However, by the mid to late twentieth century, the national and regional decline in manufacturing initiated a period of disinvestment, de-population, and overall economic decline in Chester.

Chester is currently grappling with the same challenge facing former manufacturing centers throughout the United States: redeveloping and revitalizing a community ravaged by depopulation and a declining tax base. The City's ability to attract and sustain strong community anchors, while improving fiscal stability and overall quality of life will act as the foundation of future economic revitalization.

In the last two years, the City has made meaningful progress in reversing the trend of operating deficits by implementing policy and managerial reforms. However, a full recovery and successful Act 47 exit is ultimately contingent upon the City's ability to stimulate community and economic development. This strategy must capitalize on the City's strengths and opportunities to focus on stimulating local economic activity and expanding the tax base to enhance local tax revenues.

6.2 STRENGTHS, WEAKNESSES, OPPORTUNITIES, THREATS (SWOT) ANALYSIS

STRENGTHS: RELATIVE COMPETITIVE ADVANTAGES, OFTEN INTERNAL IN NATURE

Strong Community Anchors

Talen Energy Stadium

Talen Energy Stadium, formerly known as PPL Park, opened on June 27, 2010 and is a world-class soccer venue that seats 18,500 and acts as host to national and international soccer, football, lacrosse, and rugby sporting events. The stadium has received regional and national recognition and was designated the "Best Sports/Recreation Project of the Year" by Mid-Atlantic Construction Magazine Sporting.⁶ In addition to accommodating premier sports events, Talen also acts as host to cultural and entertainment events including the Rock Allegiance Music Tour, the 5k Blacklight Run, and community career fairs.

⁶ About Talen Energy Stadium. <https://www.philadelphiaunion.com/stadium/about>

Widener University

The Wall Street Journal named Widener University one of the top 10 best Philadelphia-area colleges. The university is situated on 110 acres in the City of Chester and educates students from 48 states and 37 countries, offering more than 60 degree options, including top-ranked nursing, engineering, social work, and graduate law degrees. The university also acts as a strong community anchor, providing a variety of public services including reduced tuition for Chester City employees, tax preparation services for low income Delaware County residents, access to the Widener Child Development Center, and access to the Widener Women's Leadership Forum.⁷ In addition, the growth of Widener has sparked a renaissance along Providence Avenue. The university recently invested in a \$50 million University Crossings project, introducing state of the art, mixed use retail and office space to the area, and also sponsors the Widener University Small Business Development Center.

The university is also making a significant investment in the education of Chester residents. The university owns and operates the Widener Partnership Charter School ("WPCS") which is a K-8 school with a total enrollment of about 430 students. Widener offers significant financial assistance to WPCS graduates and will fund scholarships for 11 students enrolling this fall.

The university is proud of its reputation for altruism and community building. Widener offers a year of paid leave for employees to pursue community service projects, which often benefits local initiatives within the City. The university also promotes intern and "co-op" opportunities and frequently places students with local employers, including the Chester City government.

Harrah's Casino

Harrah's Philadelphia Casino and Racetrack is situated only 6 miles south of the Philadelphia Airport along the Delaware River on the former site of the Sun Shipbuilding and Drydock Company. The casino showcases 100,000 square feet of gaming entertainment, with more than 2,900 slot machines and live table games. In addition, the facility is described as a "major destination for harness racing on the East Coast" with full-card simulcasting with an indoor wagering area.⁸ Harrah's is a symbol of the innovative revitalization of a former industrial site and acts as a strong community partner, supporting the City with host fee payments and offering Delaware County residents job training and skills based occupations.

⁷ Widener University Community Outreach. http://www.widener.edu/civic_engagement/community_outreach/default.aspx

⁸ Visit Philadelphia. Harrah's Philadelphia Casino and Racetrack. <http://www.visitphilly.com/museums-attractions/philadelphia/harrahs-chester-casino-racetrack/>

Top Employers

Chester is home to approximately 11,400 jobs in a diverse array of industries, as indicated by the following list of the top employers based in the City.⁹

EXHIBIT 6.1 —CITY OF CHESTER TOP EMPLOYERS

	Employer	Business	Number of Employees
1	Crozer Chester Medical Center	Hospital	2,250
2	Harrah's Casino	Casino	1,400
3	Kimberly-Clark	Paper Manufacturer	1,536
4	Widener University	University Education	1,256
5	Chester-Upland School District	Public School	440
6	Power Home Remodeling, Inc.	Residential Remodeling	400

Source: Bond Disclosure Documents, Esri Business Analyst (2017), Delaware County Commerce Center, PA Charter Annual Report (2013-2014), Harrah's Casino (2017)

Location

In addition to the presence of strong community anchors, Chester's geographic location, highway network, transportation options, and waterfront location support the competitive advantage of the City. Geographically, Chester is within a 20-mile radius of Wilmington, Philadelphia, and the Philadelphia International Airport. Its proximity to Interstate 95, I-476, and Route 322 provides easy access to markets in the Philadelphia area, New York City, Wilmington, Baltimore, and Washington, DC. In addition, the Highland Avenue and Chester Transportation Center SEPTA train stations offer regional public transit connections. The Chester Waterfront anchored by Talen Energy Stadium, the home of the Major League Soccer Philadelphia Union, and the Wharf, a former power plant converted into 400,000 sq. ft. of office space, offers recreational options for residents and businesses.

Engaged Administration, Community, and Stakeholders

Chester Economic Development Authority

The Chester Economic Development Authority (CEDA) was created by the City in 1995 to support economic, housing, and community development activity. As stipulated by a cooperative agreement with the City, at the direction of City Council, CEDA acts as the project manager for several federal programs including the U.S. Department of Housing and Urban Development (HUD) Community Development Block Grant program, HOME Investments Partnership (HOME), and Emergency Solutions Grant (ESG). CEDA also provides grant support and expertise for project specific federal, state, and local funding requests, while maintaining and marketing multiple parcels of land throughout the City.

⁹ U.S. Census Bureau. OnTheMap Application and LEHD Origin-Based Employment Statistics (Beginning of Quarter Employment, 2nd Quarter of 2002-2015)

Riverfront Alliance of Delaware County

The Riverfront Alliance of Delaware County (RADC) is a collection of private sector and non-profit entities seeking to “develop and implement programs and activities that serve as the catalyst for the physical, economic, and social development of all Delaware county waterfront communities.”¹⁰ The organization is focused on increasing homeownership, improving public safety, and helping to market the region as a desirable residential and business location. RADC cultivates partnerships with public entities, foundations, business, and the residential community to secure funding to support organizational goals and projects.

Delaware County Chamber of Commerce

The Delaware County Chamber of Commerce promotes the collective interests of the region through business attraction, by supporting the cultural, social, and economic education of the community, and acting as an accessible resource to the local business community. The Chamber recently co-hosted the State of the City of Chester address and cooperated with the City to submit an application to compete for Amazon HQ2.

WEAKNESSES: RELATIVE DISADVANTAGES, OFTEN INTERNAL IN NATURE

Fiscal instability

The City entered the distressed municipalities program in 1995 suffering from a deteriorated tax base and severe structural budgetary imbalance. Since that time, the City has tried to address the underlying causes of its financial distress by implementing strategies to attract businesses and encourage development. Though there have been some significant achievements, Chester’s local economy has not turned the corner. Following years of deteriorating fiscal conditions, in 2017, the City made significant progress in reversing the trend of operating deficits, leading the Pennsylvania Department of Community and Economic Development to grant the City a three-year extension to exit distressed status.

Public safety

Public safety is one the City’s most serious, enduring challenges. According to a 2016 crime analysis conducting by the Philadelphia Inquirer, measured for every 100,000 people, the City averaged 53 homicides annually between 2000 and 2014, outpacing all other U.S. cities. In the same period, Philadelphia experienced 21 homicides per 100,000 people.

Blight

Chester is grappling with the costly negative impacts of community-wide blight including depressed property values, public safety challenges, and stagnant economic development. The City must allocate resources to combat illegal dumping, negligent landlords, and the issues

¹⁰ Riverfront Alliance of Delaware County. <http://www.delcoriverfront.com>

associated with blighted and vacant properties. In a City where over 60% of housing units are renter occupied and 20% of residential units are vacant, residential blight resulting from landlord negligence and vacancy is pervasive.¹¹

Income and educational disparity

The City lags the County and State in almost all socio-economic indicators. The median income in Chester is approximately 40% of the median income of Delaware County. In 1994, the Pennsylvania Department of Education declared the Chester Upland School District financially distressed as a result of consecutive years of a severe General Fund deficit. In 2012, the District was ordered into receivership by the Delaware County Court, began the implementation of a financial recovery plan, and has since operated under three receivers.¹² Despite state intervention, the School District continues to underperform.

OPPORTUNITIES: CHANCES OR OCCASIONS FOR IMPROVEMENT OR PROGRESS, OFTEN EXTERNAL IN NATURE

Strong partnerships with community anchors and stakeholders

Mayor Kirkland emphasized the importance of developing strong partnerships with community anchors and stakeholders in the Building a Better Chester: 2016 Mayoral Transition Plan and reinforced the administration's goals during the 2016 State of Chester address.¹³ The City is in the process of convening an economic development committee led by community stakeholders including representatives from the Delaware County Chamber of Commerce, Widener University, Talen Energy Stadium, and the local business community.

Increased development activity, particularly in the central business district

The Chester downtown corridor is in the midst of revitalization, led by the local community. The Avenue of the States is being re-developed as a cultural arts corridor by an informal collaborative of local leaders with deep community ties.¹⁴ In addition, the Candlewood Suites is constructing an 89 room hotel adjacent to City Hall and the Avenue of the Arts. In early August 2018, Agri-Kind was granted a permit by the Pennsylvania Department of Health to construct a 48,000 square foot medical marijuana grow facility at a currently vacant site on Broomall Street.

¹¹ U.S Census Bureau Quick Facts. 2017.

<https://www.census.gov/quickfacts/fact/table/delawarecountypennsylvania,chestercitypennsylvania,chestercdpvirginia,US/PST045217>

¹² Commonwealth of Pennsylvania Department of the Auditor General. Chester Upland School District Performance Audit. December 2017.

[https://www.paauditor.gov/Media/Default/Reports/schChesterUplandSchoolDistrict120517%20\(2\).pdf](https://www.paauditor.gov/Media/Default/Reports/schChesterUplandSchoolDistrict120517%20(2).pdf)

¹³ City of Chester. Building a Better Chester: 2016 Mayoral Transition Plan. <http://www.chestercity.com/wp-content/uploads/2016/02/TransitionCommitteeFinalReport.pdf>

¹⁴ Abello, O.P. Next City. Chester Artists Revitalizing Corridor on Their Own Terms. June 2018. <https://nextcity.org/features/view/chester-artists-revitalizing-city-on-their-own-terms>

Opportunity Zone designations

Opportunity Zones were designated as a federal community development program by the Tax Cuts and Jobs Act of 2017 to encourage long-term investment in low-income communities. The program provides a tax incentive for individuals and entities to re-invest unrealized capital gains into areas designated as Opportunity Zones by the chief executives of each U.S. state and territory. Chester received Opportunity Zone designations in the downtown corridor and waterfront census tracts.¹⁵

THREATS: CHANCES OR OCCASIONS FOR NEGATIVE IMPACTS ON THE REGION OR REGIONAL DECLINE, OFTEN EXTERNAL IN NATURE

Combined high tax and fee burden

Although the City has not raised the real estate tax millage rate in over a decade, the current resident and non-resident EIT rates are 2.75% and 1.00%, respectively. The resident EIT rate is one of the highest in the state, among third-class cities. In addition, the City imposes a Business Privilege Tax, Local Services Tax, and the recent creation of the Chester Stormwater Authority has introduced a quarterly storm water fee of \$8.25 per residence and \$8.25 per 1,139 square feet for commercial property.

Declining population

The City experienced severe population decline from 1960-2000 before plateauing at around 34,000 residents over the last ten years.

EXHIBIT 6.2—POPULATION, 1960-2017

Year	City of Chester		Delaware County		Pennsylvania	
	Population	% Change	Population	% Change	Population	% Change
1960	63,658		553,154		11,319,366	
1970	56,331	-11.5%	600,035	8.5%	11,800,766	4.3%
1980	45,794	-18.7%	555,007	-7.5%	11,863,895	0.5%
1990	41,856	-8.6%	547,651	-1.3%	11,881,643	0.2%
2000	36,854	-12.0%	550,864	0.6%	12,281,054	3.4%
2010	34,464	-6.5%	556,468	1.0%	12,612,705	2.7%
2017	34,077	-1.1%	564,696	1.5%	12,702,379	0.7%

Source: U.S. Census Bureau (1960-2010), U.S. Census Bureau Quick Facts (2017)

¹⁵ Chester received an Opportunity Zone designation for the 4107 and 4050.

Poor condition of existing housing supply

The existing housing supply in Chester is in poor condition with a median value of \$66,800, less than a third of the County median home value. Census data indicates that almost no new housing has been added to the current supply since 2014. In addition, over 20 percent of housing units in the City are vacant, contributing to blight and depressed home values.

EXHIBIT 6.3—HOUSING STATISTICS, 1960-2017

	City of Chester	Delaware County	Pennsylvania
Median Home Value, Owner-Occupied Units	\$66,800	\$233,300	\$167,700
Owner Occupied Housing Units	37%	69%	69%
Renter Occupied Housing Units	63%	31%	31%
Vacant Housing Units	21%	8%	11%

Source: U.S. Census Bureau American Community Survey (2012-2016)

6.3 RECOMMENDATIONS

IMPLEMENT POLICIES THAT PROMOTE BUSINESS GROWTH AND DEVELOPMENT

ED01 - INSTITUTE AN INCENTIVE PROGRAM TO ATTRACT AND RETAIN EMPLOYERS

The City can address the threat of tax and fee overburden by instituting an incentive program to attract and retain employers. This program should be based on an analysis of the costs and benefits of abating some tax responsibility in order to attract and retain employers offering other more significant tax revenue, particularly in the form of EIT.

ED02 - REPEAL THE PARKING TAX

The City collects approximately \$140,000 in parking tax revenue annually. The City can decrease both the internal administrative burden and external compliance burdens of collection by eliminating the Parking Tax.

ED03 - DECREASE THE BUSINESS PRIVILEGE TAX

Business privilege tax accounts for approximately \$1.4 million in annual revenue. In 2017, the City reduced the business-privilege tax from 3.6 to 3.3% on retail businesses and decreased the wholesale rate from 2.7 to 2.5%. Although BPT is a significant source of revenue, the City should continue to reduce the BPT to maintain a competitive mix of taxes and fees.

ED04 - SEEK SUBCONTRACTING/REIMBURSEMENT OPPORTUNITIES FROM STORMWATER AUTHORITY FOR STORMWATER AUTHORITY RELATED SERVICES PROVIDED BY THE CITY

The City should continue its discussions with the Stormwater Authority to identify ways to defray Chester General Fund expenditures through subcontracting or reimbursement for services provided by the City or hiring existing City employees to perform Stormwater Authority tasks. While the level and nature of subcontracting activities are still being discussed by the Stormwater Authority and the City, City officials have identified over \$900,000 in annual General Fund expenditures that currently support Stormwater Authority related activities. The City should seek full reimbursement of these costs from this partnership and apply no less than half of these proceeds towards reducing the Business Privilege and Parking taxes.

LEVERAGE ASSETS

ED05 - PARTNER WITH STAKEHOLDERS TO CREATE A QUALIFIED OPPORTUNITY ZONE FUND TO STIMULATE DEVELOPMENT IN THE CENTRAL BUSINESS DISTRICT AND ALONG THE WATERFRONT

The City has received federal Opportunity Zone designations on prominent downtown and waterfront corridors. Opportunity Zone investments will be administered through Opportunity Funds. The Internal Revenue Service defines a Qualified Opportunity Fund as “an investment vehicle that is set up as either a partnership or corporation for investing in eligible property that is located in an Opportunity Zone and that utilizes the investor’s gains from a prior investment for funding the Opportunity Fund.”¹⁶ The City should establish a partnership to create an Opportunity Fund to attract investment.

REDUCE BLIGHT

ED06 - IDENTIFY AND PRIORITIZE PROPERTIES FOR INSPECTION EACH MONTH AS A PART OF A CITY-WIDE BLIGHT REMEDIATION STRATEGY

Based on a realistic consideration of appropriate inspector workloads, use existing BuildingBlocks Tolemi software to identify and prioritize properties for inspection each month. The properties selected for inspection should be strategic. The City should first consider targeting specific areas that are a continual issue. Single owners of multiple properties with a history of code violations should also be established as a priority. A monthly report should be created documenting inspection assignments, inspection completions, and inspection results.

ED07 - DESIGNATE AN INDIVIDUAL TO OVERSEE BLIGHT REMEDIATION STRATEGIES

Identify an individual who will be responsible for organizing and managing a blight remediation strategy. The designated individual will be responsible for assigning and supervising staff, monitoring implementation, and reporting on performance and results. The lead building code official is likely the most official equipped to manage this effort.

¹⁶ Internal Revenue Service. <https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions>

ED08 - ENSURE CODE INSPECTORS ARE CERTIFIED TO ENFORCE THE INTERNATIONAL PROPERTY MAINTENANCE CODE

The International Property Maintenance Code (IPMC) regulates minimum maintenance requirements for existing buildings. The City should ensure that all inspectors, whether internally managed or outsourced to a third-party, are certified as qualified to complete inspections based on the IPMC. The City currently manages code enforcement internally. An assessment of the costs of benefits of pursuing a strategy of internal certification or engaging third-party certified inspectors should be conducted.

ED09 - APPLY CRIMINAL MISDEMEANOR SANCTIONS WHERE APPROPRIATE TO ENCOURAGE CODE COMPLIANCE

The City should begin prosecuting repeated violators of building, property maintenance, and housing codes. By criminalizing serious and repeated code violations, the City can strongly encourage owners to repair and maintain vacant and blighted properties.

ED10 - INSTITUTE A PRE-SALE PROPERTY INSPECTION REQUIREMENT

Require all properties to be inspected before being transferred to a new owner. Violations identified during the inspection must either be corrected by the seller or the prospective buyer must agree to correct the violations within a reasonable amount of time.

ED11 - ENFORCE THE MUNICIPAL ORDINANCE AND CODE COMPLIANCE ACT

Institute a requirement that purchasers of properties with known code violations, identified during a pre-sale inspection, resolve these violations within a specific period. The current property owner is held liable for unresolved code violations.

ED12 - DISQUALIFY NEGLIGENT PROPERTY OWNERS FROM DELAWARE COUNTY TAX SALES

Coordinate with Delaware County to ensure that owners of properties that are tax delinquent or associated with unresolved code violations are disqualified from participating as bidders in County tax sales.

IMPROVE INFRASTRUCTURE AND PUBLIC SPACE**ED13 - SEEK FUNDING TO DEVELOP A WATERFRONT PLAN**

The waterfront is a differentiating asset. The City should collaborate with CEDA and the Riverfront Alliance to secure funding for a Waterfront Development Plan. This plan will enable to the City and interested stakeholders to outline a vision for the waterfront and market that vision to interested developers and public and private funders.

ED14 - SEEK GRANT FUNDING TO IMPROVE THE CHESTER TRANSPORTATION CENTER

The connection to a regional transportation network is a significant City asset. The Chester Transportation Center will act as the City's principal public transportation hub in the future. The City should seek grant funding to continue to improve the station and surrounding area enabling increased connections to the waterfront.

ED15 - CONSIDER APPLYING FOR A FEDERAL BETTER UTILIZING INVESTMENTS TO LEVERAGE DEVELOPMENT (BUILD) GRANT IN PARTNERSHIP WITH A COMMUNITY ANCHOR

Federal BUILD grants provide assistance for investments in road, rail, transit, and port projects. The City should identify an appropriate project and collaborate with a mutually interested stakeholder(s) to submit a BUILD application.

7.0 FINANCIAL MANAGEMENT INFRASTRUCTURE

The 2016 Amended Recovery Plan noted serious financial management infrastructure deficiencies that severely impaired the City's ability to manage its finances. The City had fallen years behind on its annual independent financial audit and internal financial reporting was inconsistent and unreliable. As noted above, the total amount of the City's past due obligations was understated by about \$10 million at the time Chester adopted the Amended 2016 Recovery Plan, which is an indication of a lack of capacity to monitor the City's financial position. Since it adopted the 2016 Plan, the City has improved its internal financial reporting and taken steps to complete independent financial audits on a more timely. However, more progress is required.

The City had fallen so far behind on its audits that catching up has been an around the clock effort. The Finance Department has had significant delays in completing its trial balances and struggled to deliver clean, accurate internal financial information to its auditor. The Finance Department has been forced to undo past mistakes and implement new processes at the same time, which has proved very challenging. In May, the City finalized its 2015 audit, but, as of this writing, the 2016 audit was still incomplete.

7.1 RECOMMENDATIONS

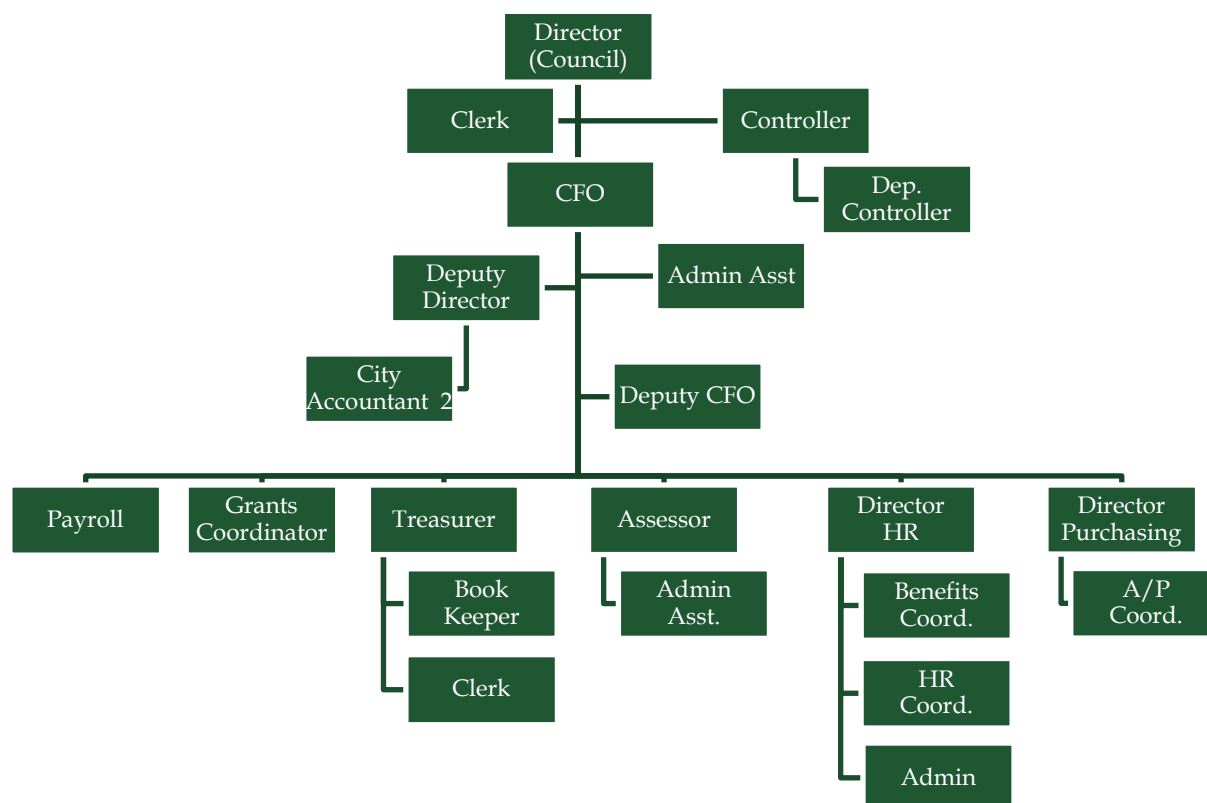
FIN01 - REORGANIZE FINANCE DEPARTMENT STAFF

In 2016, the City hired a full-time Chief Financial Officer ("CFO") and has also hired a part-time finance professional (Deputy CFO) to help with the auditing process. Both of these positions were supported by Act 47 DCED grants. The City has documented auditing policies and procedures and assigned responsibilities to Finance Department staff. The City should reevaluate the organizational structure of the Finance Department and reassign personnel based on strengths and capabilities.

The Department's current organizational structure may be improved to spread supervisory responsibilities across the department and better align personnel with similar functions. In the current structure, several functions report straight to the CFO. The Deputy CFO, which was added as a temporary position as recommended in the 2016 Recovery Plan, primarily oversees the auditing process. However, this position is scheduled to be eliminated when its grant funding expires by the end of 2019 and the CFO will again supervise these activities directly.

The following represents the Finance Department's current organizational structure:

EXHIBIT 7.1 – CURRENT ORGANIZATIONAL STRUCTURE OF THE FINANCE DEPARTMENT



First, the CFO position is vital to the City and it is critical that the CFO focus on his primary responsibilities in the Finance Department.

The Department should be restructured so that the CFO receives two direct reports - one from the Deputy CFO and one from a newly created position that will combine the current Deputy Director/Director of Purchasing positions. The Deputy CFO should oversee Human Resources, the Grants Coordinator and the auditing process. The Deputy CFO will also oversee the City Assessor until that position is eliminated when the City transitions to the Delaware County's assessments in 2020.

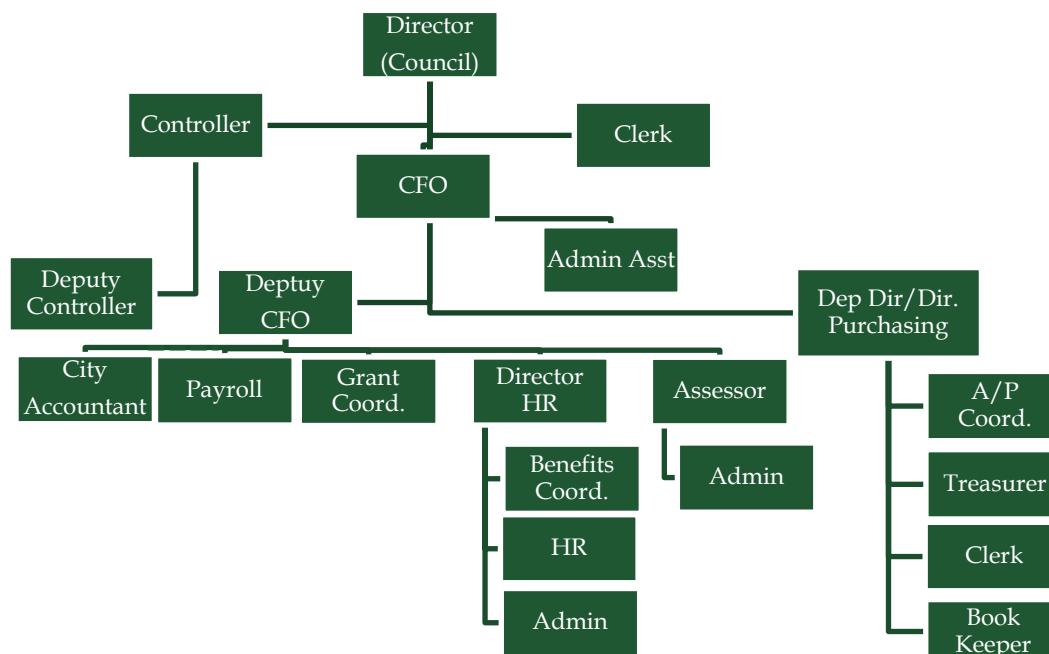
The Deputy Director/Director of Purchasing should oversee the Treasurer, Accounts Payables, and, of course, the purchasing function. Dividing the oversight responsibilities between the Deputy CFO and the Deputy Director/Director of Purchasing will allow the CFO to spend more time on financial management activities. Moreover, coupling the Treasurer and Purchasing functions may enable the department to shift resources during the Treasurer's peak workload periods when the department is processing real estate taxes.

The City anticipates an opening at the grants administrator position, which will be an opportunity to shift roles. The City should strongly consider filling the grants administrator position with an existing employee. It is the Recovery Team's understanding that the retiring grants administrator

has been assisting in upcoming transition and mentoring a successor who currently leads accounts payable. The accounts payable coordinator can move into the grants administration role and the purchasing director, who formerly led accounts payable, can return to that position. Rather than hiring a new Director of Purchasing, the Department should combine the duties of the Director of Purchasing and Deputy Director to create the new position described above.

The City should reorganize its staff to create an opening for a position to support the audit and reporting process. The Recovery Team has been informed that the Deputy Controller is not currently at full utilization and has the skills to support the auditing process. The City should strongly consider expanding the responsibilities of the Deputy Controller to include audit and financial reporting support. The Deputy Controller would continue to report to the Controller, but would also report to the Deputy CFO for audit and financial reporting tasks. The staff assigned to support the audit process should have an accounting degree and a minimum of five years of relevant experience. After the Finance Department reorganization, the City should provide ongoing professional training for other personnel that will be supporting the audit through organizations like the Government Financial Officers Association of Pennsylvania. The City should seek DCED funding support for this training.

EXHIBIT 7.2 – PROPOSED ORGANIZATIONAL STRUCTURE OF THE FINANCE DEPARTMENT



The revised organizational chart in Exhibit 7.2 includes 19 full-time employees (plus the director, which is a councilmember) compared to 20 full-time employees in the existing structure. The new structure combines the Deputy Director position with the Purchasing position.

FIN02 - PROVIDE GRANT WRITING TRAINING TO GRANTS ADMINISTRATOR

As noted above, the City anticipates a vacancy in the grants administrator position. The City should ensure that the employee that fills this position is not only proficient in grants administration, but also grant coordination and writing. Among this employee's responsibilities should be helping City departments identify grant opportunities, review conditions and requirements of prospective grants, and writing and submitting grant applications. DCED should provide or fund grant writing training for this position.

FIN03 - ADOPT A COMPREHENSIVE MANUAL OF POLICIES AND PROCEDURES

The department should begin drafting policies and procedures similar to the way it should develop job descriptions. Individual employees should describe the business processes with which they are involved. Supervisors should review these written procedures and revise as necessary. Once the department has developed a solid description of one process/procedure, it may be used as a template to address other procedures throughout the department.

FIN04 - DRAFT JOB DESCRIPTIONS

The department should begin drafting job descriptions with the goal of establishing a draft description for each position by the end of the first quarter 2019. Leadership within the department may begin this process by developing a job description model that can be used as the basis for other job descriptions. The job descriptions should involve the input of the workers themselves and their supervisors.

FIN05 - CONDUCT PERFORMANCE REVIEWS

The department should initiate some form of performance evaluation to regularly review roles and responsibilities, recognize strong performance, address areas where improvement is required, and solicit feedback from employees. This would be most effectively done in conjunction with a program of City-wide reviews and should be done on a regular basis.

FIN06 - COMPLY WITH PURCHASING PROCEDURES

Employees in other departments do not always comply with purchasing procedures, causing undue administrative hassle for the Purchasing Department. The department, led by the new Director of Purchasing, should initiate City-wide education sessions to inform the affected City employees of the appropriate purchasing procedures. The Director of Purchasing should also solicit feedback on how the purchasing may be improved and inform employees of common mistakes made in the purchasing process.

FIN07 - REVIEW VACATION AND SICK TIME ENFORCEMENT PROCESS

Vacation time and sick time enforcement and monitoring are inadequate. Currently, the administrative assistants from each department submit employee timesheets to payroll. If an employee has exceeded the allotted vacation or sick time, his or her paycheck is adjusted accordingly. However, no reconciliation of the paychecks occurs, which exposes the City to potential abuse and waste.

Sick and vacation time tracking should be incorporated into Pentamotion. Enforcement and monitoring of vacation and sick time compliance should be centralized in Human Resources. The City should establish a policy that addresses the consequences of recurrent vacation and sick time abuses.

FIN08 - IMPROVE HIRING PROCESS

The City's independent financial auditor found that the City's hiring process could be improved. There is no consistent personnel file and the process for recruiting and documenting new employees varies from department to department.

The City's human resources coordinator should develop hiring policies and procedures and present to the Finance Director for review and adoption. Once the process is adopted, the

human resources coordinator should be charged with communicating the process to the department heads and relevant personnel that are involved in the hiring process. The human resources coordinator should also develop an orientation plan for non-uniformed employees.

FIN09 – DEVELOP A CAPITAL IMPROVEMENT PLAN

Budget deficits in recent years have limited the City's capacity to invest in capital improvements resulting in a large back-log of deferred maintenance. The City is currently conducting a capital needs assessment, which will be part of a multi-year capital improvement plan.

The City has employed one-year capital budgets since 2007 which include the name, cost, and funding source for each project. The City will expand current one-year budgets into a Five-Year Capital Improvement Plan. A longer plan will enable the City to better address its capital needs and properly manage the costs of maintenance and replacement of its capital assets in order to manage the future budgetary impact. The project, led by the City engineer, is will develop the framework for the CIP and provide staff training to facilitate the implementation, tracking, and updating of the CIP. Once established, the CIP will be administered by the City Chief Financial Officer.

The City currently does not have access to the markets and cannot rely on borrowing to fund its capital program. Restoring its credit rating and borrowing capacity should be an intermediate-term goal for the City. The City is currently developing a multi-year capital improvement plan, which will inform City officials on the level of deferred maintenance and ongoing funding requirements to address these needs. Until the plan is complete and the needs are better understood, the City should commit to contributing \$500,000 annually from the General Fund to capital improvements. The City should also identify grant and public/private partnership opportunities to fund its capital program.

8.0 ADMINISTRATION

Overcoming the City's fiscal challenges is an enormous undertaking. While this Exit Plan focuses several key areas detailed in other chapters, including legacy costs, the workforce, economic development, and City assets, other actions are required to emerge from distressed municipality status. Of course, Chester must eliminate its structural budget deficit, but it also must address operational needs that are holding the City back. This chapter includes other recommendations to improve both the City's fiscal and managerial capacity.

8.1 RECOMMENDATIONS

ADM01 – PURSUE STORMWATER AUTHORITY SUBCONTRACTING AND COST SHARING OPPORTUNITIES

In early 2018, the City created the Stormwater Authority of the City of Chester to reduce stormwater runoff through outreach, education, construction, and operation and maintenance of a storm water system. The Stormwater Authority and the City have had discussions regarding the overlap of certain activities currently performed by the City's public works department such as inlet maintenance and repair. The City should continue its discussions with the Stormwater Authority to identify ways to defray Chester General Fund expenditures through subcontracting or reimbursement for services provided by the City or hiring existing City employees to perform Stormwater Authority tasks. The two entities should also explore ways that Stormwater Authority investments in vehicles and equipment can be used to support the City's aging fleet. While the level and nature of subcontracting activities are still being discussed by the Stormwater Authority and the City, City officials have identified over \$900,000 in annual General Fund expenditures that currently support Stormwater Authority related activities. The City should seek full reimbursement of these costs from this partnership.

It is imperative that the City is able to demonstrate to its residents and business community that it runs an efficient organization and is delivering the best possible services for the tax revenues it collects. The City should also approach the Stormwater Authority about sharing overhead costs such as financial management, fee collection, and engineering services to avoid duplication between the two organizations. Eliminating redundancies and streamlining operations will allow the City to avoid cuts to essential services or tax increases that are counter-productive to economic development efforts.

As noted in recommendations ED02 and ED03, the City should apply no less than half of the reimbursement income received towards eliminating the Parking Tax and reducing the Business Privilege Tax.

ADM02 - PURSUE REVENUES FROM INTERACTIVE GAMING AND THE LEGALIZATION OF SPORTS GAMING

Act 42 of 2017 was passed last October and authorized, among other things, an expansion of gaming to include online gambling as well as sports wagering, if permitted by federal law. The Supreme Court recently ruled that the Professional and Amateur Sports Protection Act of 1992, which prohibited state-authorized sports gambling with some exceptions, was unconstitutional. The Supreme Court decision, along with the Act 42 legislation, presents the opportunities for new tax revenues.

Under Act 42, tax revenues generated from sports wagering will be overseen by the Commonwealth Financing Authority rather than going straight to the local communities that host the casinos where the gambling takes place. The City should work with the Commonwealth Financing Authority to ensure new gaming funds are allocated to casino host communities. The City should also lobby the state legislature to amend Act 42, as necessary, for casino host communities to receive host communities revenues similar to those received for slots and table gaming activities.

Act 42 also outlines the local share assessment for Interactive Gaming related taxes, which, in the case of Harrah's Philadelphia, requires that 50% of such revenues are distributed to an authority created by the host county and 50% is deposited into a restricted receipts account to be established by the Commonwealth Financing Authority to be used exclusively for grants for projects in the public interest in the Commonwealth. Since Chester hosts Harrah's Philadelphia, the City should work with the county and the Commonwealth Financing Authority to ensure these revenues benefit the City's residents.

ADM03 - APPOINT A CITY-WIDE FLEET MANAGER

The City's fleet management is disjointed with each department responsible for its own vehicles while the Finance Department handles issues related to insurance and contract maintenance. The City should centralize fleet management under a single manager.

The fleet manager will be responsible for developing a vehicle replacement and acquisition policy and perform cost versus benefit analysis regarding decisions to purchase or lease vehicles. The fleet manager will also monitor and evaluate the condition of vehicles and equipment; ensure that all fleet vehicles and motorized equipment are properly titled and licensed; enforce the City's preventative maintenance policy; dispose of fleet vehicles or equipment when they become uneconomical to maintain; conduct an annual fleet utilization review; and establish a vehicle take-home policy.

Most fleet management responsibilities are already being performed by City personnel; however, the efforts are uncoordinated and may unintentionally increase workload or decrease their effectiveness. Police department estimates their personnel charged with handling fleet mechanical and repair issues spending between 14-16 hours per week on these tasks.

Centralizing fleet management would not necessarily over-burden staff with new management responsibilities.

ADM04 - TRANSFER TO COUNTY REAL ESTATE ASSESSMENTS

Previous Recovery Plans have recommended that the City make a revenue-neutral transition to the County's real estate assessments. The County plans a county-wide reassessment in 2020, which is an opportunity for the City to make its own transition. The City should continue with its plans to make the transition at the same time as the County's reassessment.

ADM05 - RESUME DEPUTY DIRECTORS MEETINGS

In late 2016, City administrators started the practice of meeting regularly with deputy directors across all departments to share current activities, general concerns, and ideas on how to improve operations. However, these meetings do not appear to be happening anymore. The City should resume these meetings as a way to improve communication with employees and increase efficiency.

ADM06 – REVISIT LICENSE AND INSPECTIONS ENFORCEMENT PROCESSES AND ENFORCE ORDINANCES

The City should implement a performance measurement program for its License and Inspections enforcement practices and fee and fine collections. The Deputy Director of Public Safety should lead the performance measurement effort, which would include, but not be limited to, tracking the number and type of inspections performed each month by each inspector, the fees and fines associated with the inspections, and the collection rates for the fees and fines.

As noted in the Economic Development chapter of this Exit Plan, the City must also ensure that its inspectors are properly licensed and certified. The City should explore using properly licensed and certified firefighters to assist in inspections activities.

9.0 CONCLUSION

While the City has made progress since it adopted its Amended Recovery Plan in 2016, major fiscal challenges remain. Chester has implemented reforms and managerial changes that have helped address its severe structural budget deficit; however, the City is coping with a pension funding crisis, significant deferred capital maintenance, no access to credit markets to fund capital improvements, and a stagnant tax base. The City entered 2018 owing over \$17 million in past due pension payments primarily due to underfunding from 2012 through 2017.

The recommendations in this Exit Plan detail several potential new funding sources to support the pension, capital improvements, and general operations. The most meaningful recommendation to the General Fund is to increase the non-resident earned income tax rate to generate approximately \$5.5 million in new annual revenue. Since the rate increase is allowed through the Municipal Pension Funding Recovery Act, incremental revenues must be dedicated to the pension fund.

The Exit Plan recognizes that the key to Chester's long-term financial recovery is not just balancing budgets over the next several years. The City must address the underlying causes of distress – an eroded economic base that results in a severe mismatch between local resources and service demands. Chester's future rests in its ability to successfully implement a long-range strategy to stimulate community and economic development and improve the overall quality of life for its residents and businesses. The City cannot continue to provide essential services to its residents without increasing the capacity of the tax base and generating more revenue.

Even if the tax increases and operational changes described in this Exit Plan are implemented in full, the City will still face a major pension funding deficit. This Exit Plan recommends that the City continue to work with the Chester Water Authority, as outlined in the Letter of Intent the two organizations signed earlier this year, to explore monetization alternatives. The Act 47 team has recommended that the City immediately hire financial and legal experts to review and explain potential alternatives and their implications to the City. The Act 47 team also stands ready to assist with negotiations as warranted. If an agreement is reached that results in an upfront payment to Chester, the City should carefully prioritize the use of funds to address critical needs including the pension, capital improvements, OPEB, economic development initiatives, and a General Fund budget reserve. An agreement has the potential to allow the City to make a substantial deposit into its pension plans. Such a deposit would have the dual effect of improving the funding ratio of the plan and reducing the ongoing annual required contributions from the City's General Fund. **We recommend any recurring General Fund relief that is achieved through one-time revenue be in part applied to offset the recommended increases in the City's earned income tax rates.**

The following table shows the financial impact of the Exit Plan recommendations on the City's future operating results:

EXHIBIT 9.1 –FINANCIAL FORECASTS WITH EXIT PLAN INITIATIVES

Baseline Scenario	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Revenues	\$49,215,000	\$49,147,000	\$48,950,000	\$49,680,000
Expenditures	\$49,753,509	\$53,758,978	\$55,068,455	\$56,405,458
Surplus (Deficit)	(\$538,509)	(\$4,611,978)	(\$6,118,455)	(\$6,725,458)
Exit Plan Gap Closing Initiatives				
Distressed Pension EIT*		\$5,500,000	\$5,650,000	\$5,800,000
Stormwater Authority Reimbursement		\$900,000	\$950,000	\$1,000,000
Business Privilege/Parking Tax Reductions		(\$450,000)	(\$475,000)	(\$500,000)
Increase Capital Expenditures		(\$500,000)	(\$500,000)	(\$500,000)
Other Gap Closing Measures		\$1,500,000	\$1,750,000	\$2,250,000
Revised Surplus (Deficit)	(\$538,509)	\$2,338,022	\$1,256,545	\$1,324,542

Source: Econsult Solutions (2018)

* Conditional availability of alternative funding sources

Though the Exit Plan recommendations will improve the City's operating position significantly, it will not be enough to meet its past due pension obligations. If the Exit Plan initiatives are implemented in full, the past due pension liability will remain relatively constant. The following table shows the projected year-end payables after the implementation of the Exit Plan initiatives:

EXHIBIT 9.2 –FORECASTED OUTSTANDING OBLIGATIONS WITH EXIT PLAN INITIATIVES

Outstanding Obligations	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Year-End Pension MMO and Interest	\$20,410,000	\$20,740,000	\$20,960,000	\$21,040,000
Year-End Other Obligations	\$600,000	\$0	\$0	\$0
Total	\$21,010,000	\$20,740,000	\$20,960,000	\$21,040,000

Source: Econsult Solutions (2018)

Without a major cash infusion to the pension fund and a realistic strategy to expand the local economy, Chester's financial viability is in doubt and a declaration of a fiscal emergency at some time in the next three years is a distinct possibility. As noted in the Financial Conditions Assessment, the Recovery Coordinator will reassess the City's financial position on a quarterly basis and determine if fiscal emergency declaration is warranted. The City and community stakeholders should work together towards avoiding this undesirable outcome. The first step towards emerging from distressed community status is the firm commitment to implementing the recommendations in this Exit Plan.

9.1 SUMMARY OF EXIT PLAN RECOMMENDATIONS

LEGACY COSTS	
LEG01	Increase Earned Income Tax Rates to Fund the Pension
LEG02	Continue Monthly Pension Contributions from General Fund
LEG03	Eliminate Pension Fraud and Other Abuses
LEG04	Monitor and Manage Overtime
LEG05	Prioritize Pension Funding for One-Time Revenues
LEG06	Eliminate Other Post-Employment Benefits for New Hires
WORKFORCE	
WF01	Ensure the Costs for Each Bargaining Unit Remain Within Established Caps
WF02	Reduce Personnel
WF03	Eliminate Specialty Assignments and Utilize Civilian Personnel
WF04	Fully Implement Expedited Work Related Injury Review Panel & Undertake Reviews of Disability Pension Benefits as Appropriate
WF05	Analyze Shift Schedule and Utilize Part time Officers
WF06	Amend Home Rule Charter to Ensure Consistency
WF07	Commission a Feasibility Study on Fire Company Consolidation
WF08	Amend Home Rule Charter to Ensure Consistency
WF09	Fully Implement Expedited Work Related Injury Review Panel & Undertake Reviews of Disability Pension Benefits as Appropriate
WF10	Evaluate Whether An Alternative Work Schedule Could Increase Efficiency and Improve Operations
WF11	Explore Sale of Services to Surrounding Municipalities
WF12	Explore In-House and Other Local Training Options
WF13	Utilize Alternative Work Schedules to Reduce Overtime Costs
WF14	Carry Forward Key Recovery Plan Recommendations Designed to Control Costs
WF15	Develop Employee Performance Appraisal System
WF16	Regularly Evaluate the Success of Transition to Self-Insured Healthcare Model
CITY ASSETS	
AM01	Hire Professionals to Advise on Monetization Alternatives
AM02	Prioritize Use of Potential Monetization Proceeds
ECONOMIC DEVELOPMENT	
ED01	Institute an Incentive Program to Attract and Retain Employers
ED02	Repeal the Parking Tax

ED03	Decrease the Business Privilege Tax
ED04	Seek Reimbursement from Stormwater Authority for Stormwater Authority related services provided by the City
ED05	Partner with Stakeholders to Create a Qualified Opportunity Zone Fund to Stimulate Development in the Central Business District and Along the Waterfront
ED06	Identify and Prioritize Properties for Inspection Each Month as a Part of a City-wide Blight Remediation Strategy
ED07	Designate an Individual to Oversee Blight Remediation Strategies
ED08	Ensure Code Inspectors are Certified to Enforce the International Property Maintenance Code
ED09	Apply Criminal Misdemeanor Sanctions where Appropriate to Encourage Code Compliance
ED10	Institute a Pre-sale Property Inspection Requirement
ED11	Enforce the Municipal Ordinance and Code Compliance Act
ED12	Disqualify Negligent Property Owners from Delaware County Tax Sales
ED13	Seek State Grant Support to Develop a Comprehensive Waterfront Plan
ED14	Seek Grant Funding to Improve the Chester Transportation Center
ED15	Consider Applying for a Federal Better Utilizing Investments to Leverage Development (BUILD) Grant in Partnership with a Community Anchor
FINANCIAL MANAGEMENT INFRASTRUCTURE	
FIN01	Reorganize Finance Department Staff
FIN02	Provide Grant Writing Training to Grants Administrator
FIN03	Adopt a Comprehensive Manual of Policies and Procedures
FIN04	Draft Job Descriptions
FIN05	Conduct Performance Reviews
FIN06	Comply With Purchasing Procedures
FIN07	Review Vacation and Sick Time Enforcement Process
FIN08	Improve Hiring Process
FIN09	Develop a Capital Improvement Plan
ADMINISTRATION	
ADM01	Pursue Stormwater Authority Cost Sharing
ADM02	Pursue Revenues from Interactive Gaming and the Legalization of Sports Gaming
ADM03	Appoint a City-wide Fleet Manager
ADM04	Transfer to County Real Estate Assessments
ADM05	Resume Deputy Directors Meetings
ADM06	Revisit License and Inspections Enforcement Processes and Enforce Ordinances

9.2 COMMONWEALTH SUPPORT

PURPOSE	AMOUNT
Provide Financial Audit and Reporting Training	\$2,500
Provide Grant Writing Training	\$2,500
Fund a Feasibility Study on Fire Company Consolidation	\$35,000