EXHIBIT E

Municipalities Financial Recovery Act

Receiver's Amended Recovery Plan
Filed on April 7, 2021

City of Chester
Delaware County, Pennsylvania

As Filed with the Commonwealth Court of Pennsylvania
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Executive Summary

The City of Chester has been subject to Commonwealth financial oversight under the Municipalities Financial Recovery Act (Act 47 of 1987) since 1995. While other communities have successfully exited oversight or made progress toward doing so, Chester continues to struggle with multi-million-dollar deficits, past due obligations to its employee pension plans, and very marginal investments in the infrastructure that Chester residents and businesses use every day.

On April 13, 2020, following the onset of the novel coronavirus COVID-19, Governor Tom Wolf declared a Fiscal Emergency in Chester. According to Act 47, the Governor may declare a fiscal emergency when a municipality is insolvent or projected to be insolvent within 180 days, or when that municipality is unable to ensure the continued provision of vital and necessary services as defined in Act 47, such as police patrol, fire suppression, public works functions and payroll and pension obligations. The pandemic has had a deeply negative impact on the City's fiscal condition, cutting its largest revenues and halting critical services last year.

In June 2020, I was nominated by Pennsylvania's Secretary of the Department of Community and Economic Development (DCED), Dennis M. Davin, to serve as Chester's Receiver. Commonwealth Court appointed me to that position on June 22, 2020. Chester is just the second Pennsylvania city to head down this path, following Harrisburg, which had its Fiscal Emergency in 2011.

This is the second Recovery Plan that I've filed since my appointment. In my first Plan filed in August 2020, I wrote that Chester's financial problems are deep, intertwined, and complicated. They undercut the City's ability to provide vital and necessary services to the people who live in, work in, or visit Chester. They put City government in the position where it takes actions to ensure its own fiscal survival, rather than being a proactive and creative partner in addressing the economic, social, and other broader challenges the community faces.

Less than eight months later, that is all still true, but I have a better understanding for how deeply these problems run and the scope of work that will be necessary to address them. Chester is lacking or at risk of losing some basic management tools that need to be created, restored, or improved to ensure short-term progress takes root. I have also seen how tempting it is to look for short-term fixes that alleviate pain without addressing its root causes, which only pushes the problem onto future generations.

In this Plan I will update the Court, Chester residents and businesses, and other stakeholders on my team's work and the City's progress since my appointment. I will lay out our next steps to put City government on the path to financial stability. And we still start to take a more wholistic view of what fiscal stability means, shifting from the first Plan's focus on not running out of cash to having annual budgets that are responsibly balanced and responsive to Chester's needs.

2020 Cash crises averted for now

The August 2020 Plan identified two cash crises – one in the General Fund that supports basic operations and one in the Police Pension Fund. Both have been averted in the near term but are nowhere near being fully resolved. Furthermore, with respect to the Police Pension Fund and the other two employee pension funds, additional issues have arisen regarding their true financial status and what the City should actually be contributing to them.

General Fund

The City uses the General Fund to fund most of its daily operations. The General Fund collects revenues from sources like the real estate tax, earned income tax, and the local share of gaming revenue, and then makes expenditures on municipal services like police and fire protection.

In April 2020, the Recovery Coordinator projected that the City would need to borrow $4.5 million to avoid running out of cash in the General Fund and provide a "modest cash cushion" entering this year. Running out of cash would shutter the vital and necessary services that residents depend upon every day.

To avoid insolvency, the City furloughed much of its workforce outside of police and fire, and the Commonwealth put expenditure controls in place through an Emergency Action Plan (the "EAP"). My first plan extended and expanded those controls so Chester could make it through 2020 without running out of cash.

More than just getting through 2020, we wanted to avoid issuing another "unfunded debt loan" that spreads the costs of today's deficit over the next 10 years, like the City used in 2017 and is still repaying today. We also prioritized bringing City government current on its obligations to its vendors. We need to avoid carrying millions of dollars in past due bills into the next fiscal year, as happened in 2019 and 2020.

Through a combination of these efforts and the pandemic having less impact on revenues than initially feared, Chester finished 2020 with a modest cash balance ($0.9 million), no additional debt, and a minimal backlog of bills. This must be tempered by the fact that the City did not make its full contributions to its employee pension plans. While the 2020 results were still a significant feat, the City's dire financial position was and is nowhere near the position it needs to be for Chester to thrive financially.

We have worked with City finance on a 2021 cash projection and, for now, it looks like this year will be very tight again. The projected low point for cash this year is $722,000 (or about five days' worth of total expenditures) at the end of October. That margin drops below $400,000 if the City cannot refinance part of its debt later this year. Those projections assume the City makes contributions to all three pension plans in line with the Minimum Municipal Obligations (MMO) calculated by the actuary. The projections also assume that the worst of the pandemic is behind us, and that revenues like those tied to the gaming activity at Harrah's start to rebound.

With margins this small, we cannot take Chester's cash position for granted. The expenditure controls established last year remain in place. We are regularly checking the City's payroll and employee health insurance enrollment to monitor spending, and we will work with City Finance to revisit and refine our projections.

Police Pension Plan

Separate from the General Fund, the City has three Funds that hold assets and pay benefits to retired employees and their surviving dependents. One of them, the Police Pension Plan (PPP), is dangerously close to insolvency.

The PPP spends $500,000 - $550,000 per month, mostly on pension benefit payments to retirees. When we filed our first Recovery Plan last summer, the PPP had $1.75 million in assets remaining, including $0.4 million set aside for potential payouts to officers participating in the Deferred Option Retirement Plan (DROP) program. In other words, the police pension plan had less than three months' worth of cash or assets that could be converted to cash to make decades of benefit payments.

The City put its entire $1.9 million State pension aid allocation in the PPP in September 2020, and it contributed another $750,000 before the year ended. The City's total contribution to the PPP in 2020 was

$4.4 million,[1] which was far short of the $7.8 million required contribution. The PPP finished 2020 with $2.1 million in assets, including $0.6 million for DROP participants.

The 2021 budget applies the 1.0 percent distressed pension tax previously levied on commuters to residents effective January 1, 2021. We are working with City Finance and the City's earned income tax collector to ensure that the distressed pension tax revenue is deposited in the PPP as soon as possible throughout the year.

Our most recent projection shows the PPP's cash or cash equivalent levels dipping to a low point of $1.8 million (or three months' worth of payments) at the end of April 2021, and then finishing 2021 with $3.6 million. That would edge the PPP away from running out of cash and failing to make monthly benefit payments, but its actual funding level will still fall below 5 percent. Even this modest progress also comes at a big cost to Chester residents who have had to shoulder a 1.0 percent income tax increase in the middle of the pandemic.

A key question for the City is whether it can make its true, full annual contributions to the PPP and its other pension funds. In the most recent PPP valuation as of January 1, 2019, the PPP appears to be 33.6 percent funded which is terrible in and of itself. However, the actuary assumes that the fund has approximately $26.9 million in assets that it does not really have.[2] The actuary is assuming that the prior contributions that the City did not make to the PPP plus penalties and interest are assets <u>already in the fund</u> as "receivables." In reality, the PPP's funding level is closer to 3 percent.

As we discuss further in the Legacy Cost chapter, when the actuary calculates the City's MMO payment, it is assuming those "receivables" are in the funds which understates what the City's pension obligation payments really need to be since, absent a significant one-time windfall, the City has no realistic way of making a $26.9 million contribution to the PPP. The same issue appears to exist for the O&E pension fund though to a much lesser degree.

Plan implementation progress

Last year the City furloughed much of its workforce outside of the Police and Fire Departments, effectively leaving the public works, parks maintenance, and code enforcement functions with just a handful of full-time and part-time employees. That level of staffing could not provide the level of services that Chester needs for very basic functions like snow removal and street plowing.

The City restored some of the furloughed positions during 2020 and then brought back a few more in the 2021 budget. The 2021 budget process was difficult, as we expected it would be when the Act 47 Coordinator projected a $3.7 million deficit without corrective action for 2021.

Eventually we reached agreement with the City's elected leaders on a budget that is nine percent smaller than the 2020 budget. The 2021 budget has 236.5 full-time equivalent positions, which is less than budgeted in 2020 (280.5) but more than the City had after the spring 2020 furloughs (202). The 2021 budget was also the first step in a difficult but necessary restructuring process that includes:

- Merging the separate Streets and Parks departments into one Department of Public Works
- Merging the Licenses and Inspections and Health units

[1] This excludes $727,000 in Commonwealth pension aid that the City received in 2019 and deposited in very early 2020.
[2] The actuary explicitly notes this on page 2 of the PPP's financial statements as of December 31, 2019.

- Establishing a Chief Operating Officer (COO) position responsible for coordinating functions across departments

There is still more to do. We have already launched an operational study of the City Fire Department and expect to launch a separate analysis of the City Police Department later this year. That review will identify ways to increase the number of police officers available for patrol on a regular basis, without spending more on overtime.

My team is working with the COO to develop performance metrics to track the efficiency and effectiveness of public works functions, so Chester's leaders and residents have a better sense of what value they get for spending in this area and how a change in staffing levels might translate to changes in service levels. The 2021 budget also creates (mostly from existing positions) a new One-Stop Shop in City Hall that would streamline the license, permitting, and related functions.

In my first Recovery Plan, I described three liabilities that together consume a disproportionate share of the City's annual budget – debt repayment, employee pension contributions and other post-employment benefits (OPEB), which are primarily retired employee health insurance. My team has started to help the City address those legacy costs because financial recovery is impossible without doing so.

Earlier this year we completed a process through which the City moved over 100 retired employees from its expensive self-insured plans to a lower cost Medicare supplemental plan. The estimated savings from that move are $0.9 million in 2021 and over $1 million when annualized. We are now collecting information from employees who retired on a disability pension but also have additional earnings that, by contract, should offset their pension benefits. By executing a process that has been contractually required for years, we can generate savings that can be routed back into the pension plans themselves. The City is also completing a competitive bidding process to select professionals to refinance part of the City's debt.

We are advancing several initiatives from the August 2020 Recovery Plan simultaneously, and this Plan develops those initiatives further and adds new ones. If there are questions about the pace of Recovery Plan implementation, I will highlight the scope of the rebuilding effort necessary to put the City on the path to sustainable financial recovery. Since filing that first Recovery Plan, we have identified several gaps in basic financial and managerial tools:

- Entering the 2021 budget process, the City did not have updated organizational charts for most departments, which meant there was not a clear, concise way to answer basic questions about chain of command. Working with the City, we have created those organizational charts and included them in our 2021 budget narrative. My team is now working with the COO on position descriptions for all non-uniformed employees in City government.

- The City does not have consolidated collective bargaining agreements, nor does it have adequate policies to govern compensation for non-represented employees. Instead it has a collection of arbitration awards, side letters, and other documents that make it difficult to answer basic questions about employee compensation or determine if bargaining agreements are being correctly followed. Working with the City, we are creating those consolidated agreements.

- The City's current financial management software is nearing the end of its useful life. The software provider informed Chester that it will stop providing customer service on this package later this year. In other words, the software that the City uses to manage every financial transaction and support basic functions in code enforcement and human resources will gradually become obsolete. Working with the Finance staff, we are in the process of replacing that software.

- The City's computer hardware in City Hall had already reached the end of its useful life. According to the vendor responsible for information technology support, the hardware was so old that it was incapable of running current versions of basic office software, incapable of receiving security or anti-virus updates, and ill-suited to accommodate the periods when employees need to work from home for safety reasons. The City replaced that hardware late last year.

- In conjunction with the budget process, the City adopts a salary ordinance that lists each position in City government and its base salary. We reviewed the biweekly payroll runs for 2021 and found several errors in the salary ordinance, which then impacts the accuracy of the budget. Some errors carried over to the payroll system so that employees were at risk to receive more or less pay than they should. Working with City Finance staff, we are correcting those errors.

- The City's most recent comprehensive annual financial report (i.e. year-end audit) covers its performance in 2017. City finance staff and the external auditor are working on the 2018 audit, and then they will move on to 2019. The lack of completed audits mean that we are operating without a final, clean set of financial data for the two years before the pandemic hit, which would be a valuable reference point for doing multi-year projections.

The City's Finance and other senior staff have been forthcoming about these gaps and helpful in filling them. But the absence of these tools makes it harder to identify problems and move on to the primary goal of fixing them.

The challenges we encounter every week reinforce a simple truth -- Chester needs to walk before it can run. For the foreseeable future, we will have to split our time between rebuilding or improving basic functions; addressing time-sensitive financial, operational or litigation issues; and advancing the initiatives that are critical to Chester's long-term recovery.

The City has made progress since entering receivership last year, but that progress will not be linear. In many cases, the City will take two steps forward and one step back. In some cases, Chester may take one step forward and two steps back. But we remain committed to Chester's recovery.

The Receiver's Approach

In my first Recovery Plan, I wrote that receivership provides an opportunity to solve long-standing problems, instead of pushing them out for several years for others to address. My responsibility is to provide an unbiased and candid view of the City's finances and operations and to work with elected City officials and other stakeholders to do what is necessary to fix them. I believe in trying in good faith to achieve consensus among stakeholders. If consensus cannot be reached, I am committed to using my powers as necessary to achieve fiscal recovery.

Under Section 706 of Act 47, my powers include preparing this Recovery Plan, issuing orders directing City or authority officials to implement provisions of the Plan, or issuing orders directing them to refrain from taking actions that interfere with the Plan.[3] I may request writs of mandamus from Commonwealth Court to secure compliance with any such orders.

[3] The relevant authorities here are the Chester Economic Development Authority (CEDA), the Redevelopment Authority of the City of Chester (CRA), the Chester Parking Authority, and the Stormwater Authority of the City of Chester.

I am sensitive to the fact that City residents did not elect me, and I am committed to gathering public input on the major options for dealing with the City's many problems, including potential sale or lease of City assets. All options are on the table at this moment, but not all are equally beneficial to Chester's residents.

That will be the guiding question for my team's work: What is in the best interest of Chester's residents?

While the answer to that question will no doubt differ depending on the person answering it, I am committed to asking it in good faith and listening to what Chester's residents say. The COVID-19 pandemic has made it difficult to hold in-person public meetings, but we are working through those obstacles. To date we have held 24 virtual outreach meetings with residents, private sector stakeholders, and other public sector partners. The sole immediate purpose for those meetings has been to identify community pain points, especially during this very difficult period.

A highlight of our engagement was addressing trauma and grief in and around Chester. Over 100 residents, stakeholders and leaders were present for a virtual Trauma and Grief summit led by Chester resident and NBA player, Rondae Hollis-Jefferson, the Office of Advocacy and Reform, Widener University, and the Receivership Team in February.

My team has also instituted Community Office Hours, providing an open-door opportunity for those looking to inform our ongoing work. Increasing the awareness of City government's challenges has been key, so we are using public presentations, quarterly newsletters, and timely website updates to share our work.

Pursuant to Section 703(e) of Act 47, I may submit modifications to this plan to the Court, and the Court would have 30 days to hold a hearing and act on the modification. This is the first of those modifications, and more will follow. Our strategy will evolve to meet new challenges, take advantage of new opportunities, and incorporate new information. Given that collective bargaining will begin with the IAFF and FOP unions later this year, I intend to file another amended plan in July or August of this year.

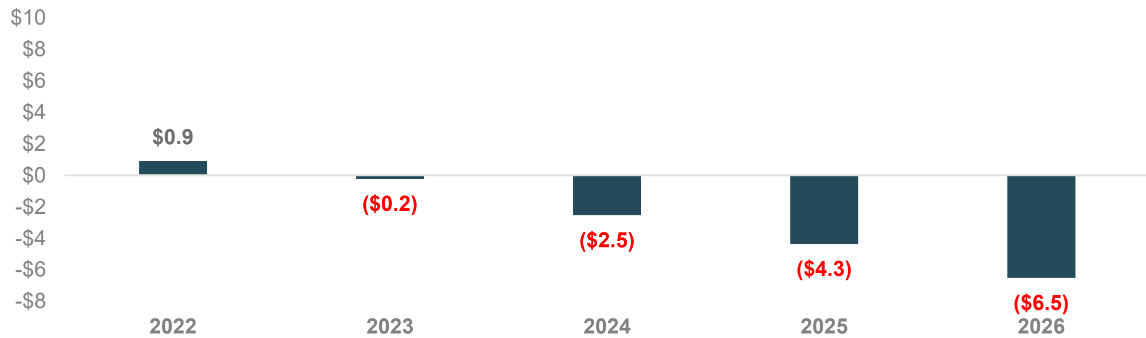
Multi-year projection: Looking beyond 2021

One way in which our approach has already evolved is that we have added a multi-year perspective to this Plan that considers the City's financial performance beyond 2021 absent corrective action. Shoring up the City's cash position and balancing the annual budget remain high priorities, but we now also have a baseline projection of the City's revenues and expenditures through 2026.

The baseline projection is a diagnostic exercise where we assume no changes in taxes, fee levels, head count or other variables that the City could change to improve its financial performance. This carryforward or *status quo* scenario will help us quantify any structural deficit, identify the cause for that deficit, and strategize on an effective gap-closing approach. We will revisit and revise the baseline projection frequently, especially since it has been developed during a pandemic, and there are assumptions about how much and how quickly the local economy will rebound.

The Financial Assessment chapter presents the baseline projection and the key assumptions in detail, and the graph and table below show the high-level results.

Baseline Projection, 2022 – 2026 ($ Millions)



	2022 Projected	2023 Projected	2024 Projected	2025 Projected	2026 Projected
Total Revenues	$54.7	$55.5	$55.5	$56.2	$56.9
Total Expenditures	$53.8	$55.8	$58.1	$60.6	$63.4
Surplus / (Deficit)	**$0.9**	**($0.2)**	**($2.5)**	**($4.3)**	**($6.5)**
% of Expenditures	1.7%	-0.4%	-4.4%	-7.2%	-10.3%

The baseline projection currently shows the City finishing 2022 with a $0.9 million surplus.

A few factors work in the City's favor financially in the short-term. For now, we assume some of the key revenues bounce back to pre-pandemic levels by 2022, though we'll have to monitor that closely. By 2022, the City will have also worked through the initial implementation of the distressed pension tax on residents and start to receive a full year of revenue from that change.

One of the biggest reasons for the projected 2022 surplus is a timing quirk that could reduce the City's contribution to the PPP by $1.5 million next year.

Every two years the City's actuary generates valuation reports that set the City's Minimum Municipal Obligation (MMO) payments to the three employee pension plans. The most recent valuation report covers the PPP's performance through January 1, 2019. The actuary has already begun work on the valuation reports covering pension performance through 2019 and 2020. Traditionally the City would wait to use the updated reports until the 2023 budget process, at which point we would be missing performance for another two years (2021 and 2022). Because of this delay in the process, the City basically gets credit for paying off some of the oldest PPP liabilities, but it would not yet start paying off any newer liabilities incurred in 2019 and 2020.

I hesitate to call this relief because that would suggest that the PPP performance or position had improved in some meaningful way. The PPP has lost ground in terms of "actuarial losses" every year since 2011 and we expect that happened again in 2019 and 2020. In some years, the ground that the PPP lost added more than $1 million in new costs to the police MMO. But, for now, we don't know how much ground the PPP lost and that is not incorporated in the 2022 MMO calculation.

A more accurate description than "relief" is that the City would get an extra year before it had to start repaying any recent losses. As mentioned earlier, the PPP funding level already benefits from another quirk in actuarial practice, where the contributions that the City *should have* made in prior years are treated as assets ("receivables") even though they aren't really in the fund and, at this point, there is no cash to make those payments. This reporting method is prescribed by Act 205; however, the resulting MMO calculation understates the true liability. For that reason, some were surprised to learn the PPP is on the brink of insolvency.

I'm not anxious to take advantage of more short-term "relief" that makes true recovery even more costly, so my team is already exploring if we can accelerate the process and start to pay off any new liabilities in 2022. If that is the case, the 2022 MMO could be higher and the surplus smaller than shown above.

Setting that issue aside, the baseline projection shows the surplus disappearing in 2023 and then growing deficits returning in 2024. The baseline projection is not a "worst case" scenario. It understates the pension costs because it does not include the likely PPP liabilities from recent years. Furthermore, the projection illustrates that we are dealing with more than just a pension issue in Chester.

The Financial Assessment chapter provides more insight into the factors driving these deficits. Some are on the revenue side where current year real estate tax collection rates are low and projected growth in revenue from the Covanta waste-to-energy facility lags behind growth in the City's costs for waste disposal. Some factors are on the expenditure side, where employee health insurance costs grow by 8 percent and other expenditures, like general liability insurance, grow by an even faster rate.

The baseline projection currently does not account for another factor, which should improve the City's financial picture. In March 2021, President Joseph Biden signed into the law the American Recovery Plan (ARP) Act, which includes billions of dollars in aid to state and local governments. Preliminary indications are that the City of Chester will receive $32.8 million, with the first half arriving in 2021 and second at least a year after that.

This is a very new development and Chester, like all other communities, needs more direction from the federal government on how it can legally use the stimulus money before it starts to do so. Early guidelines indicate the City cannot use the stimulus money to improve its pension funding level or to ease funding obligations for other legacy costs such as the City's current and growing post-retirement healthcare (OPEB) liability. But there will hopefully be other options to address the City's structural deficit. The City could use some of the funding for a capital improvement plan and invest in the roads, bridges, and parks that residents use every day and that they desperately need. The City could also use some of the funding to provide direct relief to Chester's residents and businesses that have been hurt financially by the pandemic.

The answer to how the City *should* spend its federal allocation depends on more fully understanding the conditions for how the City *can* spend the allocation. Any material use of these funds is also subject to the cost control provisions in the EAP and August 2020 Plan requiring my approval for discretionary purchases over $5,000.

While we wait for further guidance from the federal government, I will consult with the City's elected officials on how to allocate the money between City government and any external organizations that would administer direct relief programs for residents and businesses. I will then incorporate that internal/external breakdown into the next Amended Recovery Plan so there is transparency regarding how Chester uses its funds.

The Receiver's Plan

According to Act 47, this Plan must do the following:

- Continue the provision of vital and necessary services as defined in the Act
- Provide for the payment of lawful obligations of the City and its authorities
- Provide for timely deposits of required payments to the pension funds

To provide vital and necessary services, the City must have cash on hand to pay its employees, vendors, and other obligations for the rest of 2021. The current cash flow projection shows that to be the case.

While we plan on executing debt refinancing that would reduce the 2021 spending in that area, there is money allocated in the budget and cash flow to cover the higher payments under the current schedule.

The budget also allocates $10.8 million to the three pension plans with the specific contributions for each one tied to the 2021 MMOs. Mechanically, this year's contributions will be applied first to outstanding balances from prior years, including interest penalties. Those penalties are $197,000 per month for the outstanding police MMOs and about $15,000 a month apiece for the other two plans. This will be the first time that the City makes contributions equal to its total annual MMOs since 2013.

In addition to meeting the Act 47 compliance standards, this Plan lays out our next steps in the following areas.

Legacy costs

The 2021 budget shows the City allocating $15.4 million (or almost 30 percent) from its General Fund budget for debt, pension, and OPEB liabilities. The actual spending on these legacy costs this year could be closer to $19 million, or 37 percent of the budget.[4] Put differently, the City budgets almost as much for these legacy costs as it does for the Police Department, the Fire Department, and the newly formed Public Works Department *combined*.[5]

Action must be taken to address the Police Pension Plan's critical funding status. I am not aware of another public sector pension plan in the Commonwealth in a situation this dire. Consequently, I'm considering steps not seen before for Pennsylvania public sector plans, but that are common in ERISA-covered plans.[6]

For example, under the Pension Protection Act of 2006, pension plans that are deemed to be in "critical" status must limit the payments of lump sums such as deferred retirement payments. The City has a DROP program for police officers and firefighters. Every monthly increase in the obligations to the police DROP accounts reduces the scarce amount of money available to make pension benefits to all retired officers and their surviving dependents, including those DROP participants once they fully retire. For that reason, I will implement a graduated payout of DROP monies whereby the recipient would still receive his or her full payments, but not immediately in a way that could effectively cause a "run on the bank."

Additionally, there shall be no enhancements to pensions or OPEB including retiree health insurance, during the term of this Plan. This prohibition on pension and OPEB enhancements extends to all three plans

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[4] Most spending on retiree health insurance is recorded in the same account as spending on active employee health insurance. Using the total premiums as a proxy for actual spending, retirees would account for more than half of the $7.5 million allocated for employee heath insurance in this account

[5] The City budgets an estimated $19.2 million for the three legacy costs and $17.8 million for Police, Fire and Public Works, not including the pension payments. Fringe benefits costs related to those departments are budgeted centrally and, if included in the departmental budgets, would push their allocation higher than the allocation to legacy costs.

[6] ERISA stands for Employment Retirement Security Act.

and all employees. The fire pension plan has started to demonstrate some of the same problematic dynamics as the PPP and the officers and employee (i.e. non-uniformed) pension plan is severely underfunded.

This Recovery Plan eliminates retiree health insurance for all new non-union employees, newly elected officials, and all new Teamsters and IAFF hires. Retiree health care was already eliminated for police officers hired on or after February 1, 2017.

There are other Recovery Plan provisions related to disability pensions and health care; eligibility audits; and limiting the cost of pension and OPEB for current employees through all lawful means. While we are and will continue to explore new funding that will help the City address its financial burdens, to be effective, any such funding must be coupled with the reduction of all costs, including but not limited to labor and personnel costs and fixing the structural issues that caused the City's dire financial situation in the first place. Without doing the latter, any new funding will only push the fiscal problems into the future.

The first forum to make these changes is through collective bargaining, which has already begun with the Teamsters and will start more formally with the FOP and IAFF later this year. The goal of negotiations is to make the changes that were already made for police officers hired after 2017 applicable to all employees; to bring the benefits into compliance with the Third-Class City Code; and to require benefit applicants to comply with all procedures for applications for disability and other benefits. If that is not possible through negotiations, my team also exploring the possibility of pursuing a debt adjustment proceeding, i.e. federal bankruptcy, to solve the City's dire financial issues.

Asset management

The City of Chester has two significant business-type assets: its water system and its parking system. When I filed the initial Recovery Plan last August, both assets were subjects of litigation, and that is still the case.

For the water system, I continue to support the City's litigation currently in Commonwealth Court seeking to clarify its ability to repossess the assets of the Chester Water Authority ("CWA"). We are keeping all options open on that issue and we will work with the City to pursue those options when appropriate.

For the parking system, I am seeking to terminate the City's contract with its parking manager through intervention in litigation before the Delaware County Court of Common Pleas. Aside from the litigation, my team will also work with City to transition parking enforcement from the current manager. I provide my reasoning and objectives for intervening in this matter in the Asset Management chapter.

Workforce management

The services that City government provides to its residents, property owners, and visitors are labor intensive, so personnel costs account for most of the City's expenditures. We cannot bring the City's budget into structural balance without controlling the growth in these expenditures, and we cannot do that without changing the collective bargaining agreements that help drive those costs.

The City's collective bargaining agreement with the Teamsters expired at the end of 2020, and the agreements with the Fraternal Order of Police and International Association of Firefighters will expire at the end of this year.

This Amended Recovery Plan sets the maximum annual allocations for all forms of cash compensation that may be paid to employees represented by the Teamsters in 2021. While I reserve the more extensive set of powers that Act 47 grants, I've decided to use this approach from the Coordinator-led form of oversight, to provide the City and union with flexibility to negotiate within the parameters of what Chester can afford.

While this Plan provides the maximum annual allocation for Teamsters this year, I intend to use this structure for all three unions going forward.

The Amended Recovery Plan also changes the cost sharing arrangement for employee health insurance. For most active union employees, the City covers 95 percent of the premium costs for medical and prescription drug coverage and 100 percent of the premium costs for dental and vision coverage. This Plan instead sets maximum monthly contributions that the City shall make toward all forms of health insurance. Employees are responsible for any difference between the total premium costs as estimated by the City's healthcare consultant and City's maximum contributions. The City's contributions grow each year, so the City absorbs some of any cost growth in this area. This will help moderate the growth in employee health insurance costs, so the City can allocate its limited resources to other priorities.

Workforce management extends beyond cash compensation and fringe benefits. There is also an operational component. These Amended Recovery Plan initiatives address work rules and other areas that impact operations. Since the City is currently engaged in negotiations with the Teamsters, the Amended Recovery Plan includes operational initiatives relevant to the services those employees provide.

Conclusion

My initial Recovery Plan was focused on preventing the direst consequences associated with potentially running out of cash in the General Fund or the Police Pension Plan. Avoiding that frightening scenario was not a given when we began our work but, to this point, we have been able to do so.

That said, avoiding failure is not the same thing as achieving success.

The 2021 budget and cash flow projection show the City maintaining vital and necessary services; paying its lawful obligations for debt; and making contributions to the three employee pension plans in line with the amounts calculated by the actuary. However, as we note, my team is analyzing the "receivables" issue to determine the City's true pension obligations.

This Plan is the next step in bringing the City's finances back into balance on a structural basis. I intend to file additional amendments to this Amended Recovery Plan because our strategy will evolve to meet new challenges, take advantage of new opportunities, and incorporate new information.

I respectfully request that the Court approve this Amended Plan and thank the Court for its support to date.

Respectfully submitted,

Michael Doweary
Receiver for the City of Chester
April 7, 2021

History in Oversight

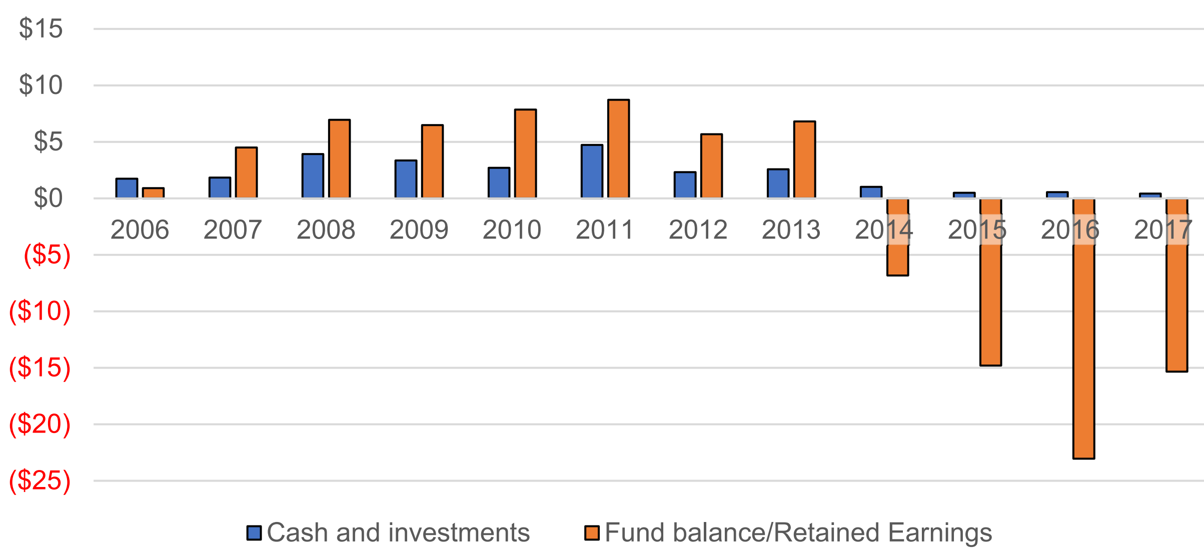
After decades of economic decline, the City of Chester entered Commonwealth financial oversight under Pennsylvania's Municipalities Financial Recovery Act (Act 47 of 1987) in 1995. The Pennsylvania Department of Community and Economic Development (DCED) appointed Recovery Coordinators who authored the first Recovery Plan in 1996 and then wrote Amended Plans in 2006, 2013 and 2016.[7]

During the first decade of oversight, the City's fiscal condition continued to deteriorate. In 2006, the City needed to borrow money to meet payroll and deliver basic services. The City's fiscal situation temporarily improved as several economic development initiatives came online, most notably the opening of Harrah's Philadelphia Casino and Racetrack in 2008 after which the City began receiving annual host fees. The City established a Reserve Fund, increased its investment in capital improvements, and reduced the earned income tax rates that were the highest in Delaware County.

However, the large infusion of new revenues provided only temporary respite. Gaming host community revenues, which at one time generated approximately one-third of the General Fund revenues, declined while other major revenue sources showed little or no growth without tax rate increases. Meanwhile, City expenditures continued to grow. Personnel costs for police and fire services rose from 2013 through 2016 due to catastrophic fire and police interest arbitration awards in 2011 and 2012 that disregarded the City's poor financial position and instead made it much worse.

The City's initial progress and then regression back into deficits is visible in the reported levels of year-end cash and fund balance in the General Fund.

Cash and Fund Balance in General Fund ($ Millions)[8]



These "bottom line" results demonstrate the City's deteriorating financial condition, but they do not show the full picture. A government can temporarily bolster its cash balance by not paying its bills, and this has been the case in Chester. The City has not made its full Minimum Municipal Obligation (MMO) payments

[7] The City has had multiple Act 47 Recovery Coordinators since entering oversight..
[8] Information as reported by the City in the Municipal Annual Audit and Financial Reports filed with DCED. Reports are not available online for years after 2017.

to the three employee pension plans since 2013, and now the plans for police officers and non-uniformed employees are severely underfunded.[9]

The City also fell behind on its payments for employee health insurance, accumulating an outstanding balance of almost $8 million by the end of 2016. By the beginning of 2017, the City had approximately $28 million of unpaid obligations and it defaulted on repaying its 2016 Tax Revenue Anticipation Note (TRAN), which is a cash flow borrowing that governments repay in full at the end of each year. The 2016 year-end audit showed Chester finishing that year with $546,000 in cash versus $14.1 million in accounts payable and accrued expenditures.[10] The City's primary operating fund balance (a common expression of a government's reserves) was -$23.0 million.

In January 2017, DCED issued an emergency $2 million loan and arranged an advance on gaming host revenues to the City to help meet 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 $19.2 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. The City finished 2017 with a General Fund balance of -$15.3 million and even less cash than it had at the end of 2016.[11]

Meanwhile, the Commonwealth amended Act 47 to set a timetable for all municipalities, including Chester, to exit the Coordinator-led form of oversight. Act 199 of 2014 set that deadline at five years from the effective date of the most recent recovery plan. At that point, Chester's most recent plan was the 2013 Amended Recovery Plan, establishing a potential oversight termination date of 2018.

2016 Amended Recovery Plan and 2018 Exit Plan

In 2016, the City's Recovery Coordinators[12] wrote a new Amended Recovery Plan with over 100 adjustments to revenues and operating activities to reduce the City's structural deficit and address large outstanding payables. That was also the first year for Mayor Thaddeus Kirkland's Administration who took office in January 2016.

As required in the 2016 Amended Recovery Plan, the City hired a full-time Chief Financial Officer (CFO) and a Deputy CFO whose salaries were funded from a DCED grant. This strengthened the City's financial management functions and improved the City's ability to understand and address its fiscal problems. In addition, with the Recovery Coordinator's assistance, the City made further progress toward financial stability by negotiating three labor agreements in compliance with the Amended Recovery Plan[13]. Other initiatives in the 2016 Plan included:

- Increasing the resident EIT rate from 2.1 percent in 2016 to 2.75 percent in 2017, followed by planned reductions in 2018, 2019 and 2020
- Eliminating the Act 47-authorized portion of the non-resident EIT by 2018 to facilitate exit from oversight[14]

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[9] Please see the Legacy Cost chapter for more information.
[10] Financial statements and Independent auditor's report for the year ended December 2016, page 13
[11] Financial statements and Independent auditor's report for the year ended December 2017, page 13
[12] The Act 47 Coordinator team in 2016 was Econsult Solutions, Incorporated; Fairmount Capital Advisors, Incorporated; and McNees Wallace & Nurick LLC.
[13] Please see the Workforce Chapter for more discussion of these labor agreements.
[14] The City used the extraordinary taxing powers in Act 47 to levy an additional earned income tax on commuters. Because this taxing power is tied to Act 47 status, the City had to eliminate that tax to leave oversight.

- Transitioning to a self-insured health benefits structure for its employees, with estimated savings of $2 to $3 million annually

- Making a portion of the City's required contributions to the pension plans, beyond the state pension aid, which had not happened in recent years

- Implementing a new anti-blight program with third-party and state grant support

While the City implemented the 2016 Amended Recovery Plan and made progress toward financial stability, it continued to have a significant (though smaller) structural deficit. The City also did not make its full MMO payments to the employee pension plans and fell further behind on those obligations.

With the City approaching the initial 2018 deadline for exiting oversight, the Recovery Coordinator wrote a report as required in Act 199 of 2014 that evaluated Chester's fiscal condition and recommended that Chester take advantage of the one-time opportunity to write a three-year Exit Plan and extend its time in oversight until 2021. The Coordinator wrote that Exit Plan in 2018 with a series of recommendations to address past obligations and the City's fiscal imbalance. Some of those initiatives have been carried over in the Receiver's Recovery Plan.

According to the Recovery Coordinator, the City finished 2018 with a $3.4 million deficit in its General Fund, despite also contributing $2.6 million less to the employee pension plans than required in the MMO calculations. According to the Recovery Coordinator, the City carried $3.4 million in past due 2018 obligations into 2019. The Coordinator reported that the City paid its past due obligations to vendors from 2018 in 2019, but then carried $4.1 million in obligations from 2019 into 2020. The Coordinator cited an operating deficit of $4.8 million in 2019, despite the City also contributing $4.9 million less to the employee pension plans than required under Pennsylvania law. On top of those shortfalls in the primary operating fund, the City also entered 2020 without enough money in the Police Pension Plan to cover the cost of monthly pension benefits for the rest of that year.

The Coordinator provided this analysis to the Receiver in summer of 2020 based on the best information available at that point, but it is difficult to verify that these figures, as grim as they are, provide a complete description of Chester's poor performance in 2018 and 2019. The pattern of pushing some of each fiscal year's obligations into the next one has made it difficult to accurately analyze the financial performance in a particular year. Furthermore, the City has fallen behind on issuing year-end audits, so the most recent set of audited financial figures only cover performance through the end of 2017.[15]

It is important to pause here to note the severely weakened fiscal condition of the City of Chester entering 2020. Even before the coronavirus pandemic began, the City's condition was so weak that:

- It needed an emergency loan, an advance on gaming revenue *and* an unfunded debt loan in 2017 to sustain operations for that year and retire some of the past due obligations. Even with that support, Chester finished the year with less than $500,000 in cash in its General Fund.

- The City had run multimillion-dollar deficits in 2018 and 2019 based on preliminary unaudited numbers.

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[15] Please see the initiative section of the Financial Condition Assessment chapter for more information.

- The City fell short on its annual required contribution to the three pension plans each year since 2013.
- The City carried millions in past due obligations to vendors from 2018 into 2019 and then from 2019 into 2020.
- The Police Pension Plan was depleted to point that it was approaching insolvency.

While the pandemic made the City's financial performance worse, it alone did not cause the wide-ranging problems that have to be fixed to put Chester back on the path toward fiscal recovery.

2020: Fiscal emergency declared amid the pandemic

On March 6, 2020, Governor Tom Wolf declared a disaster emergency throughout Pennsylvania because of the novel coronavirus COVID-19. Later that month, Governor Wolf issued a stay-at-home order and closed non-life sustaining businesses in Delaware County to mitigate COVID-19 spread. While the order was necessary for public health and safety, the loss of business activity resulted in lower revenues for local governments, including Chester.[16]

On April 13, 2020, Governor Wolf issued an order declaring a fiscal emergency in the City of Chester according to Act 47, citing the coronavirus' impact, "various pending legal actions involving significant municipal assets," and the projection that the City would be insolvent within 180 days without urgent action. Under that order, Governor Wolf directed DCED Secretary Dennis Davin to develop an Emergency Action Plan (EAP) to ensure the continuation of vital and necessary services.

The EAP completed on April 23, 2020 had several alarming findings including:

- The City had approximately $1 million in unrestricted cash on hand. Meanwhile, it had $1.5 million in "standard operational past due receivables," not including outstanding contributions to the pension plans.
- The Recovery team projected that Chester would have a General Fund deficit of $10.6 million in 2020 without taking corrective action. Beyond that, the General Fund was at risk to run out of cash in summer 2020 without taking corrective action.
- The Police Pension Plan only had $2.9 million on hand to make monthly benefit payments to retired police officers and their surviving family members. If the City could contribute another $2.0 million in the final nine months of the year, the pension fund would make it through 2020 but would then be "empty" on January 1, 2021.

The City furloughed much of its non-public safety workforce, effectively turning key functions such as public works, public property maintenance, and code enforcement into part-time operations.

The EAP mandated that the City implement the following provisions[17] to ensure that vital and necessary services as defined in Act 47 would be maintained during the state of fiscal emergency:

1. Freeze hiring and prohibit rehiring any furloughed personnel without DCED approval
2. Restrict overtime usage for non-public safety purposes
3. Eliminate benefits for employees who have been terminated or temporarily laid off

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[16] This is discussed in more detail below.
[17] Most of these provisions are carried over in this Recovery Plan, with the authority to provide any approval transferred from DCED to the Receiver.

4. Freeze discretionary spending
5. Freeze application for grants and third-party funds requiring General Fund match or in-kind match without DCED approval
6. Freeze debt issuance without DCED approval
7. Continue working with professionals to formulate positions related to asset monetization, but prohibit monetization without DCED approval
8. Provide DCED weekly financial reporting updates

In the summer 2020, Secretary Davin filed a petition with Commonwealth Court to appoint Michael Doweary as the Receiver for the City of Chester. On June 22, 2020, Judge J. Andrew Crompton of the Commonwealth Court approved Mr. Doweary's appointment and directed him to prepare a Receiver's Recovery Plan in compliance with Act 47 that begins to address the City's financial distress.

Through a competitive bidding process, the Receiver assembled a team to assist him in the development and implementation of the Recovery Plan and during receivership. That team worked with the Recovery Coordinator to draft the Recovery Plan submitted to Commonwealth Court on August 20, 2020. The Court held a hearing to receive testimony on that Plan from the Receiver and his team in September 2020 and then approved the Plan on October 19, 2020.

Given the very short timeline in Act 47 to develop a Recovery Plan that addresses decades of problems, the Receiver crafted the August 2020 Plan as a first step on the path to fiscal stability, with the focus primarily on addressing the risk of insolvency in the General Fund and Police Pension Plan for the rest of 2020 and 2021. The Receiver emphasized his intention to file an Amended Plan based on further investigation and more current financial information. In approving the August 2020 Plan, the Court directed the Receiver to file an Amended Plan on February 28, 2021 and then provided an extension to April 7, 2021 based on the Receiver's request.

This Amended Plan takes a more expansive view of the City's financial situation than the first one filed in August 2020. Like the previous plans authored by the Recovery Coordinator, this Plan has a multi-year projection of the City of Chester's revenues and expenditures in a baseline carryforward situation, which serves as a critical diagnostic tool for developing an effective strategy. The following section briefly describes the City's financial performance in 2020.

2020 performance: An early review

Although the City will not have audited figures for its 2020 performance until mid-2022 at the earliest,[18] City Finance produces cash flow reports that provide insight on the City's financial performance. While this is not a perfect comparison, and the year-end audit process will undoubtedly result in adjustments to the figures presented, the table below shows some of the major revenue variances relative to the budget adopted before the pandemic.

[18] The City is working with its independent auditor to complete the 2018 audit now and then will move immediately into the 2019 audit. On this timeline, we do not expect the City to have a 2020 audit until very late 2021 or early 2022.

2020 Revenues: Major Variances

	2020 Budget	2020 Preliminary	Variance
Business Privilege Tax (all years)	$1,826,016	$2,117,980	$291,964
Real estate taxes (delinquent)	$1,499,863	$1,786,085	$286,222
Fines and violations	$200,000	$99,630	($100,370)
Rubbish Fees (Current year)	$1,398,552	$1,281,675	($116,877)
Act 101 Host Fee	$5,048,745	$4,610,408	($438,337)
Parking tax/fee	$775,000	$119,341	($655,659)
Real estate taxes (current year)	$8,625,133	$7,711,926	($913,207)
Land lease - table revenues	$1,840,000	$892,470	($947,530)
Land lease - slot revenues	$4,000,000	$2,564,586	($1,435,414)
Subtotal	**$25,213,309**	**$21,184,101**	**($4,029,208)**

The coronavirus fiscal impact is most clearly seen in the casino revenue shortfall. Land lease revenues from table games and slots are directly tied to activity at the casino, which was closed for part of the year. During the shutdown, monthly revenues fell to a fraction of their normal levels in March, June, and December and zeroed out completely in April and May. While the City recovered some of the lost slot revenues in Q1 2021[19], this did not improve the City's cash flow position and does not impact the lost table revenues. The coronavirus reduced the City's enforcement staff and activities that generate fine and violation revenues.

The pandemic's impact on individual households and property owners may account for the drop in collections from rubbish fees and real estate taxes. The City should recover some of that lost revenue through the tax claim and delinquent account pursuit processes, but the timing and amount of revenue that will be recovered is uncertain.

The coronavirus was not the only contributor to the revenue shortfall. Revenues from parking taxes and fees fell far short of the budget because of litigation issues[20] The budget anticipated a $500,000 reimbursement from the Chester Storm Water Authority that did not occur. Both figures have been removed from the 2021 budget. Even with the positive variances in delinquent real estate and business privilege tax revenues (both of which were bolstered by one-time payments), Chester's revenues took a big hit in 2020.

The City identified this potential revenue shortfall early in the pandemic and furloughed a large part of its non-public safety workforce. As DCED stated in the EAP, and the Receiver later confirmed, the City was only able to make a portion of its pension contribution last year. To the credit of City managers and public

[19] Please see the next chapter for more discussion.
[20] Please see the Asset Monetization chapter for more information.

safety unions, overtime expenditures were lower than budgeted despite the pandemic. Worker's compensation spending was also lower than budgeted, as shown in the table below.

2020 Expenditures: Major Variances

	2020 Budget	2021 Preliminary	Variance
Pension contribution (all plans)	$10,215,141	$4,390,752	$5,824,389
Salaries	$17,348,568	$14,630,031	$2,718,537
Overtime	$1,886,200	$1,297,143	$589,057
Workers' Compensation	$1,900,000	$1,443,674	$456,326
Capital Improvements	$500,000	$219,513	$280,487
Salaries - FICA	$901,223	$746,829	$154,394
Vehicle repairs	$222,500	$441,772	($219,272)
Insurance claims	$135,000	$361,997	($226,997)
Benefits - Medical insurance	$9,492,453	$9,801,782	($309,329)
Unemployment	$78,412	$489,993	($411,581)
Legal services	$250,000	$774,364	($524,364)
2019 Unpaid Expenses/Deductions	$1,000,000	$2,239,135	($1,239,135)
Subtotal	**$43,929,497**	**$36,836,985**	**$7,092,512**

These measures were necessary to prevent insolvency in the General Fund, and they worked. City government finished 2020 with $0.9 million in cash left in its General Fund, plus it was able to pay most bills due to vendors before the year closed. Despite the pandemic, the City finished 2020 in a better situation from a cash flow perspective than it finished 2019.

While the City was able to avoid insolvency, the 2020 spending cuts also had costs. There was a cost to City residents who saw public works and code enforcement functions cut down to part-time operations. There was a cost to City employees who lost wages and health insurance during the pandemic. Enhanced unemployment benefits provided by the the federal and Commonwealth governments helped those employees for a time, but those benefits do not last indefinitely. The City was able to bring some, but not all, of the furloughed employees back to work in the 2021 budget.

Even when viewed from a strictly financial perspective, there is a limit to the effectiveness of these measures. While furloughs cut salary spending, they did not have the same impact on health insurance costs which finished $309,000 *over* budget, even with a smaller workforce for much of the year.

Insufficient spending on capital projects will eventually manifest itself in higher spending on repairs when preventative work on vehicles and facilities is neglected. The City spent almost twice as much as budgeted on vehicle repairs across all departments. Similarly, neglecting to make full MMO payments for years has weakened Chester's pension plans further.

As was the case on the revenue side, not all problematic expenditure results can be traced back to the pandemic. The City spent $227,000 more on general liability insurance claims than budgeted and $524,000 more on legal services. Litigation related to the water system contributed to the additional spending on legal services, but the matter was only part of the City's total spending in this area. The 2021 budget does not anticipate as much spending on litigation related to the water system, and the allocation for legal services is still $600,000 this year.

Overall, the City's furloughs and expenditure cuts, coupled with the cash-control measures in the EAP and first Recovery Plan helped Chester avoid insolvency. Measures taken under the Receiver's first Recovery Plan should also help the Police Pension Plan avoid insolvency in 2021, though the Plan essentially remains on a "pay-as-you-go" basis.

Avoiding insolvency was not guaranteed when the Governor declared a fiscal emergency in April 2020, and the margin by which the City succeeded was very thin at times. The City had less than a week's worth of cash left in the General Fund at the end of October 2020. The current cash flow projection shows cash levels dropping to a similar level in October 2021, albeit this time with larger contributions to the employee pension plans occurring along the way.

The scariest projections made early in the pandemic have been avoided, at least for now. The City's situation remains very tenuous and preserving the hard-fought progress made last year will not be enough. This year the City must at least sustain its very modest cash reserve, keep spending within budget, collect the revenue it is owed, *and also* make its full contribution to the three employee plans.[21]

If the City can do that in 2021, it will be the first time it does so since 2013. And then it will have to do it again in 2022, 2023, and into the future. Those are the next steps toward fiscal stability.

[21] Please see the Legacy Cost chapter for the Receiver's concerns about determining the "full contribution" to the pension funds.

Legacy Costs

The City of Chester allocates almost 30 percent of its 2021 General Fund budget to three legacy costs:

- The City allocates $10.8 million for its Minimum Municipal Obligations to the three **employee pension plans.**

- The City allocates $3.9 million for principal and interest payments on its **debt.**

- The City specifically allocates $738,000 to pay for the cost of **retired employee health insurance**, but total expenditures on this legacy cost are several times larger than that. If retirees account for half of the $7.5 million that the City budgets for insurance claims, then retiree health insurance costs another $3.8 million, even without the cost of administering this coverage.[22]

Using this $3.8 million estimate for retiree medical claims, a little under 37 percent (or $19.2 million) of the General Fund budget goes to these three legacy costs. **Put differently, the City budgets almost as much for these legacy costs as it does for the Police Department, the Fire Department, and the newly formed Public Works Department combined.**[23] That leaves very little money to invest in capital or economic and community development initiatives. The 2021 budget allocates only $500,000 for those purposes despite the City's significant needs in these areas.

When allocating limited resources, there is usually a tension between paying short-term costs (e.g. salaries and fringe benefits for active employees, utilities, supplies) and paying long-term costs. In recent years, the City has relieved that tension by simply not making the annual required pension contributions. This approach is costly in the short term as penalties and interest costs accumulate and is unsustainable in the long term as pension plans are depleted to the level that they cannot provide monthly benefit payments. The Police Pension Plan is dangerously close to that level of depletion and the Officers and Employees (i.e. civilian) pension plan is trending in that direction.

Chester, as a City government and a community, cannot have true meaningful recovery so long as this continues. Furthermore, Chester must have a clear understanding of the amounts that it needs to put into its pension funds.

The rest of this chapter describes each of the legacy costs in more detail and then lays out the initiatives to address them, many of which were presented in the Receiver's first Recovery Plan and are in progress.

Debt Service

Debt service costs include principal and interest payments due on all outstanding long-term debt, such as revenue bonds, long-term lease obligations, and Commonwealth loans. The table below shows the items listed in the 2021 Debt Service Fund budget, which is what the City uses to cover most of these expenditures. Please note these costs include principal and interest.

[22] Please see the OPEB section of this chapter for an explanation of this estimate.
[23] The City budgets an estimated $19.2 million for the three legacy costs and $17.8 million for Police, Fire and Public Works, not including the pension payments. Fringe benefits costs related to those departments are budgeted centrally and, if included in the departmental budgets, would push them over the legacy costs.

	Purpose	2021 Budget	Outstanding After 2021	Maturity
Series 2017 A Guaranteed Revenue Bonds	Unfunded debt	$ 1,775,125	$ 10,244,656	2027
Series 2017 B Guaranteed Revenue Bonds	Refunding	$ 1,184,375	$ 7,409,500	2027
Series 2010 B Guaranteed Revenue Note	Education	$ 322,702	$ 1,291,930	2025
Truck Leasing	Vehicle	$ 275,278	N/A	2021
DCED Act 47 Emergency Loan	Deficit funding	$ 200,000	$ 1,050,000	2027
2021 TRAN Interest Payment	Cash flow	$ 100,000	N/A	N/A
Lease Rental 2009	See below	$ 50,000	See below	See below
Total		$ 3,907,480	$ 19,996,086	

The existing debt burden is not unusually large and most of it will be repaid during this decade, so this is the least problematic of the three legacy costs. But the debt payments are also largely unrelated to the purposes for which municipalities should issue debt – to fund cost of capital projects. Instead, the City is repaying debt that it needed to cover operating deficits or cover specific projects unrelated to City-owned infrastructure.

- In 2017, the City faced a severely low cash flow situation with $28 million in unpaid obligations, including past due pension minimum municipal obligations (MMOs), health insurance premium payments, vendor payments, and workers' compensation premiums. In January 2017, DCED issued an emergency $2 million loan to the City to help with its immediate cash flow needs. The City is repaying **that no interest emergency loan** through 2027, including the $200,000 payment in this year's budget.

- Then, in August 2017, the City issued its **Series 2017A Bonds** in the amount of $12,000,000 for the purposes of paying certain unfunded General Fund liabilities and creating required reserve funds. The City is currently scheduled to make a $1.8 million payment on this debt in 2021, which essentially takes the City's deficit and unpaid liabilities from 2017 and spreads the cost of partially repaying them over 10 years.

- When the City did this large unfunded debt borrowing in 2017, it also issued **the Series 2017 B Bonds** to finance the acquisition of certain property leased by the City and to fund required reserves. The Series 2017B issue was, in effect, refinancing debt originally issued by the Chester Economic Development Authority (CEDA).

  The Series 2017 Bonds are limited obligations of the City, payable from pledged revenues, which consist of Covanta host fees, gaming-related revenues and additional city considerations between the City and Harrah's that are directly deposited with the trustee as pledged revenues under the indenture. In addition, the timely payment of principal and interest is guaranteed by the City for which the City pledges its full faith, credit, and taxing power.

- In 2010, the City issued its **Series 2010B Bonds** in the principal amount of $3,985,000 to meet the obligations associated with allowing the Chester Upland School District to become a sponsoring district for Delaware County Community College. The sponsorship required an upfront $4.0 million payment in addition to annual membership payments. The debt service on the nearly $4.0 million borrowing is secured by the 1 percent of table gaming revenue guaranteed to Chester as a casino host community as well as a general obligation pledge from the City. If the debt service and annual membership costs of being a sponsoring district exceed the funds generated by 1 percent of table gaming revenue, then the school district will make up the difference. Annual debt service is approximately $320,000 and the borrowing matures in 2025.

- In 2009, Delaware County issued its General Obligation Bonds, Series 2009 in the principal amount of $28,950,000 as part of the overall financing to build what is now called Subaru Park in Chester. The County refinanced the Series 2009 issue in 2019 resulting in reduced annual debt service. Pursuant to a contribution agreement between the City and Delaware County, Chester has agreed to an annual payment to the County representing 25 percent of the annual debt service incurred by the County. This Series 2009 debt is not consistently listed as a City debt obligation because the County makes the actual debt payments. City Finance officials believe that this payment was mislabeled in the 2021 Debt Service budget as "**2009 Lease Rental**" debt. They note that the City's obligation is also closer to $300,000, not the $50,000 in the budget.[24]

- In addition to these obligations, the City issues Tax Revenue Anticipation Notes (TRANs) each year to meet its cash flow needs early in the fiscal year before the City begins to receive money from its major tax sources. The City estimated about $100,000 for interest costs related to the TRAN which are included in the debt service budget.

Very little, if any, of the outstanding debt is related to replacing or rehabilitating the roads, bridges, parks, buildings, large vehicles or other public infrastructure owned by City government.[25] Insufficient proactive spending on capital projects eventually results in higher spending on reactive emergency repairs. For example, the City spent almost twice as much as budgeted in 2020 on vehicle repairs across all departments. A hole in the roof of City Hall that was exacerbated by heavy snowstorms in early 2021 could require repairs that could consume much of the City's very modest $500,000 capital budget.[26]

[24] The scheduled City contribution for 2021 is $439,000 but Delaware County is completing a debt refinancing that would lower the City's amount due.
[25] The Financial Assessment chapter discusses the City's capital needs in more detail.
[26] The City is reviewing whether the roof work can be covered under a warranty.

Employee pension obligations

Of all the financial challenges City government faces, the largest and most urgent problem in this Recovery Plan may be this:

How will the City of Chester contribute enough to the three employee plans – especially the police pension plan that is almost entirely depleted – to meet practical, statutory and actuarial funding requirements without drawing so much money from the City's limited resources that it cripples City operations or pushes taxes to a level residents can't afford?

This analysis does not describe the intricacies of actuarial calculations, layout the statutory requirements in Pennsylvania law, or give a detailed history of how Chester reached the point of having the single worst funding level of any Pennsylvania City (see table to right). Instead this section will describe the basics of Chester's municipal pension plans so community leaders, employees and taxpayers will understand why this issue is so critical to every other issue in this Plan.

Lowest Funding Levels for City Plans ($ Millions)[27]

Plan	Assets	Liabilities	Funded Ratio
Chester	$64	$131	48.8%
Philadelphia	$5,852	$11,783	49.7%
Shamokin	$5	$10	50.1%
Wilkes Barre	$78	$146	53.5%
Johnstown	$29	$53	54.5%

Pension basics: Minimum Municipal Obligations (MMOs)

Like other Pennsylvania municipalities, the City of Chester provides "defined benefit pension plans" to its employees, meaning the monthly benefit payments that employees receive during retirement are set at a specific level, regardless of the pension plan's funding status. While the employer and employees both contribute to the pension plan during the employee's career, the employer (City government) shoulders most of the financial burden and all of the risk that the pension plan will have enough money to make monthly benefit payments at the "defined" level. If pension benefits cost more than projected or plan investments lose their value, City government, and by extension Chester's taxpayers, covers the shortfall.

This differs from the "defined contribution" plan common in the private sector where the monthly benefit payments that an employee receives in retirement are determined by the amount available to fund those benefits. In that structure, the employee shoulders the risk that the amount of money set aside for retirement will be sufficient to cover the cost of benefits. If the investments lose their value, the employee covers the shortfall or receives a reduced benefit.

The City of Chester has three defined benefit plans – the Police Pension Plan (PPP), the Paid Firemen's Pension Plan (FPP), and the Officers and Employees (O&E) Pension Plan that cover eligible employees who are not in the first two plans. Each year, an independent actuary calculates the minimum amount that the City should contribute to each plan so that the plans have enough assets (including investment earnings) to cover the cost of benefits for current and future retirees.

The actuary's calculation has four components:

1) The **normal cost** is the amount contributed to cover the value of benefits earned by employees in the current year. It is based in part on the size of the City's pensionable payroll.

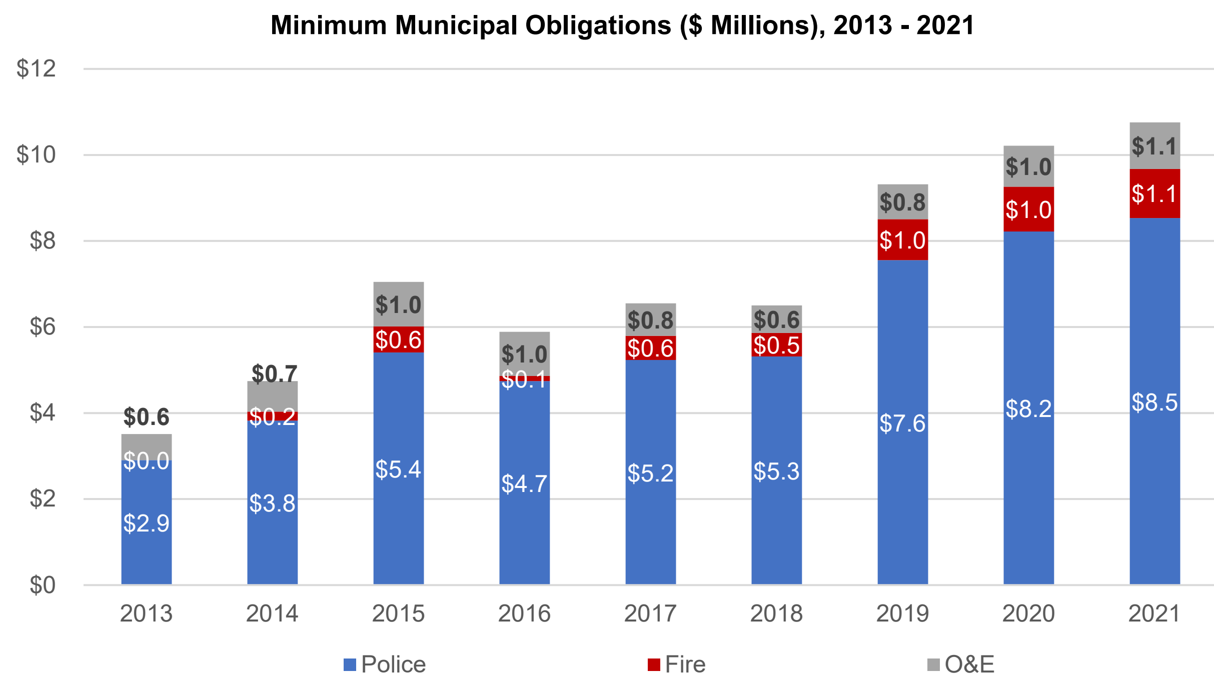
[27] The funding levels were compiled by the Pennsylvania Auditor General's Office using valuations as of 1/1/2019. Expanding the review to all municipal pension plans, including those provided by Townships and Boroughs, Chester had the fourth worst funding level in Pennsylvania as of this date. As described later in the chapter, the $64 million in assets shown here include contributions that the City should have made to the pension plan but had not actually done so (i.e. money that is not actually in the plans).

2) The **amortization cost** is the amount contributed to cover the unfunded liability from prior years. This is the largest component of Chester's MMO.

3) The **administrative cost** is the anticipated expenditure to run the pension plans, including any payments to the actuary, investment advisor, and other related experts. These costs are a small fraction of the other two.

4) **Employees contribute** by making biweekly contributions to their pensions according to the terms in their collective bargaining agreements. Police plan members contribute 8 percent of salary; fire pension plan members contribute 5 percent of salary plus $1 per month; and O&E plan members contribute 1 percent of salary.[28]

The sum of the normal cost, amortization cost and administrative cost, minus the employee contributions, is the City's Minimum Municipal Obligation (MMO). The graph below shows how the MMOs for the three pension plans have grown since 2013. While the MMOs have grown for all three plans, the police MMO for 2021 is $5.6 million higher than it was in 2013, equal to a compound annual growth rate of 14.4 percent.



Under Pennsylvania law, the City is required to make the full MMO payment for each plan by December 31 of each year. The Commonwealth provides the City with pension aid that funds a portion of the MMO. The City must then make the rest of the MMO payment from the same revenues that fund daily operations, debt payments and other needs. Failure to do so results in interest penalties calculated using the same interest rate that the City assumes pension investments will earn. For example, the Police Pension Plan uses a 7.5 percent earnings assumption for investments, so the City pays 7.5 percent interest on any past due pension contributions to that pension.

The City has not made its full MMO contribution to all three pension plans since 2013. From 2014 through 2016, the City only transferred the Commonwealth pension aid into the pensions, and that aid covered a

[28] Employees hired before January 1, 1988 contributed 6 percent per month. The O&E plan generally provides lower monthly benefit payment amounts.

third or less of the total due. The City has made additional contributions each year since 2017, but the total City contributions have not met the actuary's annual MMO calculation since 2013.

City Contributions relative to MMOs, 2013 - 2020[29]

	2013	2014	2015	2016	2017	2018	2019	2020
State aid	$1.5	$1.6	$1.5	$1.6	$1.8	$1.8	$2.0	$1.9
Other	$2.0	$0.0	$0.0	$0.0	$2.4	$2.8	$2.5	$2.5
Total contribution	**$3.5**	**$1.6**	**$1.5**	**$1.6**	**$4.2**	**$4.6**	**$4.5**	**$4.4**
MMO	$3.5	$4.7	$7.0	$5.9	$6.6	$6.5	$9.3	$10.2
% contributed	**100%**	**33%**	**21%**	**28%**	**64%**	**70%**	**48%**	**43%**

Contribution problem: Cash crisis in the police pension plan

Repeatedly contributing less than the MMO has a short-term consequence in terms of interest penalties. It eventually has a more basic consequence. If more money flows out of the pension plans than the City and employees put in the plan, it will eventually run out of money and stop providing monthly pension checks to retired employees and their surviving dependents. Without exaggeration, that is where Chester's Police Pension Plan (PPP) stands.

At the end of July 2020, the PPP had $1.75 million left in assets. That was the total amount available for monthly pension payments *and* payouts to participants in the Deferred Retirement Option Plan (DROP) program. Under DROP, an employee who is nearing retirement can continue working for up to five years and the City puts the equivalent of their monthly pension benefit into a separate account. When the employee fully retires, he or she receives the money in the DROP account and then starts receiving regular pension checks. The DROP account balances should not be used to make monthly benefit payments to other plan members. The City's commitments to DROP participants accounted for about $400,000 of the $1.75 million in total assets.

The PPP spends $500,000 - $550,000 per month, mostly on monthly benefit payments to retirees.[30] Backing out the DROP account balance, entering August 2020, the PPP had less than three months' worth of cash or assets that could be converted to cash to make ongoing monthly pension payments. The City routed its entire $1.8 million Commonwealth pension aid allocation to the PPP in September 2020, plus another $750,000 before the year ended. For the second year in a row, the City did not make any contribution to the Fire or O&E plans.

The City entered 2021 with $2.1 million in the PPP, including the DROP account balance that grew from $0.4 million to $0.6 million. The City deposited $500,000 from its cash flow borrowing into the PPP in January; another $500,000 in February; and $1 million from the distressed pension tax (discussed more below) in early March. Because money continues to flow out of the fund via monthly benefits, these contributions have only taken the PPP's cash level from three months' worth of monthly pension checks to four.

Once the City starts to collect revenue from the new distressed pension tax on residents, cash levels should start to gradually increase but a serious underfunding situation will continue to exist. The current projection

[29] The City has not always deposited the full amount of State pension aid in the year in which it was received. For example, the City contributed part of its 2019 aid in very early 2020.
[30] Other smaller expenditures include administrative costs and state and federal income tax withholdings.

shows the City finishing 2021 with $3.6 million in the PPP, not including the DROP account balances. That would be enough to cover seven months' worth of benefit payments.

As very modest as this progress is from a cash perspective, it will come at a large cost to City taxpayers.

Following the Act 47 Coordinator's direction in the 2018 Exit Plan,[31] the City began levying a 1.0 percent distressed pension earned income tax (EIT) on commuters on January 1, 2019. Commuters saw their EIT rate double from the 1.0 percent levied in many Pennsylvania municipalities to 2.0 percent.[32] The Commonwealth law that enables Chester to levy this distressed pension EIT has other requirements that govern its use.

- The City must use the distressed pension tax revenue for "pension related costs" (meaning the MMO for Chester). Prior to 2021, the City did not track the distressed pension EIT revenue separately from other forms of EIT revenue, so it is difficult to state with precision to what extent the City followed this requirement.

- If the City levies a distressed pension EIT on commuters, it must also levy a distressed pension EIT on its own residents that is at least equal to the commuter distressed pension rate. Chester did not follow that provision. It kept the resident EIT rate at 2.75 percent.[33]

The Receiver's team identified these issues in Fall 2020 and worked with the City to begin correcting them. For the reasons described above, the City must start making the annual required contributions to all three pension plans in line with the MMOs calculated by the actuary. The failure to do so has contributed to the PPP's very weak cash position and weakened the funding level of the other City pension plans. That means the City's contributions to the three plans will jump from $4.4 million in 2020 to $10.8 million in 2021.

The City cannot manage that increase without using the 1.0 percent distressed pension tax on commuters. But it also cannot levy that commuter tax unless it also levies a distressed pension tax at least at the same rate on its own residents. So, effective, January 1, 2021, residents are paying a 3.75 percent earned income tax – the second highest resident EIT rate in Pennsylvania behind only Philadelphia.

The 2021 budget allocates $10.8 million to the three pension plans with the specific contributions for each plan tied to the 2021 MMO. Mechanically, though, the City will not pay the 2021 MMO because this year's contributions will be applied first to outstanding balance from prior years, including interest penalties. Those penalties are $197,000 per month for the outstanding police MMOs and about $15,000 a month apiece for the other two plans. When the City contributed $2.0 million to the PPP in the first three months of 2021, almost 30 percent of that contribution went toward interest penalties.[34]

The City's actuary provided the table below that shows the outstanding MMOs for each plan with estimated interest penalties applied as of early March 2021. Depending on when the City makes its 2021 contributions, it will come close to paying off the 2016 MMO for police and the 2019 MMOs for the other two plans. At that point, the City's $10.8 million MMO for 2021 will be added to the outstanding liabilities for 2017, 2018, 2019 and 2020 and interest penalties will keep accruing on the total balance.

[31] See 2018 Exit Plan initiative LEG01
[32] The amount that Chester receives depends on the resident EIT rate in the commuter's home municipality. Please see the Financial Assessment chapter for more discussion of this tax.

[34] To be clear, the City's entire $2 million contribution went into the PPP, including the interest penalties. But the City is contributing less toward the principal amount due (the delinquent MMOs), so penalties will continue to accumulate.

Estimated MMO Liabilities with Interest Penalties
As of March 8, 2021 ($ Millions)

MMO due (with interest)	Police	Fire	O&E	Total
2015 (Fully paid in early 2021)	$0.0	$0.0	$0.0	$0.0
2016	$4.8	$0.0	$0.0	$4.8
2017	$6.6	$0.0	$0.0	$6.6
2018	$6.0	$0.0	$0.0	$6.0
2019	$6.7	$1.1	$1.0	$8.8
2020	$6.9	$1.0	$1.1	$9.1
Total with interest	**$31.0**	**$2.2**	**$2.1**	**$35.3**

The cash flow problem is immediate, severe, and easy to understand. The PPP will not make monthly payments if it runs out of money, so the City has to make its full contribution, including using the distressed pension tax revenue for its intended purpose. Still, interest penalties will consume a large part of the City's annual contributions, which will make it almost impossible for Chester to catch up on this obligation, absent a large infusion of money.

There is another problem on the other side of the pension plan – the benefits side – and it also has financial consequences.

Budgetary problem: Unsustainable benefits

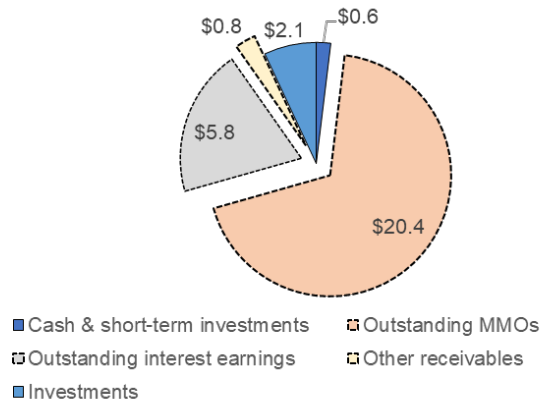
As noted above, Chester has the lowest aggregate funding level for its three pension plans of any Pennsylvania City. The funding level is especially low in the PPP and O&E plans. Here is the funding percentage according to the most recent valuations completed by the actuary.[35]

Funding Percentage as of 1/1/2019

	PPP	FPP	O&E	Total
Actuarial Accrued Liability	$83,195,607	$39,891,425	$8,028,817	$131,115,849
Actuarial Value of Assets	$27,992,535	$33,275,475	$2,674,647	$63,942,657
Actual Unfunded Actuarial Liability	**$55,203,072**	**$6,615,950**	**$5,354,170**	**$67,173,192**
Funded percentage of Accrued liability	**33.6%**	**83.4%**	**33.3%**	**49%**

[35] Later this year the actuary will work on another valuation report that covers the pension plan's performance through January 1, 2021.

As dismal as these funding levels are, they *understate* the severity of the City's problem. **The actuarial calculations reflect an actuarial practice in that they treat the contributions that the City did not make in prior years and still owes, plus their projected interest earnings, as assets (as if that money was already in the plan) because they are "receivables" due to the plans. The PPP's 33.6 percent funding percentage is largely based on $27 million that was not actually in the plan.** The pie chart to the right shows the breakdown in assets as of December 31, 2019.



From this perspective, the PPP's funding level was closer to 3 percent. Since it is unlikely that the City will be able to pay the contributions it owes to the PPP absent a large cash infusion, the 3 percent funding level is a more accurate representation of the PPP's funding level in the near term.[36]

The actuarial quirk where outstanding contributions and interest earnings are treated as plan assets highlights another important conclusion. **Even if the City had made its contributions to the PPP as required, the funding level would be extremely low.** The problem is not just that the City did not put enough in the PPP. There is also too much money flowing out of it. The benefits are far richer than Chester can afford to provide and far richer than the standards established in Pennsylvania's Third-Class City code.

The Act 47 Coordinator has described these problems over the years, as did the Receiver in the August 2020 Recovery Plan. They include:

- Police officers hired before February 1, 2017 can retire with 20 years of service, regardless of age. They can accelerate their retirement date by purchasing pre-employment military time service credit. Together these provisions allow officers to retire at a very young age which then causes the pension fund assets to be drawn down much sooner than would otherwise be the case.

  For example, when we reviewed the PPP in Summer 2020, the City had 13 officers eligible to retire by the end of that year, including the DROP participants. Six of those officers were in their 40s and only three would meet the eligibility standard if a minimum age for retirement were specified in the pension plan consistent with the Third-Class City Code.

- Officers hired before February 1, 2017 receive a benefit payment starting at 50 percent of final pay and increasing to 70 percent with 25 years of service, plus any service increment. Officers hired after that date receive a monthly benefit equal to 50 percent of the higher of final monthly salary or the highest annual average salary during any five preceding years.

- The pension benefit calculation for officers hired before February 1, 2017 includes overtime, which enables "spiking" where an officer works large amounts of overtime before retirement and receives an elevated pension benefit throughout retirement. Overtime is not counted in the pension benefit for officers hired after that date.

[36] As noted earlier, the anticipated cash balance in the PPP at the end of 2021 is less than $4 million, not including the DROP account balances.

- There is an unusually high frequency of disability pensions and, until recently, disability pensions were paid at a higher benefit rate (100 percent of the last 12 months of salary) than non-disability pensions (50 percent of the last 12 months of salary), creating an incentive for officers to try to retire on disability pensions. The prevalence of disability pensions results in money being drawn out of the pension at a higher level than assumed in the City's contributions calculation.

The City implemented some critical reforms for its newer officers including changing the eligibility for retirement to age 50 and 25 years of service; disallowing the purchase of military service time for the purpose of entering DROP; and creating a new benefit structure limited to those benefits mandated by the Third-Class City Code, meaning the pension benefit no longer includes overtime. The City and police officers' union also agreed to increase the employee contribution to 8 percent and disability pensions are now paid at 50 percent of final salary, instead of 100 percent.

As important as these changes are, they do not provide immediate relief. The officers with this more affordable level of benefits will not reach retirement eligibility for years. Meanwhile, in 2020, three police officers ages 44, 45 and 42 entered the DROP with pensionable salaries of $210,874, $207,414 and $143,311 respectively. Under the current benefit provisions, these officers will receive annual pensions of $108,073, $103,707, and $71,652. The median household income for Chester in 2019 was $32,403.[37]

Costly benefits translate to very high liabilities that, in combination with the City's historic underfunding, has led to very low funding levels and very high MMO payments. And, because the City is already years behind on its contributions, interest penalties will continue to consume a sizeable portion of any annual contribution the City does make and that it cannot afford to pay.

The City cannot get back on track by simply making its MMO contributions, though that is a necessary part of any strategy. Even if the City staves off insolvency in the PPP, the extremely high level of annual contributions puts the City on a treadmill where it has to sprint just to avoid falling even further behind, without a chance to start gaining ground in areas like community development or investments in the roads, bridges, parks and other infrastructure that Chester residents use every day.

Unless they are reduced, the MMOs will block the City from investing in its infrastructure and eventually lead to the City cutting operations and services even further, through headcount reductions, lower compensation levels for current employees or both. Since the City already cut its non-public safety workforce during the 2020 pandemic, the next round of cuts would have to include the Police and Fire departments.

While this analysis has focused mostly on the PPP problems, employees outside of the Police Department are not insulated from the consequences of failing to meet this challenge. The problems created by the PPP's dire status have already started to spread. The City did not make any contributions to the Fire and O&E pension plans in 2019 and 2020. The funding level in the O&E Plan was even lower than the funding level in the Police Plan, though the much lower cost of benefits there have kept that plan from approaching insolvency. The Firefighters' plan has some of the same problems as the Police Plan, albeit with a much higher funding level.

Other Post-Employment Benefits (OPEB)

The third legacy cost is less visible in the City's periodic financial reports, but still draws over $4 million a year. The City's expenditures for "other post-employment benefits" (OPEB) – primarily medical and prescription drug coverage for retired employees[38] -- are mostly recorded in accounts without that designation. According

[37] 2019 American Community Survey, five-year estimates
[38] Retirees are also eligible for dental, vision and life insurance coverage.

to the valuations from the City's actuary, the total OPEB liability for all retirees at the end of 2018 was $232.9 million – close to three and half times the City's unfunded liability for employee pensions at the same point.

Some retired employees are covered through a Medicare supplemental plan for which the City allocates $0.7 million in 2021. Expenditures on medical and prescription drug coverage for the rest of the retirees are recorded in the same account as spending on those items for active employees.

Retirees covered by this self-insured arrangement have access to four plans – the Exclusive Provider Option (EPO) that active employees use and three more expensive Point of Service (POS) options. The table below shows retiree enrollment in early 2021 with the estimated premium costs for each plan according to the City's third-party administrator (TPA).

Retiree Health & Prescription Coverage – Total Premiums[39]

	Employee Only	Employee + Child[ren]	Employee + Spouse	Family	Total
EPO - Premium costs	**$12,026**	**$21,767**	**$27,539**	**$36,679**	**N/A**
# of Retired employees	8	0	12	0	**12**
Total premium cost	$96,207	$0	$330,470	$0	**$426,676**
POS - Premium costs	**$12,271**	**$22,211**	**$28,101**	**$37,427**	**N/A**
# of Retired employees	2	0	2	0	**12**
Total premium cost	$24,542	$0	$56,202	$0	**$80,744**
POS Select - Premium costs (Police Only)	**$18,640**	**$33,738**	**$42,686**	**$56,852**	**N/A**
# of Retired employees	37	3	74	3	**117**
Total premium cost	$689,679	$101,215	$3,158,736	$170,556	**$4,120,186**
Retirement select - (Fire Only)	**$12,933**	**$23,409**	**$29,618**	**$39,447**	**N/A**
# of Retired employees	14	1	22	0	**37**
Total premium cost	$181,067	$23,409	$651,588	$0	**$856,065**
Total retirees	**61**	**4**	**110**	**3**	**178**
Total premium cost	**$991,495**	**$124,624**	**$4,196,995**	**$170,556**	**$5,483,670**

According to this data, there were 178 retired employees on these self-insured plans with a total estimated premium cost of $5.5 million. Most of the enrolled retirees were retired police officers on the most expensive POS plan. The same enrollment list showed 220 active employees on the City's insurance, all of which are covered by the EPO plan at a total premium cost of $5.1 million.[40] The estimated cost of retiree insurance is more than the estimated cost of active employee insurance, even though there are 42 more active employees.

Since the City is self-insured for these plans, the breakdown in expenditures between active employees and retired employees for healthcare will depend on the number and volume of medical claims. But, using the premium costs provided by the TPA as a proxy for claims activity, retirees would account for more than half

[39] The enrollment data comes from February 2021. Some of these employees have or will transition to the lower cost fully insured plan as described below. Premium rates do not include dental, vision or life insurance coverage.
[40] Please see the Workforce Chapter for more information on health insurance for active employees.

of the $7.5 million that the City allocates in its 2021 budget. Retirees also account for some of the costs for dental and vision insurance and some of the administrative costs associated with health insurance.

The large enrollment in and high cost of retiree health insurance may explain why the City spent $309,000 (or 3.2 percent) *more* on medical insurance in 2020 than it budgeted, despite furloughing several employees for much of the year.

Retiree contributions toward the cost of their insurance coverage are minimal or non-existent. Employees who retire after 2016 contribute 5 percent of the cost of their medical and prescription drug coverage at the point of retirement. Those who retired before that do not make a contribution. Police officers hired after February 1, 2017 are not eligible for retiree coverage.

In late 2020, the Receiver's team worked with the City to move 103 retired employees from the self-insured plans to the lower cost Medicare supplemental plan. Those retirees will make that transition over the first seven months of 2021 at a total estimated savings of $0.9 million. Assuming the savings estimated for 2021 hold for 2022, they would exceed $1 million.[41]

Like other Pennsylvania cities, Chester does not "pre-fund" its OPEB liability. The City does not set aside money to cover the future cost of retiree health insurance like it should the future cost of employee pensions. The City instead covers these costs on a "pay-you-go" basis with money flowing out of the City's General Fund to cover claims as they are received.

OPEB liabilities ($ Millions) as of 12/31/2018	
Police	$135.7
Fire	$66.7
O&E (Non-public safety)	$30.5
Total	**$232.9**

The City is required to estimate its OPEB liability according to rules established by the Government Accounting Standards Board (GASB). Those rules require the use of accrual-based accounting, meaning they recognize costs when benefits are earned, not when claims are paid. As noted earlier, according to the valuations from the City's actuary, the total OPEB liability for all retirees at the end of 2018 was $232.9 million – close to three and half times the City's unfunded liability for employee pensions at the same point.

Initiatives

Since the Receiver was appointed in June 2020, his team has spent the first 10 months reviewing the City's obligations in these areas; speaking with stakeholders, including the employee bargaining units to get their perspective on the problems and potential solutions; and deciphering which risks and opportunities need immediate action.

To that end, under the Receiver's direction, the City has done the following:

- Started the process to refinance the 2017 Series B debt as described in the related initiative below

- Reviewed the City's use of the distressed pension tax, identified potential compliance issues and required the implementation of a 1.0 percent distressed pension tax on residents, matching the 1.0 percent distressed pension tax on commuters to comply with the law

- Worked with the City's earned income tax collector to track distressed pension EIT revenues separately from the other forms of EIT to ensure the former are only used for pension related costs Distressed pension EIT revenue collected in January and February has already been transferred to the Police Pension Plan

[41] The TPA estimates $849 in savings on cost per member per month in 2020. The City factored these savings into its 2021 budget where spending on self-insured claims drops from $8.4 million budgeted in 2020 to $7.5 million budgeted in 2021. Actual savings will depend on the volume and size of self-insured claims during the year.

- Adopted a 2021 budget that includes the City's full contribution to all three pension plans in line with the actuary's calculation for the City's 2021 MMO

- Established a cash flow report that shows how the City will make enough contributions to the PPP to meet monthly benefit payments through the end of 2021

- Moved over 100 retired employees from the expensive self-insured plans to the Medicare supplement plan at an estimates savings of $0.9 million in 2021 and over a million when annualized

- Started to enforce police collective bargaining provisions to collect earnings information from police retirees who have service-connected disability pensions and are required to report these earnings on an annual basis to determine whether the PPP is due an offset

- Started process of conducting an eligibility audit to ensure that only eligible active and retiree members are receiving City-paid health care

In its communications with the Receiver to date, the Court has emphasized the importance of taking whatever action is allowed under the collective bargaining agreement and addressing the issues with the distressed pension tax. The Receiver's team has done that, moving as many retirees as possible off the self-insured arrangement and working with the federal government on the retirees' Medicare eligibility. The City has also addressed the distressed pension tax issues, even though doing so required a large earned income tax increase on residents.

The next steps for pension and OPEB will require others to participate in the recovery effort, especially the unions and the retired employees.

As noted in the 2020 Recovery Plan, some have pointed to a large one-time contribution to the pension fund, either backed by asset monetization or pension bonds, as the way out of this crisis. Such a payment will have to be part of the overall solution; however, such a payment alone will not be enough and will not solve the problem. Unless there are also contemporaneous changes to structural provisions that allow for the inflated and costly benefit levels and actions taken to stop abuse of provisions like the disability pensions, any large one-time contribution will only temporarily mask the cost of those unaffordable benefits and leave the City in the same situation years later, only at that point with less assets or more debt. Other cities in Pennsylvania have sold assets without addressing the underlying structural issues and are now facing the same fiscal shortfalls that existed before the sale of the asset. This does not serve the taxpayers or other stakeholders. The underlying structural issues must be addressed and it is the Receiver's intent to do so by working with all stakeholders and taking all necessary and difficult actions to make the City fiscally viable once again.

We often use the analogy of a boat with a leak in it. You can temporarily bail the water out to keep the boat from sinking, but eventually it will sink unless the leak is fixed. If the structural plan issues that have created this funding crisis and allow it to continue are not fixed in a permanent manner in Chester, the problem will continue to grow and be handed to future generations who will have fewer options to solve them. Even worse, the benefits that current and future retirees enjoy will vanish due to the pension plan's insolvency, the lack of funding to pay them, and a possible significant reduction of benefits through a municipal debt adjustment action (i.e., bankruptcy) filed pursuant to 53 P.S. section 11701.706(a). We think that would be an abdication of the Receiver's responsibilities not to take the necessary and difficult steps to save the pension plan now.

The Receiver is also committed to gathering public input on the major options for dealing with this crisis, including potential asset monetization. All options are on the table at this moment, but not all are equally beneficial to Chester's residents and that is the guiding principle for addressing this crisis.

LEG01: Address police pension plan funding status, benefit enhancement prohibition

Action must be taken to address the Police Pension Plan's critical funding status. The Receiver is not aware of another public sector pension plan in the Commonwealth in this critical situation. Consequently, the Receiver is considering steps not seen before for Pennsylvania public sector plans, but that are common in ERISA-covered plans. For example, under the Pension Protection Act of 2006, pension plans that are deemed to be in "critical" status must limit the payments of lump sums such as deferred retirement payments.

With respect to the Deferred Retirement Option Program (DROP), the City does not receive Commonwealth pension aid for DROP. For the police plan, every increase in the obligations to the DROP participants reduces the scarce amount of money available to make pension benefits to all retired officers and their surviving dependents, including those DROP participants once they fully retire. For that reason, the Receiver will implement a graduated payout of DROP monies whereby the recipient would still receive his or her full payments, but not immediately in a way that would effectively cause a "run on the bank."

Additionally, there shall be no enhancements to pensions or other post-employment benefits (OPEB), including retiree health insurance, during the term of this Recovery Plan. This prohibition includes changes in collective bargaining agreements, side letters or other similar documents including individual settlement agreements that would increase the City's overtime payments or other payments to employees for whom overtime or such other payment is currently included in their pension benefit calculation.

This prohibition on pension and OPEB benefit enhancements extends to all three plans and all employees. The fire pension plan has started to demonstrate some of the same problematic dynamics as the police plan and the officers and employee (i.e. non-uniformed) pension plan is badly underfunded. The City shall not offer an early retirement incentive program unless it is determined by the City's actuary to be at least cost neutral and approved in writing by the Receiver in his discretion.

The collective bargaining process provides a forum through which addressing pension benefits can be discussed.

LEG02: Ensure full compliance with distressed pension EIT tax increase

As described above, the City is now levying a distressed pension EIT on residents and commuters and the revenue from that tax is being tracked separately and routed to the pension plans. Revenue generated by any distressed pension tax on residents and commuters shall be directed to the pension plans. The City shall ensure full compliance with the increased rate and other statutory provisions in the Municipal Pension Plan Funding and Recovery Act, maximizing possible revenue that can be directed to its depleted pension funds.

LEG03: Prioritize one-time revenue windfalls to pay past due MMOs

During the period covered by this Recovery Plan, the City may benefit from financial windfalls – unexpected, significant, one-time increases in revenues above budgeted levels. Windfalls differ from revenues that outperform budget targets over the course of a month or year. As the City has experienced, revenues fluctuate over time and stronger-than-expected performance during one period does not guarantee that performance will continue or that other revenues will not have offsetting shortfalls.

By their nature, these windfalls cannot be predicted but the City should have a plan for their use in case they occur.[42] The City will use any financial windfalls of at least $250,000, subject to the Receiver's approval, to pay down the past due MMOs if legally permitted. Before the City directs its windfall benefits to the pension plans, the City shall review and validate that it does not need the windfall to cover the cost of providing vital and critical services during the current fiscal year.

LEG04: Eliminate disability pension fraud and abuse

The City has a relatively high number of former employees retired on disability pensions.

Some parties expressed concerns to the Receiver that the practice of granting employees disability pension benefits at a higher level than they would receive if they retired without a disability creates an incentive to take advantage of the system. Other parties noted that some police officers and firefighters granted disability pension benefits are no longer disabled and should be able to perform the duties of a police officer.

The City's recent collective bargaining agreements reduced disability pension benefits for police officers to eliminate this incentive. In accordance with the Pension Ordinances, the Mayor or the Pension Board also has 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 or firefighter.

The City shall evaluate every police officer and firefighter 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 pension plan. The City shall work with a third-party contractor for these reviews and recommendations if it does not have the capacity to make these determinations itself.

Where possible, the City should work with the Auditor General's office, and other appropriate officials, to investigate and remedy potential pension fraud and abuse. The Receiver will also research other issues, including court cases currently pending in the judicial system, in which benefit recipients are seeking to enhance their current retirement and disability benefits well after leaving the employ of the City.

Please note that there is a related initiative in the Workforce chapter that addresses the impact of disability leave abuse on operations and overtime usage.

LEG05: Conduct eligibility audits for employees and retirees receiving pensions, retiree health care and active health care benefits

Given the significant costs associated with employee pensions, retiree health care benefits and active health care benefits, the Receiver shall contract with a qualified entity or entities to undertake eligibility audits for retirees and/or their beneficiaries receiving pensions or retiree health care as well as active employees and/or their dependents receiving health care benefits. These audits shall include verifying that only eligible persons are receiving the respective benefit, that the respective benefit is actually due the person, and that the person is making the appropriate employee contribution. As noted earlier, the health care eligibility audit is in process. This shall include enforcing all cost sharing and offset provisions in the collective bargaining agreements with respect to any disability pension benefit and any post-retirement healthcare benefits.

[42] In March 2021, President Joseph Biden signed a $1.9 trillion federal stimulus package that includes State and Local Fiscal Recovery Funds for the City of Chester. Early indications are that funding cannot be used for pension funding. Use of the federal stimulus funding is subject to other provisions in this Plan.

LEG06: Engage in negotiations with all stakeholders in the pension plan and OPEB to implement meaningful changes to promote the sustainability of the pension and OPEB benefits for all current and future retires; Eliminate retiree health care for new hires.

Given the PPP's dire financial condition and the growing financial concerns with the fire and non-uniformed employees, the City and the Receiver have an obligation to seek meaningful changes to such benefit structures. The changes made to such plans applicable to employees hired after 2017 must be explored and, if possible, implemented to make the plans sustainable. While the changes made to the pension plans in 2017 for employees hired after that date will be used as a blueprint, the Receiver will consider and seek to implement other ideas to address the structural issues that have made this pension plan and OPEB unaffordable currently and not sustainable in the future. The goal of such efforts will be to bring the benefits into compliance with the Third-Class City Code and require benefit applicants comply with all current and future procedures for applications for disability and other benefits.

Furthermore, retiree health care shall be eliminated for all new non-union employees or elected officials. Retiree health care shall also be eliminated for new Teamster and IAFF hires in their successor collective bargaining agreements. Retiree health care was already eliminated for police officers hired on or after February 1, 2017.

LEG07: Explore potential of bankruptcy filing to address reduction of retiree benefit costs

The City's retiree benefit cost situation cannot be understated and therefore all possible options must be on the table. The Receiver shall explore the potential benefit of a federal bankruptcy filing to address reduction of retiree benefit costs if other options are not successful.

LEG08: Take action to enforce all current requirements of all pension plans and OPEB programs

The Receiver shall take action to make sure all current provisions of all heath care and benefit programs including those for retirees, are enforced.

Debt

LEG09: Debt management under receivership

Act 47 requires that the Receiver's Plan "provide for the payment of the lawful financial obligations of the distressed municipality and authorities," which the law defines as "debt obligations, municipal securities, lease rental obligations, legal obligations and consensual modifications of existing obligations." The City paid these obligations in 2020 and the 2021 budget provides for their payment this year.

As provided in the City's Emergency Action Plan, the City and its authorities shall not incur any other debt without the Receiver's written approval. This includes issuing any new debt, including short-term cash borrowings; and refunding or refinancing existing debt. For any debt-related requests, the City shall provide a minimum of the following to the Receiver's office for review:

- Type of debt transaction
- Reason for the debt transaction
- Any transaction costs
- Principal amount of debt incurred
- Anticipated annual debt service payments, including interest, for all years
- Key terms of borrowing

- Proposed source for repaying debt
- City's total debt schedule before and after the transaction (i.e what's the net impact)

This extends without limitation to the Chester Economic Development Authority (CEDA), the Redevelopment Authority of the City of Chester (CRA), the Chester Parking Authority, and the Stormwater Authority of the City of Chester.

In undertaking any debt issuances, the City shall use independent, certified professionals as financial advisor, underwriter, and bond counsel. All professionals supporting a bond transaction undertaken by the City should be selected competitively wherever possible. Professionals not selected through a competitive bid will be subject to the Receiver's review and approval.

LEG10: Potential 2017 debt refinancing

The City's financial advisor identified an opportunity to refinance the 2017 debt that accounts for most of the debt service payments through 2027. The basic concept behind the potential restructuring is that the City could redistribute the remaining portion of the outstanding debt service payments so there are lower payments in the near term in exchange for higher payments in the future, with total debt payments exceeding the level that currently exists. The Receiver reviewed an initial proposal in 2020 and determined that, while the concept is worthy of closer review, the terms of that proposal were not sufficiently beneficial to the City.

Working with the Receiver, the City shall seek to restructure the 2017 debt. The final debt restructuring proposal will be subject to the Receiver's review and approval. Once the potential savings are identified, the Receiver shall direct the City in how those savings may be applied to address the City's many financial challenges. The City has already started this process.

Financial Assessment

This Recovery Plan begins with a baseline projection of the City of Chester's General Fund revenues and expenditures in a *status quo* scenario. The baseline projection is a diagnostic exercise to identify the critical factors that drive financial performance; determine and quantify any structural deficit; and provide an important reference point for gap-closing initiatives.

There are two very important contextual points to understand the baseline projection:

- **The baseline projection presents a status quo, or carryforward, scenario**

  The projections assume no significant changes in the City's policies or operational structure. For revenues, the baseline assumes no increases in tax or fees, no new fees or new revenues from other levels of government, and no changes from the current revenue-sharing arrangement with the casino. Unless explicitly noted in the sections below, revenue growth will be related to expected growth in the underlying tax- or fee-paying base.

  For the City's expenditures, the baseline projections assume no changes in the levels of service provided by the City departments. The projections do not assume any new hires (other than to fill vacant position) or layoffs beyond those included in the 2021 budget. Other key assumptions will be detailed later in the chapter.

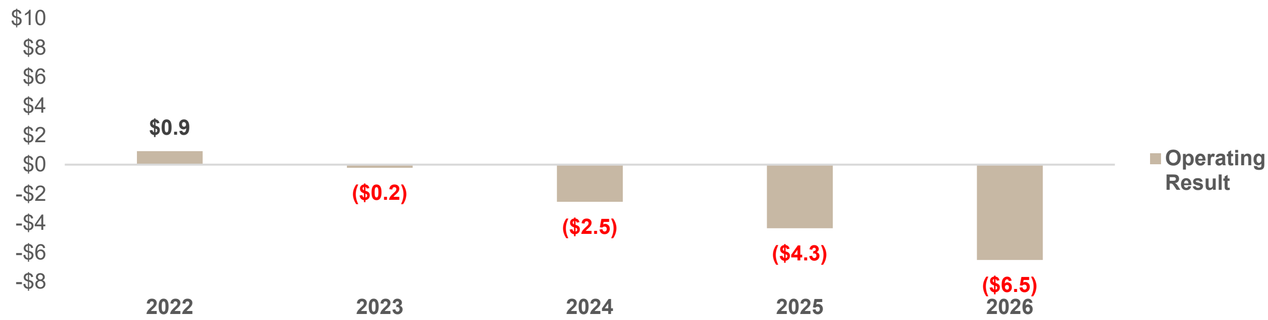
- **The baseline projection is not a prescription for what the City *should* do, nor is it a prediction of what it *will* do**

  The baseline projection shows City government's finances absent corrective action. The City is statutorily required to pass a balanced budget each year and it could not sustain the projected deficits in the baseline without becoming insolvent. Practically speaking, the City will have to take corrective actions to close its deficits, and the rest of this Plan and future Amended Plans will describe those actions.

The baseline projection starts with the 2021 adopted budget and then applies growth rates calculated using a combination of historical data (where available), socioeconomic trends, and other factors. Historical data is limited because the City did not have audited results for 2018, 2019 or 2020 at the time of analysis. Without audited results for the years leading into the pandemic, the baseline often draws on the growth rates that the Act 47 Coordinator used in prior plans. The Receiver's team expects to revisit and revise the projections.

The goal for financial management is not just to balance to zero where revenues match expenditures, though achieving that structural balance is a core component of financial recovery. The City also needs to invest in the infrastructure that it owns – roads, bridges, parks, facilities – and have strong financial management systems and processes in place. After presenting the baseline projection, this chapter describes the City's capital needs and presents initiatives for improved financial management.

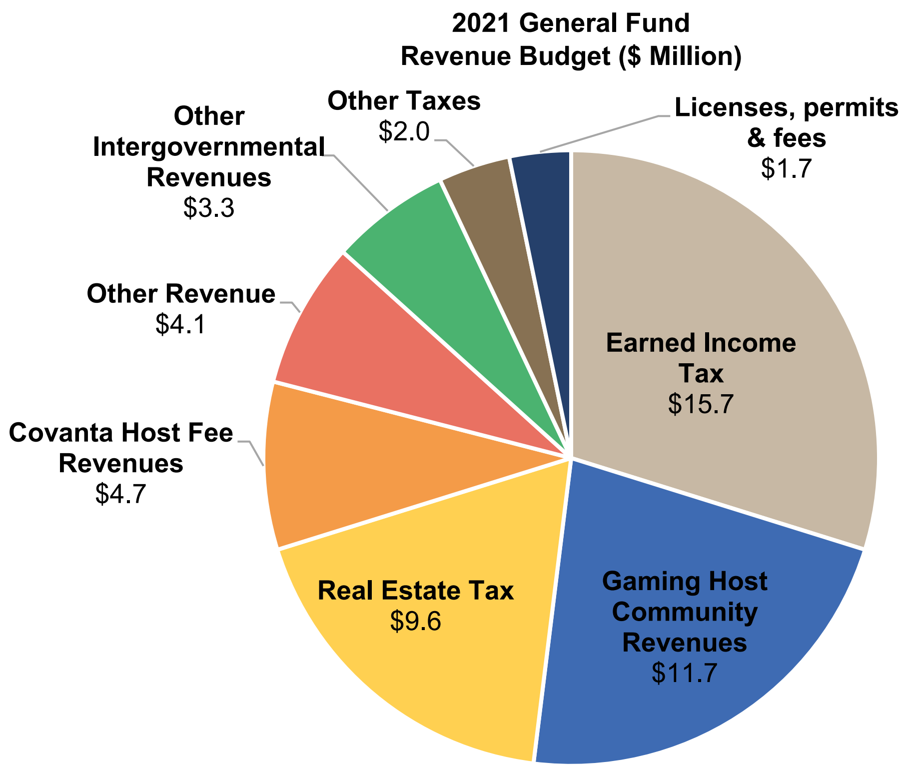
General Fund Baseline Projection



	2021 Budget	2022 Projected	2023 Projected	2024 Projected	2025 Projected	2026 Projected
Real Estate Taxes	9,617,460	10,620,068	10,874,238	11,016,661	11,034,842	10,888,980
Earned Income Taxes	15,727,890	16,183,575	16,727,395	17,122,730	17,549,401	18,044,147
Other Taxes	1,993,869	2,397,494	2,433,456	2,469,958	2,507,008	2,544,613
Licenses, Permits, and Fines	1,706,100	1,726,361	1,746,930	1,767,813	1,789,015	1,810,542
Gaming Host Community Revenues	11,680,596	11,554,000	11,340,000	11,340,000	11,340,000	11,340,000
Covanta Host Fees	4,650,000	4,743,000	4,837,860	4,934,617	5,033,310	5,133,976
Charges for Services	2,076,402	2,086,984	2,097,798	2,108,850	2,120,146	2,131,690
Other Revenue	5,301,992	5,403,096	5,485,284	4,784,997	4,872,313	4,962,318
Total Revenues	**52,754,308**	**54,714,578**	**55,542,962**	**55,545,627**	**56,246,034**	**56,856,265**
Salaries and Wages	15,722,444	16,104,045	16,533,307	16,974,906	17,429,219	17,896,638
Overtime	1,370,000	1,412,400	1,456,173	1,501,365	1,548,023	1,596,196
Premium Pay	241,414	249,864	258,609	267,660	277,028	286,724
Health Insurance	9,349,991	10,085,139	10,880,988	11,742,641	12,675,638	13,685,986
Pension	10,758,219	9,409,404	9,580,358	9,879,984	10,189,383	10,508,882
Other Personnel Costs	3,360,135	3,359,910	3,610,216	3,883,474	4,135,305	4,406,331
Debt Service	3,907,480	3,788,384	3,748,624	3,716,079	3,714,626	3,836,268
Operating Expenses	6,498,665	7,720,889	8,016,828	8,427,700	8,932,458	9,458,263
Transfers	1,152,304	1,163,857	1,174,929	1,186,000	1,191,536	1,191,536
Contingency	250,000	500,000	500,000	500,000	500,000	500,000
Total Expenditures	**52,610,653**	**53,793,893**	**55,760,031**	**58,079,809**	**60,593,216**	**63,366,825**
Operating Result	**143,655**	**920,685**	**(217,069)**	**(2,534,182)**	**(4,347,182)**	**(6,510,560)**

Major revenue assumptions

About half of the City's General Fund revenues comes from real estate and earned income taxes. In addition, the City receives substantial revenues from hosting the Harrah's Casino and Racetrack and the Covanta Incinerator Facility. Taken together, these items account for approximately 80 percent of the City's General Fund revenue budget.



Real estate tax

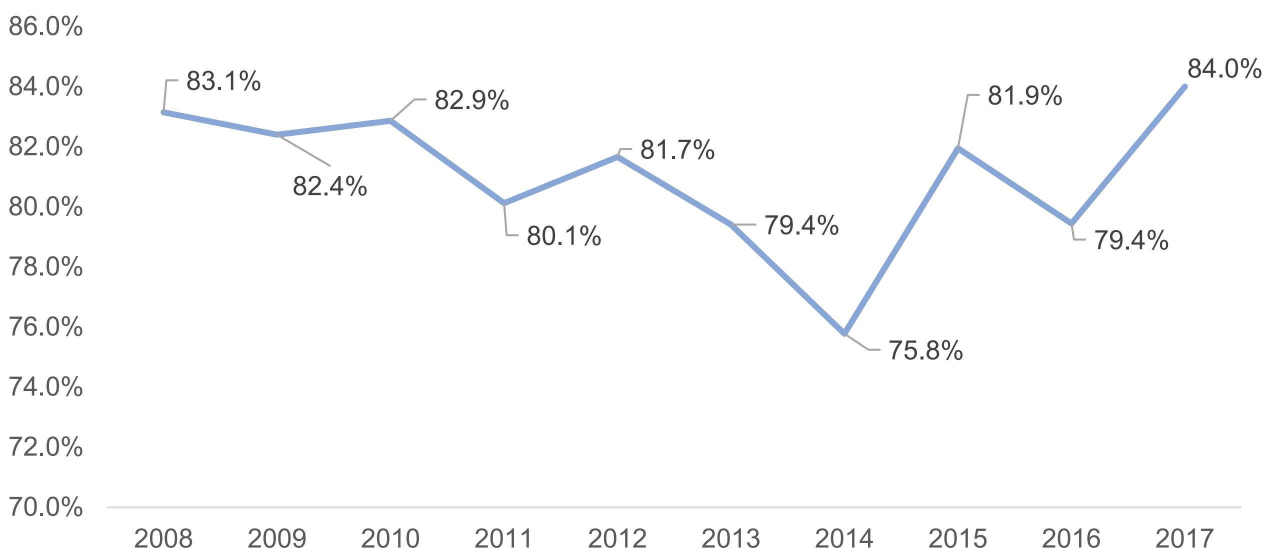
The City's real estate tax generates $9.6 million in the 2021 budget, which is 18.2 percent of total General Fund revenue. That total is split between current year tax collections, delinquent tax collections, and about $400,000 that the City collects and passes through to the J. Lewis Crozer Library.

Prior to 2021, the total assessed value of taxable property in Chester was relatively flat, with slight fluctuations when tax abatements on individual properties expired. In 2021, the City moved to Delaware County's new assessment which increased the total assessed value of taxable property from $321 million in 2020 to $1.116 billion in 2021. The baseline does not assume another reassessment occurs before 2026 so the tax base remains flat through the projection period.

The City also held its real estate tax rate flat for more than a decade before increasing it from 27.4 mills in 2019 to 32.77 in 2020. While the tax rate increased by 20 percent from 2019 to 2020, current year revenues did not increase by 20 percent. They fell $0.9 million (or 10.6 percent) short of budget according to preliminary results. When the City moved to the higher Countywide assessment in 2021, it lowered the real estate tax rate to 9.4041 mills to remain revenue neutral. Since this is the first year using the new assessment, there may be a higher volume of assessment appeals filed with the County that reduce the tax base and require further adjustments in the tax rate to keep the process truly revenue neutral.

The final key variable in the real estate tax revenue projection is the current year collection rate, which averaged approximately 80 percent according to its financial audits. According to the City, the collection rate for commercial taxpayers is typically higher than the collection rate for residential taxpayers. In 2020, following the property tax hike and during the pandemic, the City's collection rate fell to 73.2 percent according to preliminary year-end results.

Real Estate Tax Collection Rate (2008-2017)



Source: 2017 Audited Financial statement

The combination of a flat tax base, flat tax rate, and slowly rebounding collection rate results in current year real estate revenues growing from $7.7 million budgeted in 2021 to $8.4 million in 2025.

Lower current year collection rates mean the City is turning over more delinquent accounts to the County Tax Claim Bureau for collection. The delinquent tax collection process can take up to three years. While recent historical information is limited, the preliminary, unaudited results for 2017 and 2018 showed the City's delinquent tax revenues are 48 percent of the total turned over to the County in the prior two years.[43]

The baseline projection assumes that delinquent tax revenues grow from the $1.8 million reported in the preliminary 2020 results to $2.3 million in 2023 and then drop once the current collection rates rebound.

Total real estate tax revenues grow from $9.6 million budgeted for 2021 to $10.9 million at the end of the projection period, which is equal to 2.5 percent annually.

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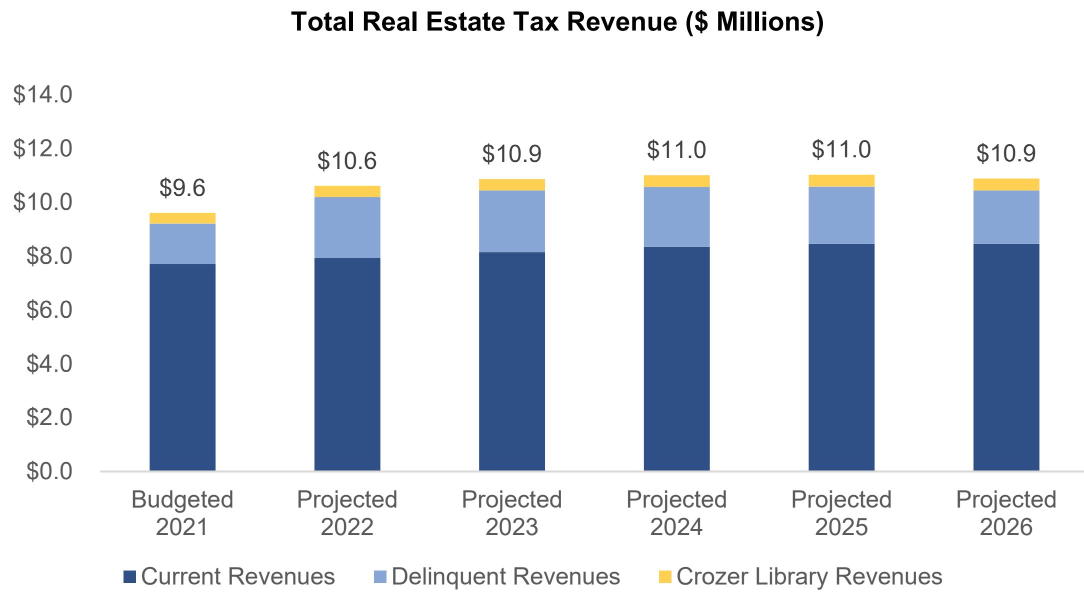
[43] Because of the process established in Pennsylvania law, the standard delinquent real estate tax collection process that the County uses can take up to three years to complete.



Earned income tax

The earned income tax (EIT) is City government's largest source of revenue and accounts for 30 percent of the 2021 General Fund budget. Chester uses two Pennsylvania laws to levy its EIT:

- Under Pennsylvania's **Local Tax Enabling Act** (Act 511 of 1965), the City taxes the earnings of its own residents and commuters, who work in Chester but live elsewhere. As a Home Rule municipality, City government can set its own resident EIT rate, but the maximum commuter (or non-resident) EIT rate allowed under Act 511 is 1.0 percent. EIT revenue generated under this law can be used for any purpose.
- Under Pennsylvania's **Municipal Pension Plan Funding Standard and Recovery Act** (Act 205 of 1984), the City levies an additional 1.0 percent EIT on the earnings of residents and commuters, which is called the distressed pension tax. Revenue generated under this law can only be used for pension-related purposes, which primarily means Chester's Minimum Municipal Obligation (MMO) payments to the three employee pension plans. Act 205 has other provisions that govern the tax rate.

Before 2018, the City used the taxing authority in the Municipalities Financial Recovery Act (Act 47 of 1987) to levy an additional EIT on commuter earnings. In its efforts to leave Act 47 oversight, the City gradually eliminated the Act 47 levy on commuters. Shortly after that, the City levied the distressed pension tax solely on commuters as directed in the 2018 Act 47 Recovery Plan. According to Pennsylvania law, the City cannot levy the distressed pension tax solely on commuters, so the 1.0 percent distressed pension tax was added to the resident rate effective January 1, 2021. The table below shows the EIT rates since 2018.

Chester EIT Rates, 2018-2021

	2018	2019	2020	2021
Act 511/Home Rule	2.75%	2.75%	2.75%	2.75%
Act 205	0.00%	0.00%	0.00%	1.00%
Resident EIT rate	**2.75%**	**2.75%**	**2.75%**	**3.75%**

	2018	2019	2020	2021
Act 511	1.00%	1.00%	1.00%	1.00%
Act 205	0.00%	1.00%	1.00%	1.00%
Commuter EIT rate	**1.00%**	**2.00%**	**2.00%**	**2.00%**

As of January 2021, Chester has the second highest resident EIT rate in the Commonwealth, behind only Philadelphia. The Receiver acknowledges the difficulty this high tax rate creates for Chester residents, many of whom are living close to or under the poverty level and struggling to balance their own budgets. It puts Chester at a significant disadvantage for attracting or retaining residents since many of the City's neighboring Delaware County municipalities have a 1.0 percent or no resident EIT. It also puts Chester at a disadvantage for attracting and retaining businesses since employees' take-home pay would be lower than in neighboring municipalities due to high commuter taxes.

The 1.0 percent distressed pension tax rate on residents and commuters is connected to the City's very high MMO payments, especially to the Police Pension Plan. Decreasing the MMOs – by putting more money into the plans, reducing the plans' liabilities, or both – should translate into a lower distressed pension tax rate. This is one of the reasons that addressing the City's pension situation is a priority for the Receiver.

Resident EIT revenues

The resident EIT base consists of Chester residents who earned compensation, net profits, or other forms of earnings taxable under Act 511. According to the US Census Bureau estimates, there were close to 34,000 residents in Chester in 2019. About 44 percent of those residents had some earnings and 24 percent were full-time, year-round workers with earnings.[44] The table below shows some characteristics of the City's resident EIT base and how they have changed since 2015.

Chester Resident EIT Base Characteristics, 2015-2019[45]

	2015	2016	2017	2018	2019	2015-19 CAGR
Population	34,016	34,056	34,102	33,977	33,982	0.0%
Median Household Income	$27,365	$27,217	$29,954	$30,949	$32,403	4.3%
Poverty in past 12 months	34.6%	36.9%	35.9%	33.6%	31.4%	-2.4%
Median Earnings in past 12 months	$18,504	$18,665	$19,932	$21,289	$22,483	5.0%
Full-time year-round workers with earnings	7,146	7,098	7,193	7,367	8,123	3.3%

[44] American Community Survey, 2019 five-year estimates.
[45] All figures come from the American Community Survey's five-year estimates. CAGR means the compound annual growth rate for this period.

	2015	2016	2017	2018	2019	2015-19 CAGR
% of population	*21%*	*21%*	*21%*	*22%*	*24%*	3.3%
Mean Per Capita Income	$14,598	$14,991	$15,472	$16,041	$17,581	4.8%

The weakness of Chester's tax base is well documented. Chester's poverty rate in 2019 was substantially higher than the Commonwealth and County averages (12.4 percent and 10.1 percent respectively) and its median household income was substantially lower than the Commonwealth and County averages ($61,744 and $74,477 respectively).

Chester's resident tax base grows when the number of employed residents increases or the earnings for employed residents increase. The table above shows growth in median household income and median earnings before the pandemic. There was also very modest growth in the number of employed Chester residents, though that progress was reversed during 2020.

Chester Employment, 2015- 2019[46]

	2015	2016	2017	2018	2019	CAGR	2020
Labor Force	13,234	13,287	13,336	13,257	13,424	0.4%	*13,704*
Employment	12,027	12,123	12,214	12,244	12,405	0.8%	*11,713*
Unemployment	1,207	1,164	1,123	1,013	1,020	-4.1%	*1,991*
Unemployment rate	9.1%	8.8%	8.4%	7.7%	7.6%	-4.5%	14.5%

Translating these changes in the tax base to EIT revenues is difficult because the tax rates have also changed, and there is a time lag in the EIT collection process. Generally, there is a one quarter delay between the time that a resident earns money and the point at which City government receives associated EIT revenue. Therefore, the full impact of a tax rate change is not evident for more than a year.

According to the data provided by Chester's EIT collector,[47] resident EIT revenue grew by $1.1 million (or 16.0 percent) in 2018, mostly due to a tax rate increase and the time lag associated with the collection process.[48] Revenues grew by 3.9 percent in 2019, which was closer to the growth in the tax base itself.

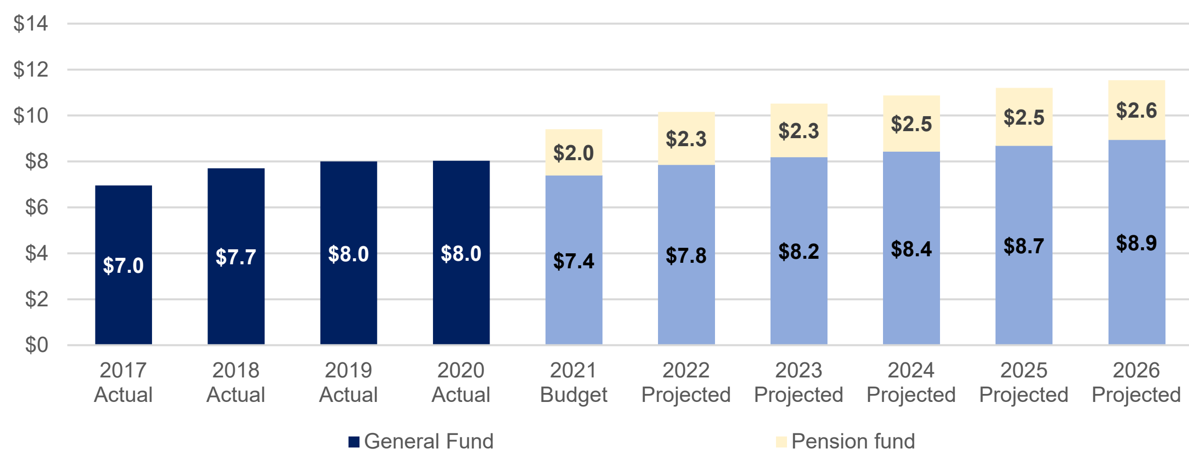
Resident EIT revenues in 2020 finished flat at 2019 levels, but that understates the severity of the pandemic's impact on the resident tax base. Because of the aforementioned time lag, the pandemic that started in late Q1 2020 was not visible in the City's revenues until Q3 2020. Resident EIT revenues were down 11 percent in Q3 2020 (the first quarter in which COVID's impact would be visible) relative to the prior year. The 2021 budget used the conservative assumption that a 10 percent loss would continue through the end of 2022. After the budget was adopted, the Q4 2020 results showed that resident EIT revenues partially rebounded near the end of last year. While the timing and pace for future recovery is uncertain, the City should collect more EIT revenue than budgeted in 2021.

The baseline projection shows revenues from the General Fund portion of the EIT rebounding close to pre-pandemic levels in 2022 and then growing by 3.0 percent per year. That 3.0 percent growth rate falls between the 4-5 percent annual growth in the tax base between 2015 and 2019 and the 1-2 percent growth rate between 2010 and 2019. Total resident EIT revenues will grow more than that because of the

[46] All figures come from the U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics program. 2020 figures include preliminary results for December 2020.
[47] Keystone Collections Group collects the EIT for Chester and all municipalities and school districts that use the tax in Delaware County. In the absence of audited year-end results, we are relying on Keystone's data for our analysis and projections.
[48] The City's resident EIT revenues in 2017 were based on a tax rate of 2.10 percent for one quarter and 2.75 percent for the other three quarters. The 2018 revenues were based on a tax rate of 2.75 percent for all four quarters.

distressed pension tax that went into effect in January 2021. Once the City works through the time lag associated with the tax collection process, the distressed pension tax on residents is projected to generate $2.3 million in 2022.[49] The graph below shows the EIT revenues from 2017 through 2025.

Resident EIT Revenues ($ Millions)



Commuter EIT revenues

As noted above, the City also taxes people who work in Chester and live elsewhere. Most commuters live in another part of Delaware County or outside of Pennsylvania. The table below shows the communities with the largest commuter EIT payments to Chester for the 2019 tax year.

Resident municipality (County)	Resident EIT	Commuter EIT Amount	% of total
Out of State	0.00%	$2,479,993	35%
Ridley Township (Delaware)	0.00%	$449,432	6%
Upper Darby Township (Delaware)	0.00%	$288,278	4%
Nether Providence Township (Delaware)	0.00%	$227,494	3%
Springfield Township (Delaware)	0.00%	$183,336	3%
Upper Chichester Township (Delaware)	1.00%	$183,114	3%
Concord Township (Delaware)	0.00%	$150,638	2%
Aston Township (Delaware)	1.00%	$145,541	2%
Haverford Township (Delaware)	0.00%	$132,066	2%
Middletown Township (Delaware)	0.00%	$113,906	2%

The City uses Act 511 to levy a 1.0 percent commuter EIT and the resulting revenue can be used for any purpose. The City also uses Act 205 to levy a 1.0 percent distressed pension EIT on commuters, the revenue from which can only be used for pension-related costs. The amount of EIT that a commuter pays to Chester depends on the resident EIT rate in his or her home municipality.

- Commuters whose home municipality does not levy a resident EIT pay the full 2.0 percent commuter EIT to the City of Chester. The revenue is split evenly between Chester's General Fund and distressed pension plans.

[49] This incorporates a potential reduction in the distressed pension tax on residents from 1.00 to 0.75 percent in 2022. The City's MMO may temporarily drop in 2022 because of timing issues related to how the MMO is calculated. This is described further in the pension section of this chapter.

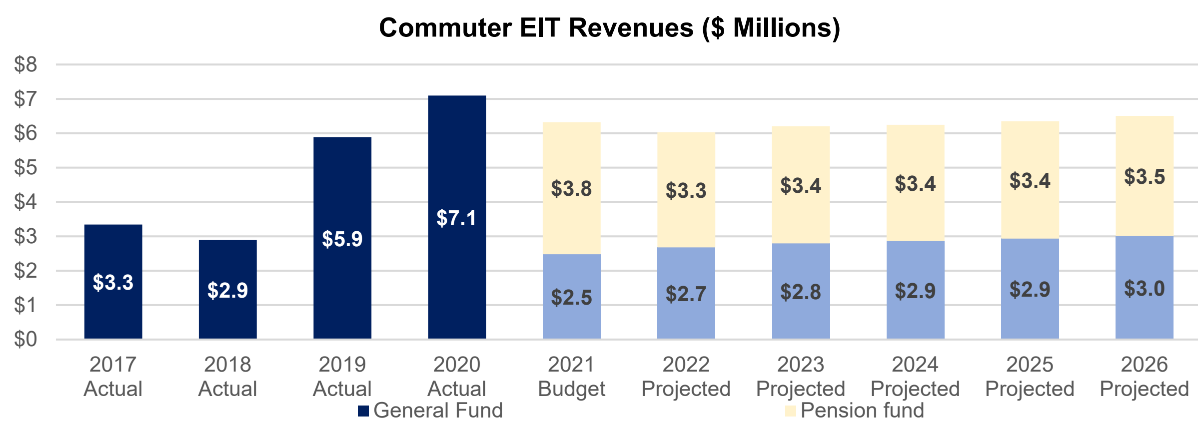
- Commuters whose home municipality has a 1.0 percent resident EIT rate also pay 2.0 percent EIT, but the revenue is split between their home municipality[50] and the City of Chester. Chester's portion goes entirely to the distressed pension plans.
- Commuters whose home municipality has a resident EIT rate higher than 2.0 percent do not pay anything to the City of Chester. The entire EIT payment goes to their home municipality.

Commuter EIT revenues have fluctuated because of changes in the tax rate and the time lag in the EIT collection process. Commuter EIT revenues dropped by $451,000 (or 13.5 percent) in 2018 because of rate reductions in prior years. When the City started levying the distressed pension tax on commuters, total commuter EIT revenues more than doubled from $2.9 million in 2018 to $5.9 million in 2019 and then reached $7.1 million last year. While the rate increase obscures the pandemic's impact, commuter EIT revenues in Q3 2020 were 11 percent lower than in Q3 2019.

The 2021 budget projects $6.3 million in total commuter EIT revenue with $2.5 million going to the City's General Fund and $3.8 million to the distressed pension plans. This projection includes a conservative assumption regarding how COVID-19 will impact commuter revenues throughout the year. While the timing and pace of recovery is uncertain, the City should hopefully collect more commuter EIT revenue than budgeted this year.[51]

The baseline projection assumes that commuter EIT revenues, like the resident EIT revenues, will rebound close to pre-pandemic levels in 2022 and then grow by 2.5 percent per year in the later years of the projection. Using Delaware County as a proxy for the entire commuter population, median household income and median earnings grew by 2.5 – 3.5 percent per year from 2015 through 2019 and 2.0 percent per year from 2010 through 2019.

The graph below shows the actual, budgeted and projected EIT revenues from 2017 through 2025.[52] Before 2021, the City did not track the General Fund portion of the commuter EIT separately from the distressed pension fund, so the results prior to 2021 group both together. With the tax collector's help, the City is now tracking these revenues separately.



[50] Revenue from the 1.0 percent remitted back to the commuter's home municipality is often split between the municipal government and the school district there.
[51] If the City collects more than budgeted from the 1.0 percent distressed pension tax on commuters, that revenue must be used for pension-related purposes, like paying some of the outstanding MMOs from prior years.
[52] This incorporates a potential reduction in the distressed pension tax on commuters from 1.00 to 0.75 percent in 2022. The City's MMO will temporarily drop in 2022 because of timing issues related to how the MMO is calculated. This is described further in the pension section of this chapter.

Other tax revenues

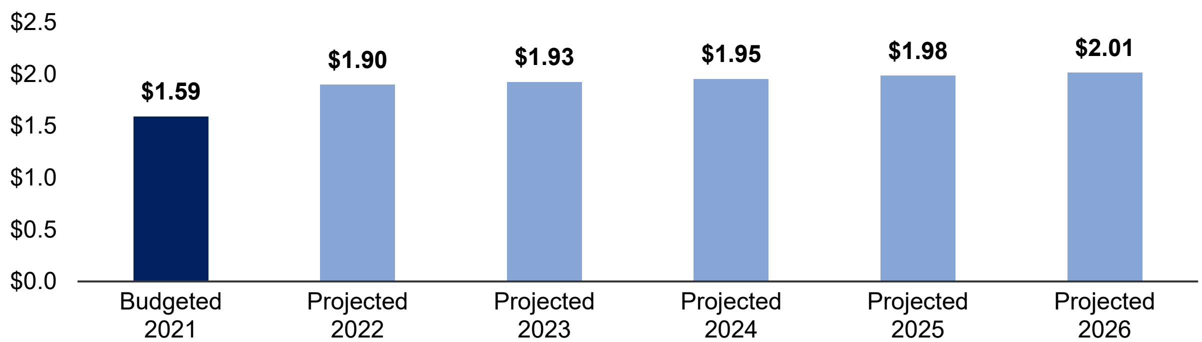
Other taxes generate approximately 5 percent of General Fund revenues. These revenues come from two taxes: the **business privilege tax (BPT)** and the **local services tax (LST)**.

The BPT is levied on the gross receipts of all entities engaged in commercial activities for gain or profit within Chester's borders. Certain businesses, such as manufacturers, are exempt from the tax. The 2020 tax rate was 2 mills for wholesale businesses, and 3.0 mills for retail and 4.19 for other eligible businesses. The City budgeted $1.6 million in BPT revenues for 2021, which includes $75,000 collected on prior-year bills. The budgeted figure is approximately 13 percent lower than the 2020 Adopted Budget ($1.8 million), reflecting weaker economic conditions due to the COVID-19 pandemic.

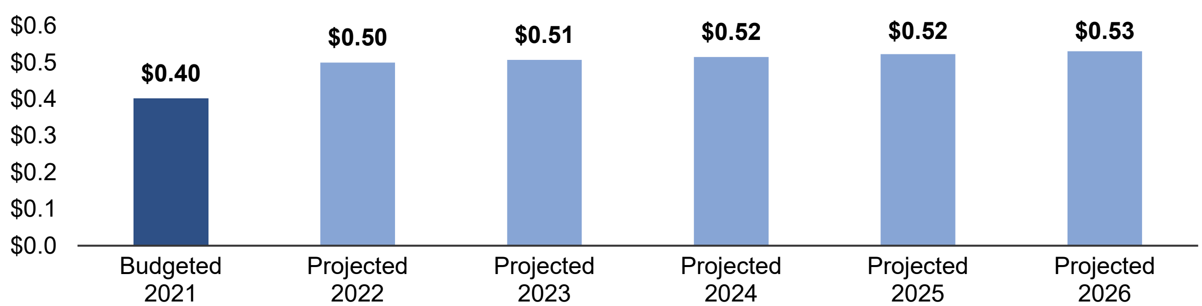
The LST is a weekly tax of $1 per employee in Chester for anyone who earns more than $12,000 a year. The tax is levied based on where a person works, so it includes commuters. The City budgeted $403,000 in LST revenue for 2021, which is approximately 20 percent lower than the 2020 Adopted Budget ($500,000). Like the BPT, the lower budgeted figure for 2021 represents the impact of employment losses during the pandemic.

The baseline forecast assumes both taxes will return to pre-COVID levels by 2022. Following this, we assume growth will return to historical levels of 1.5 percent annually.

Business Privilege Tax Revenue ($ Millions)



Local Service Tax Revenue ($ Millions)

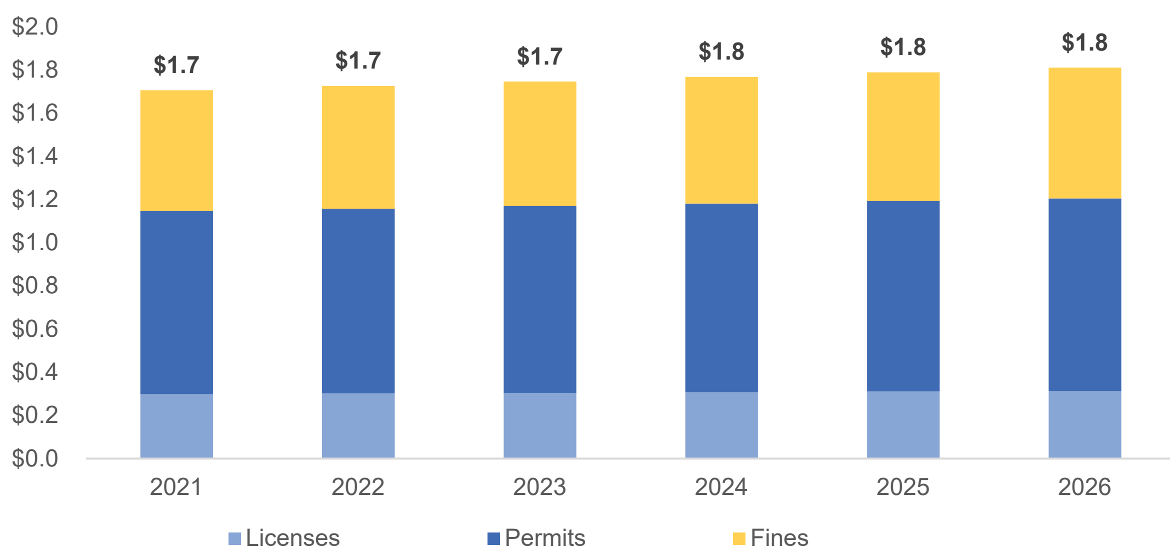


Licenses, permits and fines

Revenues from licenses, permits, and fines account for $1.7 million, or 3.2 percent, of Chester's 2021 budget. **Permits** are the largest item in this category, contributing $847,000. Most permit revenue comes from building and housing permits. Other major items in this category include licensing fees, court and traffic fines, and cable television franchise fees. Compared to the 2020 Adopted Budget, 2021 budgeted revenues in this category are approximately 13 percent lower.

Our baseline forecast assumes that the City will not increase fines or penalties during the forecast period, causing fine revenue to remain flat at 2021 levels. Revenue from license and permitting fees are tied to broader economic and construction trends and are likely to increase as the City rebounds from the pandemic-induced recession. However, these revenue sources have historically grown below national growth trends; therefore, we assume a modest 1 percent growth rate for permit and license revenues. Revenues from cable TV franchise fees grow at an inflationary pace.

License, Permit and Fine Revenue ($ Millions)



<u>Gaming Host Community Revenues</u>

Chester's largest non-tax revenues come from its hosting arrangement with the Harrah's Philadelphia Racetrack and Casino. Casino host revenues are set by the Pennsylvania Race Horse Development and Gaming Act (the "Gaming Act" or "Act 71"), plus an additional consideration payment (or land lease) agreement between the City and the casino.

Since 2017, Harrah's has paid the City $6 million annually in equal quarterly installments, plus a monthly land lease payment equal to 2 percent of its gross terminal revenue for slots operations. If the sum of these two payments is less than $10 million in a year, the City receives the difference as a reconciliation payment in the first quarter of the next year.

Harrah's also remits payment to the City under Act 71 and its land lease agreement for the operation of table games. Under the land lease agreement, the City receives 2 percent of gross table operations revenue. Additionally, the City receives payments equal to an additional 1 percent of table revenues under Act 71 to be used toward debt service by the City.

Gaming Host Community Revenue Breakdown

Slots	Table Games
$6 million host payment (paid in equal quarterly installments) 2 percent of slots operation revenues (land lease) If above revenues are below $10 million, difference between those revenues and $10 million is paid in first quarter of following year	2 percent of gross table operations revenues (land lease) 1 percent of table revenues under Act 71 reserved for City debt service

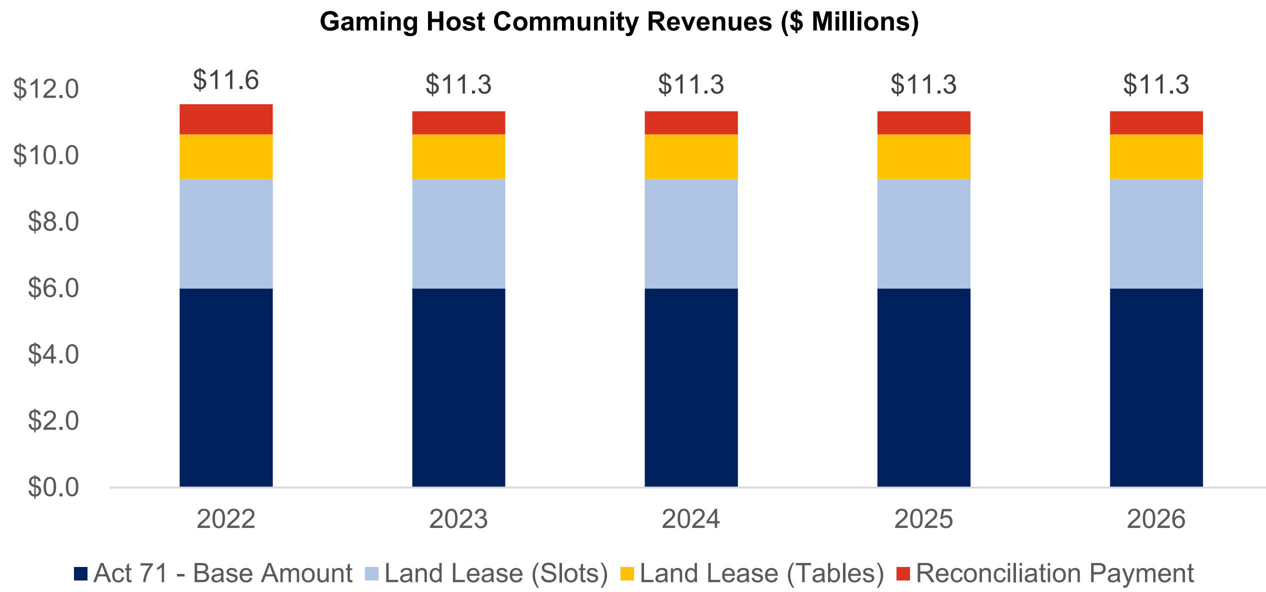
Chester budgeted $11.7 million in gaming host community revenue in 2021, a slight decline from the pre-COVID 2020 budget. Casino revenues are particularly sensitive to restrictive public health measures. In 2020, monthly revenues fell to a fraction of their normal levels in March, June, and December and zeroed out completely in April and May. However, the $10 million minimum guarantee allowed the City to recover the slots-related losses in its Q1 2021 reconciliation payment.

The baseline forecast for the City's General Fund gaming revenues makes three major assumptions:

- An average of $275,000 in monthly revenue from the City's 2 percent share of gross slots revenue paid under the land lease between Harrah's and Chester[53]
- An average of $112,000 in monthly revenue from the City's 2 percent share of gross table games revenue
- $6 million annually in Act 71 Host fee payments, as well as reconciliation payments to bring total slots revenues to $10 million

These assumptions incorporate the impact of announced and proposed casino openings in neighboring municipalities and states, which are likely to cut into Harrah's market share. Moreover, the revenue assumptions remain below historical levels to account for the pandemic's still uncertain impact on the casino gaming industry. The pandemic-driven cut in 2020 gaming revenues translates to a higher reconciliation payment in Q1 2021. The Receiver's team monitors revenues through the monthly reports that the City receives and, like the other major components of the baseline projection, will revisit and revise these projections as necessary.

[53] If these revenues are higher than assumed, that would reduce the reconciliation payment assumed in the first quarter of each year, changing the timing of when revenues are received, but not the total received.



<u>Covanta Host Fee Revenues</u>

In addition to the gaming host community revenues, Chester also receives substantial income for hosting Covanta's incinerator facility. Chester's hosting agreement with Covanta, which is governed by Act 101, expires in April 2022. These revenues accounted for approximately 8.8 percent of the 2021 General Fund revenue budget.

Under the current agreement, Covanta pays the City a collection of fees:

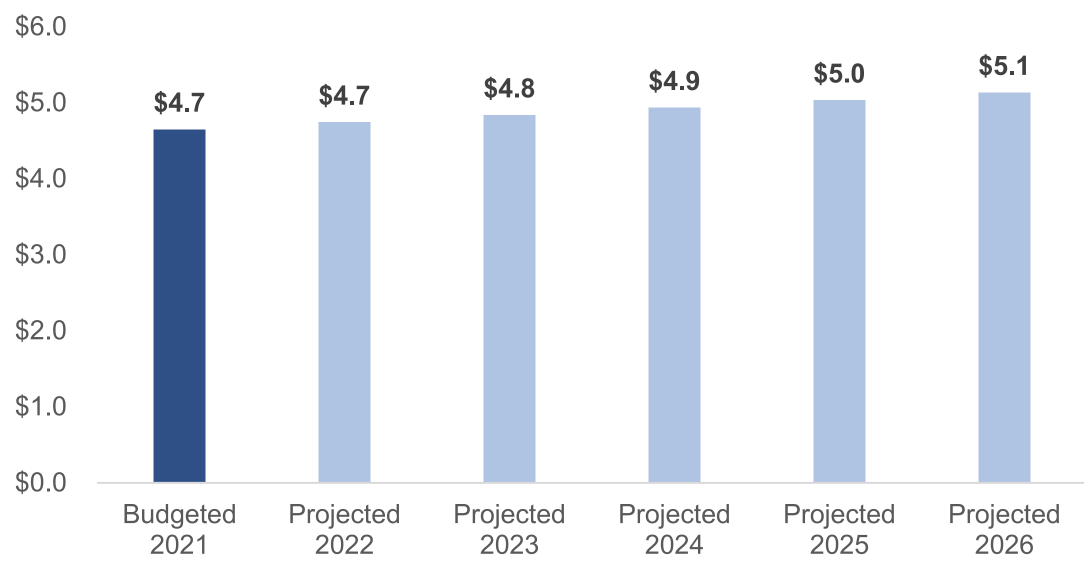
- A $2.00 fee for each ton of solid waste delivered by or on behalf of the Delaware County Solid Waste Authority (DCSWA)

- A fee for each ton of solid waste delivered by other customers. This fee is subject to an annual escalation factor based on changes in labor and material costs. In 2020, the fee was escalated from $4.45 to $4.78

- A $0.25 fee for each ton of solid waste processed over 1.275 million tons in a year, regardless of customer source.

The City's current agreement with Covanta expires in April 2022. The baseline projection assumes the current fee structure continues, though the City can negotiate a different structure once the current lease expires. Revenue growth in this scenario is driven by changes in solid waste collection trends and changes in the labor and material cost indices used for the escalation factor. The baseline forecast assumes that the combined effect of both trends will produce inflationary-level growth in Covanta host fees throughout the forecast period.

Covanta Host Fee Revenues ($ Millions)



Intergovernmental Revenue

The largest intergovernmental revenue the City collects is the **Commonwealth pension aid**. Chester's allocation is a function of the City's employee headcount and the amount of revenue that the Commonwealth collects from taxes on out-of-state insurance policies. At the actuary's recommendation, the City budgeted $1.5 million in Commonwealth pension aid in 2021 – less than the $1.9 million budgeted in 2020 – because the City has fewer employees after the pandemic. The baseline projection assumes headcount stays at 2021 budgeted levels and then applies the 3.5 percent historical growth rate in the Commonwealth aid unit value.

Remaining intergovernmental revenues include federal and state grants, state-shared revenue, and miscellaneous local contributions. In total, these revenues account for approximately $1.8 million, or 3.5 percent of 2021 General Fund revenues. In 2020, Chester was awarded a federal Staffing for Adequate Fire and Emergency Response (or **SAFER**) **Grant**, which pays $785,000 annually for three years beginning in 2021. The baseline accounts for this grant's expiration in 2024. Most other smaller forms of intergovernmental revenue are held flat through the projection period.

Charges for Services

The largest item in this category is the City's **rubbish fees**. Chester charges fees to residents to pass through some of the City's costs connected to contracted trash collection. The City's costs increased by $527,000 (or 58.6 percent) for the multi-year contract that started January 1, 2021. Those costs will eventually have to be passed on to Chester residents, perhaps as soon as 2022, but the baseline projection holds the fees constant for now. Chester's population is not growing so the rubbish fee revenues are held flat through the projection period.

The remaining items in this category grow by inflation.

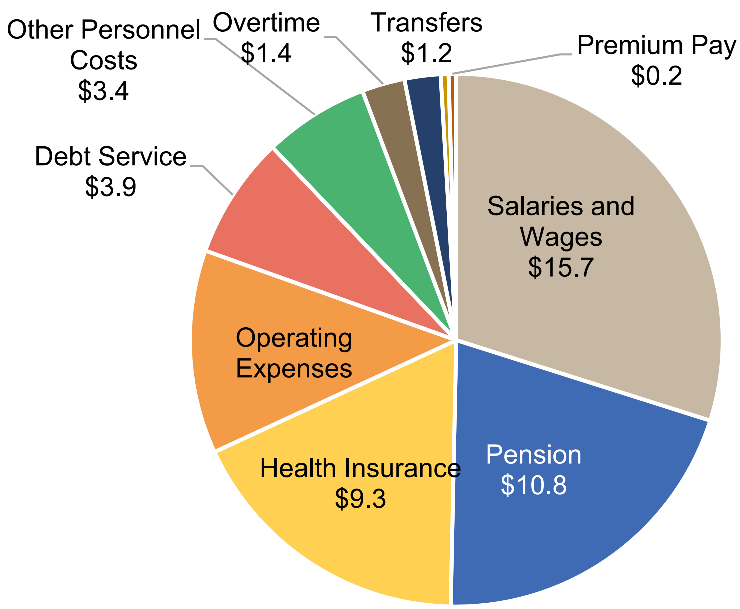
Other

This catch-all category includes all of the City's remaining revenue items. The largest revenue items in this category are reimbursements to defray costs for workers' compensation and employee health insurance claims. The category also includes revenues from payments-in-lieu-of-taxes (PILOTs) that the City has negotiated with non-taxable institutions. The items in this category are held flat or grow by inflation.

Major expenditure assumptions

Like other Pennsylvania cities, Chester spends most of its General Fund budget on its employees. Personnel expenditures – including employee salaries, overtime, other forms of cash compensation, health insurance and the City's pension contributions – account for more than 75 percent of the 2021 budget. Debt accounts for another 7.4 percent, which leaves approximately 15 percent to cover everything else.

2021 General Fund Expenditure Budget ($ Millions)



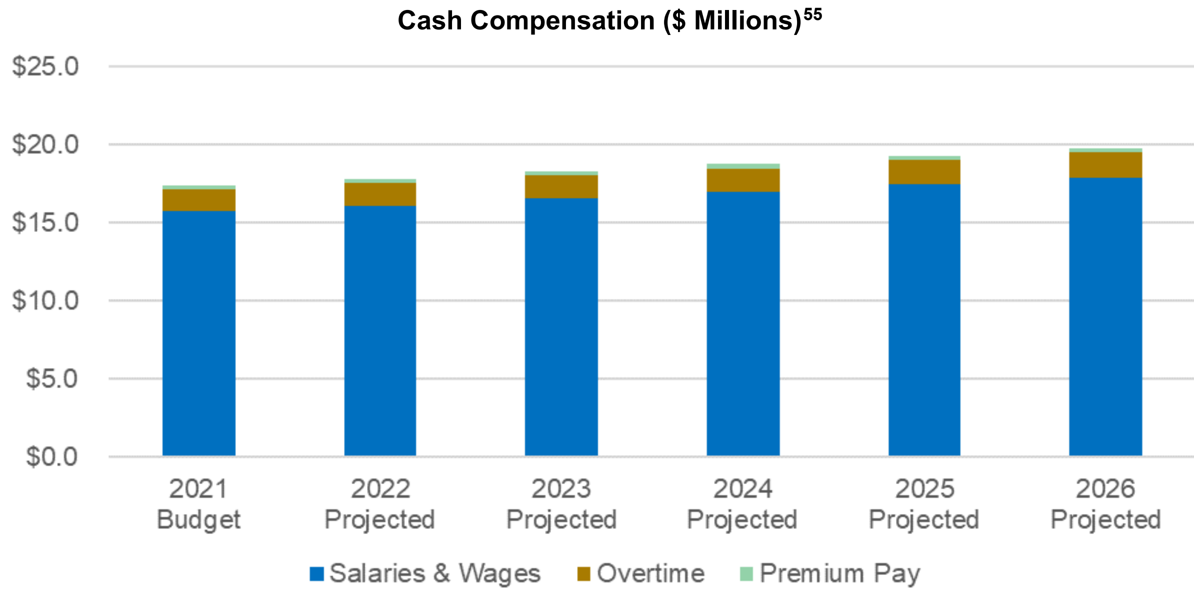
Cash compensation[54]

The City allocates $15.7 million (or 29.9 percent) of its 2021 General Fund budget for employee salaries and wages. The 2021 budget funds 233 full-time positions plus seven part-time positions, not including school crossing guards, police cadets, and fire cadets. Most City employees are members of one of three bargaining units and their compensation is set by the terms of their collective bargaining agreements. The City's collective bargaining agreement with the Teamsters expired on December 31, 2020, and the other two agreements with police and fire unions will expire at the end of this year.

The baseline projection assumes no changes in headcount relative to 2021 budgeted levels, except for three positions that will be eliminated during 2021 per agreement with the City. The baseline assumes 2.0 percent annual across-the-board increases in base salaries for all employees, except police who have an assumed 3.5 percent base wage increase. As described more in the Workforce Chapter, police officers receive an additional 1.5 percent annual wage increase for violent duty recognition that is included in the baseline projection. The baseline projection applies the same wage patterns to the City's projected spending on **overtime** ($1.4 million budgeted) and **premium pay** ($241,000 budgeted).

[54] Please see the Workforce Chapter and the Legacy Cost chapters for more discussion of the different types of compensation that City employees receive.

Overall, these three types of cash compensation grow by 2.7 percent per year.



<u>Pension</u>[56]

The City has three defined benefit plans – the Police Pension Plan (PPP), the Paid Firemen's Pension Plan (FPP), and the Officers and Employees (O&E) Pension Plan that covers eligible employees who are not in the first two plans. Each year an independent actuary calculates the minimum amount that the City should contribute to each plan so they have enough assets (including investment earnings) to cover the cost of benefits for current and future retirees. That contribution, which is also called the Minimum Municipal Obligation (MMO), is incorporated in the City's budget. Every two years the actuary completes a larger review of the pension plans, called a valuation report, that resets the MMO calculation to reflect the pension plans' updated performance. The most recent valuation report covers the pension plans' performance as of January 1, 2019.[57]

The actuary has provided MMO projections for the three pension plans in 2022 and 2023. We assume the 2022 MMO will be based on the January 1, 2019 valuation report, and the 2023 MMO will be completed on the new valuation report covering the period through January 1, 2021. Work on that valuation report will begin this year and, while we do not know yet what it will show, it is reasonable to assume that the PPP lost ground on an actuarial basis during the last two years as it has done in every valuation cycle since 2007.

Reasons for actuarial losses include investment earnings falling short of the target, police officers retiring earlier than assumed, and police officers having higher earnings than assumed. The first of those three factors was very likely true for 2019 and 2020. The PPP has very few assets left and they are mostly invested in cash or cash equivalents, so the PPP cannot hit its 7.5 percent interest earnings target. We do not know yet how much the actuarial losses were, or how much they will add to the police MMO. In some years the losses have added less than $100,000 to the MMO, and in some years they have added more

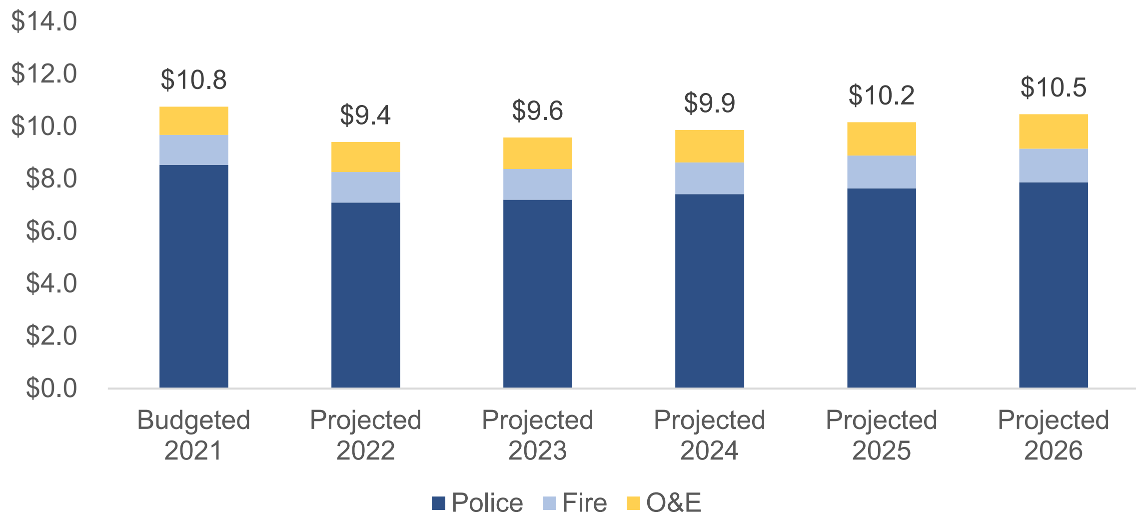
[55] This includes salaries and wages, including those paid to temporary, part-time and seasonal employees; overtime; and premium pay.
[56] Please see the Legacy Cost chapter for more information on the City's pension contributions, how they are calculated, how they have changed in recent years and why they are so central to the City's overall financial performance.
[57] Work on the valuation report as of 1/1/2021 should begin this year.

than a $1.3 million. Meanwhile, some of the liabilities that date back to 2011 and earlier will be fully repaid at the end of 2021 and drop out of the MMO calculation.

In short, the baseline projection assumes the City takes credit for paying off some liabilities without shouldering the extra costs of more recent liabilities until 2023. **This creates short-term budget relief but exacerbates the pension funding problem because the City won't start paying off the liabilities from 2019 and 2020 until 2023, at which point there may also be liabilities from 2021 and 2022.**

The baseline projection incorporates the actuary's projections for 2022 and 2023 and has placeholders for subsequent years which will be based on future pension valuation reports. Please note that the projections assume that past due payments are already in the pension funds because that is the actuarial practice when calculating MMOs. If those past due payments were not treated as pension plan assets, the MMOs would be higher.[58]

Pension MMO Projection ($ Millions)



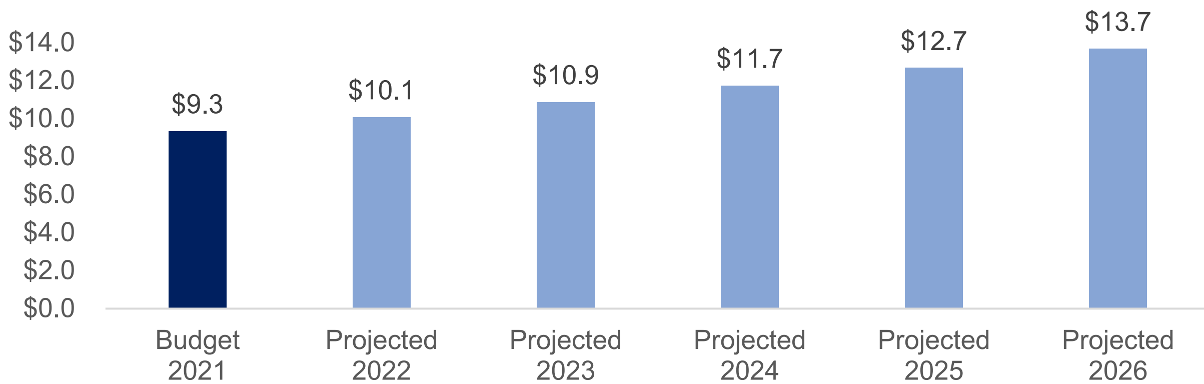
Health insurance

The City budgets $9.3 million for active and retired employee medical and prescription drug insurance coverage, including the administrative costs for the program.[59] Chester is self-insured for all active and some retired employees, so actual expenditures will depend on the volume and size of claim costs. The City has a stop-loss insurance policy that covers an employee's medical treatment after it exceeds a pre-determined cost threshold.

Based on input from the City's third-party administrator (TPA) for health insurance, the baseline projection assumes that expenditures related to health claims activity grow by 8.5 percent and administrative costs for health insurance—including the premium for stop-loss coverage and other administrative fees—will grow by 3.0 percent.

[58] Please see the Legacy Cost chapter for more discussion of this issue.
[59] Please see the Workforce Chapter for more information on the City's health insurance coverage for active employees and the Legacy Cost chapter for more information on the City's health insurance coverage for retired employees.

Health Insurance Projection ($ Millions)

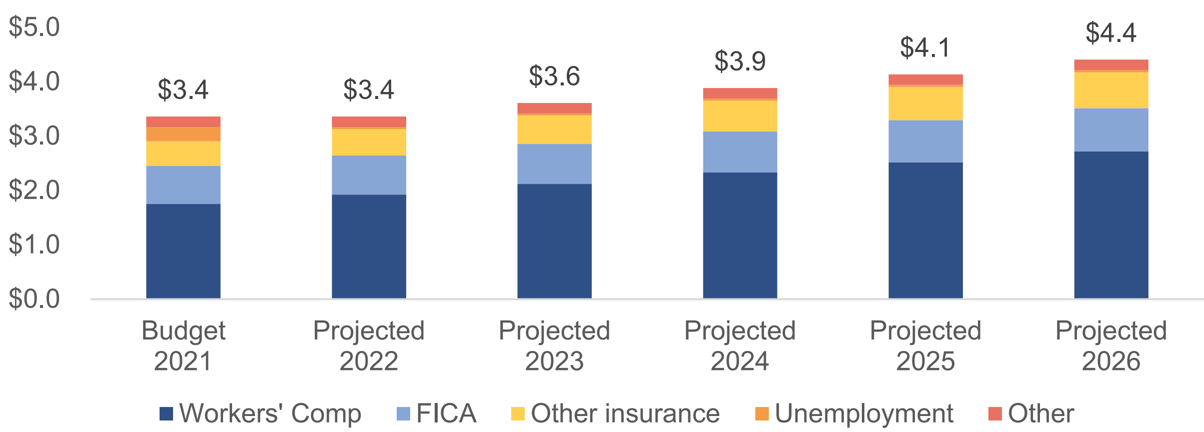


Other personnel costs

Chester budgets $3.4 million for other personnel related costs in 2021. The largest item in this category is the City's spending on workers' compensation ($1.9 million budgeted). The City is fully insured for workers compensation claims by the State Workers Insurance Fund and the baseline growth rate for this item is 9.2 percent based on projected premium increases.

Other large items in this category include dental, life, and vision insurance and unemployment-related costs. The 2021 budget allocates $263,000 for unemployment costs, including the cost of claims from Q4 2020 that are paid in Q1 2021. The allocation for these costs drops to $36,000 in 2023 since the baseline assumes no further layoffs that would generate new claims. This category also includes the City's contributions under the Federal Insurance Contributions Act (FICA, or social security), which grow at the same rate as salary growth.

Other Personnel Costs ($ Millions)



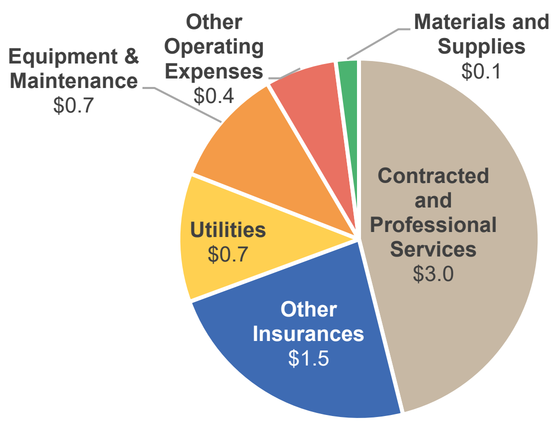
Debt

In the 2021 budget, the City transfers $3.9 million from the General Fund to the Debt Service Fund to make principal and interest payments for outstanding long-term debt, such as revenue bonds, long-term lease obligations, and Commonwealth loans.[60] The Debt Service Fund also covers the interest costs for the City's annual Tax Anticipation Revenue Note (TRAN) and the debt related to Chester's local sponsorship for the Delaware County Community College. As it currently stands, the City's debt schedule has a flat level of payments out of the General Fund through 2026. Most of the City's debt is fully repaid by the end of 2027. That does not account for potential debt refinancing or new debt issuances.

Operating expenditures

The City budgets $6.5 million in 2021 for non-personnel operating expenditures, which the chart below breaks into six major categories.

Non-Personnel Expenditures by Category ($ Millions)



The largest non-personnel operating expenditure category is contracted and professional services. Sixty (60) percent of this spending goes toward waste management services provided by external parties, primarily the private company that collects trash and the Delaware County Solid Waste Authority (DCSWA). Spending on waste management grows by 13.7 percent on a compounded annual basis throughout the baseline projection. Some of that increase is tied to the City's waste management fees, which are expected to increase due to DCSWA's planned improvements. Contracted and professional services also includes spending on legal services.

The second largest operating expenditure for the City is liability insurance. Growth in liability insurance is related to growth in premiums (forecast at 8.0 percent) and growth in claims (forecast at 5.0 percent). Claims expenditures will be based on actual experience within a year. The baseline forecast conservatively assumes 5.0 percent growth in claims to provide a cushion for this uncertainty.

In addition to professional services and insurance, the City devotes a significant portion of its non-personnel operating budget to equipment purchases and repairs. This category grows by 8.6 percent in the baseline projection, which reflects elevated spending on repairs given the aging nature of the City's capital stock. Most of the other non-personnel operating expenditures grow by inflation.

[60] Please see the Legacy Cost chapter for more information on the City's outstanding debt.

Contingency

In prior years, the City carried large amounts of unpaid bills into the next year to deal with its cash shortage.[61] The City finished 2020 with $0.9 million in cash left in its General Fund, plus it was able to pay most bills due to vendors before the year closed. Still, the City incurred some bills in late in the year and others were submitted for payment late; therefore some bills from 2020 were paid in the first couple months of 2021.[62] As of March 2021, the expected expenditures for these 2020 payables was $532,000. The baseline projection includes $500,000 for this purpose or a very modest contingency.

Capital budget

The City has three transfers out of the General Fund, two of which pass through revenue designated for or related to other entities (J. Crozier Library and Delaware County Community College). The third is a $500,000 transfer to the Capital Improvement Fund that supports Chester's inadequate capital budget.

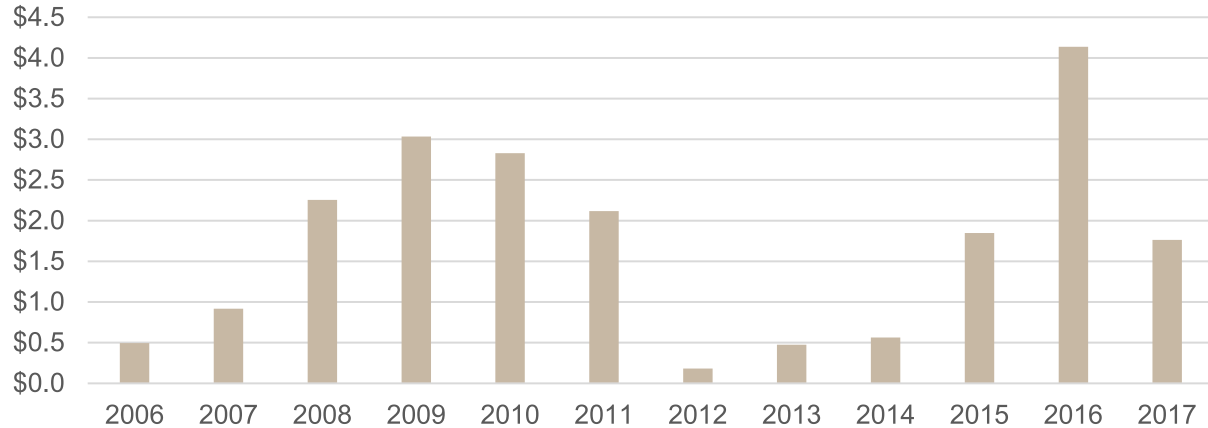
City government owns, and is responsible for maintaining, several buildings, parks, roads, bridges, and other pieces of infrastructure that residents, businesses, and visitors use every day in Chester. This includes:

- 79.6 miles of streets and alleys
- Nine bridges
- 28 vehicles (not including lawn mowers) used for public works and park maintenance purposes, plus fire and police department vehicles
- 3,742 luminaires (streetlights) plus traffic signals
- 247 acres of parkland distributed across six major parks, 23 neighborhood play areas and a boat launch on the Delaware River
- Eight major facilities – City Hall, Public Works Garage, Chester Park Barn and Garage, two fire stations, an administration building, the Memorial Park Pool, and the East End Recreation Center
- Computer hardware and information technology infrastructure

From 2006 through 2017, the City spent $1.7 million per year on average on capital projects according to its reports filed with DCED. The 2016 spike was due to a $2.7 million project.

[61] Please see the History in Oversight chapter for more information.
[62] On a modified accrual basis, these expenditures will be accrued back to 2020 and be included in the 2020 year-end audit. Since Chester generally budgets on a cash basis of accounting, they are projected as part of 2021.

Capital Expenditures ($ Millions)[63]



The preliminary 2020 year-end results show the City spending $220,000 on capital improvements. Almost all of this was used to purchase new police cars – an important purchase, but one that some communities have purposely excluded from their capital improvement program because of cruisers' relatively short useful life. The City traditionally uses some of its Commonwealth liquid fuels allocation and federal Community Development Block Grant (CDBG) funding for eligible capital projects. Even with those additions, Chester's spending on capital projects is very modest because of its financial limitations. The 2021 budget has just $500,000 for capital projects, mostly for building repairs ($200,000) and vehicle purchases ($150,000).

Ideally, the City would use a mix of "pay-as-you-go" sources, such as a General Fund transfer or designated tax revenues, and debt to fund its capital budget. Practically, the City's cash flow situation has been so weak that the capital budget becomes a contingency for covering additional operating expenditures, and the City's budgetary position is so weak that the City cannot issue new debt. In some situations, capital needs force their way into the operating budget when an emergency need for vehicle or building repairs can no longer be deferred.

Under the Act 47 Coordinator's direction, the City has taken the first step toward addressing these needs. The City Engineer and Department of Public Works developed a Capital Improvement Plan (CIP) that describes Chester's assets, identifies specific needs, prioritizes them, and provides an initial cost estimate over a five-year period. The table below summarizes the types of projects included in the CIP with an estimate of how much they may cost and when they should be executed according to 2019 information.

Capital Improvement Needs
as identified in August 2019 CIP

	Year 1	Year 2	Year 3	Year 4	Year 5	**Total**
Accounts & Finance - IT upgrade				$250,000		**$250,000**
Fire Department Vehicle		$1,000,000				**$1,000,000**
Police Headquarters		$300,000	$2,095,000		$125,000	**$2,520,000**
Parks & Recreation facilities	$360,000	$865,000	$760,000	$420,000	$1,310,000	**$3,715,000**
City Hall	$100,000	$25,000	$25,000	$110,000	$410,000	**$670,000**
Public Works & Parks Garages		$845,000			$350,000	**$1,195,000**

[63] Spending as reported in the Municipal Annual Audits and Financial Reports filed with DCED.

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Other	$125,000	$75,000	$100,000	$100,000	$100,000	**$500,000**
Fire stations		$750,000		$750,000		**$1,500,000**
Police & Fire - New Headquarters					$6,500,000	**$6,500,000**
Police Equipment	$50,000	$50,000	$50,000	$50,000	$50,000	**$250,000**
Public Works - Road program	$1,250,000	$1,250,000	$1,250,000	$1,250,000		**$5,000,000**
Bridge work	$55,000	$180,000	$175,000	$100,000	$545,000	**$1,055,000**
Street & Traffic lights	$250,000	$250,000	$250,000	$250,000	$250,000	**$1,250,000**
Central Business District Renovation	$1,000,000					**$1,000,000**
Total	**$3,190,000**	**$5,590,000**	**$4,705,000**	**$3,280,000**	**$9,640,000**	**$26,405,000**

The CIP should be updated periodically as new needs and funding sources emerge and project timelines and budgets change, but this is a good start. Resequencing the projects may also change the total outlay. For example, if the City built a new police and fire headquarters earlier than Year 5, that may mitigate the need to repair the existing fire stations[64] and police headquarters.

When the Receiver filed the first Recovery Plan, there was awareness of these needs but the practical difficulty of finding money to fund them. The federal stimulus legislation provides a partial solution for that problem, as described in initiative FIN05 below.

Initiatives

The financial controls established in the 2020 Emergency Action Plan (EAP) and continued in the August 2020 Receiver's Plan were critical to helping Chester avoid insolvency in 2020.

They allowed Chester to pay its outstanding bills to vendors, cover its debt obligations, and avoid an unfunded debt borrowing to get through a very difficult year. Chester entered 2021 with a very small cash reserve of $0.9 million. The current projection shows cash flow levels dipping to a very low level again in the fall, though this time the projection also includes the City's contributions to the three employee pension plans. The City has edged back from the immediate risk of insolvency that was described in the EAP, but its cash position is far from secure.

Similarly, the 2021 budget should be a more realistic projection of revenues and responsible allocation for expenditures than prior years when the City adopted a balanced budget and ran multi-million-dollar deficits. The pandemic and uncertain pace of recovery remain key variables, and the 2021 budget adoption process was very difficult. The City was not able to bring back all employees and programs that it lost in 2021. Additionally, the true measure of the budget's value as a spending plan will come throughout 2021 as the City lives within the means described in it.

Alongside this progress, the Receiver and City Finance team are working to address several very basic problems such as:

- The City's most recent completed year-end audit covers Chester's performance through 2017. The 2018 audit is nearing completion and then work will begin immediately on the 2019 audit. It is unlikely that Chester will have a completed audit for 2020 by end of this calendar year.

[64] The fire stations are also the subject of the ongoing study of Fire Department operations.

- While completing the audits is a necessary first step, addressing the shortcomings in financial controls identified through the audit process is equally important. The external auditor issued a report on internal control deficiencies for fiscal year 2017 with a long list of deficiencies that range from bank accounts missing from the General Ledger, to improvements needed for accounting and pension management, to employee tax withholdings not being remitted to the IRS on a timely manner. Some of these problems dating back to 2017 may have since been resolved, but the Receiver expects that the 2020 audit will still have several findings.
- The City's financial software package – the system that government uses every day for basic finance, accounting, purchasing, and human resource functions – is approaching the end of its useful life. The software vendor has informed Chester that it will not provide customer service on the system after 2021 so the City has started to implement a new software package. That process is complicated and challenging for all governments regardless of financial stability and will be even more so in Chester.

This is not a comprehensive list of problems, but it gives the reader a sense of the scale of corrective action needed to get the City in place where it can manage its finances without the controls established at the start of this process. Until then, most of those controls remain in place.

FIN01: Continue financial controls

The financial controls established in the 2020 EAP and continued in the August 2020 Receiver's Plan remain in place with some adjustments as described below:

- The hiring freeze for all positions except school crossing guards shall remain in place. The City may not create any new positions without the Receiver's approval. In considering requests for new positions the Receiver will consider, among other factors, whether the City has funding available to support the full cost these positions including fringe benefits for the term of this Plan.
- The City shall get Receiver approval before overtime costs are incurred by personnel other than police officers and firefighters.
- The Receiver's team will conduct an eligibility audit to identify any cases where the City is providing health insurance, pension, or other forms of compensation to employees where the City does not have a legal obligation to do so. This includes insurance for prior employees who have been terminated, laid off, or otherwise separated from City service. Where a legal obligation does not exist, the City shall cease providing benefits or compensation to former employees and ensure that appropriate notice is provided to the impacted individuals. The Receiver also reserves the right to seek reimbursement from any former employees who receive compensation, including health insurance and pension benefits, not due to him or her.
- The Receiver and City's Chief Financial Officer shall approve any discretionary purchases over $5,000.
- The City shall not apply for or request any grant funding or external monetary support that requires a City financial or in-kind match without Receiver approval. This includes any grants that fund part of the compensation costs associated with new employees or grants that fund the full cost for new employees and then require the City to retain those employees after the grant has expired.

The EAP and August 2020 Recovery Plan provisions requiring Receiver approval for debt issuance or actions related to asset sales, leases or monetization also remain in place, and are covered in the Legacy Cost and Asset Management chapters respectively.

FIN02: Improve financial reporting

The City shall continue to issue the financial reports required in the EAP, specifically including the following:

- A projection of the City's daily General Fund cash receipts, expenditures, and cash balance position for the next 14 days
- A projection of the City's monthly cash receipts, expenditures, and cash balance position through the end of the current fiscal year
- Year-to-date budget-versus-actual results for the General Fund on a monthly basis
- Pension investment and account activity statements for all employee pension funds
- Other reports as requested and required by the Receiver

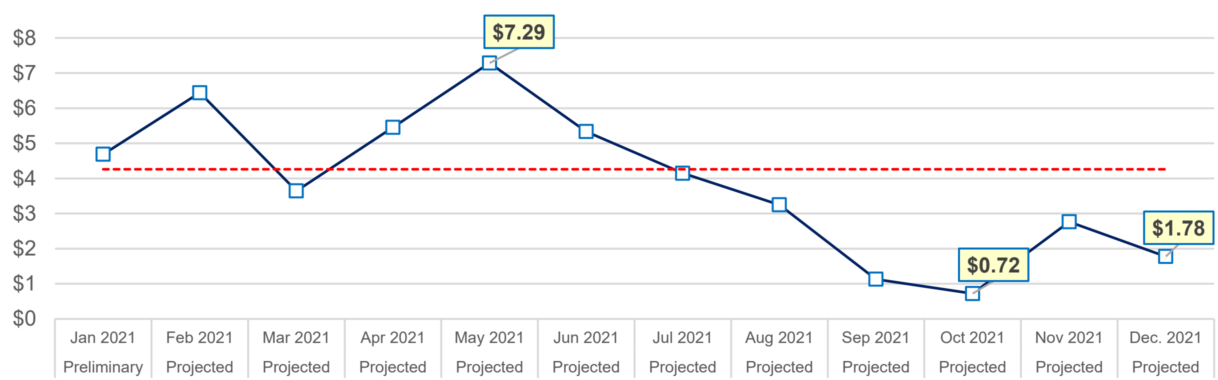
The Receiver has reduced the frequency with which the City has to submit some of these reports from the weekly standard in the EAP. While it is important that the City provide timely information, weekly reporting for some items proved inaccurate and incomplete. This undermines the value of the reports and the process.

Finally, the City shall continue working with its external auditor to complete the year-end audits. Designing a corrective action plan to address internal control shortcomings is difficult at this time because the external auditors are still reviewing activity that took place years ago and may no longer be relevant. Once the City comes closer to the current period, the Receiver will give more direction on how to address those findings.

FIN03: Cash flow monitoring and controls

Section 703 of Act 47 requires that this Plan provide for the "continued provision of vital and necessary services." To provide vital and necessary services, the City must have cash to pay its employees, vendors, and other obligations in the General Fund. The chart below shows the most recent cash flow projection for the General Fund and others associated with it.

Total Cash Balance Projection for 2021 ($ Millions)



The projected high point for cash in 2021 is $7.3 million at the end of May. The projected low point for cash is $0.7 million at the end of October, and that assumes $0.4 million in savings associated with refinancing the 2017 Series bonds.[65] Without those savings, the low point would be $0.3 million. This pattern where cash position peaks in the early summer and then declines throughout the rest of the year is common for Pennsylvania cities. Still, Chester's cash position in 2021 will be very tenuous, without accounting for any money provided through the new federal stimulus program.[66]

[65] Please see initiative LEG08 in the Legacy Cost chapter for more information.
[66] This is addressed later in the chapter.

- The City shall repay its annual TRAN borrowings in full by the deadline associated with the borrowing, as it did in 2020.
- The City shall take all precautions to avoid doing any further unfunded debt borrowing to fund operations. Unfunded debt borrowings, like the one done in 2017, should be borrowings of last resort. They carry higher interest rates than other types of borrowing and shift the cost of services already delivered onto taxpayers for the next 10 years.
- The City shall minimize all obligations carried over from one fiscal year into the next. Unexpected events do occur, particularly during unusual events like the pandemic. But the City needs to avoid falling back into the cycle of pushing current year obligations into next year's payment cycle.

FIN04: Adopt realistic, balanced budgets

As described in the August 2020 Recovery Plan, Chester has consistently had actual financial results that fell short of the budget with multi-million-dollar deficits from 2013 through 2016.

General Fund Budget versus Actual Results, 2013 - 2016

	2013	2014	2015	2016
Budget Surplus/ (Deficit)	$0	$0	$0	$0
Actual Surplus / (Deficit)	$(2,227,095)	$(8,687,450)	$(7,979,333)	$(8,241,655)

The City's performance in 2017 was more positive in that annual revenues and expenditures were nearly balanced. The 2017 comprehensive annual financial report shows a $7.7 million positive result at the end of that year, but that apparent surplus was due to the City borrowing $12 million through an unfunded debt loan to cover some of its unfunded obligations. The City also received a $2 million emergency loan from the Commonwealth in 2017. The City then returned to deficits in 2018 ($3.4 million unaudited) and 2019 ($4.8 million unaudited).

The 2021 budget process was difficult but culminated in a spending plan that restores some of the positions cut from public works and code enforcement and includes a $10.8 million contribution to the three pension plans in line with the MMOs calculated by the actuary.

The Receiver's team will work with City Finance and elected officials on future budgets, and the Receiver shall make any changes needed to ensure that the City has a realistic, balanced budget entering each year. The budgeted expenditures shall include annual contributions to the three employee pension plans in line with the annual MMOs calculated by the City's actuary.

FIN05: Use of federal stimulus funding

In March 2021, President Joseph Biden signed the $1.9 trillion American Rescue Plan (ARP) into law that includes money for state and local governments. The estimated allocation to the City of Chester is $31.85 million. Over the next couple of months, the federal government will issue further guidance on how this funding can be spent. The preliminary guidelines at a very high level are as follows:

- Communities will receive the first half of their allocation in 2021 and then the second half no sooner than a year later. Funds must be spent by December 2024

- Fund can be used to:
  - Cover costs incurred by the local government prior to December 31, 2024
  - Respond to the public health emergency
  - Assist households, small businesses, and non-profits
  - Assist industries such as tourism, travel, and hospitality
  - Provide government services in the instance of lost revenue
  - Invest in water, sewer, or broadband infrastructure

- Funds cannot be used to provide a tax reduction, credit, or rebate or relief for a pension fund

Even if the City cannot use the stimulus funding to address its severely depleted pension plans, there are several alternatives to use the money in a way that helps Chester residents and businesses. There are options, like early debt repayment, that would address the City's structural deficit. The City could use a portion of the funding to fund a capital improvement plan and start to address the needs described earlier in this chapter. The City could also use a portion of the funding to provide direct relief to Chester's residents and businesses that have been hurt financially by the pandemic.

The answer to how the City *should* spend its federal allocation depends on more fully understanding the federal conditions for how the City *can* spend the allocation. Chester, like all other communities, will have to wait for more guidance on those points.

Any material use of these funds would fall under the EAP and August 2020 Plan requirement that the City get Receiver approval for discretionary purchases over $5,000. That provision is also incorporated in this Plan. Ahead of federal guidance, the Receiver sets the following additional parameters for the use of this funding:

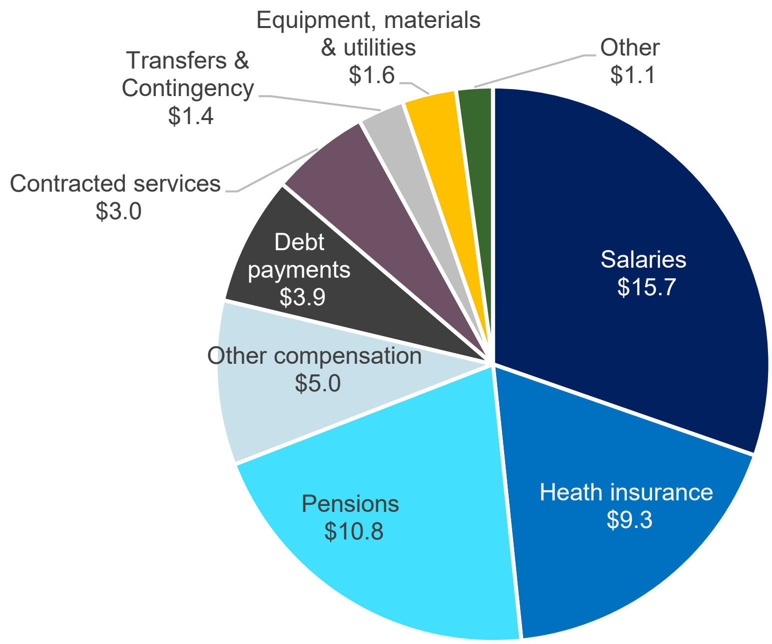
- The City shall place the stimulus funding in a bank account separate from the General Fund and any other existing accounts. This will enable the City to track its use of these funds and meet the eventual federal reporting and auditing requirements.
- The City's Chief Financial Officer will submit a list of any opportunities where the City could make a scheduled payment in advance to reduce interest or penalty charges, subject to any federal regulations. For example, while the City should keep the federal stimulus funding separate from the General Fund, it may be possible to repay the 2021 TRAN note early enough to reduce the $100,000 in anticipated interest costs.
- The Receiver will consult with the City's elected officials to discuss how to allocate the money between City government and any external organizations that would administer direct relief programs for residents and businesses. The Receiver will then incorporate that internal/external breakdown into the next Amended Recovery Plan so there is transparency regarding how the funding is being used.

Once the federal government provides more guidance on how the funding can be used, next steps would include working with City officials to identify organizations capable of administering direct relief programs and meeting federal reporting requirements and identifying the specific ways that City government will use the funding to address its structural deficit and fund capital projects.

Workforce

The services that City government provides to its residents, property owners, and visitors are labor intensive, so employee compensation costs account for most of the City's expenditures. In the approved 2021 budget, employee salaries, wages, and benefits account for 78 percent of the General Fund budget.

2021 Expenditure Budget ($ Million)



Workforce issues also directly impact the City's ability to provide vital and necessary services which are required under Act 47. They do so not only due to the significant labor and personnel costs incurred as a result of the employees that are necessary to provide such services, but also due to the fact that especially in a fiscally challenged city like Chester, every dollar spent on labor and personnel costs is one less dollar that can be spent on infrastructure and other needs that are necessary in order to deliver vital and necessary services. Thus, Chester must be particularly efficient, prudent and cautious in how much it spends on its workforce.

Section 701 of Act 47 defines "vital and necessary services" as "basic and fundamental municipal services, including any of the following:

- Police and fire services
- Ambulance and rescue services
- Water supply and distribution
- Wastewater services
- Refuse collection and disposal
- Snow removal
- Payroll and pension obligations
- Fulfillment of payment of debt obligations or any other financial obligations

Act 47 does not consider every service that a municipality provides to be "vital and necessary," nor is the enumerated list in Act 47 exhaustive of "vital and necessary" services. Additionally, Act 47 does not mandate how such services are to be provided – either in-house or contracted out. Furthermore, the City of Chester does not directly provide some of the services listed in Section 701. Therefore, to help others understand how the Receiver prioritizes personnel allocation and funding decisions, the Receiver wishes to clarify the City services that he believes to be "vital and necessary" in addition to those which are enumerated in Section 701.

While the Receiver believes that many functions that the City provides are important, not all are "vital and necessary." Looking at the services enumerated in Section 701 that relate to City operations, it appears to the Receiver that most can be categorized as directly related to public health and safety. Consequently, the Receiver considers code enforcement functions as a "vital and necessary" service in addition to those set forth in Section 701.[67]

Employee compensation background

As noted in the Act 47 Coordinator's Exit Plan, personnel costs for police and fire services soared from 2013 through 2016 due to catastrophic interest arbitration awards in 2011 and 2012 that disregarded the City's poor financial position and instead made it much worse. Specifically, the IAFF interest arbitration award by Arbitrator Edward O'Connell covered a 10-year period (five retroactive and five prospective) and provided across the board wage increases ranging from 3 percent to 4.5 percent. The FOP interest arbitration award by Arbitrator Jay Goldstein provided across the board wage increases of 3 percent each year for five years, but it also awarded an additional 1.5 percent per year for "violent duty recognition" which essentially was another base wage increase resulting in effective annual wage increases of 4.5 percent from 2012 to 2016. Because the IAFF contract included a "me too" provision for wage increases or bonuses, the "violent duty recognition" pay awarded to the FOP was also applied to the IAFF contract for several years.

The City and its bargaining units negotiated new labor agreements in 2017, which were a helpful first step, but did not address the fundamental imbalance between the cost of services provided, including the cost of employee pension and retiree health care benefits for then-current employees, and the money available to fund those services. The City carried $4 million in unpaid bills into 2020, plus additional obligations for income tax withholdings not remitted to the federal government and a string of years in which it failed to make the annual required contributions to the employee pension plans.

The extremely fragile cash flow situation was broken when the COVID-19 pandemic hit in Spring 2020. The pandemic cut real estate and casino-based revenues below budgeted levels, and pushed Chester toward potential insolvency and into receivership.

The pandemic, coupled with Chester's lack of meaningful financial reserves, also hurt the City's workforce. In Spring 2020, City government furloughed several employees outside of the Police and Fire Departments to brace for the pandemic's fiscal impact.[68] All positions that were vacant in the 2020 approved Salary Appropriation were removed at the time of the furloughs, except for vacant uniformed police positions. Some areas, like code enforcement, parks maintenance and streets maintenance, were hit especially hard. Staffing in those areas was cut to a handful of employees (mostly part-time), and that was the level of staffing incorporated in the baseline projection for the Receiver's first Recovery Plan.

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[67] Note that the Receiver also considers public health services to be a vital and necessary service, although he believes that these services will be more efficiently provided by Delaware County once it becomes fully operational in January 2022.
[68] The City also furloughed most clerical employees in the Police Department.

The City and Receiver recognized that staffing level was insufficient to provide certain vital and necessary services and worked together to restore some full-time positions in late 2020 and in the 2021 budget. Functions previously handled by the Department of Parks, Recreation and Public Property were consolidated into the former Streets Department to create the Department of Public Works, Parks and Property. The City's Licenses and Inspection Division and Bureau of Health were also consolidated, resulting in fewer total positions. All areas except uniformed police and fire staffing have less positions now than they had entering 2020. The table below shows the change in full-time equivalent positions (FTEs).

Full-time Equivalent Positions (FTEs)[69]

	2020 Budget	2020 Post-Furlough	2021 Budget
Public Affairs (w/out police)	22.5	10	10
Police	107	98.5	96.5
Accounts & Finance	20	17.5	17.5
Parks, Recreation & Public Property	24	7	0
Public Works, Parks & Property	29	7	30.5
Public Safety (w/out fire)	24	8	20
Fire	54	54	62
Total	**280.5**	**202**	**236.5**

The City was not able to bring staffing all the way back to pre-pandemic levels in the 2021 budget, but that level of staffing was not sustainable, even before the pandemic. City government has not made its full annual required contribution to all three employee pension plans since 2013, and making that contribution is integral to having a truly balanced budget.

As much as finances allowed, the Receiver has prioritized restoring front-line, full-time positions in Public Works and code enforcement at a level that projected 2021 revenues would support, without leaning on one-time sources of funding to support ongoing operating costs.

The baseline projection carries the 2021 budgeted staffing levels forward. Whether the City can keep this level of staffing beyond 2021 – or even add to it – depends partly on the speed with which revenues rebound to pre-pandemic levels and partly on the City's success in implementing the initiatives in this Recovery Plan, including the Workforce initiatives.

[69] Vacant positions and part-time positions (0.5 FTE each) are included. School crossing guards are not included.

Baseline Projection: Workforce Expenditures

	2021 Budgeted	2022 Projected	2023 Projected	2024 Projected	2025 Projected	2026 Projected
Salaries and Wages	15,722,444	16,104,045	16,533,307	16,974,906	17,429,219	17,896,638
Overtime	1,370,000	1,412,400	1,456,173	1,501,365	1,548,023	1,596,196
Premium Pay	241,414	249,864	258,609	267,660	277,028	286,724
Health Insurance	9,349,991	10,085,139	10,880,988	11,742,641	12,675,638	13,685,986
Pension[70]	10,758,219	9,409,404	9,580,358	9,879,984	10,189,383	10,508,882
Other Personnel Costs	3,360,135	3,359,910	3,610,216	3,883,474	4,135,305	4,406,331
Total	**40,802,204**	**40,620,763**	**42,319,651**	**44,250,030**	**46,254,596**	**48,380,758**

Simply waiting for revenues to rebound from the pandemic will not change the fact that the City was not fully funding employee compensation *before* the pandemic. The City must bring the total cost of employee compensation, including retiree pension and health benefits, in line with the City's ability to pay those costs. This chapter focuses on the cost of compensation for active employees and a separate chapter addresses pension and retiree health insurance benefits.

Salaries and Compensation

As noted, personnel costs account for most of the General Fund budget, and the salaries and wages paid to current employees are the largest portion of those costs. Most of the City's employees are members of one of three bargaining units and their compensation is set by the terms of their collective bargaining agreements.

Group	Covered Positions	Contract Term	Full-Time Positions	Part-Time Positions
FOP	All police officers except Commissioner and Major and cadets	1/1/2017 – 12/31/2021	92	-
IAFF	All firefighters except Commissioner and cadets	1/1/2017 – 12/31/2021	60	-
Teamsters	Clerks, Public Works department employees, code enforcement officers[71]	Expired 12/31/2020	37	1
Nonunion	Various including elected officials[72]	n/a	43	6
Total			**232**	**7**

From 2013 to 2016, the City increased wages by as much as 18 percent, depending on the bargaining unit. Those increases were in large part due to the 2011 and 2012 interest arbitration awards for the City's

[70] The projections shown here understate pension expenditures after 2023 because the City does not yet have the updated valuation reports that would determine the City's contributions after 20222. This is discussed more in the Financial Assessment chapter.
[71] Part-time crossing guards are included in this group, but not shown in the table. The City allocates $527,800 for those employees in the 2021 budget.
[72] Police and fire cadet positions are part of this group, but not shown in the table. The City allocates $100,800 for police cadets and $45,750 for fire cadets.

uniformed personnel mentioned earlier. The collective bargaining agreement with the Teamsters expired at the end of 2020, and the agreements with the Fraternal Order of Police (FOP) and the International Association of Firefighters (IAFF) unions expire at the end of 2021.

Base Wage Increases by Employee Group, 2017-2021

Group	2017	2018	2019	2020	2021
FOP	1.5%	2.0%	3.0%	3.0%	3.0%
IAFF	0.0%	0.5%	1.5%	1.5%	1.5%
Teamsters	3.0%	3.0%	3.0%	3.0%	NA
Nonunion[73]	0.0%	3.0%	3.0%	1.5%	1.5%

Since 2012, FOP members have received an additional 1.5 percent annual wage increase for violent duty recognition under the terms of the 2012 arbitration award that reads as follows:

> *Each bargaining unit member as of January 1, 2012 shall receive every year for the duration of this contract a base wage adjustment equal to an additional 1.5 percent of base wage.*

While language stated that this 1.5 percent increase would only take place "for the duration of this contract," the City carried it through the next contract. As a result, the base wage increases stated in the 2017 Memorandum of Understanding (0 percent in 2017, 0.5 percent in 2018, 1.5 percent in 2019, 2020 and 2021) were actually 1.5 percent, 2.0 percent and three years of 3 percent as shown above.

In addition to any across-the-board base wage increases, some union employees are eligible for a second group of tenure-based wage increases early in their career. New police officers receive 70 percent of base salary for a full grade patrol officer for the first 12 months; and then step up to 75 percent of that salary for months 13 – 24; step up to 80 percent for months 25 – 36; step up to 90 percent for months 37 – 42; step up to 95 percent for months 43 – 48; and finally step up to 100 percent of the base salary thereafter. Officers receive these "step increases" while the full grade patrol officer salary also grows. Firefighters hired after January 1, 2017 have the same step schedule.

Senior public safety employees also receive tenure-based longevity payments. The longevity provision was removed from the City's collective bargaining agreement with the Teamsters as part of a larger salary restructuring.

Longevity payments were also eliminated for police officers hired after 2016 and capped at 10 percent of base salary, instead of 16 percent, for officers hired before that date. Longevity payments are frozen at their current percentage[74] and officers hired before 2017 who had not yet reached eligibility for these payments are currently prohibited from receiving them.

Longevity payments were eliminated for firefighters hired after 2017. Firefighters hired before that are eligible for longevity payments that start at two percent after three years of service and grow by two percent every three years of additional service thereafter. The maximum longevity payment for firefighters is 10 percent of base salary, except for those firefighters whose longevity payment was already above 10 percent.[75] In those cases, their longevity is frozen at the rate as of January 1, 2017.

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[73] The salary growth rates for elected officials vary from other non-union employees over this period.
[74] The dollar value of the longevity payment still grows since it is indexed to base salary, which still grows, but the percentage itself is frozen.
[75] The previous maximum longevity percentage was 14 percent under the 2002 – 2006 collective bargaining agreement.

Overtime and premium pay

Base salaries are not the only forms of cash compensation that Chester employees receive. Police officers and firefighters receive additional “holiday pay” when they work on holidays as defined by their collective bargaining agreements.[76] Police officers receive additional “shift differential” payments for working the second and third shifts, and the 2021 budget allocates $241,000 for that purpose.

Union employees are eligible to receive overtime payments according to the provisions in their collective bargaining agreements. The overtime expenditures (budgeted at $1.4 million) are mostly concentrated in the Police and Fire Departments because of the 24-hour-7-day-a-week nature of their operations. Overtime expenditures also increase the City’s pension liabilities as described in the Legacy Cost chapter.

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 (FLSA) for calculating overtime.

The City must also work to develop work schedules and deploy staff in a manner to improve efficiency and reduce overtime. There is already an independent study of those factors and opportunities underway for the Fire Department, and the Receiver will launch a similar review of the Police Department as described in the initiative section.

Paid leave

Across the different bargaining units, employees can receive paid leave for:

- Illness (sick leave)[77]
- Holidays
- Vacations
- Personal days

While paid leave is an important part of a fair compensation package, the frequency with which employees can take time off impacts service levels and increases the cost to City government of providing a consistent level of service. This is especially true for 24-7 operations like police patrol and fire protection where the City frequently calls another employee back on overtime and pays a higher hourly rate to provide the regularly scheduled level of service.

Employees who miss extended periods of time because of work-related injuries also factor into City government’s total compensation costs. The City allocates $1.75 million in its 2021 budget for workers’ compensation and heart and lung claims costs. Lack of staff available for deployment contributes to overtime costs in police and fire. As discussed in the Legacy Cost chapter, the frequency of disability-related retirements also increases the City’s pension liabilities.

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. It also must improve its oversight, monitoring and management of such issues.

[76] The Teamsters agreement has the same provision, but it is rare that those employees are deployed on holidays.
[77] Sick leave also has a more direct cost for public safety employees. Unused sick leave can be converted to cash by police officers and firefighters when they retire or leave due to disability (“severance pay”).

Health insurance and other fringe benefits

The full cost of employee compensation extends beyond cash payments to include the cost of fringe benefits like health insurance, dental insurance, vision insurance, social security and pension costs. The 2021 budget allocates $9.3 million for health insurance costs, including program administration.

In 2017, the City transitioned to a self-insurance structure where the City pays actual medical expenses incurred by its current employees rather than a set monthly premium. Annual health expenditures reportedly dropped by $1.75 million in 2017. However, the City has more risk in this arrangement. If there are years where there are more or more expensive health insurance claims than the budget assumes, the City would have to cover the additional expenditures.

While the City carries a stop-loss policy to address large individual claims, the City's precarious cash flow situation heightens the risk associated with being self-insured. Monitoring these costs and ensuring only eligible employees and dependents receive coverage is part of the overall cash management strategy.

Since the Court approved the Receiver's initial Recovery Plan in October 2020, the Receiver's team evaluated the arrangement through which City government and its employees share the cost of health insurance. For most active employees, the City covered 95 percent of the premium costs for medical and prescription drug coverage and 100 percent of the premium costs for dental and vision coverage in 2020. Employees paid the remaining five percent for medical/prescription drug coverage and nothing for dental and vision coverage. According to one national survey, among public sector employers, the average employee premium contribution for health insurance in 2020 was 11 percent for single coverage and 24 percent for family coverage[78].

Initiative WF01 in this Plan sets a maximum amount that the City can pay per month toward the cost of all forms of active employee health insurance.[79] The maximum contributions were based on the 2020 cost of the Exclusive Provider Organization (EPO) plan that most active employees use. This approach gives City government some predictability in its health insurance costs and employees flexibility to pursue health plan redesign (e.g. changes in deductibles, copayments) to lower their monthly dollar contributions toward the cost of health insurance.

Workforce Management

The City does not have consolidated collective bargaining agreements for its police and fire unions, nor does it have adequate policies to govern compensation for non-represented employees. Instead, it has a collection of arbitration awards, side letters and other documents that make it difficult to answer basic questions about employee compensation, to determine if those contracts are being correctly followed, and to conduct labor negotiations. With the City, the Receiver is in the process of creating those consolidated agreements. It is imperative for the City to create and maintain these consolidated collective bargaining agreements.

The City also does not have organized documentation of past practices with its unions which makes managing contracts and labor relations issues even more difficult. Even if unambiguous language appears in a collective bargaining agreement, a party may allege that a past practice has changed it. The City and its bargaining units need clarity and certainty as to what its labor provisions and practices are. Therefore, the City must document any side agreements with its unions and attach those to its collective bargaining agreements, incorporating them once the contract is renegotiated. Furthermore, all the new collective bargaining agreements (whether reached by negotiations or interest arbitration), must include a provision

[78] 2020 Employer Health Benefits Survey, Kaiser Family Foundation.
[79] Please see the Legacy Cost chapter for discussion of retiree health insurance costs.

that states that the collective bargaining agreement contains the entirety of the agreement and extinguishes any past practice.

Operational Issues

As noted earlier, workforce issues also include an operational component as these employees provide the vital and necessary services defined in Act 47. Therefore, this Amended Recovery Plan will include some initiatives that address work rules and other areas that impact operations. Since the City is currently engaged in negotiations with the Teamsters Union, the Amended Recovery Plan includes operational initiatives relevant to the services those employees provide.

The Receiver is currently in preliminary discussions with the FOP and the IAFF whose contracts expire at the end of 2021. The Receiver is also studying operational issues related to those bargaining units and intends to submit another Amended Recovery Plan later this year that will address those areas.

Initiatives[80]

The first Recovery Plan explained that the Receiver would set maximum annual allocations for each bargaining unit that would in turn set the parameters for collective bargaining.[81] This carries over the process that Act 47 establishes for communities under Coordinator oversight, specifically the provision requiring the Coordinator to set limits on projected expenditures for individual bargaining units that may not be exceeded by the City or an Act 111 interest arbitration panel. The Receiver reserves the more extensive set of powers that Act 47 grants, beyond those provided to the Coordinator, but has decided to use this maximum annual allocation approach to provide the parties with flexibility to negotiate within the parameters of what Chester can afford.

This Plan sets the maximum annual allocation for all forms of cash compensation that may be paid to employees represented by the Teamsters for a one-year period. Because Chester's financial position is still very fragile, and the pace of recovery from the pandemic is unknown, the Receiver reserves the right to reduce the allocation if the City can afford fewer positions that currently budgeted or increase the allocation if the City can afford more positions than budgeted. The Receiver intends to use the same approach for negotiations between the City and the two public safety unions whose contracts expire at the end of 2021.

This Plan also sets the City's maximum contribution toward the cost of health insurance for all active employees. Employees will be responsible for paying the difference between the total premium costs as determined by the City's health care consultant and the City's maximum contribution. This structure already took effect for non-union employees on January 1, 2021 and will be incorporated in the next collective bargaining agreements for union employees.

No person or entity, including (without limitation) the City, a union representing City employees or any interest or grievance arbitrator appointed pursuant to Act 111 or Act 195 or otherwise, shall continue in effect past the stated expiration date of any current labor agreement the wages, benefits or other terms and conditions of the existing labor agreement if such wages, benefits or conditions are inconsistent with initiatives made herein. Furthermore, no collective bargaining agreement, reached through negotiations or interest arbitration, shall extend past the period covered by this Plan.[82]

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[80] There are separate initiatives in the Legacy Cost chapter related to the City's expenditures on pensions and retiree health insurance.
[81] Non-represented employee compensation is governed by initiatives WF26 and WF27.
[82] Note that the Receiver may specify a particular time period for individual collective bargaining agreements in the Amended Recovery Plan.

WF01: Employee health insurance cost control provisions

The City needs stability in its health insurance costs and it needs to contain the growth in these costs, so it can allocate its resources to other priorities, like making annual required contributions to the employee pension plans.

The City will make the following maximum monthly contributions toward the premium costs of all forms of health insurance (medical, prescription, dental and vision).[83] The Maximum City monthly contributions may not be exceeded by agreement or any arbitration award or settlement or settlement agreement. These maximum contributions took effect for non-represented, management and elected employees on January 1, 2021 and shall take effect for union employees once new collective bargaining agreements are negotiated (2021 for Teamsters, 2022 for police officers and firefighters).

Maximum City Monthly Contributions

	2021	2022	2023
Employee only	$920	$966	$1,014
Employee + Child(ren)	$1,678	$1,762	$1,850
Employee + Spouse	$2,107	$2,212	$2,323
Employee + Family	$2,787	$2,926	$3,072

Employees shall be responsible for paying the difference between the City's maximum contribution and the total monthly cost of insurance as calculated by the City's health care consultant. The maximum amount includes the City's contribution toward the cost of all medical/health insurance and coverage, including but not limited to hospitalization, medical, prescription drug, vision and dental coverage. It includes all payments toward health insurance premiums and benefit costs, as well as any taxes, surcharges, penalties, assessments, and other charges and costs that the City may be required to pay under federal or state laws, including the Patient Protection and Affordable Care Act of 2010 ("ACA"), or any other federal or state amendments, regulations, statutes or regulations.[84]

The Receiver recognizes that, if there are no changes in plan design, the monthly contributions are higher than the pre-2021 arrangement in which employees paid $50 a month for single coverage and $153 for family coverage. Under this new arrangement, the City is covering 89 percent of the total premium costs in 2021 and the employee covers the remaining 11 percent. The 89:11 split matches the previously cited average employee contribution for single coverage among public employers and is more generous than the average 76:24 split for family coverage.

[83] It will also include the City's share of any taxes, surcharges, penalties or costs which the City may be required to pay under federal or state laws associated with health insurance.

[84] The Receiver explicitly notes that the premium equivalent City "cap" amounts include the ACA's "Cadillac Tax". Any employee who has selected a plan that triggers a tax or fee that may be passed or be implicated in the future by any federal, state or local government or regulator or any insurance carrier or plan will be responsible for the full tax or fee amount. The Receiver's preference would be for the respective parties to restructure health care plans so that they do not trigger the "Cadillac Tax."

The City or its employee bargaining units may seek lower cost health plans and we encourage them to do so. The City's maximum contributions to the cost of health insurance will not vary by plan type so, if the City offers lower cost plans to its employees and the employees choose those plans, the employee premium contributions will be lower.

Opt-out payment

The three collective bargaining agreements provide a payment "equal to 20% of the City's reduction in premium cost" for any employee who elects not to use the City's health insurance. The City has been paying flat dollar amounts to employees based on the level of insurance waived: $300 for waiving employee only coverage; $600 for waiving employee plus child[ren] coverage; $750 for waiving employee plus spouse coverage and $1200 for waiving family coverage.

Going forward, the City shall continue paying these flat dollar amounts to employees who elect not to use the City's insurance so long as the City determines that such a practice is cost effective and advantageous to the City.

WF02: Receivership controls to manage staffing levels and personnel

As the Emergency Action Plan first established, and subsequently included in the Court-approved initial Receiver's Recovery Plan, the City may not hire or rehire any personnel without the Receiver's review and written approval. The City also shall not create new positions or add to the complement established in the 2021 Salary ordinance without the Receiver's review and written approval.

For the remainder of 2020 and 2021, the Receiver shall manage the City's headcount by initiating or approving any hiring; enacting layoffs and/or terminations if needed; converting full-time positions to part-time; restructuring department operations including through consolidations or outsourcing; or reassigning personnel, subject to the provisions of collective bargaining agreements if applicable. In making such decisions, the Receiver shall meet and discuss with the Mayor and City Council, but he shall have the power to enact any such decisions.[85]

The Amended Recovery Plan also incorporates all other cost-control provisions of the Emergency Action Plan (EAP) which were also included in the Court-approved initial Recovery Plan including:

- Receiver approval is required for overtime incurred by non-police and non-firefighter personnel. Overtime usage for the police and fire departments shall be submitted to the Receiver for review, and the Receiver will monitor this closely because of its impact on the budget and pension liabilities.
- The City shall determine whether it has a legal obligation to continue providing benefits for former employees. Where a legal obligation does not exist, the City shall cease providing benefits for those former employees and ensure that appropriate notice is provided to impacted individuals.

[85] The Court clarified the Receiver's powers regarding this provision in an Memorandum and Order dated December 23, 2020.

WF03: Establishment of Chief Operating Officer position

During the 2020 budget process, the City agreed to establish the position of Chief Operating Officer whose responsibility is the proper and efficient administration and operation of City government and to whom all City employees (except elected officials) report. This position shall be made permanent.

WF04: Consolidation of Streets and Parks and Public Property Departments into a Public Works Department

In fall 2020, at the Receiver's direction, the City combined the employees of the Streets and Parks and Public Property departments into a single public works department. This consolidation shall be made permanent.

WF05: Develop consolidated collective bargaining agreements for FOP and IAFF; Update employee handbook

The City does not have consolidated collective bargaining agreements for its police and fire unions, nor does it have adequate policies to govern compensation for non-represented employees. Instead it has a collection of arbitration awards, side letters and other documents that make it difficult to answer basic questions about employee compensation, to determine if those contracts are being correctly followed, or to conduct labor negotiations. The Receiver and the City shall work together with the respective unions to develop consolidated collective bargaining agreements by June 30, 2021.

The Receiver and the City shall also update the City employee handbook by July 30, 2021.

WF06: Include all agreed-upon past practices in collective bargaining agreements; Include past practice/zipper clause in collective bargaining agreements noting that collective bargaining agreement supersedes all prior agreements and extinguishes all actual or alleged past practices to have existed prior to execution of new collective bargaining agreement

These collective bargaining agreements, including the next Teamster, FOP and IAFF collective bargaining agreements, shall include any agreed-upon past practice and side letter. All new collective bargaining agreements must include the following provision:

> This Agreement constitutes the entire agreement between the parties. It is understood that during the collective bargaining negotiations (or interest arbitration process for police and fire) that led to this collective bargaining agreement, both parties had the opportunity to raise and address all issues of concern and proposals and to make and consider proposals and counter offers. This agreement, along with any existing written City policies and all future written City policies, therefore are the final and only agreement. This agreement supersedes all prior agreements and extinguishes all actual or alleged past practices between the parties, whether written or oral, existing, or alleged to exist or to alleged to have existed prior to the execution of this collective bargaining agreement.

WF07: Force Majeure provision

All subsequent collective bargaining agreements, including the next Teamster, FOP and IAFF collective bargaining agreements must include the following force majeure provision:

> In the event of disaster or emergency, including but not necessarily limited to any state of emergency declared by any federal, state or local governmental agency or authority, or any flood, fire, epidemic, pandemic, catastrophe, or natural disaster, the City may temporarily suspend any provision of this Agreement as may be necessary during the pendency of such disaster/emergency. The City shall notify the Union whenever this provision is invoked and of the rule(s) or provision(s) so suspended. Upon the conclusion of the emergency, the temporary suspension shall be withdrawn, and all provisions of the agreement shall again become effective.

WF08: Ensure that employees are receiving their proper rate of pay

In conjunction with the budget process, the City adopts a salary ordinance that lists each position in City government and its base salary. By reviewing the biweekly payroll runs for 2021, the Receiver found several discrepancies in the salary ordinance, which then impacts the accuracy of the budget. Some discrepancies carried over to the payroll system so that employees were at risk to receive more or less in their biweekly paychecks than they should. The Receiver and the City shall work together to correct those errors and any errors moving forward.

WF09: Fully implement the Work-Related Injury Review Panel

Throughout the process for preparing this Plan, the Receiver heard from multiple parties that Chester has an unusually high number of employees out on work-related injury leave, particularly in the police and fire departments.

This issue impacts the City operationally, as it reduces the number of officers and firefighters who can be deployed to serve the City. It impacts the morale of the employees who are not injured and expected to fill the void created by any abuse of long-term leave. And it impacts the City financially if these absences drive up overtime.

The City was expected to take steps to address this issue by convening a Work-related Injury Review Panel, but it has reportedly not done so. The City shall use the expedited review panel and, to the extent allowed by labor law, review work-related injury leave cases to confirm their legitimacy and discourage future fraudulent claims. The City will also improve its monitoring and management of all injury-related leave and injury leave payments and costs.

Please note that there is a related initiative in the Legacy Cost chapter that addresses abuse of disability pension benefits.

WF10: Eliminate OPEB Benefits for New Hires

This initiative references the initiative in the Legacy costs chapter which eliminates retiree health care benefits for all new non-union employees or elected officials. Retiree health care shall also be eliminated for new Teamster and IAFF hires in their successor collective bargaining agreements. Retiree health care was already eliminated for police officers hired on or after February 1, 2017.

Collective Bargaining Units

Teamsters

In prior Recovery and Exit Plans, the Act 47 Coordinator raised several possibilities to reduce the cost of services delivered by the Teamsters such as:

- Exploring alternative scheduling options to allow for employee availability outside of traditional business hours without incurring overtime costs. This arrangement would allow the City to staff and utilize the Community Room more frequently to generate additional revenue without increasing personnel costs.
- Eliminating the following provision from the collective bargaining agreement to give the City maximum flexibility to reduce its workforce: "Any employee that has completed their probationary period as outlined Article 7 of this agreement by February 28, 1995 shall not be laid off during the term of this agreement."
- Eliminating restrictions on assigning, transferring or outsourcing bargaining unit work to give the City more flexibility to lower costs. This could include pursuing intermunicipal agreements or shared service arrangements with other public sector entities that provide the same service and sunsetting programs. It could also include subcontracting opportunities for snow plowing, streets repair, and code enforcement.
- Exploring the costs savings that could result from creating a defined contribution pension plan for civilian employees,[86] including the Teamsters.

All options and concepts are on the table for evaluation and, in the Teamsters' case, inclusion in the upcoming negotiations on a new collective bargaining agreement. The City has had issues with employees not performing their job functions adequately. Rather than request the ability to fully subcontract all work performed by the bargaining unit, the Receiver includes initiatives that provide the City with additional flexibility to meet the demands of the City's significant public works needs and to ensure that employees are properly performing their job functions. If these changes do not address the issues, the Receiver reserves the right to submit additional initiatives including but not limited to the ability to fully subcontract all bargaining unit work. The Receiver has consulted with the City and includes the following initiatives to be incorporated into the successor Teamster collective bargaining agreement.[87]

WF11: Teamsters bargaining unit expenditure limit; One (1) year agreement

The Receiver believes that it is most equitable for all union collective bargaining agreements to expire at the same time. Therefore, the successor Teamster collective bargaining agreement shall be for a one-year term beginning January 1, 2021 and expiring December 31, 2021.

The Amended Recovery Plan allocates the following maximum annual amounts for employee compensation for active members of the Teamsters, Local 312.

2021
$1,681,000

[86] The City must maintain defined benefit plans, pursuant to Pennsylvania's Act 600, for police and fire personnel.
[87] The Receiver includes the WF01 Employee health insurance cost control provision as mandatory for the Teamsters bargaining unit by reference as well as WF06 and WF07 relating to Past Practice and Force Majeure clauses respectively.

The allocation for the Teamsters assumes an across-the-board wage increase of 1.5 percent in 2021. The allocation includes the maximum amounts that the City shall pay active Teamsters members for any of the following:

- Salaries and additional pay for overtime
- Any holiday pay or shift differential
- Uniform allowances, education incentives and all other new or existing forms of cash compensation
- Life insurance
- Social Security and Medicare Taxes

The allocation assumes the City will not enact any new forms of compensation. The allocation is based on the number and mix of positions described in the 2021 budget. Because Chester's financial position is still very fragile, and the pace of recovery from the pandemic is unknown, the Receiver reserves the right to reduce the allocation if the City can afford fewer positions than currently budgeted or increase the allocation if the City can afford more positions than budgeted.

WF12: Staffing Flexibility

Currently, Article 4 of the Teamster collective bargaining agreement provides:

4.1 Supervisors or non-unit personnel shall not perform work usually performed by "employees" covered by this Agreement except for the purposes of instruction or training of the employees in the job skills required in the performance of bargaining unit job functions, or to cover emergencies or absences.

4.2 The term "employee" as used in this provision includes the positions included in the bargaining unit, i.e., all those persons performing work on a full-time or regular part-time basis as non-uniformed non-professional employees and any similar job classifications that may be created during the life of this Agreement.

4.3 There shall be no transferring of work normally and regularly performed by members of the bargaining unit to any other employer or entity during the term of this Agreement.

4.4 The parties agree that the City retains the right to supplement the existing work force with employees of other employers, so long as said employment does not conflict with the provision of 4.3 above. It is further understood that the City intends to make use of the Pennsylvania National Guard with reference to removal of nuisances by way of buildings in the City. This shall not be considered in violation of this Agreement so long as bargaining unit employees are permitted to perform their usual work thereon as well.

4.5 In the event of a weather emergency or other emergencies, the City shall maintain a list of employees who desire to perform assigned work (shoveling, plowing, etc.) when the City is otherwise closed. These employees shall be assigned to work first, by seniority. Employees must be able to perform the work offered. After exhaustion of this list, the City may utilize subcontractors to perform work related to a weather emergency or other emergencies.

The City requires additional flexibility to staff its public works functions given the needs of Chester. Additionally, the City has had issues with bargaining unit members not reporting for work during snow emergencies.

Article 4 shall be changed as follows:

Section 4.1: Supervisors may assist bargaining unit personnel to perform work usually performed by "employees" covered under this Agreement or perform such work independently.

Section 4.4: Change first sentence to read: "Not withstanding provision 4.3 above, the parties agree that the City may supplement the existing workforce with employees of other employers or volunteers."

Replace Section 4.5 with the following: The Union recognizes and agrees that performing assigned work during a weather or other emergency is a basic job requirement. All bargaining unit members are expected to perform assigned work when the City is closed. The City shall have the discretion to assign bargaining unit members regardless of seniority to perform such work and may utilize subcontractors to perform work related to a weather emergency or other emergencies.

WF13: Discipline Changes

The City requires the ability to discipline or remove employees who do not properly perform their job functions.

Section 15.2 (Immediate Discharge) of the current collective bargaining agreement provides the following:

The following offenses shall constitute just cause for immediate discharge, without adhering to the progressive disciplinary procedure described in Section 3 of this Article:

> *A. Refusal to perform a work assignment, unless the performance of said assignment would constitute a safety violation or threat to the health of the employee.*
>
> *B. Fighting.*
>
> *C. Theft, embezzlement or conviction of a felony.*
>
> *D. Loss of driver's license because of driving on duty under the influence of liquor or illegal narcotics or willful concealment of loss of driving privileges, if required to drive as part of employee's work assignment.*
>
> *In the event that any employee whose work assignment requires him to drive a vehicle loses his driving privileges for an offense committed on or off duty, the City will reassign said employee to any job for which he qualifies, until his license is reinstated, and he will be paid at the rate established for that job.*
>
> *E. Sleeping on the job.*
>
> *F. Willful destruction of City property and/or equipment.*
>
> *G. Reporting to work while under the influence of liquor or narcotics or possession of narcotics or alcoholic beverages while on duty.*
>
> *(1) Mandatory drug and/or alcohol testing shall be performed on any employee, driver or heavy equipment operator involved in an accident while operating City equipment or acting as an agent of the City while operating personal automobiles or equipment.*
>
> *(2) Employees required to test as a result of the above mentioned, may be placed on immediate unpaid suspension pending the results of testing.*

(3) Employees testing positive, may be discharged immediately.

(4) Employees not testing positive shall be subject to 15.3.

(5) Employees that refuse to participate in testing shall be terminated immediately upon refusal.

H. Willful destruction of or unauthorized use of City property, equipment or services.

The current provision does not provide for the possibility that other offenses would be considered just cause for immediate discharge. Therefore, the first sentence of Section 15.2 shall be changed to read, "Some offenses shall constitute just cause for immediate discharge, including but not limited to:"

Section 15.3 of the current collective bargaining agreement sets forth a four-offense progressive disciplinary process (if the offense is not grounds for immediate discharge) as follows:

A. First offense - written notice of nature of violation.

B. Second offense - written warning of possible penalty.

C. Third offense - letter and maximum of a two (2) day suspension.

D. Fourth offense - subject of discharge.

Furthermore, there is twelve-month limit for letters dealing with disciplinary action meaning that, after twelve months, such a letter is no longer valid.

The current process makes addressing the work of poor performing employees very difficult. Therefore, the progressive discipline process in Section 15.3 shall be deleted. Discipline shall be based on the nature of the offense and all circumstances. Employees shall be able to utilize the arbitration process should they believe that the discipline is not warranted. Furthermore, the following two paragraphs in Section 15.3 limiting the time-period for effectiveness of disciplinary letters shall be deleted:

All letters dealing with disciplinary action are to be considered active for a period not to exceed twelve (12) months. This twelve (12) month period is for each and every disciplinary letter received by an employee. For example, if an employee receives two (2) disciplinary letters, and then letter #1 lapses due to the time limit of twelve (12) months, then disciplinary letter #2 becomes disciplinary letter #1, etc.

All disciplinary letters presently in an employee's file are subject to the same twelve (12) month limit. The date of the letter on City correspondence will determine the beginning of the twelve (12) month time span.

WF14: Implement following injured on duty policy

The current collective bargaining agreement does not have a comprehensive injured on duty policy. The current policy is found in Article 17 (Worker's Compensation) and provides as follows:

17.1 Employees shall be entitled to Worker's Compensation coverage in accordance with applicable law and subject to the regulations and procedures relating thereto.

17.2 The decision to use sick days during the first seven (7) days of a compensable illness or injury shall be solely that of the employee.

17.3 Employees utilizing sick days during the worker's compensation waiting period shall have the option of reimbursing the City in a lump sum the cost of said days, up to a maximum of those used that period, and reinstating them.

17.4 An employee absent from work for a period in excess of eighteen (18) consecutive months shall have the benefits provided pursuant to Article 28, Section 28.1 suspended until such time as they return to active, full-time work.

This article shall be replaced with the following:

1. Any Employee who suffers an on-duty injury shall report the injury immediately or as soon as practicable to their supervisor and to the City's Human Resource Manager.

2. Any employee who suffers an on-duty injury shall complete the on duty injury form which shall be developed by the City.

3. All on duty injury claims will be appropriately reviewed as to whether the claim qualifies for workers' compensation benefits. Such review may require the injured work being interviewed as to the circumstances of his or her on duty injury and the extent to which any injury is disabling. Employees shall fully cooperate with any review/investigation of an injury and if requested provide medical documentation to complete the review process and support any on duty injury claim.

4. Employees who suffer an on-duty injury and who require medical treatment shall treat with medical providers from the City's posted list of medical providers for up to ninety days.

5. Employees who are disabled and unable to work shall take sick leave as their on-duty injury claim is being reviewed as to whether workers' compensation benefits will be granted. Should workers' compensation benefits be granted the sick time taken will be credited back to the employee's sick time account.

6. All employees who submit an on duty disabling injury claim will receive either a workers' compensation acceptance or denial in writing after the appropriate employer review of the submitted claim is completed.

7. Employees have the right to file a workers' compensation claim to appeal any denial of a reported-on duty disabling injury claim.

8. Review of a submitted-on duty disabling injury claim may require the employee to submit to independent medical examination scheduled by the employer. The employee shall attend and fully cooperate with any such medical examination.

.**WF15: Eliminate education reimbursement**

Article 18.7 of the current collective bargaining agreement provides for an educational reimbursement of up to 50 percent of the course up to a maximum of $750 per semester. Article 18.7 shall be eliminated.

WF16: Overtime

For financial and operational reasons, the City must have strong controls on overtime. Therefore, time off will not be considered time worked for the purpose of calculating overtime. Only time actually worked shall be considered time worked for the purpose of calculating overtime. Furthermore, any work hours listed are not a guarantee of any set hours of work and that scheduling and hours an employee works is left to the City's discretion.

WF17: Sick Leave

The collective bargaining agreement shall eliminate the ability for the City to pay employees for unused sick time or for employees to sell back sick time.

WF18: No health care insurance for regular part-time employees

During the COVID-19 pandemic, the City converted some full-time employees to part-time status and there was a dispute with the union as to whether the part-time employees would receive health insurance. The collective bargaining agreement currently does not provide health insurance for part-time employees, but to resolve the current dispute, Article 29 of the collective bargaining agreement shall read that regular part-time employees are not eligible for health care or fringe benefits. Furthermore, for the purposes of this agreement, a regular part-time employee shall be defined as any employee scheduled for less than 30 hours in a work week.

WF19: Filling of vacant positions

Currently, Article 5.3 of the collective bargaining agreement requires that the City should first consider bargaining unit applicants to fill vacancies and that the City must choose the most senior person from among qualified job applicants to fill the position. This situation does not always result in the most qualified individual receiving the position. Therefore Article 5.3 shall be changed to require seniority to be a factor in consideration for selection of a job vacancy, but not the determining factor.

WF20: Bumping rights during work force decrease

During the COVID-19 pandemic, the City needed to furlough employees which resulted in more senior employees "bumping" more junior employees. In the clerical area, this resulted in individuals who were not trained in certain areas replacing those in different departments who were trained, resulting in a significant service level reduction. The first sentence of Article 6.6 provides: "In decreasing the work force, employees with the least seniority within a job classification or position in each department shall be laid off first."

The collective bargaining agreement shall be clarified that the following are considered separate "departments" for the purposes of Article 6.6: Police, Fire, Mayor's Office, License & Inspections, Planning, Zoning, Public Health, Public Works, Accounts and Finance, and Human Resources.

WF21: Elimination of no layoff clause

Article 6.9 of the collective bargaining agreement provides that any employee who has completed their probationary period shall not be laid off during the term of the Agreement. This provision shall be eliminated.

WF22: Vacations

For all bargaining unit members newly hired after ratification of this agreement by the Union and the City, Section 24.1 shall provide the following vacation allotment:

- First Year of Employment: ½ day per month
- Second Year Through Ninth Year: Ten (10) Working Days
- Tenth Year Through Twenty-fourth Year: Fifteen (15) Working Days

- o Twenty-fifth year and beyond: Twenty (20) Working Days

The new allotment shall not apply to employees who are being rehired from furlough. There shall be no carry over or "buy back" or "sell back" or any compensation paid by the City to an employee for any unused vacation in any year or any time period of any length.

WF23: Obligation to Residents and Taxpayers and Performance of Duties

The collective bargaining agreement must contain the following provision:

> The Union acknowledges that all employees in the bargaining unit have an obligation to the taxpayers and the residents of the City of Chester to perform his or her assigned duties as directed by the City, and to do so in the manner and time directed and expected by the City. The Union also acknowledges that the City may develop performance standards for employees. Any failure to perform such duties or meet such standards that is established by the City shall subject such employee to immediate discipline up to an including discharge. Such action by the employee shall constitute just cause for such discipline or discharge under Article 15.

Fraternal Order of Police (FOP)

The City and the FOP have a collective bargaining agreement that covers the terms of employment through the end of 2021. As discussed at length elsewhere in this Plan, the parties need to negotiate changes to the costly pension benefit provisions, especially for officers hired before 2017, and other provisions of the collective bargaining agreement.

With that priority noted, pension benefits are not the only item that needs to be addressed. In prior Recovery and Exit Plans, the Act 47 Coordinator raised other issues including the following:

- The FOP has indicated that the current patrol shift schedule implemented in early 2017 is ineffective and negatively impacts morale. That schedule was implemented to reduce personnel costs within the Department by eliminating certain supervisory positions and providing more officers per shift. The Receiver's team will need to review whether the financial and operating objectives of that schedule change have been achieved and, if not, whether that is due to problems with the schedule itself or its implementation. The Receiver also acknowledges that the FOP provided the City with additional flexibility to minimize overtime at the start of the fiscal emergency by agreeing to a Memorandum of Understanding regarding officers swapping shifts.
- The Coordinator recommended that the City evaluate its shift schedule for the Detective Bureau. For a new schedule to be implemented, the City would have to comply with any bargaining obligation it may have with respect to the FOP.
- The 2018 Exit Plan called for the Police Department to eliminate specialty assignments for police officers and, in some cases, use civilian personnel instead. The City made some progress on this initiative in 2020, by temporarily eliminating seven specialty units. The City redeployed those officers to patrol positions to increase staffing and decrease overtime. The Coordinator noted that the City should go farther and eliminate another 10 specialty units, determine where civilians should be used in place of officers, and make the temporary redeployment permanent.

The Receiver has heard from several parties that lack of manpower in the Police Department is a concern both operationally and financially, as a factor driving high overtime usage. Some have suggested the City try to hire more full-time police officers, which will be difficult unless there are savings elsewhere to cover those costs. Others have suggested the City hire and deploy part-time officers to complement the full-time officers (Exit Plan recommendation WF05).

All options and concepts are on the table for evaluation, and the Receiver is committed to reviewing the structure, schedule and other elements that drive staffing in all City departments, especially police and fire. An evaluation of related issues in the Fire Department is underway (see below) and the next initiative describes the evaluation of the Police Department.

WF24: Study how City can increase the number of officers patrolling Chester at any given time

The Receiver shall engage a consultant to analyze why the City does not have more officers patrolling Chester at any given time. The consultant shall provide recommendations for increasing the number of officers patrolling Chester while also considering the dire fiscal challenges faced by the City and the City's financial ability and wherewithal to afford increased manning. The consultant shall request data from the City and conduct interviews with City officials and FOP representatives. The City shall cooperate with this analysis.

Fire Fighters Local 1400

In prior Recovery and Exit Plans, the Act 47 Coordinator raised several possibilities that could be used to contain or reduce costs while still providing quality fire suppression and protection services to the City's residents.

They include:

- Evaluating whether an alternative work schedule would improve operations and reduce costs (Exit Plan recommendation WF10). The Exit Plan noted that, according to Local 1400 representatives, the fire fighters' schedule could be modified to produce cost savings to the City. If an alternative schedule is identified, the City would need to work with Local 1400 to appropriately implement it.
- Explore intermunicipal service agreements with surrounding municipalities (Exit Plan recommendation WF11). While Chester has a full-time paid Fire Department, many of its neighboring municipalities use volunteer departments. The City reportedly responds to calls in the surrounding municipalities when their volunteers are not available. This arrangement shifts the cost of providing fire protection in neighboring municipalities to Chester's residents and taxpayers.

  While the City must first resolve the station consolidation and staffing issues described below, the City could then explore the possibility of providing fire services to neighboring municipalities for a fee. Any intermunicipal agreement shall be submitted to the Receiver for his review and written approval to verify that it is financially beneficial to the City of Chester and its residents.
- Ensure the City is obtaining full reimbursement for services. The IAFF reports the City may not be fully reimbursed for costs associated with the Department's response to incidents like car accidents and "lift" assists, which require fire fighters to assist the non-City owned ambulance team with lifting citizens into the back of an ambulance. The City should ensure that its fee schedule is up to date, that collection rates are as high as possible, and that the City is fully reimbursed.
- Explore in-house and other local training options (Exit Plan recommendation WF12): 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.

All options and concepts are on the table for evaluation, and the Receiver is committed to reviewing the structure, schedule and other elements that drive staffing in all City departments. A qualified external consultant engaged by the City is in the process of conducting a feasibility study regarding fire company consolidation to determine the viability of that option described in the 2018 Exit Plan.

The Receiver notes that in 2020, the IAFF temporarily agreed to reduce the contractually mandated shift minimum manning provision to 10 firefighters which helped the City control overtime costs. In 2021, the IAFF declined to continue this reduction, which reset the shift manning provision back to 12 firefighters.

WF25: Continue the feasibility study regarding fire company consolidation

The Department currently operates out of two Fire Companies, East and West. The Coordinator's Recovery Plan and the Exit Plan required the City to explore whether the Department's two companies could be consolidated into one, while still maintaining an adequate response time.

During the Coordinator's public meeting on the Three-Year Exit Plan, many members of the local community and surrounding municipalities expressed concern about fire station consolidation and the reduction of manpower in the Chester Fire Department.

Local 1400 did its own analysis, 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.

While high-quality fire service is essential to public safety, the City has the very difficult responsibility of correcting severe financial distress without unduly harming vital services. The City must consider all options to address its condition including fire station consolidation.

The City has engaged a qualified consultant to conduct this analysis. The City shall meet and work with Local 1400 in good faith to discuss and resolve any potential conflicts between the two studies and to identify other potential costs savings opportunities and operational efficiencies that may generate budgetary relief. If it is determined by that adequate response times can be maintained from one location, then the Department shall consolidate the two existing companies.

If the City reaches the point of consolidating stations, it shall comply 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, one Battalion Chief, and two Captains.

<u>Non-represented Employees</u>

The following initiatives specifically address workforce issues for non-represented employees.

WF26: Non-represented wage increase in 2021

Unless otherwise noted in the Amended Recovery Plan or the City budget ordinance passed for 2021, non-represented employees shall receive a wage increase of 1.5 percent in 2021.

WF27: Mayor, City Council and Controller salaries

Prior to 2020, each City Council member and the elected Controller earned $35,000 and the Mayor earned $41,000. In 2020, two Council members and the elected Controller received $25,000 increases to $60,000 and the Mayor received a $34,000 increase to $75,000.

During the 2021 budget process, the City agreed to lower the salary of the Mayor from $75,000 to $65,000, the Controller's salary from $60,000 to $50,000 and City Council members set to earn $60,000 to $50,000. Council members who were due to earn $35,000 in 2021 did not receive a salary reduction.

The City shall take action to change City ordinances to reflect that the new salary going forward for the Mayor is $65,000, and the new salary for Council Members and the Controller is $50,000. The new salary level for Council members currently earning $35,000 will take effect at the beginning of the new term for those particular Council seats.

Asset Management

The City of Chester has two significant business-type assets, its water system, and its parking system. When the Receiver filed the initial Recovery Plan in August 2020, both assets were subjects of litigation, and that remains the case today. However, the Receiver's team has learned more about these assets and has taken steps regarding them that he believes to be in the City's best interests.

He continues to support the City's litigation currently in Commonwealth Court seeking to clarify the City's ability to repossess the assets of the Chester Water Authority ("CWA") and he is seeking to terminate the City's contract with its parking manager through intervention in litigation before the Delaware County Court of Common Pleas.

Water system

The CWA was organized by the City in 1939 under the Municipality Authorities Act of 1935. The CWA now operates the water system in accordance with the provisions of a successor statute, the Municipality Authorities Act, 53 Pa.C.S. §5601 *et seq.* (the "Authorities Act"). CWA is an operating authority; it does not lease its water system back to the City.

The City is currently before the Commonwealth Court defending its ability to repossess and sell the assets of the Chester Water Authority, which could provide it with a significant infusion of needed funds. An *en banc* panel of the Commonwealth Court[88] heard oral argument on the matter on November 10, 2020. At the time of the filing of this Amended Recovery Plan, the Commonwealth Court had not issued its opinion.

The City issued a request for proposals (RFP) for the purchase of the Water System and received three proposals from Aqua America, Pennsylvania American Water and the CWA itself. According to the initial bids, the City could potentially receive between $60 million and $410 million if it sells the system. Pursuant to the pending litigation, although the City was permitted to proceed with the RFP process, the City is currently enjoined from completing any transaction involving the disposition of the system.

The Receiver asked PFM Financial Advisors ("PFM"), a member of the Receiver's team, to conduct its own independent analysis and due diligence of the proposals that the City received to purchase CWA assets.[89] PFM compared the purchase prices and the rate/average bill projections of each proposal and provided what it expected to be the CWA's up-front fair market value. This analysis was provided to the Court in the Receiver's December 2, 2020 update. Based on commonly utilized valuation methods, PFM expected that CWA's up-front fair market value to be in the range of $385 million to $400 million.

Parking assets

On April 25, 2018, the City and PFS VII LLC (the Manager) entered into a contract by which the Manager agreed to finance, construct, and install equipment and improvements to manage City parking assets. The City would receive a portion of the profits. On September 5, 2018, the agreement was amended.

The agreement called for 1,500 meters concentrated in three geographic areas including approximately 500 on the campus of Widener University. The Manager would finance and construct the parking meters

[88] The panel did not include Judge J. Andrew Crompton who retains jurisdiction over matters related to this Recovery Plan and Chester Receivership.
[89] PFM has significant experience in this area. Since 2014, PFM has assisted over 35 Pennsylvania entities in valuing and exploring the potential monetization of their water and/or sewer systems.

and system and would operate it for 10 years after which the City would permanently own the parking assets.

The City would receive an advance of $1 million once the 1,500 meters were installed – $300,000 initially and an additional $350,000 at 1,000 and 1,500 meters respectively. Additionally, once the 1,500 meters were installed, the City would annually receive a percentage of the annual meter revenue and associated fees after the Manager's costs were covered. The fee sharing schedule was as follows:

- Year 1 (first 12 full months of operations after Commencement Date): 0% to City
- Year 2: 10% to City
- Year 3: 20% to City
- Year 4: 30% to City
- Year 5: 40% to City
- Year 6: 50% to City
- Year 7: 50% to City
- Year 8: 50% to City
- Year 9: 50% to City
- Year 10: 50% to City

The Manager did not guarantee a minimum annual amount to the City, nor were the Manager's costs clearly defined in the contract. Furthermore, there was no cap on the Manager's costs. To date, as a result of the litigation discussed below, the City has only received the initial "advance" payment of $300,000 plus some rental payments for the Manager's use of an office in City Hall.[90]

The agreement also included a $12,120,000 payment from the City, referred to as a Default Premium Payment in Exhibit E of the agreement, if the City were to notify the Manager that it intended to terminate the agreement.

On January 2, 2019, Widener University filed a complaint in the Court of Common Pleas of Delaware County before Judge Barry Dozer seeking a temporary and permanent injunction to prohibit the installation of parking meters on and around its campus. The Court granted the temporary injunction.

On November 4, 2020, after a hearing in which Judge Dozer asked if the Receiver would intervene, the Receiver sent a letter to Judge Dozer indicating that he was closely following the litigation and, at that time, he did not see a need to formally intervene in the litigation as a separate party as his team was still investigating the matter. On December 18, 2020, Judge Dozer issued an order giving the Receiver until February 16, 2021, to advise whether he would intervene in this action and if so, providing an additional 30 days to do so.

On February 16, 2021, the Receiver informed Judge Dozer that he would formally intervene in the matter on behalf of the City to terminate the agreement with the Manager. The Receiver also filed a petition to intervene and a proposed complaint against the Manager seeking to terminate the agreement based on the Receiver's powers under Act 47 and other claims including the oppressive and unfair nature of the deal, vagueness, indefinite term and public policy, as well as frustration of purpose, impracticability of

[90] The Receiver believes that the Manager has installed approximately 750 parking meters.

performance, breach of contract, and that the agreements was void *ab initio* because they were procured and approved in a manner that did not comply with applicable law.

Initiatives

The 2020 Emergency Action Plan mandated that "the City shall not sell, lease, or otherwise monetize any assets in value over $10,000 without DCED approval." The August 2020 Receiver's Recovery Plan also incorporated that mandate while replacing the requirement for DCED approval with the requirement for the Receiver's approval. That provision remains in this Plan – the City shall not sell, lease or otherwise monetize any assets in value over $10,000 without the Receiver's approval.

ASM01: Determine rights regarding the water system and explore monetization alternatives

The Receiver hereby directs the City to continue litigating for its ability to repossess and sell the assets of the Chester Water Authority. Furthermore, subject to the next paragraph, the Receiver authorizes the City to continue with the RFP process (in compliance with any court order).

The City will consult with the Receiver regarding all material steps to be taken by the City with respect to the Water System. The City must obtain the prior written consent of the Receiver prior to accepting a proposal under the RFP process and/or prior to consummating any transaction regarding the water system. The City must obtain the prior written consent of the Receiver prior to accepting any proposal related to the resolution of the outstanding litigation regarding the water system.

ASM02: Terminate parking contract and explore monetization alternatives to parking assets; Transition parking enforcement

The Receiver shall intervene to terminate the parking contract with the City's Manager and will also explore a possible amicable resolution of the dispute with Widener.

The Receiver shall work with the City to develop a plan to transition parking enforcement from the Manager. Such a plan may include but not be limited to bringing enforcement "in house" and eliminating the Parking Authority. The Receiver shall consult with the City on this plan, but the Receiver shall have the ability to make the ultimate decision as to how to proceed.

The Receiver and the City shall work together to determine the appropriate approach to monetize the City's Parking Assets. The City will consult with the Receiver regarding all material steps to be taken by the City with respect to the Parking Assets. The City must also obtain the prior written consent of the Receiver prior to the spending of any proceeds of any transaction regarding the Parking Assets.

ASM03: Prioritize use of potential monetization proceeds

The City shall consult with the Receiver regarding all material steps to be taken by the City with respect to any City assets. The City must obtain the prior written consent of the Receiver prior to spending any revenues generated from the monetization of City assets. If the City is able to generate revenue from the sale of any City assets, it must first determine what debt obligations must be defeased in accordance with applicable covenants and specifically obligations related to the Series 2017A Bonds.

There are several potential uses for asset monetization proceeds if the City reaches that point in the process. The City shall use these one-time revenues to fund non-recurring expenditures and address the City's structural problems, and shall not use the proceeds to fund ongoing operating expenditures. At the direction of the Receiver, the City shall then direct any proceeds, including any advances, generated from any asset monetization to the following immediate priorities:

- **Payment of delinquent pension Minimum Municipal Obligations (MMOs), including accrued interest and penalties:** Addressing the pension obligation improves the true funding ratio of the pension plans which reduces the chance they become insolvent. For the police and civilian employee pension plans, increasing the true funding level would also enable the plans to invest in assets other than cash and cash equivalents, which produces very little interest earnings.

  Use of asset proceeds could be part of an overall strategy for addressing the City's pension crisis, particularly as it relates to retiring this outstanding liability. However, unless there are also changes to the benefit levels and actions taken to stop abuse of provisions like the disability pensions, any large one-time contribution will only temporarily mask the cost of those unaffordable benefits and leave the City in the same situation years later, only at that point with less assets. Therefore, the application of asset proceeds to the pension crisis shall be predicated on changes to the cost of benefits. Furthermore, should asset proceeds become available for this purpose, the City and Receiver shall explore requiring that pension benefits not be enhanced as a condition of the deposit of such proceeds.

- **Build a General Fund reserve**: The Government Finance Officers Association (GFOA) recommends "at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures." Chester's 2017 comprehensive annual financial report, which is the most recent competed at this time, shows a fund balance of -$15.3 million in the General Fund.

  Fund balance is not just a figure in an accounting report. Fund balance (and specifically cash reserves) helps the City pay its obligations early in the year before tax revenues arrive, without having to issue Tax Revenue Anticipation Notes and paying interest on borrowed money to fund basic operations early in the year. Fund balance provides a buffer against unexpected revenue shortfalls or unbudgeted expenditures. Fund balance would have helped the City avoid furloughing so much of its workforce in Spring 2020 due to the pandemic.

  Chester established a rainy day fund in 2007 that was intended to provide a contingency against unanticipated shortfalls. The minimum standard used to establish that fund was 5 percent of General Fund revenues, which is still far short of the GFOA standard. At the end of 2017, the Rainy Day fund had less than $16,000 or 0.03 percent of General Fund revenues. The City needs to rebuild this reserve.

Once the Receiver determines that the City has made sufficient progress in these two areas, asset monetization proceeds shall be used for the next tier of priorities:

- Establish and fund a trust to address the City's other post-employment benefit (or OPEB) which were $232.9 million at the end of 2018.[91] Should asset proceeds become available for this purpose, the City and Receiver shall explore requiring that OPEB benefits not be enhanced as a condition of the deposit of such proceeds
- Fund capital improvements to the City's capital assets
- Invest in economic development projects in the City in cooperation with a non-profit economic development corporation

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[91] Please see the Legacy Cost chapter for more information on this issue.

Economic Development

Like many former manufacturing hubs in the Northeast, Chester is in the middle of a painful economic transition that has resulted in population decrease and overall disinvestment. The city's resurgence will be built upon a strong local economy and expanded tax base, which requires a strategic effort to attract and retain businesses and create job opportunities for the local workforce that provide a living wage. Building a strong local economy is critical as businesses provide economic opportunity to residents via jobs and procurement opportunities. Businesses generate tax revenues for the City, help to attract private capital, and spur a cycle of investment and growth.

Chester benefits from strong community anchors that are actively engaged in civic affairs. From government to private industry, to nonprofits and academia – all are eager to play their part in Chester's revitalization. A few key economic development players are described below.

Government and Quasi-Government

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 CDBG, HOME, and ESG grants. 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 Chester.

Mayor's Economic Development Committee: Formed in 2019, the Economic Development Committee (EDC) is tasked with identifying actionable steps to improve the economic vitality of Chester. Members include prominent leaders in business, nonprofit, and government sectors. The EDC's members and their development objectives are detailed later in this chapter.

Non-Profit Entities and Public-Private Partnerships

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."[92] The organization is focused on increasing homeownership, improving public safety, developing the Chester waterfront, and helping to market the region as a desirable residential and business location.

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. In the recent past, the Chamber co-hosted the Mayor's State of the City address.

Private Industry and Anchor Institutions

Subaru Park: Subaru Park opened on June 27, 2010 as Talen Energy Stadium 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.[93] The stadium also

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[92] Riverfront Alliance of Delaware County. http://www.delcoriverfront.com
[93] About Talen Energy Stadium. https://www.philadelphiaunion.com/stadium/about

acts as host to cultural and entertainment events including the Rock Allegiance Music Tour, the 5k Blacklight Run, and community career fairs.

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 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.[94] In addition, the growth of Widener has sparked a renaissance along Providence Avenue.

Harrah's Casino: Harrah's Philadelphia Casino and Racetrack is situated six miles south of the Philadelphia Airport along the Delaware River. The casino has 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 and an indoor wagering area.[95] 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.

Crozer Keystone Health System: Crozer is the leading healthcare provider in Delaware County, comprising four hospitals, outpatient centers, and urgent care. It is also the largest employer in the County. While much of the health system is located outside of Chester, they are an important regional partner.

Economic snapshot

Chester has suffered from population loss for decades. Since the 2000 decennial Census, the resident population has decreased by 7.8 percent. This rate of decline is not precipitous, but it is significant. During this same period, Delaware County grew at 2.5 percent. [96] Recent estimates suggest that population decline in Chester has been modest for the last five years, but the 2020 decennial Census will provide better data. The effects of a continuous decline in residency have had significant ramifications for the City's economy. The City has a younger population than the surrounding portions of Delaware County and Commonwealth, with 37 percent of residents between the ages of 20 and 44 in 2019. This concentration of prime-working age population is an important opportunity for the city.

State, County, and City Age Distribution, 2019[97]

	Pennsylvania	Delaware County	Chester City
Ages 0 to 19	23.6%	25.2%	28.6%
Ages 20 to 44	31.3%	31.9%	37.0%
Ages 45 to 64	27.3%	27.0%	21.9%
65+	17.8%	15.9%	12.4%

Chester has a much larger Black population (68.9 percent) and larger Hispanic/Latino population (11.6 percent) than the County and Commonwealth. This makes Chester one of only 16 municipalities in

[94] Widener University Community Outreach. http://www.widener.edu/civic_engagement/community_outreach/default.aspx
[95] Visit Philadelphia. Harrah's Philadelphia Casino and Racetrack. http://www.visitphilly.com/museums-attractions/philadelphia/harrahs-chester-casino-racetrack/
[96] Census Bureau, compares population in 2000 decennial census to 2010 decennial census.
[97] American Communities Survey, 2019 5-year estimates. Census Bureau.

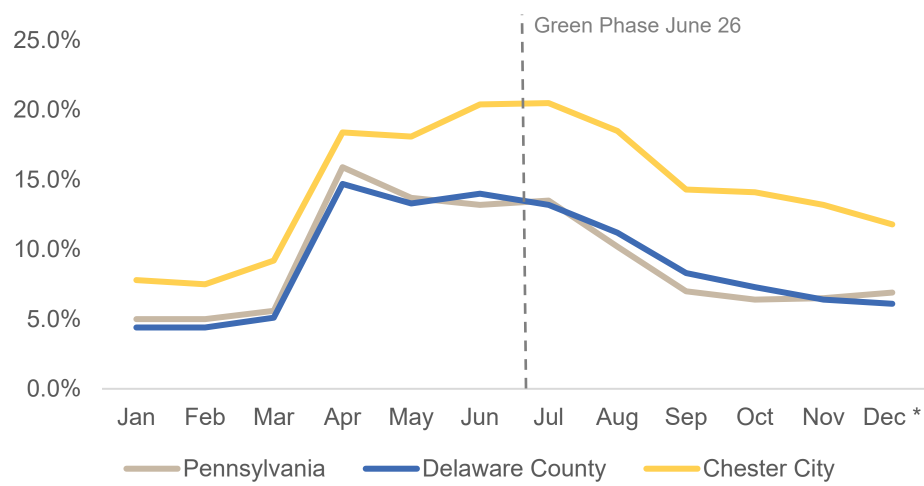
Pennsylvania with a majority-Black population, and one of only two cities with more than 20,000 residents and a majority-Black population (along with Harrisburg, which is 51.5 percent Black). It is critical to the city's future economic success that economic development planning consider racial inclusivity. It is also likely that the city will face pronounced impacts from the current economic downturn, as Black and Hispanic workers and families — throughout the country and in Pennsylvania specifically — have disproportionately been impacted by the COVID-19 economic and public health crises.

Employment

While Chester's median household income remains well below Commonwealth and County medians ($32,400 compared to $74,500 in Delaware County and $61,700 in Pennsylvania), it has risen over the decade — from $25,000 in 2009 estimates to $32,400 in 2019 estimates (a significant increase of almost 30 percent in ten years). Prior to the pandemic, estimated unemployment levels declined in Chester according to Census surveys and Bureau of Labor Statistics data. Despite positive trends, unemployment in Chester remained much higher than the Commonwealth and County, according to both major sources.

Like much of the country, Chester experienced a sharp increase in unemployment during the spring of 2020 as the pandemic hit and businesses shuttered. Delaware County moved into the yellow reopening phase on June 5, and green on June 26. In the green phase, restaurants, salons, gyms, and casinos were able to open at 50 percent capacity. Chester was hit particularly hard during this period partly because of its employment concentration in service-sector occupations/businesses, as discussed below. As the graph below shows, unemployment in Chester increased after April 2020 and peaked during the least restrictive phase of reopening while it declined from its April peak in the County and Commonwealth.

State, County, and City Unemployment, 2020[98]



The largest occupation sector for Chester resident workers is services, employing 34 percent of residents as of 2019, while the largest employer industry sector group is Education, Health Care, and Social Assistance. Retail and Arts, Entertainment, and Recreation employment, which are respectively the second and third largest employer sectors, are also particularly concentrated in Chester. The concentration of employment in these areas hit very hard during the pandemic is much higher in Chester than the Commonwealth or County, and reinforces the evidence that Chester will face a challenging path to recovery.

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[98] Bureau of Labor Statistics, 2021. December's figures are preliminary.

Housing and Education

The median home value for owner-occupied households has remained low for several years, increasing slightly from $68,000 in 2015 to $72,400 in 2019. This is significantly lower than the surrounding County and Commonwealth. The share of renter-occupied units has grown while the percentage of owner-occupied units decreased over the past five years. As of 2019 estimates, over half of the city's occupied units were occupied by renters. Since 2015, the percentage of vacant housing units has decreased.

Both owner and renter households in the City face a high housing cost burden (households paying more than 30 percent of income in housing costs). Cost burden rates for both owner and renter households had been declining coming into the COVID-19 crisis, but the economic conditions during 2020 are likely to have exacerbated both.

Chester City Occupied Housing Units, 2015-2019[99]

Chester City	2015	2016	2017	2018	2019
Owner-Occupied Units	37.9%	37.3%	37.2%	35.1%	36.1%
Renter-Occupied Units	62.1%	62.7%	62.8%	64.9%	63.9%
Vacancy %	21.1%	21.0%	21.4%	19.5%	18.0%
Total Housing Units	14,903	14,700	14,636	14,447	14,150

While most Chester residents have at least a high school diploma (83.2 percent in 2019), few have a bachelor's degree or higher (12.3 percent in 2019). Increasing education levels in Chester can substantially increase residents' earnings. The median yearly earnings for someone without a high school diploma is $22,000. This increases to $29,000 with a high school diploma and $36,000 with a bachelor's degree. For women in Chester, increasing educational attainment has even greater impact on earnings: median earnings increase 43 percent with a high school diploma and an additional 43 percent with a bachelor's degree.

Overall tax burden

According to the City's economic development personnel, the most common barrier cited by development professionals is the high tax burden. The table below compares Chester's tax rates to the average municipality in Delaware County. After holding off on raising real estate taxes for over a decade, the City increased its rate by about 10 percent in 2020 to a total municipal real estate tax rate of 15.8131 mills which dwarfs the Delaware County average of approximately 6.0520 mills. The City's resident EIT rate (3.75 percent) and its non-resident EIT rate (2.00 percent) are both significantly higher than the county averages of 1.01 percent and 1.03 percent, respectively. While not as dramatic, the City's LST flat rate and BPT millage rates for wholesale, retail, and other businesses are all higher than the average Delaware County municipality. In addition, 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.

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[99] American Communities Survey, 2015-2019 5-year estimates.

Municipal Tax Rates[100]

	Resident EIT (%)	Nonresident EIT (%)	Real Estate[101] (mills)	LST ($)	BPT Wholesale (mills)	BPT Retail (mills)	BPT Other (mills)
City of Chester	3.75%	2.00%	15.8131	$52.00	2.000	3.000	4.190
Delaware County Avg.	1.01%	1.03%	6.0520	$50.24	1.018	1.508	2.132

In a previous report, authors suggested that Chester's tax rates undermine the City's competitive advantage to developers. They also expressed that the City's overall tax structure – including incentives – is of interest to developers as finding a balance between reasonable tax rates and competitive incentives is key to attracting more development in Chester and expanding the City's tax base.

Economic Development Goals

In 2019, Mayor Kirkland created the EDC. This committee included key stakeholders from the public, private, and nonprofit community who are committed to increasing economic vitality in Chester. The committee met quarterly to prioritize the economic development goals, objectives, and strategies to help move Chester forward. Members included individuals from the following organizations.

Public Sector

- Chester Economic Development Authority
- Riverfront Alliance of Delaware County
- City of Chester
- Delaware County Commerce Center
- CSMI Education Management

Private Sector

- Harrah's Casino/Caesars Entertainment
- Power Home Remodeling Group
- Philadelphia Union
- Kimberly-Clark
- Len Laury Insurance Agency

Community

- Engaged residents

The EDC was tasked with identifying actionable steps that the City and its partners can take to improve the business and development climate. Economic development goals were created in consultation with the Mayor, after which the EDC reviewed and shaped the specific objectives and tasks.

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[100] Pennsylvania DCED Municipal Statistics Office (2021)
[101] Includes total real estate mills. For Chester City, this includes general purpose (9.4041), debt service (2.392), and library (4.017) millage.

GOAL 1: INCREASE JOBS AND ECONOMIC OPPORTUNITY IN CHESTER

Objective 1.1- Grow the talent pipeline

Objective 1.2- Connect residents to current job openings

Objective 1.3- Increase resident, business owner, and community stakeholder awareness of existing workforce development programs

Objective 1.4- Develop an enhanced communication strategy to ensure stakeholders are aware of new and existing workforce development programs and initiatives

Objective 1.5- Create incentives for participation in workforce development programs

Objective 1.6- Provide additional resources and support to businesses that are willing to hire previously incarcerated individuals and those with a criminal record

GOAL 2: ATTRACT AND RETAIN COMMERCIAL AND RESIDENTIAL DEVELOPMENT

Objective 2.1- Beautify the gateways (access points)

Objective 2.2- Improve capital infrastructure around existing businesses

Objective 2.3- Support the Riverfront Alliance Master Plan process

Objective 2.4- Actively seek transit-oriented development in downtown by the Chester Transportation Center

Objective 2.5- Leverage grant and incentive programs for economic development

Objective 2.6- Support developments with positive social impacts and clear community benefits

Objective 2.7- Develop package of incentives to retain existing businesses

GOAL 3: IMPROVE THE QUALITY OF LIFE IN THE CITY

Objective 3.1- Promote a vibrant and active city (e.g. creative placemaking)

Objective 3.2- Continue to promote safe and clean environment

Objective 3.3- Identify programming that helps to improve quality of life for current residents and workers

GOAL 4: IMPROVE THE OVERALL PERCEPTION OF THE CITY

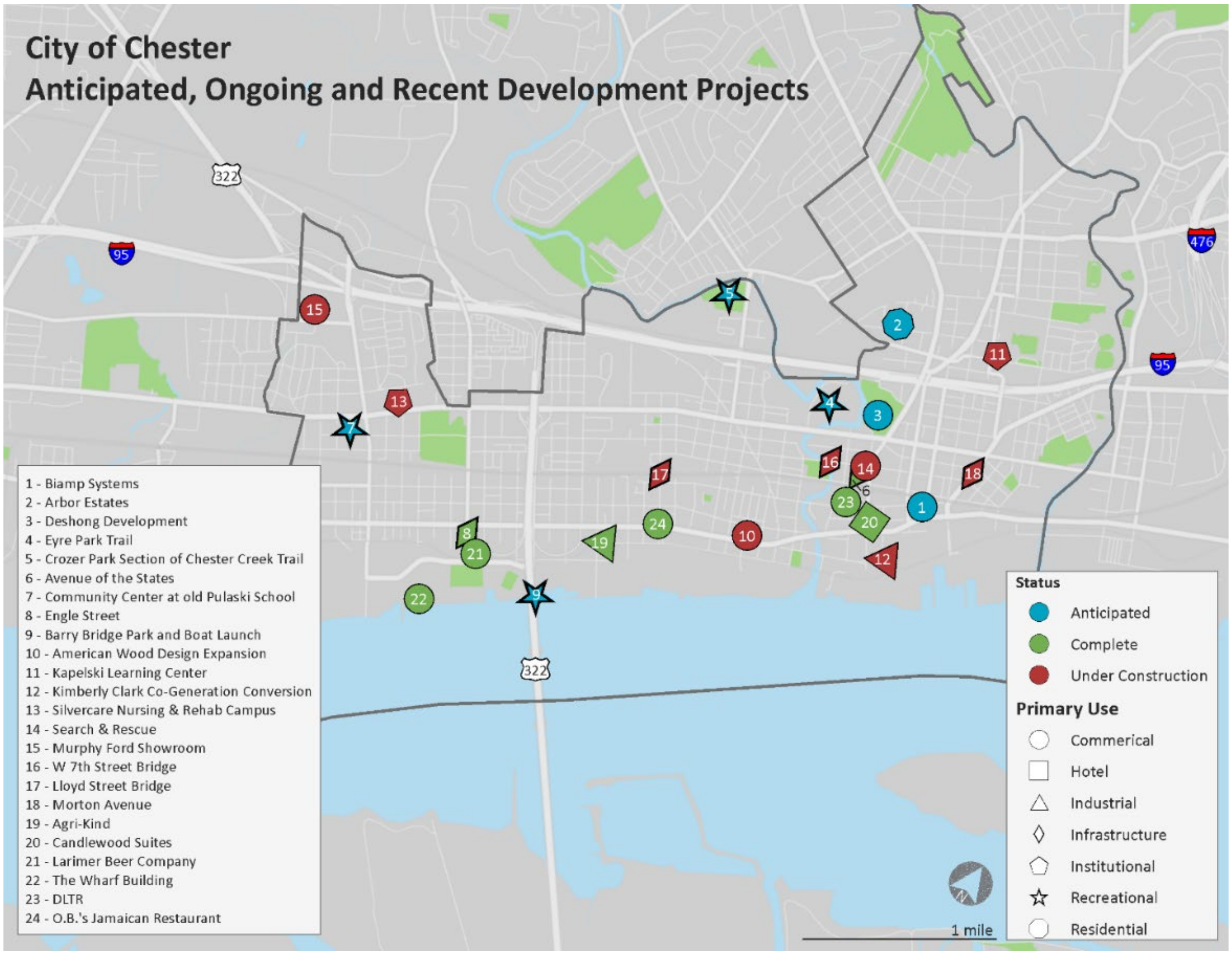
Objective 4.1- Share the positive Chester story

Objective 4.2- Create a publicly accessible map to highlight proposed, ongoing, and recently completed developments

Recent development projects

Development projects in the form of new retail, office, housing, and other forms of public space represent investment and demonstrate the latent demand for a diverse mix of housing and amenities in Chester. Most activity is redevelopment which repurposes and revitalizes previously worn down and dilapidated structures.

Map of Anticipated, Ongoing, and Recent Development Projects in Chester[102]



Project	Description	Status
Biamp Systems	Previously Community Loudspeakers, Biamp Systems is a manufacturer of industrial stadium sound systems. Biamp has invested heavily to renovate its Chester factory, a project that began in late 2019. Now nearing completion, the factory has quadrupled its production capacity.	Anticipated
Barry Bridge Park and Boat Launch	Project included expansion of park, creation of a large public greenfield area, the relocation of a parking lot, the installation of a riverfront plaza and recreational pier, and restoration of a recreational boat launch to provide more public access to the Delaware River.	Anticipated
East Coast Greenway Connectors	Project would connect Highland Avenue & Norris Street to the East Coast Greenway and include a walking and biking route. Connectors would integrate Chester's existing trails and parks to other trails in the area.	Anticipated

[102] Map was created for a prior plan and therefore the status is not updated.

Project	Description	Status
Pulaski School Community Center	Community center and housing development proposed for former Pulaski School. Project is currently in pre-development and contingent on funding from DCED to clear the site for future redevelopment.	Anticipated
Reaney Street	With the recent adoption of the Chester Waterfront Master Plan, RADC is pursuing several financing incentives to help catalyze the revitalization of the designated development area. Reaney Street is considered one of the main arterial roadways to support the future development. The DCED Waterfront Development Tax Credit Program (WDTCP) will provide a means to leverage additional support from private investors in waterfront property to help ensure the success of this effort.	Anticipated
Seaport Event Complex and Commissary	A proposed mix of retail, office, and commercial spaces will be made available to encourage business development and create employment opportunities in the City. The development of the flexible industrial warehouse property is within the Chester Waterfront Master Plan development area. A funding application was submitted FY 2020 for $1,800,000 with matching funds to be provided by private development interest, A World So Special, that will also operate the event space.	Anticipated
American Wood Design Expansion	American Wood Design recently relocated from Claymont, Delaware to a renovated facility in Chester on Fulton Street, adding approximately new 30 jobs to the City. This company designs and produces architectural-grade millage work and commercial cabinetry.	Under Construction
Kapelski Learning Center	New Learning Commons will include seminar rooms, a music classroom, specialty labs for social science and psychology, large lecture auditoriums, and a new atrium. The building will also house additional faculty and staff offices and support spaces as well as collaboration rooms and various lounges.	Under Construction
Lloyd Street Bridge	Demolition process was started in 2016. PennDOT, Amtrak, SEPTA, and the City are working together to rebuild a similar bridge in the same location.	Under Construction
Silvercare Nursing & Rehab Campus	The urgent care and adult daycare sections have been completed. CEDA is working with Silvercare on Commonwealth funding for the Subacute Care Center in the south building.	Complete/Under Construction
West 7th Street Bridge	Bridge was closed for demolition in September 2018. The two-lane bridge will span a similar length. The project has been delayed due to environmental issues.	Under Construction
Agri-Kind Facility	In 2019, Agri-Kind became the Philadelphia area's first state licensed medical marijuana grower and processor. Agri-Kind invested $18.2 million in opening its 62,000-square-foot complex in Chester and expects to spend an additional $48 million in the next two phases of the project. Once the facility is fully operational, Agri-Kind is expected to employ over 85 people.	Completed
Agronomed Medical Marijuana Dispensary	The facility is operational and currently growing product. Future development could include a dispensary at 2nd and Norris streets and a separate building at 8th and Hickinson Streets for a clinical research facility.	Completed
Arbor Estates	This public/private development between the City and CCIP adds affordable housing in Chester, including four owner-occupied semi-detached units.	Completed

pennsylvania
RECEIVER FOR THE CITY OF CHESTER

Project	Description	Status
Avenue of the States and Engle Street Repairs	Projects include extensive street repairs to improve the safety of pedestrians traveling through downtown Chester and at the waterfront.	Complete
Candlewood Suites	The project includes an 89-room extended stay hotel that opened in the summer of 2019. This location was chosen due to Chester's proximity to Kimberly Clark, Harrah's Casino, and the Philadelphia International Airport.	Completed
DTLR	DTLR opened a store on the Avenue of the States in 2018. Since opening, DTLR has partnered with Tandem Music Group, a Chester-based music publishing and entertainment company, to organize events including annual block parties that attract over 500 people to the Avenue of the States each year.	Completed
Eyre Park Trail	The trail extends along Chester Creek through Crozier Park to the City border. Future sections of the trail are proposed to connect to Deshong Park, Chester Downtown and the East Coast Greenway. The Eyre Park Levee walk utilizes City Infrastructure to connect residents to the Creek. Enhancing recreational opportunities is a high priority for Chester City Council and the Levee walk provides waterfront access and passive and active recreation.	Completed
Keystone Fitness and Wellness Center	The Center opened in March 2020 and provides art classes, music performances and music classes; exercise and fitness guidance; and job training and employment readiness resources.	Completed
Kimberly Clark Co-Generation Conversion	Kimberly Clark invested $150 million into a former coal-power tissue mill to run on natural gas. The conversion has been completed and will help reduce carbon dioxide emissions around Chester.	Completed
Larimer Beer Company	Situated across the street from Subaru Park, Larimer Beer Brewery is an additional venue for regional visitors who visit the Waterfront District which encompasses Subaru Park, the Chester River Walk, the Fishing Pier, and the Boat Launch.	Completed
Morton Avenue	Morton Avenue between Route 291 (4th Street) and U.S. 13 (9th Street) underwent a four-month repaving and street improvement project as part of a $16.6 million project to rehabilitate eight bridges over Interstate 95 and CSX Railroad in Chester,	Completed
Murphy Ford Showroom	The dealership near I-95 recently expanded their main showroom, providing the dealership with additional space to present cars in a modern and pleasing environment.	Completed
Search and Rescue	This building is set to undergo an extensive façade restoration to make the city feel more welcoming as people exit the SEPTA regional rail station.	Completed
The Wharf Building	PECO's Chester Waterside Station was converted into Class-A office space. The Wharf's former machine shop is now used as a 16,500 square foot indoor training facility. The Wharf building and adjacent Philadelphia Union soccer stadium will serve as the center piece in NBBJ's masterplan for the Chester Riverfront.	Completed

Initiatives

The following initiatives were drafted for a previous iteration of the Receiver's Recovery Plan. Our team collected input from Mayor Kirkland regarding how his administration is prioritizing the initiatives and we expect to work with his team, CEDA, and others to develop this strategy further. The Receiver will retain Economic Development Strategic Planning experts to evaluate all previous long-term planning documents and develop a prescriptive action plan for Chester.

ECD01: Support Strategic Growth at the Waterfront

The waterfront is one of Chester's greatest assets. The Riverfront Alliance, in coordination with the City, secured funding for a Comprehensive Waterfront Development Plan. A draft plan was completed in June 2020 that included an analysis of potential uses and phasing of development along the waterfront. Early recommendations include securing funding for adjacent infrastructure projects, supporting pop-up retail, sports complex, and flexible workspace, as well as creating an independent entity to facilitate development.[103] The City will build upon the momentum and prioritize this growth area for local, state, and federal funds to support incoming private investment.

ECD02: Increase Blight Remediation

Blight has negative quality-of-life and economic development effects on the City and its residents, but can be effectively mitigated with adequate professional support. The City has made progress in recent years on identifying and mitigating residential blight and landlord negligence. Further efforts will be made by the Receiver to quantify the extent of vacant and blighted properties throughout the municipality to create a robust database for future long-term planning uses. Efforts will include seeking additional grant funding to build on the City's progress in this area and bring legal action against several large landlords who are not adequately maintaining occupied or vacant properties in the city.

Prior to the onset of COVID-19, the City was working with the Public Interest Law Center to bolster its blight mitigation and prevention efforts. Channeling grant funds to a partnership with the Public Interest Law Center or similar organization bolsters the City's ability to enforce provisions of Pennsylvania's Neighborhood Blight Reclamation and Revitalization Act (Act 53) as well as its municipal ordinances related to blight. These efforts will more strictly enforce blight remediation for properties and could lead to the award of damages for the City to fund remediation enforcement. As such the City will institute Ordinances to address vacant and derelict properties in the community, utilizing foreclosure registry, vacant property registry, and doggedly pursuing property crime issues using its Department of Public Safety for enforcement.

ECD03: Update development policies and procedures

It is critical that City government review its development policies and procedures to make government more business friendly. The focus should be on reducing regulatory burdens that restrict new investment, while simultaneously increasing the services that support private investment in the city. Specifically, regulatory constraints in the form of existing land use policies have impeded growth and development in the City. The City will work with a select vendor to improve the Department of Public Safety's development review process to identify key steps in the plan review, permitting, and inspection process. The City will also improve License and Inspection enforcement to ensure that it is consistent throughout all neighborhoods. By doing do the City will generate greater efficiencies in the overall entitlement process for developers, and vastly improve the nuisance property enforcement functions, thereby improving the quality of place in Chester.

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[103] Chester Waterfront Master Plan, Report Draft 6/26/20, Riverfront Alliance of Delaware County

In addition, the City will work collaboratively with the Delaware County Planning Department, the Delaware Valley Regional Planning Commission and DCED to update its Municipal Comprehensive Plan (Vision 2020), which was created in 2012 and serves as the primary resource document for long-term land use planning decisions. An updated comprehensive plan will help the City strategically use local and federal funds by identifying the locations for investment and clearly defining where funds should be allocated. This type of prioritization helps signal to the private sector which areas will see future investment from the public side, instilling a system that replaces uncertainty with clarity and delays with fee-based revenue for the municipality.

ECD04: Leverage Public-Private Partnerships

In recent years, the City has made progress in forming partnerships to advance economic development goals. Recent turnover of leadership will provide an opportunity to strengthen relationships with key stakeholders to Chester's benefit.

In 2019, Delaware County government added three new Councilmembers. Today, there is an opportunity to bolster and deepen the relationship between City and County government and build upon a collective vision for a thriving Chester and Delaware County. Tactically, the City and County can work together to leverage federal grant dollars in ways that Chester alone cannot.

In 2020, Crozer Keystone Health System installed a new President and CEO. Crozer is Chester's largest employer and provides key health services for city residents. The new CEO has indicated interest in partnering with Chester for sponsoring community events, opening facilities for community use, and collaborating on key revitalization initiatives.

Forging these bonds between Chester and vested stakeholders provides the City with support to complete long-term planning needed to position Chester for its comeback. Having these relationships in place will promote necessary buy-in to leverage funding and make execution possible. The City and its constituency cannot achieve the growth and development they desire without the collective support of the region and Commonwealth.

ECD05: Support Improvements at the Chester Transportation Center

Chester's connection to a regional transportation network is a major asset and creates a great opportunity for Transit Oriented Design (TOD) growth. The confluence of commuter rail, the I-95 corridor, and proximity to the Philadelphia International Airport have created a unique opportunity for the municipality. The Chester Transportation Center will act as the City's principal public transit hub. The City will seek grant funding support and technical assistance to perform the needed long-range planning for the community and make capital improvements to the surrounding area. This will strengthen the downtown business district and increase connections to the waterfront entertainment district.

ECD06: Support Central Business District Revitalization

The Chester downtown corridor is in the midst of revitalization led by the local community. The Avenue of the States is being positioned as an opportunity for redevelopment into a cultural arts district by an informal collaborative of local leaders with deep community ties.[104] Redevelopment plans include not just cultural arts, but commerce, health services, and affordable housing.[105] This is adjacent to other significant development including the Candlewood Suites.

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[104] 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
[105] https://delco.today/2020/07/rap-producer-songwriter-jahlil-beats-tries-to-bring-affordable-housing-to-chester/

The City, with support provided by DCED, will continue this transformation by strengthening relationships with the local business community through public-private partnerships and identifying ways to strategically support long-term investment throughout the Central Business District. Efforts will include adopting a Main Street strategy and prioritizing investment efforts in support of that approach. Building upon the legacy of "Chester Made," the City will work with Recast City to help increase the number of small to medium sized businesses in the central business district.

Governance and Operations

Further progress to overcome Chester's fiscal challenges will require structural changes that impact City government's daily operations. Since most of those operations are labor intensive, management must continue to find ways to drive greater efficiencies.

While the Receiver has been in place for less than a year, the City and his team have already taken steps to improve efficiency, restore core services to a level the City can afford, and improve coordination across the organization. The goal is to provide Chester's residents with the most professional, effective and responsive city government possible while being good stewards of the taxes and fees that residents, businesses and others entrust to City government.

Prior Recovery Plans written by the Act 47 Coordinator and the Receiver have discussed the potential value of changing Chester's form of government, which is described below. The Receiver's efforts to date have focused on making improvements within this form of government, and that remains the focus under this Amended Recovery Plan.

Form of Government

Chester is incorporated as a City of the Third Class and operates as a Home Rule Charter community as approved by its citizens on April 20, 1980 (the "Home Rule Charter"). The City government has an elected Mayor and a City Council ("Council") with five members, one of whom is the Mayor. Councilmembers are elected at-large for four-year staggered terms.

Under the City's Administrative Code, the Councilmembers are heads of four departments: Public Affairs (which includes Police); Accounts and Finance; Public Safety (which includes Fire); and Public Works, Parks and Public Property.[106] The Mayor makes the department head assignments at City Council's annual organizational meeting and leads Public Affairs.

The structure in Chester's Home Rule Charter is a variation of the "Commission" form of government. According to the Department of Community and Economic Development's Handbook [107] on City Government in Pennsylvania, Chester is one of just two Pennsylvania cities using the commission form of city government. The other is the City of Greensburg in Westmoreland County.

Most Pennsylvania cities use one of the following forms of government:

- The ***Mayor-Council plan*** has an elected "strong mayor," who leads the executive branch of government, and a separately elected City Council as the legislative branch of government. The City may appoint a senior official (e.g. Business Manager, Managing Director) with more professional experience to oversee daily operations. This structure with separation of powers and checks and balances follows what we have at the federal and Commonwealth level of governments.
- The ***Council-Manager plan*** has an elected City Council which then appoints a full-time City Manager to manage the daily operations of City government. Council or the City Manager may appoint directors who are responsible for managing their departments. The Manager reports to City Council so the body has executive and legislative duties, but Councilmembers do not directly oversee departments.

[106] As discussed later in this chapter, public works functions were previously distributed between two departments so there are two Councilmembers overseeing this department.
[107] The Pennsylvania Governor's Center for Local Government Services, *"City Government in Pennsylvania Handbook"*, 3rd Edition, November 2013.

Chester's unique form of government presents several challenges. Since elected officials have the same level of authority and each one oversees a specific functional area, coordination across departments can be challenging. Centralized management helps to drive efficiency especially for smaller organizations with limited resources.

For those reasons, the Receiver and the City agreed to establish a Chief Operating Officer (COO) that is responsible for the proper and efficient administration and operation of City government. The COO reports to the Mayor and works very closely with the rest of Council to improve coordination across all departments, similar to the function that the Chief Financial Officer (CFO) serves in that area. City government will benefit greatly from clearer distinctions of workflow, chain of command, and some delineation between Council's role as department heads and others' role as day-to-day administrators.

The Receiver also restructured City government to gain efficiency by merging units performing similar or complementary tasks that were previously overseen by different Councilmembers because the units were in different departments. The functions that were merged had already been shrunk during the Spring 2020 furloughs because of the pandemic. For example, the Streets Maintenance and Parks Maintenance divisions were each reduced to a handful of employees, many of whom were part-time. Some employees returned to work in late 2020 and others returned in the 2021 budget, but the units would have still been smaller than they were before the pandemic. Rather than have two small units reporting to different managers in different departments, the Receiver created one Maintenance Division.

City government's departmental structure following this reorganization is described below.

Public Affairs

This Department includes the following units:

- The ***Mayor's Office*** (7 full-time positions, 2 part-time)[108] is responsible for communications and constituent relations; workforce and business development; and a grant-funded mentoring program. This is where the Mayor, the new COO and the Director of Business Development positions are housed.
- The ***Solicitor's Office*** (2 full-time positions) handles legal matters for City government. The City also uses outside and contracted counsel for specialized areas.
- The ***Police Department*** (96 full-time positions, 1 part-time) has the Police Commissioner and Major; three administrative positions; and 92 police officer positions across four ranks (Captain, Sergeant, Detective/Corporal, and Patrol Officer). The Department also oversees the school crossing guards.

Accounts and Finance

This Department includes the following units:

- The ***Director's Office*** (5 full-time, 1 part-time position) is led by one of the City Councilmembers and the Chief Financial Officer (CFO), who oversees the Department's daily operations and coordinates financial functions across all departments. Office staff are responsible for accounting, payroll, and grants management.
- The ***Treasurer's Office*** (3 full-time positions) receives and processes payments for current year real estate taxes and other smaller non-tax revenues. Keystone Collections Group collects the

[108] All position totals shown here come from the 2021 budget.

earned income tax on behalf of Chester and all other taxing bodies in Delaware County. The City uses a third-party collector for local services, business privilege and parking tax revenues.

- The ***Assessor's Office*** (2 full-time positions for part of the year) historically maintained Chester's real estate assessment information. Beginning this year, Chester will use Delaware County's new assessment, so these positions will be phased out.
- ***Human Resources*** (3 full-time positions) handles benefits administration, labor relations, collective bargaining agreement administration, and related functions.
- The ***Purchasing Office*** (2 full-time positions) processes payments to vendors and contractors. It is led by the Deputy Chief Financial Officer, who is also the Chief Purchasing Officer.

The City records its expenditures for information technology, debt, employee fringe benefits, and general liability insurance in this unit. The full-time ***City Council Clerk*** is placed in this Department for budgetary purposes, as is the separately elected ***Controller*** whose office has two full-time positions.

Public Safety

This Department includes the following units:

- The ***Director's Office*** (3 full-time positions) has the Councilmember who oversees these functions, the Planning Director, and the Assistant Planning Director. The two Planning positions moved from Public Affairs to this department to improve coordination between zoning, planning, code enforcement, and licenses and permitting functions.
- ***Licenses and Inspections*** **(L&I)** (15 full-time positions) handles code enforcement, housing inspections, and food establishment inspections. L&I includes the Office of the Building Official that is responsible for issuing licenses and permits to anyone conducting plumbing, construction, electrical, or mechanical system work, including on residential properties. It has the Chester Housing Division that provides certificates of occupancy for all buildings, including rental units. Beginning in 2021, L&I also houses the City's ***Bureau of Health*** that is responsible for monitoring the health status of the City of Chester, investigating public health hazards, and creating policies and programs to decrease adverse health outcomes.
- The ***Fire Department*** (62 full-time positions) has the Fire Commissioner; an administrative position; and 60 firefighter positions across three ranks (Battalion Chief, Captain, and Firefighter). The Department is responsible for fire education, investigation services, and emergency mitigation and management of hazardous materials.

Public Works, Parks and Property

This Department has the functions previously assigned to the Streets and Highways Department and the Parks, Recreation and Public Property department.

- The ***Director's Office*** (6 full-time positions) has two Councilmembers, one of whom oversees road and parks maintenance functions and the other of whom oversees recreation and public property maintenance functions. This unit also has the Public Works Director; the Street and Highways Supervisor; the Recycling Coordinator who oversees residential trash collection; and a clerical position.
- The ***Maintenance Division*** (20 full-time positions) is responsible for street maintenance; traffic signal and streetlight maintenance; and vehicle and equipment purchases and repairs. Beginning in 2021, the Division maintains the six City-owned parks. Positions from the former Parks Maintenance unit have moved into this unit.

- ***Building Maintenance*** (2 full-time positions plus 1 position that is full-time for part of the year) maintains and cleans the City-owned buildings, including City Hall and the cell block portion of the Police Station. The City uses an outside contractor for custodial services at other sites.

The City records its expenditures for utilities, the Memorial Park Pool, and the Summer Food Service program in this unit. The full-time ***Engineer*** and ***Recreation Site Supervisor*** are also housed here.

While the restructuring took effect on January 1, 2021, there are still some administrative tasks to complete, such as updating position descriptions and possibly updating ordinances. The Receiver's team is also creating performance metrics to track the efficiency and effectiveness of public works functions, so Chester's leaders and residents have a better sense of what value they get for spending in this area and how a change in staffing levels might translate to changes in service levels. The Receiver's team developed daily reports, benchmarks and targets, and work-flow protocols that Department employees will use to record data.

Having a COO responsible for the entirety of the organization has also made it easier to identify, prioritize and capitalize on opportunities to gain efficiency, increase transparency, improve coordination, and generally providing a higher, more professional level of service to Chester.

With guidance from the Mayor and Council, the COO has outlined the following priorities, which the Receiver's team supports and is helping to evaluate further and execute:

- Developing and implementing metrics and, in the interests of accountability and transparency, publishing an annual report for the citizens of Chester summarizing work performed during the year. As noted above, this effort will start with Public Works and then expand to other functions.
- Investing in tools and equipment to aid in the delivery of those coordinated services and optimize the dispatch of Public Works personnel
- Developing new initiatives with L&I to update fees and establish a rental unit registry with a supporting fee structure
- Investing in the City's communications infrastructure so that streaming services for public meetings are professional and dependable while also developing alternative means of communications for residents without an online presence
- Upgrading the City's computer network to enhance employee productivity
- Working with Widener University to provide City employees with more access to cost-free professional and leadership development and managerial mentoring

The COO is also working with the Receiver's team on other Plan initiatives such as the eligibility audit for health insurance and retirement benefits.

Initiatives

The initial Recovery Plan stated that the Receiver's team would conduct an organizational assessment of each City department. Instead of taking several months to produce lengthy reports describing every facet of each department, the Receiver's team and City are focusing on the priorities that they or others, like the Act 47 Coordinator, have already identified.

- An operational study of the Fire Department is underway and will result in recommendations to improve efficiency and address the question whether the Department can serve the community effectively by working from one fire station instead of two.

- A targeted operational study of the Police Department will begin shortly that is specifically focused on how to increase the number of police officers available for patrol within the City's resource limitations.
- As described above, the Receiver's team is working closely with the COO, department staff and employees to improve the functions now handled by Public Works. Similar efforts will focus on the L&I functions in the Department of Public Safety.
- The Receiver's team is working extensively with the CFO and his staff in Accounts and Finance on issues ranging from cash flow to purchasing and procurement to benefits administration.

The Receiver understands that merely pointing out problems is insufficient, and his team's job is to help fix them. That work to date has informed the initiatives described in prior chapters and it will continue to shape future Amended Recovery Plans.

Regarding the form of government, the Receiver will consider the issues raised by the Act 47 Coordinator and others as his team continues to work with the City to implement the Recovery Plan. If the Receiver concludes that a change in the form of government would be beneficial to the City, and if the Receiver believes a specific form of government would be better for the City, the Receiver will amend this Plan to recommend a change in the form of government.

ADM01: Revisit license and inspections enforcement processes and enforce ordinances

The City shall implement a performance measurement program for its License and Inspections enforcement practices and fee and fine collections. The Chief Building Official 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. The City must also ensure that its inspectors continue to be properly licensed and certified.

ADM02: Develop comprehensive plan to address City litigation

The City is a party to significant amounts of litigation. The Receiver is already working closely with the City to address these matters in the way most beneficial to City residents. The Receiver will work with the City to develop a comprehensive approach to its litigation and risk management to address existing issues and reduce future claims against the City. While the Receiver believes that Section 706 of Act 47 already provides him with the powers to do so, the Receiver clarifies that, with respect to matters involving the City, he has the ability to initiate or settle litigation, direct litigation (including counsel and expert selection), and intervene as a separate party if necessary.

ADM03: Revamp existing Executive on Loan program

Executive on Loan (EOL) programs help governments get temporary support from subject matter experts in areas where the government could not otherwise afford to add staff.

The name itself is descriptive of the program structure. The City gets support from people outside of government who have specialized skills and knowledge, usually at the ***executive level***. It is not used to increase the number of frontline positions otherwise supported by the budget.

Those executives work for the City government ***"on loan***," meaning City government covers just a portion or none of their compensation costs, and the executive's regular employer covers the rest. The executives work with City government for a limited time and then return to their position outside City government.

While Chester officials note that its EOL program started with this structure, it has since evolved into something else. Recently, the City received financial contributions from a couple of organizations that the City then used to fund the compensation costs for a couple positions. Entering 2021, the two EOL-funded positions were the Workforce Development Coordinator and the Assistant Planning Director. Neither employee was "on loan" from another organization. They were City employees whose compensation was partially funded by a revenue stream outside the general fund.

In October 2020, the Receiver approved the City maintaining these positions as long as the external support existed. The Receiver was clear that any employee brought back under the EOL must be made aware of the limited funding status and that there was no guarantee of employment beyond the existence of the program funds.

Unfortunately, the EOL program does not have consistent or sufficient revenue to cover the full costs of the associated positions. In the 2021 budget, the City anticipated $75,000 in new EOL funding. The combined salary cost of the two positions is $129,000, plus the two employees also receive City-funded health insurance. Even if the City was able to collect enough money in 2021 to fund the two positions, future funding would depend on the willingness and ability of external parties to continue providing support. This leaves City government in the difficult position of either eliminating positions and the associated services in the middle of the year or running a deficit.

The Assistant Planning Director position is important to City government and will be incorporated in the City's budget, as it essentially already is. As noted above, the 2021 EOL budget was not sufficient to cover the full cost of both positions. The Workforce Development Coordinator was also providing valuable service, but unfortunately there is not money available to fund that position.

The City shall not solicit or receive donations from outside organizations to support the cost of employees on a full or part-time basis without the Receiver's approval.[109] To return to the initial intention behind this initiative, the Receiver has directed the Human Resources Department and COO to establish a new EOL program that will allow community members to support an identified list of special projects on a volunteer basis for a limited time, without compensation from the City in terms of salary or benefits.

[End of document]

[109] The Emergency Action Plan and initial Receiver's Recovery Plan had a similar requirement for grant funded positions, which is continued in this Plan's initiative FIN01.