



COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE GOVERNOR

**DECLARATION OF FISCAL EMERGENCY
CITY OF CHESTER, PENNSYLVANIA
APRIL 13, 2020**

WHEREAS, in 1995, the Secretary of Community and Economic Development determined that the City of Chester had met the criteria necessary to issue a Determination of Municipal Financial Distress pursuant to the provisions of the Municipalities Financial Recovery Act, 53 P.S. § 11701.101 et seq. (“Act 47”);

WHEREAS, the City of Chester adopted an initial Recovery Plan in 1996 but due to difficult economic conditions was forced to adopt subsequent Recovery Plan amendments in 2006, 2013, and 2016;

WHEREAS, the City of Chester’s adopted an Exit Plan under Act 47 on October 10, 2018;

WHEREAS, a novel coronavirus (now known as “COVID-19”) began infecting humans in December 2019, and has since spread to over 180 countries, including the United States;

WHEREAS, on March 6, 2020, pursuant to the provisions of Subsection 7301(c) of the Emergency Services Management Code, 35 Pa.C.S. § 7101, et seq., I proclaimed the existence of a disaster emergency throughout the Commonwealth;

WHEREAS, on March 23, 2020, I ordered all individuals to stay at home and closed non-life sustaining businesses in several counties, including Delaware County in which the City of Chester is located, to mitigate the spread of COVID-19 in the Commonwealth;

WHEREAS, on April 1, 2020, I extended the stay at home order to the entire Commonwealth through April 30, 2020;

WHEREAS, the continuing spread of COVID-19 has adversely affected local government revenues, including those of the City of Chester;

WHEREAS, the ongoing fiscal distress of the City of Chester jeopardizes the health, safety and welfare of its citizens and threatens the fiscal stability of neighboring communities; and

WHEREAS, the City of Chester is projected to be insolvent within 180 days; and

WHEREAS, the City of Chester is subject to various pending legal actions involving significant municipal assets, all of which jeopardize the provision of vital and necessary services to its citizens and, therefore, is unable to ensure the continued provisions of such services.

NOW, THEREFORE, pursuant to the provisions of Sections 602(a)(1)(i) & (ii) of the Act of July 10, 1987 (P.L. 246, No. 47), as amended, 53 P.S. § 11701.101 et seq. (“Act 47 as amended”), I hereby determine that a fiscal emergency exists in the City of Chester.

FURTHER, in accordance with Section 602(b)(1) of Act 47 as amended, and contemporaneously with this Proclamation, I hereby adopt and issue, and incorporate herein by reference, the Concise Statement of Facts supporting the determination of the existence of a fiscal emergency in the City of Chester.

FURTHER, in accordance with Section 602(b)(1) of Act 47, I hereby direct the Secretary of Community and Economic Development forthwith to serve written notice of this Declaration, along with the Concise Statement of Facts, upon the governing body of the City of Chester and its Chief Executive Officer.

FURTHER, in accordance with Section 602(b)(2) of Act 47, I hereby direct the Secretary of Community and Economic Development, within ten (10) days of this Declaration, to develop an Emergency Action Plan as described by Sections 602(c) and 603 of Act 47 as amended to ensure that vital and necessary services are maintained within the City of Chester during the state of fiscal emergency.

FURTHER, I hereby delegate the authority conferred upon me as, Governor pursuant to the provisions of Section 604 of Act 47, as amended to the Secretary of Community and Economic Development, and I hereby authorize and direct the Secretary or his designee to carry out any emergency powers and issue any Orders otherwise reserved for the Governor pursuant to the aforesaid Section 604.



GIVEN under my hand and the Seal of the Governor, at the city of Harrisburg, on this thirteenth day of April two thousand twenty, the year of the commonwealth the two hundred and forty-fourth.

Tom Wolf
TOM WOLF
Governor

**CONCISE STATEMENT OF FACTS SUPPORTING THE DETERMINATION OF
FISCAL EMERGENCY IN THE CITY OF CHESTER
REQUIRED BY 53 P.S. § 11701.602(b)(1)**

In 1995, the Secretary of the Community and Economic Development determined that the City of Chester (the “City”) had met the criteria necessary to issue a Determination of Municipal Financial Distress pursuant to the provisions of the Municipalities Financial Recovery Act, 53 P.S. § 11701.101 *et seq.* (“Act 47”). The City adopted its original Recovery Plan in 1996 and adopted Recovery Plan amendments in 2006, 2013, and 2016. Despite its twenty-five years in the Act 47 program, the City’s fiscal condition has continued to deteriorate. The City regularly finishes the year with barely enough cash to cover payroll, the police pension fund is nearly bankrupt, and there is no capacity to address mounting capital needs.

The City’s fiscal position nearly reached a breaking point in early 2017. The City had accumulated approximately \$28 million of unpaid obligations and a cash shortfall led to a default on its 2016 Tax and Revenue Anticipation Note (“TRAN”). DCED issued an emergency \$2 million loan and arranged an advance on gaming host revenues to the City to repay the TRAN and provide immediate liquidity.

This action addressed immediate cash needs, but the City still suffered from significant unpaid obligations. In August 2017, the City closed an unfunded debt issuance to eliminate a portion of its outstanding liabilities. However, even after the borrowing, unpaid obligations remained including over \$17 million of past due pension minimum municipal obligations (“MMO”). The unpaid balances accrue interest at 7.5% and are currently over \$25 million.

The severity of the City’s pension situation cannot be overstated. As of April 8, 2020, the police pension fund balance was \$2.9 million, which is equal to less than six months of beneficiary payments. The City’s depleted pension can be attributed to lack of regular funding from its General

Fund, generous benefits, and the inability to control pension related payroll costs such as overtime. The City failed to pay its full MMO to the police, fire, and non-uniform pensions in fiscal years 2014 to 2019. In several of those years, the City did not contribute anything above what was received in state pension aid.

On October 10, 2018 the City adopted its Exit Plan under the provisions of Act 199, which amended Act 47. The Exit Plan recommended a number of corrective actions including exploring the monetization of City assets. The City has two significant business-type assets, the water system owned by the Chester Water Authority (the “Authority”), and the parking system owned by the City.

The City considered a potential sale of the utility assets of the Authority, which, if consummated, could generate millions of dollars which could support the City’s long-term fiscal recovery. Since early 2019, however, the City has been engaged in multiple lawsuits related to the sale of the Authority. The City has retained qualified legal counsel to help formulate positions with respect to the potential monetization of the system. A resolution to the litigation related to the sale of Authority assets is not imminent and defeat would result in the loss of a huge source of potential revenue for the City.

In 2018, the City entered into a transaction to monetize its parking system involving a third-party operator and manager. The transaction included an upfront payment to the City and modest residual annual payments. By the end of 2018, the City had received \$300,000 of the \$1 million upfront payment owed under the agreement. A lawsuit contesting the installation of parking meters in areas of the City precluded the full implementation of the parking system. Because the system was not fully implemented, the City did not receive the balance of the upfront payment owed and the litigation now represents a contingent liability that may include repayment of the initial

\$300,000 installment. The City included the \$700,000 upfront payment in its 2019 and 2020 budgets anticipating the litigation would be resolved; however, it remains ongoing.

In 2019, the City realized a \$4.8 million deficit and once again did not make its full pension MMO payment. The City planned to eliminate the operating deficit in 2020 with a combination of revenue enhancements and cost containment measures. Even assuming there was no immediate cash infusion into the police pension fund, the City's estimated need for fiscal year 2020 was \$12-\$13 million, comprised of \$8 million for the police pension and \$4-5 million for general operations. The estimated need for 2021 is another \$10-15 million. However, in March of this year, novel coronavirus (COVID-19), a new virus that causes respiratory illness in people and is extremely contagious, began spreading rapidly in Pennsylvania.

The COVID-19 health crisis led to new major revenue uncertainties for Chester. Businesses are shuttering and economic activity is slowing dramatically. Harrah's Racetrack and Casino closed in mid-March, which alone costs the City approximately \$500,000 per month in General Fund revenue. The City responded by furloughing approximately 125 employees, including 39 part-time employees. No police officers or firefighters were among those furloughed. Nonetheless, the Police Department is shorthanded, and the City is unable to hire additional staff.

Recent COVID-19 related developments have created a cash shortfall. As of April 8, 2020, the City had about \$775,000 cash on hand. The City's next payroll on Friday, April 17, 2020 will be approximately \$590,000. Therefore, without declaring a fiscal emergency, the end result for the City of Chester will be unsalvageable, resulting in unpaid bills, further personnel layoffs, and the inability to provide necessary and vital services for residents and what remains of a business community.

Over the last few years, the City's administration has worked commendably and diligently to try to address the City's financial challenges with some successes. However, due to the City's insolvency and the inability to ensure the provision of vital and necessary services as such term is defined by Section 601 of the Act of July 10, 1987, P.L. 246 (as amended), 53 P.S. § 11701.601, as a result of the totality of fiscal circumstances existing in the City of Chester, including but not limited to the pension shortfall, cash flow issues, pending and potential litigation, and the impact of COVID-19, a determination of the existence of a fiscal emergency is warranted.