City of Chester
Five-Year
Financial Plan

Prepared by Fairmount Capital Advisors, Inc.

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Executive Summary

In 1995, the City of Chester petitioned the Commonwealth of Pennsylvania for assistance under the Financially Distressed Municipalities Act, Act 47 of 1987. At that time, Chester faced its sixth straight year with a budget deficit, and at the close of Fiscal Year 1995 audits for Fiscal Years 1993 and 1994 had not yet been completed. The Commonwealth reported that the City's condition indicated, "a lack of budgetary and financial management controls."

On April 25, 1996, Chester City Council unanimously adopted the 1996 Recovery Plan, which addressed the operational, financial, and structural issues facing the City's government, provided an assessment of its community and economic development efforts, and presented nearly 200 action steps toward fiscal recovery.

Since that time, despite making some progress, Chester has remained a distressed community with operating deficits experienced in nine of its last ten years. Improvement has been made with police and fire operations and economic development initiatives, but other areas lag behind. In addition, while the City has upgraded its Chart of Accounts and financial system, financial management practices require further improvement.

In Fiscal Years 2004 and 2005, the City realized General Fund operating deficits of $4.5 million and $3.2 million respectively. To address its history of operating losses and short-term cash deficits, the City has increased its reliance on long-term debt, asset sales, long-term lease transactions, and Commonwealth loans. These one-time actions serve as temporary fixes to structural budget deficits and do not supplement capital infrastructure and economic development projects.

Chester faces severe socio-economic challenges that strain its ability to provide quality services to residents and attract private investment. The City's population declined rapidly and steadily, falling from 63,658 in 1960 to 36,854 in 2000, when the last census was performed. As the City's more affluent residents moved to the suburbs, the City's tax base deteriorated. In 2000, Chester's median household income was $25,703, compared with $40,106 for Pennsylvania and $50,092 for Delaware County.

Financial forecasts reveal an extremely challenging situation for the City. Without corrective action – assuming budget trends remain constant and no new revenues are generated – this Plan projects City operating deficits of roughly $7 million annually from 2006 through 2010, with a 2010 year-end fund balance of negative $36.5 million. However, if corrective measures are implemented and gaming revenues are realized as anticipated and spent wisely, budget forecasts reveal operating surpluses and new resources available to fund the operational reserve account and reduce the City's tax rates, particularly the high earned income tax rate that must be reduced for the City to emerge from Act 47 status.

Despite formidable challenges, the City possesses the potential to overcome its financial hurdles. The City's proximity to Philadelphia, Wilmington, Interstate 95, and public transportation make Chester a promising location for businesses seeking access to the economic centers of the Northeast. The focus and commitment of the City and the Chester Economic Development Authority ("CEDA") are beginning to bear fruit. Aggressive efforts on the part of CEDA and the use of tax incentives, grants, and loans to encourage private investment and business expansion and relocation have encouraged companies to re-evaluate Chester as a profitable place to conduct business. The prospect of a gaming site award presents a unique opportunity to support the City's operating budget and strengthen the City's capital plans with new gaming revenues. Moreover, the City has the opportunity to achieve savings and efficiencies through policy, process, and infrastructure change and improvement.

At this crossroad for the City, an updated Recovery Plan is required to address the City's structural budget deficit and prepare the City for potential new revenue streams through improved financial management practices. No realistically feasible amount of new money will improve the City's financial condition without a solid financial infrastructure in place. Elected officials need timely and accurate information to make decisions, new development requires new services, and new income streams require an educated consideration of spending options among a variety of appropriate needs. Improving financial management practices before the infusion of new revenue is critical to optimal management of funds.

This 2006 Recovery Plan focuses on using the next few years as an interim period for achieving structural balance in annual operations and financial infrastructure improvement. Roughly a dozen key milestones are recommended for each of the first three Plan years in the belief that a sharper focus will achieve greater success. The long-term period – beyond the third year – focuses on stabilization, with economic development efforts continuing to provide increased tax base growth.

This 2006 Plan describes the realities facing the City and the tough steps necessary to regain self-sustained financial health. This Plan's recommendations include the following annual milestones:

2006 Milestones (Bold indicates an item that is complete or underway)

- **Pursue a cash flow borrowing for 2006.**
- **Prepare monthly cash and budgetary performance statements.**
- **Prepare monthly bank reconciliations.**
- **Work with third party providers to reduce insurance and utility costs.**
- **Complete the annual 2005 audit no later than September 2006.**

- **Produce monthly results and forecasts of operating and capital results.**
- Explore opportunities to finance all or a portion of the unfunded pension liability.
- Implement a structured budget process for all funds with participation by all departments and senior management.
- Have a third party assess the Finance Department with restructuring, staffing, and training recommendations due no later than the 4th quarter of 2006.
- Construct a six-year capital program and a one-year capital budget.
- Develop a Capital Funding Plan to seek public and private resources for City operating and capital purposes.

2007 Milestones

- Develop a detailed Labor Analysis to contain growth in labor related expenses. The following provisions shall apply to all collective bargaining contracts entered into following adoption of this 2006 Recovery Plan:
  - Cap annual wage, salary, and health care cost growth at the lower of 3 percent or the annual inflation rate;
  - Reduce total benefit costs as a percentage of total wages and salaries;
  - Cap employment levels funded through the general fund at the December 31, 2005, actual count, with allowances for increased employment as described in the plan;
  - Continue to manage overtime and institute work rule changes and shift/organizational restructuring.
- Assess and improve financial internal controls.
- Develop a cash management plan.
- Develop a financial procedures manual for financial operations.
- Implement third party Finance Department assessment organizational changes by the end of the first quarter of 2007.
- Develop a Debt Management Policy.
- Incorporate the updated *Vision 2000* plan into the six-year capital program.
- Determine the incremental cost of City services required for existing and planned development.
- Update the analysis of abandoned, tax-exempt, and tax arrears property.
- Complete the annual 2006 audit no later than May 2007.

- If received, use a portion of gaming revenues for capital investment.

This 2006 Recovery Plan is comprised of six chapters, one appendix, and an executive summary.

- Chapter One provides Background information on the City and its distressed municipality status.
- Chapter Two presents a summary of relevant socio-economic data along with Economic and Community Development strategies and program components.
- Chapter Three provides an analysis of the City's Historical Financial Performance for Fiscal Years 1995 through 2005, including a review of revenue and expenditure trends, operating and capital issues, and cash results.
- Chapter Four displays a Forecast of Financial Results for Fiscal Years 2006 through 2010 using unaudited mid-year Fiscal Year 2006 data as the base for projections.
- Chapter Five presents the Findings and Conclusions that are used as the foundation for the Plan recommendations.
- Chapter Six describes the Plan Recommendations that will support the City's financial improvement efforts over the next five years and move it toward fiscal stability and the ultimate rescission of the Act 47 designation.
- The Appendix includes a more detailed schedule of financial results and projections.
- In the final section, the City responds to the updated Recovery Plan with its own analysis of Chester's progress.

As with other Pennsylvania distressed municipalities that are executing recovery plans, a structured implementation program with monitoring of and support for the City will be necessary. Reemerging from financial distress after years of operating deficits will require a substantial and disciplined commitment. Applying that commitment to the plan recommendations will set Chester on the road toward eliminating its distressed status.

Chapter One

Background: The City of Chester and the Financially Distressed Municipalities Act

Introduction

The City of Chester ("Chester" or the "City") was declared a financially distressed municipality in 1995 pursuant to Pennsylvania Act 47. In 1998, the Commonwealth of Pennsylvania's Department of Community and Economic Development (the "Commonwealth") engaged Fairmount Capital Advisors ("Fairmount") to serve as the City's Recovery Coordinator. In this capacity, Fairmount's responsibilities include monitoring the financial progress of the City and developing an updated financial recovery plan.

Over the last five years, Fairmount has worked closely with the City to address immediate and short-term financial issues, analyzed and reported monthly and annual financial results, advised the Commonwealth on financial and operational issues, reviewed and monitored progress related to the original 1996 Recovery Plan, constructed financial forecasting models, interviewed elected and appointed officials, and met with the City's auditors. The information gathered from these and other activities has been used to develop a Five-Year Financial Plan, otherwise known as the 2006 Recovery Plan (the "Plan").

The City of Chester

Founded in 1642 and located in the southeast region of Pennsylvania within Delaware County, the City of Chester is the oldest city in the Commonwealth. The City covers an area of 4.8 square miles and lies approximately 16 miles south of downtown Philadelphia; 7 miles south of the Philadelphia International Airport; 8 miles north of Wilmington, Delaware; and 4 miles east of the Delaware county seat of Media, along the Delaware River. Chester's current population is approximately 37,000, and among its business residents are Kimberly Clark, Widener University, and Crozer-Chester Medical Center.

Chester is incorporated as a third class city and operates as a Home Rule Charter community as approved by its citizens.

The City government is organized with an elected Mayor, who serves as the Chief Executive, and a City Council of five members, one of whom is the Mayor. Council members are elected at large for four-year staggered terms and together form the legislative branch of the City government.

Under the City's Administrative Code, each Council member serves as the department head for one of the five municipal departments: Public Affairs, Parks and Public Property, Streets and Public Improvement, Public Safety, and Accounts and Finance. At the discretion of the Mayor and Council, every year some or all of the Council members rotate management responsibility for these departments.

The only other elected City official is the City Controller, who is responsible for purchasing controls and managing the City's pension fund assets.

The City provides its citizens with highway and streets, sanitation, health, recreation, planning, zoning, and public improvement services, as well as police and fire protection. In 2004, these local services were supported with a $28.6 million General Fund operating budget, $4.5 million of Special Revenue Funds for legally restricted operating expenditures, and less than $50,000 of Capital Project Funds.

Distressed Municipality Status

In 1995 the City of Chester petitioned the Commonwealth of Pennsylvania for assistance under the Financially Distressed Municipalities Act, Act 47 of 1987 ("Act 47").

At that time, Chester faced its sixth straight year with a budget deficit. The City's financial reporting system was in a state of extreme disarray. At the close of Fiscal Year 1995, audits for Fiscal Years 1993 and 1994 had not yet been completed. The Commonwealth reported that the City's condition indicated, "a lack of budgetary and financial management controls."

As required by Act 47, the Commonwealth appointed a Recovery Coordinator to assist the City in developing a recovery plan and to monitor the implementation of that plan. Eckert Seamans Cherin & Mellott was selected for this role and issued its Recovery Plan for the City of Chester in February 1996 (the "1996 Recovery Plan").

On April 25, 1996, Chester City Council unanimously adopted the 1996 Recovery Plan, which addressed the operational, financial, and structural issues facing the City's government, provided an assessment of the City's community and economic development efforts, and presented nearly 200 action steps toward fiscal recovery.

Since that time, Chester has remained a distressed municipality with operating deficits experienced in nine of the last ten years.

Chapter Two

Economic and Community Development

Introduction

Economic and neighborhood development efforts in Chester have centered on creating new opportunities to make the City more competitive within its region. Until recently, Chester's economic development and housing initiatives broadly concentrated on establishing a strong foundation by aligning visions, funds, and commitments. The City has built upon that groundwork over the past few years, producing tangible results in improved infrastructure and business growth.

Socio-Economic Review

Understanding the City's economic, demographic, and housing statistics and placing that information within the larger regional, state, and national contexts provides a starting point to discuss Chester's economic and community development needs and strategies.

Demographic and Economic Changes

Like many urban areas throughout the United States, Chester is a city that has been, "long abandoned to decay and deterioration and must be rebuilt from the ground up."[1] Rebuilding Chester requires aggressive economic development initiatives designed, in part, to capitalize on national and regional economic trends.

The economic decline of the inner city is consistent with a national trend in other urban areas resulting from the gradual development of an economy dominated by service and technology and the relocation of industry from the inner city to suburban locations, from the Northeast to the South, and from the United States to countries abroad. The Bureau of Labor Statistics indicates that annual employment in service-based industries grew 44.8 percent from 1990 to 2000, reaching 40.5 million in 2000. In contrast, employment for the economy as a whole increased only 21.7 percent in the same time frame. Similarly, service-based businesses in Pennsylvania have grown steadily since the 1970s. Today, a majority of Pennsylvania jobs are classified as service-based.

The nation's transformation to a service-based economy combined with improvements in communication technology changed the way many businesses

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[1] RDC Institute, *Chester City Vision 2000* (Chester: City of Chester, 1994), 165.

and employees viewed cities. The city no longer represented the primary route to profitability and quality of life. As businesses moved to the edges of cities and to the suburbs, and as individuals were able to more easily connect remotely to businesses from virtually any location, employment and housing shifted from the city to suburban and rural areas.

In 1999, the Joint Center for Housing's report, *The State of the Nation's Housing*, indicated that for every three households that moved to central cities, five departed. Because of this trend, U.S. cities reaped little reward from the economic surge of the 1990s. Further, the households that did increase within central cities were primarily immigrant and minority households, whose median wealth was significantly lower than that of the primarily white households moving out of the cities. This shift in population meant that cities were hosting an ever-increasing concentration of the nation's poor.

Regionally, Delaware County, which includes Chester, has grown and adjusted to the changing market. From 1960 to 2000, undeveloped areas of Delaware County capitalized on and profited from the advancing technology- and service-based economy by offering inexpensive open space for new construction. During this time, Delaware County's overall population remained steady while Chester suffered a 42 percent decline in its population.

Table 2.1
City of Chester Population
1960 - 2000

1960	63,658	
1970	56,331	-11.5%
1980	45,794	-18.7%
1990	41,856	-8.6%
2000	36,854	-12.0%

U.S. Census Bureau

In the 1980s and 1990s, Chester saw a continuing loss of its white middle-class population to the suburbs. The resulting 2000 demographic profile of Chester reveals a city with a resident minority rate that exceeds 80 percent. Over the same period of time, Chester's directly neighboring municipalities of Aston, Brookhaven, Trainer, and Upper Chichester registered continuing population growth, particularly for white residents. These communities categorized less than one percent of their population as minorities.

Table 2.2
City of Chester Population by Race
2000 Census

	Population	%
African-American	27,897	75.7%
Caucasian	6,980	18.9%
Asian	226	0.6%
Amer Indian/Alaskan	75	0.2%
Hawaiian/Pacif Islander	4	0.0%
Multi-Racial	556	1.5%
Other	1,116	3.0%
Total	36,854	100.0%

Changes in population resulted in changes in personal income. With its more affluent population moving out of the City, Chester's total and average income levels dropped. By 2000, Chester's median household income was $25,703. In comparison, Pennsylvania's median household income was $40,106 and Delaware County's was $50,092.

The 2000 Census shows an overwhelming portion of Chester's population with low or moderate income levels. Over 78 percent of Chester residents make less than $50,000 per year. More striking is that 27 percent of Chester residents are living at or below the poverty line, with the equivalent figure for Pennsylvania at approximately 11 percent and Delaware County at 8 percent.

Table 2.3
City of Chester
Household Income Distribution
2000 Census

Income Range	Population	%
Less than $10,000	2,700	21.1%
$10,000 to $14,999	1,332	10.4%
$15,000 to $24,999	2,202	17.2%
$25,000 to $34,999	2,037	15.9%
$35,000 to $49,999	1,725	13.5%
$50,000 to $74,999	1,675	13.1%
$75,000 to $99,999	588	4.6%
$100,000 to $149,999	414	3.2%
$150,000 to $199,999	41	0.3%
$200,000 or more	83	0.6%
Total	12,797	100.0%

Low incomes are, in part, a function of employment levels and unemployment rates. Since 2000, employment in the Philadelphia MSA has increased at an average annual rate of 0.5 percent. During the same time, the annual unemployment rate for the Philadelphia MSA averaged 4.9 percent.

Chester has experienced nearly flat employment growth since 2000, but the City's unemployment rate has increased from 5.9% to 7.9%.

Table 2.4
Philadelphia MSA and Chester Employment & Unemployment
2000-2004

	Philadelphia MSA		City of Chester	
	Employment	Unemployment Rate	Employment	Unemployment Rate
2000	2,735,825	3.9%	13,616	5.9%
2001	2,747,852	4.3%	13,746	7.0%
2002	2,749,234	5.4%	13,776	8.2%
2003	2,738,872	5.5%	13,557	8.5%
2004	2,761,860	5.2%	13,511	8.9%
2005	2,797,986	4.8%	13,661	7.9%

Housing Challenges

Population and income changes influence housing needs. With the national trend of suburban growth – and the migration of stable middle-class, home-owning city residents to the suburbs – came a new housing profile for Chester and cities like it.

Home ownership represents an important component of the United States economy, but income inequality leaves many minority households in a disadvantaged housing situation. Minority home ownership rates lag significantly behind national, state, and regional rates. And, based on recent economic trends, housing affordability is expected to remain a challenge for many of Chester's current residents.

The rapid suburbanization of Delaware County was facilitated by the 1985 opening of Pennsylvania's Interstate 476, which bisects the county. I-476 encouraged growth in the number of corporations and households located in proximity to this pivotal link within the highway network for the Philadelphia metropolitan region.

Although Delaware County as a whole saw an increase in population and housing units during this time, Chester experienced a decrease. From 1980 to 2000, the number of Chester's housing units declined from 17,827 to 14,976, a 16 percent reduction, and vacancy rates grew to 14.4 percent.

Delaware County's 71.9 percent homeownership rate is above both state and national averages. In Chester, population decline and increased poverty rates had a significant adverse impact on Chester's housing market. Between 1980 and 2000, owner-occupied units decreased by nearly 28 percent, and by 2000 only 47.7 percent of Chester's housing units were owner-occupied.

Creating affordable housing opportunities for lower income residents has proven a difficult task in the broader Delaware County market. Conversely, creating a diverse housing market, one that can attract a wide range of homebuyers from a variety of income levels, has proven a difficult task within the City. In 2000, 6 percent of total Delaware County home sales sold for less than $50,000, while 62 percent of Chester's homes sold for less than $50,000. According to the 2000 Census, the median value of owner-occupied units in Delaware County was $128,800, while the same statistic for Chester was $43,100. This disparity in housing values has resulted in Chester becoming the county's primary provider of low-priced and moderate-priced housing.

Chester's housing costs seem easily affordable to many Delaware County residents, but most Chester residents struggle to afford a home in their own community. Resident income levels, population loss, poor quality of housing units, and high housing density have contributed to the disintegration of the housing market and has forced the City to place more emphasis on government subsidies.

The task of housing a poorer population with a declining availability of housing units and an increasing percentage of uninhabitable vacant housing stock has fallen primarily to public agencies. The Chester Housing Authority currently subsidizes approximately 16 percent of total housing in the City, with approximately 18 percent of Chester's residents finding housing within the Authority's properties.

The residential pattern of Chester is characterized by a high percentage of medium-to-high-density areas consisting of row, twin, and multiple housing structures. Though many are outwardly similar, each of Chester's neighborhoods faces different problems. For example,

- Vacant structures are a primary concern in neighborhoods directly south of Interstate 95.
- Many of the City's public housing units are located in neighborhoods on the western side of the City, resulting in suppressed housing values for the privately owned housing stock in that area.
- In the residential neighborhoods of Highland Gardens and Sun Hill, the City is concerned with density levels exceeding 30 units per acre, a severe lack of open space, and aging housing units.

Common to many of these neighborhoods are low homeownership rates and high concentrations of absentee landlords, which have resulted in decreased neighborhood investment and increased deterioration.

Economic Development

In the 1990s, Chester worked hard to produce a common vision for economic development. That vision, described in the document *Chester City Vision 2000*, forms the foundation of the City's current development strategies and successes.[2]

Strategies

Led by the Chester Economic Development Authority ("CEDA"), the City's economic and community development initiatives have centered on four key strategies:

- Use location and access as a strength to attract development;
- Draw on resident university and medical institutions for unique development opportunities and community support;

[2] The City soon will publish an updated *Chester City Vision 2000*. The content of that update was unavailable for review and use in this document.

- Use tax benefits to attract private investment and provide an environment where business profitability can exist; and

- Employ federal, state, and county financial assistance to support public infrastructure investment, training, and other programs necessary for economic development.

Although the socio-economic section of this chapter painted a challenging statistical picture, the data fail to account for the inherent strengths that once made Chester an essential component of Delaware County: its riverfront location, easy accessibility, proximity to the Philadelphia and Wilmington markets, and assets such as Widener University and Crozer-Keystone Medical Center.

Chester's geographic location, highway network, and transportation options add to the competitive advantage of the City and "present unique opportunities for the movement of people and goods into and out of the City of Chester."[3]

Geographically, Chester is within a 20-mile radius of Wilmington, Philadelphia, and the Philadelphia International Airport. Its proximity to Interstate 95 provides easy access to markets in Philadelphia, Wilmington, Baltimore, and Washington, DC. Since the 1985 opening of Interstate 476, the City also has taken advantage of other markets throughout Delaware County and Northeastern Pennsylvania. Additionally, Route 322 links Chester to the markets of New Jersey.

The City's transportation needs are further serviced by the region's primary commuter railroad, SEPTA, with track that carries inter-city Amtrak passengers and freight traffic for Norfolk Southern and CSX. Additionally, there are nine bus routes operated by SEPTA within the City. Combined, these regional transportation services provide easy access to Philadelphia and other communities in Pennsylvania, Delaware, and New Jersey.

Program Components and Recent Developments

Stressing the marketability of Chester's location has proven essential for spurring economic revitalization. However, successful marketing hinges on the City's ability to improve accessibility between the region's highway network and its waterfront with other modes of transportation. To this end, Chester has actively pursued financial sponsorship from a variety of sources such as those described below:

- With $8 million of support from SEPTA, the City restored its train station and built a transportation center to serve as a catalyst for downtown development;

- To attract new industry to the waterfront, the Pennsylvania Department of Transportation ("PennDOT") helped fund Chester's efforts to widen Route

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[3] RDC Institute, *Chester City Vision 2000*.

291, the waterfront service road connecting Chester's industrial and commercial areas with Interstate 95; and

- PennDOT's $6 million investment to construct a southbound ramp from Edgemont Avenue to I-95 has opened up a key transportation corridor servicing the eastern portion of the City.

Two major institutions with a strong commitment to the City and its residents are Widener University and Crozer-Keystone Medical Center, both of whom are major employers for the City. The proximity of the University and the Medical Center provide a unique advantage for Chester, as these amenities are not available in the surrounding areas. In addition, these facilities have developed a variety of community-focused programs that provide services and employment to Chester residents.

While the University and Medical Center have long relationships with the community, they are building even stronger and more mutually beneficial relationships with the City. Investment in internal and joint projects have totaled close to $100 million since 1996.

<u>University Technology Park</u>: The City has established a new research and office district to encourage development in the Medical/Educational Corridor that links Widener and Crozer-Keystone. In 2000, with support from the City, the Medical Center and the University opened the University Technology Park, which leases space to high-tech companies. A second phase of the Technology Park was completed in 2004.

<u>Widener University</u>: The University has made almost $40 million of recent investment in the rehabilitation of residence and dining halls, construction of a Science and Engineering Center, renovation of office buildings, expansion of the University Center, addition of Cottee Hall, and construction of a new building for the School of Business Administration.

<u>Crozer-Keystone</u>: North campus investments, the Medical Center expansion, office building rehabilitation, and Trauma Center and Regional Cancer Center construction will total $48 million.

<u>Related Developments</u>: Health-related business growth also has begun with the construction of a new health center by ChesPenn and a new MRI center by National Medical Imaging Corporation. Combined, these developments represent almost $5 million of investment.

The City also has worked to develop relationships with professors in the law, nursing, and social work programs to utilize this talent pool for its social service agencies.

Recognizing the need for both small and large business growth, the City, along with the state and private foundations, established the Chester Microenterprise Partnership to foster the growth of small businesses in Chester. The Partnership provides counseling, education, and access to capital for a variety of entrepreneurs in the City.

Chester's Small Business Loan Program also encourages the growth and development of small businesses. The City provides low interest loans for land and building acquisition, construction, rehabilitation, machinery and equipment, training, and working capital. These programs are intended to facilitate growth for small businesses that will serve Chester's resident communities as well as larger corporations that are making Chester their home.

Relying on the City's historical strengths alone has not provided sufficient support for successful development. The City recognized that to achieve economic success, it needed to attract new private investment and provide tax benefits to those businesses that invest in the City.

The City and its Economic Development Authority first pursued Keystone Opportunity Zone designation and then identified private investors and developers with experience in urban development and in revitalization and reuse projects. The designation of Keystone Opportunity Zones enables City officials to successfully market Chester within the private sector as a profitable place to do business. The benefits of locating within such a zone include:

- Exemption from Chester City, Delaware County, and Chester-Upland School District real estate taxes until December 31, 2013;
- Exemption from Act 511 taxes, including earned income/net profit taxes, business gross receipts taxes, occupancy taxes, and business privilege taxes until December 31, 2013; and
- The ability to claim a credit against state corporate income taxes, state capital stock and franchise taxes, and state sales and use taxes on retail purchases of services or property until December 31, 2013.

Numerous Keystone Opportunity Zones have been designated within Chester, encouraging public-private partnerships for small and large developments. Examples of recent successes are described below:

<u>The Wharf at Rivertown</u>: The development company Preferred Real Estate Investment Inc. recognized an opportunity to redevelop the old and vacant PECO generating station and committed $68 million to renovate the property as a 400,000-square-foot office building. The Commonwealth and the Delaware River Port Authority committed $2.5 million and $2 million respectively in grants and loans to the developer for infrastructure improvements, land reclamation, and fiber optic cable installation. The City successfully applied for and received a $2.5 million

grant for the repair of bulkheads and the construction of a new parking lot. The Commonwealth also pledged $2.5 million in job creation grants and tax credits for the major tenant Synygy, a software and service company that has relocated its operations to Chester. Along with other tenants, including Wells Fargo Auto Financial Group, 3PN, AdminServer, Inc. and Mita Automotive, the renovation was home to over 1,000 employees by the end of 2005. The property is expected to house up to 1,500 employees at full capacity.

<u>Other Waterfront Development</u>: Additional growth in the surrounding waterfront district is anticipated as the City and private parties continue to expand investment in park, office, and residential infrastructure:

- Construction of a public waterfront path, the "Riverwalk," from Barry Bridge Park to Highland Avenue has been funded by a state transportation enhancement grant;

- $3 million in Barry Bridge Park improvements will be supported by a 20-year federal loan to be repaid with a federal $1.4 million environmental grant for interest costs and a $175,000 annual drawdown of City CDBG funds;

- For the electrical contracting firm Lobec Inc., location, access, and space were essential components of expansion. One of Chester's two-acre Keystone Opportunity Zones offered Lobec an economical solution to relocation and quick access to clients throughout eastern Pennsylvania, Delaware, and New Jersey; and

- Other existing and new corporate residents are acquiring, upgrading, and renovating office and plant facilities, including a $181 million major plant investment by Kimberley Clark, a $22 million plant upgrade by DELCORA, a new $2.4 million headquarters for CWA Distribution, and a $1.4 million facility acquisition and renovation by Norquay Technology.

<u>Chester Downs and Marina</u>: In the near future, one major development may prove to be the lynchpin of Chester's economic resurgence. In 2003, a harness racing license was approved, allowing for the development of the Chester Downs and Marina. With the passage of state legislation creating the Pennsylvania Gaming Control Board and the provision for limited gaming through the use of slot machines, Chester Downs and Marina also may be the future home of gaming and hotel operations.

The developers of Chester Downs and Marina have entered into a partnership with Harrah's to pursue approval for a gaming license at this site. Harrah's submitted an application to the Pennsylvania Gaming Control Board prior to the December 28, 2005, deadline as part of the renamed Harrah's Chester Racetrack and Casino project. If approved, the 3,000-slot gaming and harness racing facility will employ approximately 900 individuals. Without the slot machine activity, new employment is estimated to total 300. The Delaware County Redevelopment

Authority has negotiated a land lease for the $450 million development. With the addition of gaming, two million annual visitors are expected to visit the site. Land acquisition, demolition, environmental work, design, construction, and license receipt is anticipated to take two years to complete. Live harness racing began on September 10, 2006.

If the gaming license is approved and the projected volume of business is reached, the benefits to the City could be significant. In addition to an increase in resident employment, the City would be entitled to a minimum annual fee of $10 million and increased funding from the state in exchange for a reduction in local real estate taxes by the school district.

Conclusions

Recognizing and building upon Chester's strengths has been an important first step in reversing the City's economic decline. Businesses are now re-evaluating Chester as a profitable place to conduct business due to aggressive efforts on the part of CEDA and the use of tax incentives, grants, and loans to encourage private investment and business expansion and relocation. The City's waterfront, University, and Medical Center areas are showing the first signs of success.

Economic development can be an effective strategy to improve the City's financial condition, but it requires substantial effort and commitment to achieve sustained long-term results and should not be counted on for significant short-term financial improvement.

Chester has witnessed a gradual turnaround in the local economy by following its strategic plan. As the initial successes of the plan are achieved, the City should continue to follow its strategy of diversifying its economic base, which will make the City more resistant to future economic downturns. Emphasis should be placed on business sectors that are projected to grow in the regional and national economies.

As Commonwealth funding support will be key to future economic development efforts, the City should explore development opportunities that coincide with state programs, such as the recently inaugurated Transit Revitalization Investment District ("TRID") program. TRID provides local governments and transit agencies with the ability to enter into formal partnerships to promote economic development, community revitalization, and increased transit ridership. Among other provisions, it offers financial support for transit-oriented development and intermodal planning and establishes mechanisms to capture the value added by joint development activities for investment in local communities.

Similarly, the City should take advantage of Commonwealth interest in supporting Chester projects that strengthen corridor connections, complement existing development initiatives, are aligned with county initiatives, and/or can be implemented quickly and efficiently.

Community Development

The City of Chester has seen the successful implementation of a number of its economic development strategies and the gradual stabilization of the decades old pattern of decline that has defined the City. However, one essential component of development has remained difficult to achieve: neighborhood stabilization.

Strategies

In response to this challenge, Chester has adopted a four-part strategy for neighborhood stabilization:

- Improve the condition of the City's housing stock;
- Improve public housing and its services;
- Increase homeownership opportunities for low and moderate income families; and
- Increase the number of middle-income resident homeowners in the City.

The City's Planning Department, Economic Development Authority, and Housing Authority play key roles in developing and implementing these strategies. In addition to the strategies listed above, Fairmount recommends that the City also address issues related to real estate tax rates and public education. Chester should examine the real estate tax rate's effect on tax collection efficiency and its negative influence on new construction and home ownership. Also, as discussed later in this document, the poor performance of the Chester-Upland School District and its negative reputation have hurt the City's efforts to build an educated resident base. The School District's struggles make it difficult for Chester to attract employers seeking a talented workforce and middle-income families with children.

The publication of *Chester City Vision 2000* required the City's Planning Department to compile data and visual images reflecting the condition of the City's housing stock, enabling the City to target specific neighborhoods for improvement efforts.

The Chester Housing Authority ("CHA" or "Authority") is the largest provider of assisted housing in the City of Chester. In the early 1990s CHA controlled 1,700 public housing units within the City. Fifty percent of these units remained vacant and spurred blighted conditions within and adjacent to CHA property. In 1994, CHA was placed into federal receivership, transferring control of the Authority to a court-appointed receiver.

Since that time, "the receivership has moved CHA, with its 1994 PHMAP (Public Housing Management Assessment Program) score of 35, from a ranking of 'severely distressed' to a 'high performer' with a score of 96 in 2003. The efforts of the Receivership have resulted in the revitalization of CHA's four family communities, leveraging over $109 million of public and private monies to replace an obsolete crime-ridden housing stock with multi-use, mixed income communities that serve as a catalyst for lasting economic and social development in Chester."[4]

Today, CHA manages 1,382 Section 8 vouchers, 989 units of public housing (620 of which are revitalized), and acts as asset manager for 110 LIHTC (Low Income Housing Tax Credit) units at Wellington Ridge and the 40-unit Chatham Senior Development. The number and concentration of units makes CHA a major player in determining the future success of Chester's housing policies and development strategies. Receivership has increased the accountability of CHA and has enabled the Authority to remain focused on delivering consistent services.

In its effort to increase home ownership for low-income and moderate-income families, the City faces a housing market that records relatively low market values, deterring both buyers and sellers. To help address this issue, the City initiated a two-part strategy to recruit homebuyers from within the City's low-income and moderate-income populations and subsidize the ownership efforts of these families.

Recruiting homebuyers from within the City is an attractive proposition, as many residents are committed to remaining in the City due to a strong community network.

Subsidizing homeownership has proved more difficult than recruiting candidates, since affordability, even in a market known for its supply of affordable housing, is a major barrier. For the majority of Chester's low-income and moderate-income families, the ability to save money for down payments, closing costs, and improvements is nearly impossible given their other financial obligations. Susan Huffman's *Market Study for Sales Housing on the McCaffery Village Site* concluded that most residents could not afford the $42,000 cost to purchase a new home. Other more recent studies, however, have shown that many City renters, should they become homeowners, would actually pay less for monthly mortgage and property taxes than their current rental costs because of the City's relatively low housing prices. Chester is aggressively pursuing this homeownership strategy.

Chester's strategy for neighborhood stabilization also recognizes that successful neighborhoods cannot continue to concentrate poverty and cannot depend entirely on City subsidies. The need to attract middle-income residents from surrounding areas is critical to Chester's revitalization. Chester's northern-most neighborhood is the City's most stable area and is therefore likely to be a place where new residents would be attracted. Stability for this area is the result of low residential densities, compatible land uses, better-maintained homes, and the highest level of resident income in the City. Chester would like to extend this pattern into other areas of the City. Recent discussions with developers indicate that some are interested in developing parcels along the waterfront for middle-income residences.

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[4] Chester Housing Authority Annual Report 2004.

Program Components and Recent Developments

Both the City and CHA have taken positive steps to improve the housing market over the past few years.

The development work for the City's *Vision 2000* has enabled the City to prioritize its efforts in improving the condition of its neighborhoods. Since the eastern end of the City benefits from its proximity to Widener University, the waterfront, the more stable northern Chester neighborhoods, and marketable Ridley Township and Eddystone, the City has identified this area for potential housing revitalization efforts.

Toward this end, the City commissioned EDAW, a planning and design firm, to formulate the *Morton Avenue Corridor Action Plan*. The action plan provides a vision for the eastern section of Chester and has succeeded in attracting non-profit and for-profit developers such as the Community Action Agency of Delaware County, Pennrose, Inc., Habitat for Humanity, and Delaware County Housing Coalition to improve the condition of the neighborhood through infill development and housing stock rehabilitation.

The City, CEDA, and the Chester Redevelopment Authority partnered with a private developer for the construction of the Crozer Hill development, which began in 2004. It will provide 25 new, detached single-family residential units, anticipated to sell at $140,000 to over $170,000. To provide a range of income groups within the development, the City declared the development area a Keystone Opportunity Zone. Three of the units were limited to families at or below 80 percent of median household income, ten were sold to families at or below 100 percent of median household income, and the remaining 12 were income unrestricted.

Over the last ten years, the public housing landscape in Chester has gradually improved. For decades its housing units, many of which were built in the 1940s, had major maintenance problems and were experiencing continual deterioration. Since CHA was placed in receivership, it has successfully implemented an improvement plan to demolish units, expand smaller apartments, and rehab and modernize other units.

CHA already has begun a second round of revitalization, due largely to HOPE VI funding. This funding enabled the completion of the following projects:

<u>Chatham Estates</u>: Built on the site of the former Lamokin Village, CHA developed 110 townhouse-style apartments in addition to 40 units that were reserved for senior citizens. The development is complete and fully occupied.

<u>Wellington Ridge</u>: After demolishing the former McCaffery Village, the CHA developed 110 townhouse units, and 26 additional homes were reserved for home ownership. Situated within a Keystone Opportunity Zone, Wellington Ridge offers property owners exemption from state and local taxes until the end of 2013. To

further take advantage of these benefits, CHA set aside 150,000 square feet for a commercial center that will add value and help stabilize the neighborhood.

The CHA also has plans for Chester Towers that call for the demolition of these two high-rise units and the new construction of mid-rise units with a retail component. In addition, the City is aggressively advancing its efforts to revitalize the Highland Gardens section of the City. This ambitious project will acquire and demolish over 120 blighted properties and replace them with 42 twin units for low-to-moderate-income homebuyers.

The City and CHA also provide support services to its residents, including access to job information, City and County services, and welfare-to-work and personal wellness programs. The City and the Authority, aware of the tight financial situation of many of Chester's residents, are involved in homeownership counseling programs. The CHA advocates homeownership through the HUD-sponsored Family Self-Sufficiency Program. This program encourages families to enroll a portion of their rent into an escrow account that can be used towards a down payment for a home.

In its effort to recruit families and subsidize homeownership, the City has created a public/private partnership of lenders, real estate professionals, non-profit housing providers, and government representatives. This organization, Chester Partners in Homeownership, has increased resident awareness of the services available to them throughout the home buying process. It coordinates an annual Homebuyer Fair to educate families about the benefits of home ownership.

Vital to the City's successful recruitment of homebuyers is Chester's recognition that many first time homebuyers are ill-versed in the mechanics of purchasing a home. For this reason, the City has developed a counseling-based partnership with the Chester Community Improvement Project ("CCIP"). Through CCIP, families interested in purchasing a home receive counseling on securing mortgages, mortgage financing, the responsibilities of home ownership, budgeting, the importance of savings, and repairing past credit problems. The guidance and education provided through CCIP helps to create confident homebuyers committed to remaining in the community.

The Homebuyer Assistance Program, a HOME-funded program, is a companion program to the housing fairs and counseling provided by Chester Partners and CCIP. The program provides eligible low-income and moderate-income residents with the funds necessary to make home ownership a reality. Eligible first time homebuyers are provided with a zero-interest loan for 50 percent of the down payment costs and a maximum of $5,000 for closing costs. The loan is forgiven after the resident lives in the home for five years. Since 1998, when the program began, the City has invested over $1.1 million to assist 197 families in becoming homeowners.

CEDA also provides programs such as the Moderate Income Homebuyer Assistance Program, where applicants are provided with a maximum of $5,000 in closing costs, and information about HUD's Officer Next Door Program, which allows police officers to buy FHA-foreclosed homes at 50 percent of the list price.

Parks and Recreation

The City operates seven parks that provide residents and visitors with recreational opportunities. Three of the seven parks are under or have plans for renovation.

- The Barry Bridge Park, the only park in Delaware County that boaters may access without paying a fee, has undergone a complete $3.2 million renovation. A new fishing pier, a waterfront plaza, new parking, and a great lawn were all completed as part of this renovation.
- The Memorial Park facilities include a swimming pool, football field, walking track, and two tennis courts. The City replaced swing sets, installed new benches and picnic tables, and constructed a pavilion for family functions.
- The City also has redevelopment plans for Chester Park, which houses an outdoor roller rink, tennis courts, and soccer fields. The City installed new swings, picnic tables, park benches, and accommodations to assist the handicapped. Currently, the City is creating a nature walk along the banks of Ridley Creek and has already removed several dams to return the creek to its original state.

The capital improvement program for the City's parks was made possible by a Commonwealth grant that supports the development of a comprehensive recreation plan. The capital improvement program will help to enrich the quality of life within the City and make it more attractive for non-residents who work in and visit Chester.

School District

Although the City does not operate the schools or manage the School District, public education plays a critical role in the decision-making process for business location decisions and many of those considering a change of residency. The conventional view is that people follow jobs, but there is also validity in the concept that jobs can follow people – and a quality educational system is essential for the City to attract a critical mass of residents that have choices and would be a positive factor in attracting new employers to the City.

The Chester-Upland School District has been battling a poor image for a number of years. Its financial problems, low student scores, and high dropout rate led to the District being certified in 2000 as an Education Empowerment District. Under the provision of Commonwealth law, a three-member Empowerment Board of Control was appointed to replace the previous Board of Control and assume the day-to-day operations of the District.

Recent statistics show that the School District has a long way to go to reach a level of quality that is acceptable and attractive. The 2004 Pennsylvania System of School Assessment showed that 84.8 percent of eleventh graders at Chester High School fell below basic math requirements and 68.4 percent fell below basic reading requirements.

Among the education alternatives available to Chester residents are Chester Community Charter School, which serves kindergarten and elementary students, and Village Charter, which serves kindergarten through twelfth grade. In February 2006, Mastery Charter and Widener Partnership Charter School were also granted charters. Overall, charter schools educate about 2,600 of the district's approximately 7,200 students.

Conclusions

The City's program for continued growth depends on the successful and simultaneous implementation of the City's economic development and neighborhood stabilization strategies.

The much-needed revitalization of CHA properties is underway. Since 1994, the housing authority has improved conditions within all of its units, reduced the units managed by half, created private twin homes that correspond to the demands of the larger housing market, and reduced high residential densities.

To make homeownership a successful element of neighborhood stabilization, Chester has begun to address two of the factors that define the negative perception of the City: the condition of the housing stock and the concentration of public housing units. Much of Chester's homeownership efforts have concentrated on City residents, specifically residents within public housing. Successful neighborhood revitalization will, however, be dependent upon attracting resident buyers from outside of Chester. This goal faces barriers, some of which are out of the City's direct control.

Chester's ability to attract new middle-income homeowners is challenged by four major issues, not all of which are subject to the control of the municipal government: the City must be able to offer a more diverse selection of housing; the school system must be improved to become an attractive component of the community; as described in other chapters of this recovery plan, the City must improve its financial condition so it can provide an acceptable level and quality of services to its residents; and the City must address its tax rates that impede the progress of both its economic development and neighborhood stabilization efforts.

Chapter Three

Historical Financial Performance: Fiscal Years 1995 to 2005

Introduction

This chapter presents a picture of Chester's financial health while under distressed municipality status. It starts with an overview of the City's four financial funds and focuses on the operating results and fund balances of the City's General Fund from Fiscal Year 1995 through Fiscal Year 2005. A more detailed discussion of historical operating revenues and expenses is based on audited financial statements through Fiscal Year 2004 and unaudited results from 2005. Though not independently audited, the City has vouched for the 2005 revenue and expense outcomes.

Prior to the 1996 invocation of Act 47, which authorized among other measures an increased Earned Income Tax rate to raise revenues, the City operated with an unbalanced budget for six straight years. This held true despite deficit funding bond issues of $3.2 million in 1993 and $7.1 million in 1995.

All Funds Overview

The City of Chester accounts for its financial activity within the structure of four types of governmental funds: the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds.

- The General Fund is the City's general operating fund and is used to account for all financial resources other than those requiring accounting in another fund. All tax revenues are accounted for in the General Fund.
- Special Revenue Funds are used to account for the proceeds of specific revenue sources other than capital funds that are legally restricted to expenditures for specific purposes.
- The Debt Service Fund is used to account for the accumulation of resources for and the payment of general long-term debt principal, interest, and related costs.
- Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital projects.

The General Fund is key to the City's financial position. In Fiscal Year 2005, the General Fund experienced an operating loss of approximately $3.2 million when debt service was included as an operating expense. When other transfers were taken into account, the General Fund saw a negative $2.3 million change with an ending fund balance of negative $3.95 million.

In addition to the governmental funds noted on the previous page, the City also is responsible for Trust and Agency Funds that are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other government units. Trust and Agency funds include the Police Pension Fund, Paid Firemen's Pension Fund, and Officers & Employees Retirement System.

General Fund Operating Results and Fund Balances

Chester's increased Act 511 tax revenues, afforded to Chester as an Act 47 municipality, improved the City's financial picture temporarily but did not solve its structural financial problem. As Table 3.1 shows, from 1995 through 2005 the City realized an operating surplus only in Fiscal Year 1996, its first year of Act 47 status and the first year of increased resident and non-resident tax rates. Its General Fund ending balance fell from nearly $4 million at the end of Fiscal Year 1996 to nearly *negative* $4 million at the close of Fiscal Year 2005.

The City's challenges may be summed up by one fact: in the nine-year period following the City's distressed municipality declaration, annual expenditures outpaced annual revenues. Moreover, the gap between revenues and expenditures was covered largely through nonrecurring actions, such as deficit financings and asset sales, which masked the growing structural imbalance of core operations.

It is important to note that this negative financial pattern occurred despite the City's increased tax revenue collections and its access to distressed municipality grant programs through its Act 47 status.

A $7.1 million deficit financing in Fiscal Year 1995 kept the General Fund year-end balance positive through Fiscal Year 2001 despite recurring annual operating deficits. Once this balance was depleted, another round of financing transactions was required to keep the City's cash position positive, as no significant changes in operations were implemented to eliminate the structural deficit.

Additional transactions were executed in Fiscal Years 2001, 2002, and 2004 to help offset the growing gap between revenues and expenditures. Fiscal Years 2002 and 2003 saw weakening revenues as real estate, earned income, and business privilege taxes declined. Fiscal Years 2004 and 2005 saw improvements in real estate, earned income, and business privilege tax collections, as well as trash fees, licenses, and permits. However, growth rates for health benefits, police pensions, trash removal, and insurance exceeded that of revenues, and with three additional years of new financing transactions, the proceeds of which were used almost exclusively for operating purposes, debt service also grew.

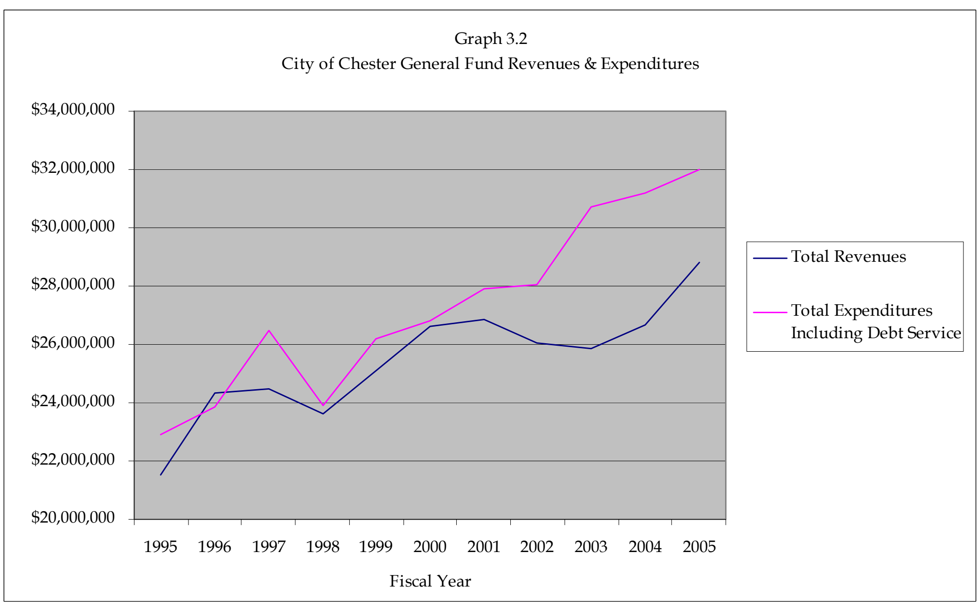
Table 3.1
City of Chester General Fund: Revenues, Expenses, and Change in Fund Balance FY 95-FY05 ($)

(Dollars)	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total Revenues	21,543,054	24,319,390	24,479,116	23,634,390	25,112,685	26,603,855	26,875,812	26,044,675	25,847,208	26,672,176	28,824,770
Total Expenditures Including Debt Service	22,899,502	23,877,583	26,484,929	23,883,400	26,198,422	26,791,854	27,924,494	28,066,460	30,717,618	31,190,606	32,012,856
Operating Surplus (Deficit)	(1,356,448)	441,807	(2,005,813)	(249,010)	(1,085,737)	(187,999)	(1,048,682)	(2,021,785)	(4,870,410)	(4,518,430)	(3,188,086)
Other Net Transfers	0	0	0	0	24,275	(9,483)	45,413	(4,185)	(21,366)	0	858,284
Proceeds of Long-Term Debt	7,100,056	0	0	0	0	0	3,025,000	1,120,000	0	8,000,000	0
Payment to Refund Debt Escrow Agent	0	0	0	0	0	0	(2,730,583)	0	0	0	0
Other Financing Sources	0	0	0	0	0	0	742,268	0	216,026	120	0
Financing Sources and Transfers	7,100,056	0	0	0	24,275	(9,483)	1,082,098	1,115,815	194,660	8,000,120	858,284
Net Change in Fund Balance	**5,743,608**	**441,807**	**(2,005,813)**	**(249,010)**	**(1,061,462)**	**(197,482)**	**33,416**	**(905,970)**	**(4,675,750)**	**3,481,690**	**(2,329,802)**
Beginning Fund Balance	(2,223,617)	3,519,991	3,961,798	1,955,985	1,706,975	645,513	448,031	481,447	(424,523)	(5,100,273)	(1,618,583)
Ending Fund Balance	**3,519,991**	**3,961,798**	**1,955,985**	**1,706,975**	**645,513**	**448,031**	**481,447**	**(424,523)**	**(5,100,273)**	**(1,618,583)**	**(3,948,385)**

The incremental income generated by financing transactions was not sufficient to cover cumulative operating losses in Fiscal Year 2002, and the City ended the year with a General Fund balance of negative $425,000.

Without structural deficit corrections and with a minimal inflow of non-operating income, the City experienced a net change of negative $4.7 million in its Fiscal Year 2003 fund balance; this produced a year-end General Fund balance of negative $5.1 million. Another financing transaction in Fiscal Year 2004 provided sufficient income to improve the General Fund position, but the year's operating deficit ultimately kept the year-end fund balance negative. Proceeds from the sale of property created a positive general fund balance of nearly $3.5 million for Fiscal Year 2004 and reduced the overall fund balance from negative $5.1 million to negative $1.6 million. However, this one-time deal was a temporary solution and did not address the City's structural operating imbalance. The City worked diligently to control expenses and increase revenue collections, but unaudited results show that, when the 2005 pension contribution is accounted for in Fiscal Year 2005, Chester finished with a negative fund balance of $3.95 million.

Graph 3.2 shows operating revenues and expenditures from Fiscal Year 1995 to Fiscal Year 2005. Fiscal Year 1995 is the year before Chester was granted distressed municipality status and a year when operating expenditures were more than 6 percent higher than operating revenues. In Fiscal Year 1996, when Chester was granted distressed municipality status, the City was able to increase its resident and non-resident earned income tax rates. The clear result is a 9.4 percent increase in operating revenue for Fiscal Year 1996.



In 1998, total revenues declined by approximately 3.5 percent, as real estate tax collections and trash fees dropped in combination by over $800,000. A 10 percent decrease in expenditures, primarily due to dramatically lower insurance costs, offset this loss and improved the operating deficit from $2 million in Fiscal Year 1997 to $250,000 in Fiscal Year 1998.

In Fiscal Year 2001, the gap between expenditures and revenues began to grow, primarily due to double-digit growth in the cost of health benefits and insurance. Compounding the growing deficit was a $1.1 million reduction in earned income tax receipts in Fiscal Year 2002, the result of tax rate reductions and a declining economy.

Fiscal Year 2003 saw the largest one-year dollar increase in annual operating expenditures from 1995 through 2005. Virtually all major categories of spending experienced growth rates in excess of 13 percent, including employee benefits, contract services, materials and supplies, utilities, and other expenses.

Fiscal Year 2004 saw an increase of 3.2 percent in General Fund revenues, which grew to $26.7 million. This was the largest increase since Fiscal Year 2000. Revenues climbed even higher to $28.8 million in Fiscal Year 2005, due almost entirely to a one-time sale of delinquent real estate taxes, which generated $2.2 million.

Operating Revenues

Table 3.3
FY2005 Distribution of Operating Revenues

Real Estate Tax	$7,984,360	27.7%
Earned Income Tax	$7,610,099	26.4%
Host Community Fees	$4,088,708	14.2%
Sale of Delinq RE Tax	$2,232,517	7.7%
State Pension Fund	$1,284,853	4.5%
Business Privilege Tax	$1,135,675	3.9%
Trash Fees	$1,095,552	3.8%
Grants	$1,027,945	3.6%
Licenses and Permits	$630,055	2.2%
Occupational Privilege Tax	$387,716	1.3%
Cable TV	$258,055	0.9%
Penalties, Int, Fines & Forfeits	$192,159	0.7%
Other	$897,076	3.1%
	$28,824,770	100.0%

Table 3.3 displays the distribution of the City's operating revenues for Fiscal Year 2005. The three largest revenue sources are real estate taxes, earned income taxes, and host community fees. Together, these sources account for approximately 68 percent of all revenues.

Table 3.4 presents an 11-year history of Chester's operating revenue sources. From Fiscal Year 1996 through Fiscal Year 2005, total revenues for the City steadily increased at an average annual rate of 1.9 percent. This modest improvement was due to increases in earned income and real estate taxes, host community fees, state pension payments, and grants. By Fiscal Year 2005, total operating revenues were $28.8 million.

Table 3.4
FY1995 to FY2005 Operating Revenues ($)

	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
Real Estate Tax	7,134,615	7,532,886	7,705,922	7,238,969	7,284,428	7,336,306	7,704,026	7,618,262	7,723,003	8,081,226	7,984,360
Earned Income Tax	5,975,804	6,540,337	6,583,323	6,998,353	8,345,365	8,843,289	8,158,644	7,273,746	7,323,044	7,335,909	7,610,099
Host Community Fees	2,336,889	2,550,838	2,705,484	3,096,533	3,420,441	3,418,823	3,722,272	3,542,330	3,776,230	3,945,390	4,088,708
State Pension Fund	1,063,176	1,024,306	1,256,635	1,091,984	968,681	1,367,271	1,292,444	1,331,750	1,314,060	1,327,578	1,284,853
Business Privilege Tax	1,080,570	1,322,053	1,405,798	1,433,606	1,499,066	1,609,021	1,206,232	1,293,097	1,056,331	1,174,408	1,135,675
Trash Fees	1,567,078	1,492,899	1,483,959	1,134,955	1,125,720	978,039	1,000,633	1,011,166	974,635	1,179,309	1,095,552
Grants	81,534	770,509	841,761	283,528	219,381	468,080	1,000,491	1,044,100	1,018,669	1,027,406	1,027,945
Licenses and Permits	418,943	576,768	679,165	496,201	473,203	547,533	636,710	610,685	543,717	649,128	630,055
Occupational Privilege Tax	92,025	91,160	93,897	111,836	98,369	105,198	100,277	96,576	95,574	77,294	387,716
Cable TV	187,374	205,341	281,090	218,456	235,192	252,316	584,193	310,195	312,243	287,774	258,055
Penalties, Int, Fines & Forfeits	228,207	305,036	170,523	297,798	271,185	447,351	292,519	238,210	239,527	288,522	192,159
Other *	1,376,839	1,907,257	1,271,559	1,232,171	1,171,654	1,230,628	1,177,371	1,674,558	1,470,175	1,298,232	3,129,593
	21,543,054	24,319,390	24,479,116	23,634,390	25,112,685	26,603,855	26,875,812	26,044,675	25,847,208	26,672,176	28,824,770

* Includes approximately $2.2 million for the sale of delinquent real estate tax collections in FY2005

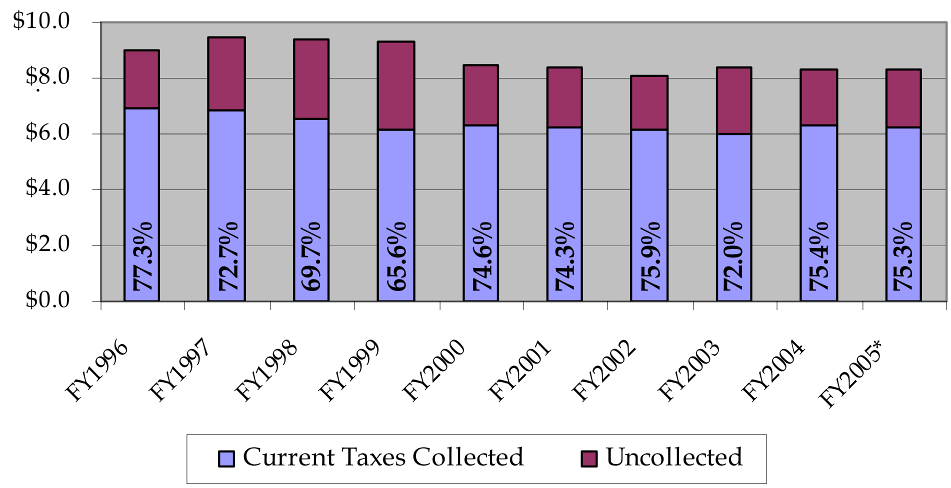
Real Estate Tax Revenue

From Fiscal Year 1996 through Fiscal Year 2005, Chester's annual "current" real estate tax collections averaged almost $6.4 million. As of Fiscal Year 1996, the City had accumulated delinquent real estate taxes of $12.6 million. By 2004, the number had grown to $20.7 million, a value equivalent to 77 percent of annual City revenues. As Graph 3.5 shows, according to the independent audit, the highest rate of current collection between Fiscal Years 1996 and 2005 occurred in 1996 when 77.3 percent of the total levy was collected. Fiscal Year 1999 produced the lowest yield at 66 percent. The addition of delinquent tax collections to current tax collections increases the ratio of collections to levy by at least ten percent for any fiscal year. The City's real estate tax collection rates compare unfavorably with the target collection rate of 95-to-98 percent, a range that is realized by most municipalities.

The declining population, low resident income and increasing percentage of tax-exempt property are factors that have contributed to the weak real estate tax base.

Table 3.5

Real Estate Tax Collections ($ Millions)



Fiscal Year 2005 tax collections are estimated unaudited results.

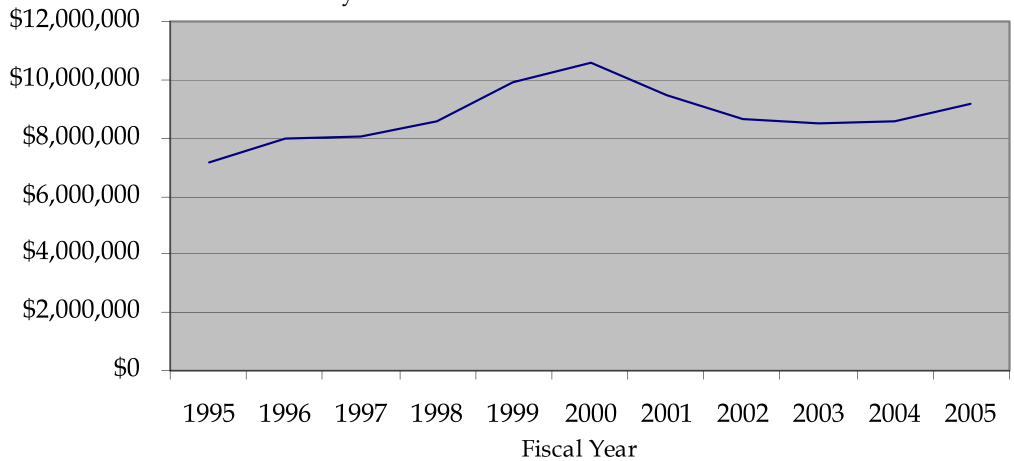
Act 511 Tax Revenue

Act 511 tax revenues, which include the Earned Income Tax (EIT), Business Privilege Tax, and Occupational Privilege Tax, comprise 32 percent of City revenues. From Fiscal Year 1996 through Fiscal Year 2005, Act 511 revenues averaged $8.9 million per year.

As Graph 3.6 shows, these revenues grew steadily through Fiscal Year 2000, as the City increased tax rates and experienced some success with its third-party collection efforts. However, in Fiscal Year 2001, as recommended in the 1996 Recovery Plan, the rates for both the Earned Income Tax and the Business Privilege Tax were reduced, which produced a $1.1 million drop in revenues from the previous year.

The subsequent years saw continuing declines in Act 511 taxes, particularly with the Earned Income Tax. The cumulative loss of revenue for Act 511 taxes from Fiscal Years 2000 to 2004 was almost 19 percent. This significant reduction can be attributed to tax rate cuts, an economic recession, and a continually declining population. The tax rate cuts were recommended as part of the 1996 Recovery Plan and were intended to place Chester in a more competitive position to attract new business investment.

Graph 3.6
City of Chester Act 511 Tax Revenues



Since enactment of the 1996 Recovery Plan, each year the City has exercised its right to petition the Court of Common Pleas of Delaware County to keep the EIT rate beyond the maximum 1 percent allowed under Act 511, The Local Tax Enabling Act.

The current resident earned income tax rate is 2.4 percent. Data collected by the Department of Community and Economic Development indicates that Chester's residents pay the highest earned income tax in Delaware County. However, the current 2.4 percent tax rate is reduced 20 percent from its high of 3.0 percent in 1996.

Non-residents pay an earned income tax rate of 1.4 percent rate with a credit granted for the amount of EIT paid to the resident municipality.

To attract more individuals to live and/or work in the City and to help rebuild the eroding tax base, the City has been reducing its resident and non-resident earned income tax rates. This is a long-term strategy that unfortunately has resulted in short-term tax losses, and to date the rate reductions outweigh population, employment, and income growth. However, it appears that the City's economic development efforts are beginning to yield a positive return with an increase in non-resident earned income tax collections in 2005.

Host Community Revenues

In January 1989, Chester entered into an agreement with Delaware County and Covanta Holding Corporation (then Westinghouse Electric Company). In accordance with the agreement, the City receives from Covanta a fee of $3.53 per ton of solid waste processed in Chester, with a minimum payment of $2 million per year. The agreement also provides for fee increases over time.

The City pledged those revenues towards payment of outstanding debt service, applying the remainder, if any, to the General Fund. In Fiscal Years 1996 and 1997 there were no funds left after the payment of debt service. However, starting in 1998, declining debt service and growth in Host Community Fees allowed Chester to apply some monies to the General Fund.

Host Community Fees paid to the City averaged $3.3 million annually from Fiscal Year 1995 through Fiscal Year 2005. Table 3.7 compares gross Host Community Fees collected to debt service payments for Fiscal Years 1995 to 2005.

Table 3.7
Host Community Fees vs. Debt Service Payments ($000)

	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
Host Community Fees	2,337	2,551	2,705	3,097	3,420	3,419	3,722	3,542	3,776	3,945	4,089
Debt Service Payments	(2,343)	(3,070)	(3,293)	(3,086)	(3,082)	(2,779)	(2,947)	(2,496)	(2,580)	(2,627)	(3,381)
$ Available for General Fund	(6)	(519)	(588)	11	338	640	775	1,046	1,196	1,318	708

Other Revenues

Chester receives seven sources of other revenue that combined contribute over $5 million per year to the City revenue stream:

State Pension Income: The Commonwealth annually allocates certain funds to municipalities to support pension funding. In Fiscal Year 2005, this amount for the City was approximately $1.3 million.

Grants: Distressed municipality status has provided the City with a large increase in grant monies. From Fiscal Year 1996 through 2005, the City averaged over $700,000 annually in grant contributions. In contrast, from Fiscal Years 1993 to 1995, the City received a total of approximately $150,000 in grants for the General Fund.

Trash Fees: The City collected approximately $1.1 million in trash fees in 2005. Trash collection revenue has declined by 36 percent since 1996.

Licenses and Permits: Licenses and Permits revenue has been steady at an annual average of $569,000 per year from Fiscal Year 1995 through Fiscal Year 2005.

Cable TV Revenue: Cable TV fees have steadily increased since Fiscal Year 1995, with spikes in Fiscal Years 1997 and 2001 due to renegotiation of contract provisions. In Fiscal Year 2005, Cable TV revenues totaled $258,000.

Penalties, Interest, Fines and Forfeits: This category of Other Revenue brings approximately $270,000 annually to the City.

Operating Expenses

Table 3.8
FY2005 Distribution of Operating Expenses

Salaries and Wages	$12,810,550	40.0%
Employee Benefits	9,888,795	30.9%
Contract Services	1,628,726	5.1%
Materials and Supplies	1,046,839	3.3%
Equipment and Maint.	787,872	2.5%
Utilities	719,200	2.2%
Other Expenses	1,749,995	5.5%
Debt Service	3,380,879	10.6%
	$32,012,856	100.0%

Table 3.8 displays the distribution of the City's operating expenses for Fiscal Year 2005 by major account. The three largest expense categories are Salaries and Wages, Employee Benefits, and Debt Service. Together, they account for 81.5 percent of all City operating expenses. From a functional perspective, the largest spending program is for Protection to Persons and Property, which includes police and fire services. Almost 48 percent of all operating spending is for this purpose.

Table 3.9 presents an 11-year history of Chester's operating expenses by major account category. From Fiscal Year 1995 through Fiscal Year 2005, total operating expenses for the City grew sporadically, increasing at an average annual rate of 3.5 percent. This increase was due primarily to salary, wage, and benefit cost increases. In Fiscal Year 2005, total operating expenses were $32 million.

Table 3.9
FY1995 to FY2005 Operating Expenses by Major Account Category ($)

	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
Salaries and Wages	9,432,771	10,676,520	11,458,502	10,865,687	11,806,502	11,240,432	12,210,799	11,856,087	12,120,514	11,952,127	12,810,550
Employee Benefits	7,574,958	7,511,441	7,913,373	6,813,087	7,343,622	8,071,323	6,978,524	8,428,170	10,051,930	9,885,177	9,888,795
Contract Services	825,859	985,783	1,018,675	946,076	835,355	1,235,151	1,438,213	1,452,542	1,658,450	1,491,795	1,628,726
Materials and Supplies	148,394	334,246	409,058	350,806	852,669	914,058	830,550	726,787	921,710	723,150	1,046,839
Equipment and Maintenance	362,827	328,689	361,811	291,993	435,278	429,783	609,575	695,564	629,311	907,383	787,872
Utilities	1,227,999	483,122	833,909	643,446	798,091	759,776	789,202	530,295	690,294	1,201,614	719,200
Other Expenses	983,915	411,979	1,077,571	921,059	1,292,601	1,430,133	1,709,781	1,957,802	2,070,571	1,678,658	1,749,995
Debt Service	2,342,779	3,145,803	3,412,030	3,051,246	2,834,304	2,711,198	3,357,850	2,419,213	2,574,838	3,350,702	3,380,879
	22,899,502	23,877,583	26,484,929	23,883,400	26,198,422	26,791,854	27,924,494	28,066,460	30,717,618	31,190,606	32,012,856

Wages and Salaries

Wage and salary expenses are the largest portion of the City's operating spending, representing approximately 40 percent of total operating costs. From Fiscal Year 1995 through Fiscal Year 2005, Chester's spending for wages and salaries increased at an average annual rate of 3.1 percent.

Historically, uniformed employee (police and fire) wages and salaries comprise 70-to-75 percent of total wages and salaries paid for all City employees. When combined with employee benefit costs, spending for police and fire personnel are the most influential component of the City's operating budget.

With annual expenditures of over $10 million, Chester Police Department spending represents approximately one-third of total City operating expenditures. Police salary expenditures ranged from $4.8 million to $5.3 million per year between Fiscal Years 1996 and 2000. However, police salary expenditures increased 16.5 percent to nearly 6.2 million in 2001, as the number of police officers grew to 108. Since that time, the number of uniformed officers has been reduced to 96.

Bureau of Fire expenditures for salaries and wages averaged $3 million per year from Fiscal Year 1995 through Fiscal Year 2004 and account for 10 percent of total City expenditures.

Similar to other Pennsylvania municipalities, police and fire personnel are "represented" employees. Labor contracts are negotiated between the unions and the City, and disagreements are resolved through binding arbitration.

Fiscal Year 1998 contract negotiations with the International Association of Fire Fighters stemmed the previously steady growth of salary expenditures in the Fire Department. Though wage rates increased between 2.5 percent and 3.8 percent annually, a reduction in the contractual minimum manning requirements within the Bureau significantly reduced firefighter overtime, and total salary expenditures dropped by 17 percent in Fiscal Year 1998 and remained relatively stable through 2002.

The City's labor agreements with the Fraternal Order of Police ("FOP") and Firefighters expire at the end of 2006. The current contracts call for the following wage-related provisions:

Table 3.10
Wage Increases for Uniformed Employees Fiscal Years 2003 to 2006

Bargaining Unit	FY05 FT Employees	Contract Exp. Date	2003	2004	2005	2006
Frat'l. Order of Police	96	12/31/2006	0%	4%	5%	3%
Int'l Assoc. of Fire Fighters	59	12/31/2006	$500	4% + $500	5% + $500	3% + $500

In August 2005, the City developed a plan to address obligations associated with the contract agreement with uniformed personnel that spans from Fiscal Year 2003 through Fiscal Year 2005. Under this plan in September 2005 the City paid officers of the police and fire departments a 4 percent retroactive pay increase due to them for Fiscal Year 2004, which amounted to a total payment of $379,148. The City also agreed to increased wages for 2005, based on a five percent growth rate, beginning on October 1, 2005. The additional cost of this wage increase is approximately $67,552 per month. Finally, under the plan, the City will pay the remaining balance of the 2005 increase (for the period January 1 through September 30, 2005) in Fiscal Year 2006.

As a condition for approval of the plan, the Commonwealth required that the City use the receipt of any gaming revenues in 2006 to fund the reserve account in an amount equal to the 2004, 2005, and 2006 required reserve values before such revenues are applied to any other purpose.

Appendix A-2 examines the crime index, number of police officers, and population for Chester and other Pennsylvania Third Class cities for 2002. The number of police officers in Chester in 2002 totaled 98.

Among the 29 third class municipalities, Chester ranks 11th in population[1] and second in number of officers per resident. With 0.266 officers per resident, Chester is well above the 0.187 average for the remaining municipalities. Among the top five municipalities with highest number of officers per resident, Chester has the smallest population.

From another perspective, Chester has the 10th highest crime index among the 29 municipalities. When the number of police officers is compared to the crime index, we find that Chester has a 5.144 officer ratio, slightly higher than the 4.904 average. This places Chester in the 12th highest ranking.

To summarize, the data shows that while Chester has a relatively high crime index, the number of police officers per population and the ratio of police officers to the crime index are higher than the average for other third class municipalities.

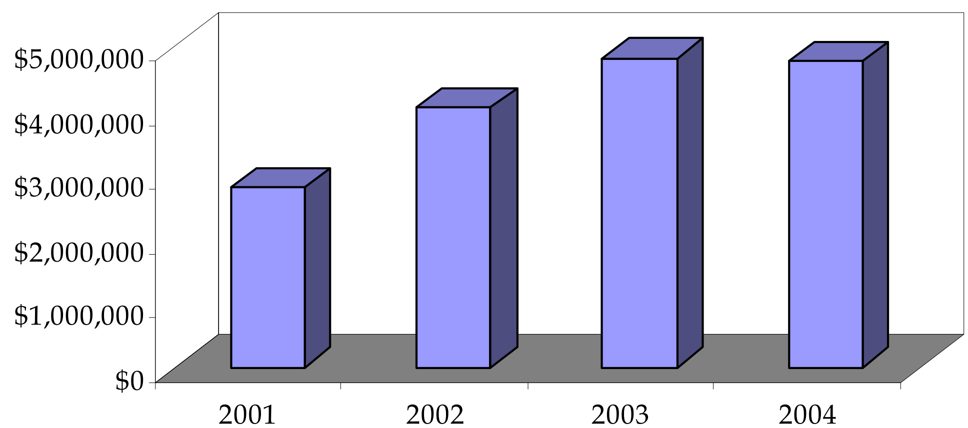
Employee Benefits

Employee benefit costs include spending for health care, insurance, pensions, uniforms, and Social Security contributions. As a percentage of total costs, employee benefits represent approximately 31 percent of total operating spending. Health care and police pension costs are the most volatile and the most expensive components of employee benefits.

[1] The ranking of 1 indicates the highest value and the ranking of 29 indicates the lowest value

From Fiscal Year 1995 through Fiscal Year 2005, Chester's expenditures for employee benefits increased at an average annual rate of 2.9 percent. However, recent growth rates have placed an enormous burden on the City's operating budget. From Fiscal Year 2001 to Fiscal Year 2004, employee benefit costs grew from $7.0 million to $9.9 million, led by skyrocketing health insurance costs. Table 3.11 illustrates the increase in health care costs for all City employees from Fiscal Years 2001 to 2004. In that short time, medical coverage costs increased by over 70 percent. From 1995 to 2004, employee benefits as a percentage of wage and salary expenditures increased from 53.0 percent to 63.5 percent; these are high relative levels of benefit costs that need to be brought under better control.

Table 3.11
Medical Coverage Costs for Chester Employees ($)
FY2001 - FY2004



The City of Chester administers three single-employer defined benefit pension plans: the Police Pension Fund, Paid Firemen's Pension Fund, and Officers & Employees Retirement System. These plans cover substantially all full-time employees. Police and fire employees contribute 5 percent of their salaries plus $1 per month to their respective pension funds. City officers and other employees hired before January 1, 1988, contribute a minimum of 6 percent of their pay, and those hired on and after January 1, 1988, contribute 1 percent of their pay.

Commonwealth law requires all municipalities, including Chester, to make annual contributions to the pension funds based on a calculation of Minimum Municipal Obligation ("MMO"). The MMO is based on an annual actuarial valuation that takes into consideration annual pension costs, contributions by employees, pension asset valuations, investment rate and salary increase projections, and amortization assumptions. Table 3.12 describes the key statistics for the Police, Fire, and Officers & Employees pension funds as of January 1, 2005.

Table 3.12
Summary Pension Fund Statistics as of 1/1/05

	Police	Fire	Officers & Employees
Participants			
Active employees	96	59	116
Retirees, disabled and beneficiaries	102	42	78
Terminated employees	0	1	3
	198	102	197
Actuarial Value of Assets	$23,580,756	$28,034,954	$2,164,908
Actuarily Accrued Liability	$36,969,067	$16,900,733	$8,427,067
Unfunded Actuarily Accrued Liability	($13,388,311)	$11,134,221	($6,262,159)
Funded Ratio	63.8%	165.9%	25.7%
Covered Payroll	$5,567,888	$2,952,253	$3,764,732
Unfunded AAL as a % of Covered Payroll	-240.5%	377.1%	-166.3%
Normal Cost	$522,908	$402,437	$149,451
Administrative Expense	$88,224	$92,147	$14,950
Amortization of Unfunded AAL	$966,114	$0	$120,026
Total Costs	$1,577,246	$494,584	$284,427
Less Employee Contributions	($264,956)	($148,297)	($82,510)
Less 10% of Negative Unfunded AAL	--	($1,113,422)	--
Minimum Municipal Obligation	$1,312,290	$0	$201,917
Less Allocated State Pension Contribution	($1,312,290)	$0	$0
Net Minimum Municipal Obligation	$0	$0	$201,917

The three pension funds had a combined total of 497 participants, representing active and terminated employees, retirees, disabled employees, and beneficiaries. The Police and the Officers & Employees pension funds had unfunded actuarily accrued liabilities of approximately $13.4 million and $6.3 million respectively. Police Pension Fund assets covered 64 percent of its fund's accrued liability, while Officers & Employee Pension Fund assets covered only 26 percent of its fund's accrued liability. This unfunded liability was amortized through 2032, resulting in an additional obligation above normal pension costs and administrative expenses. The Paid Firemen's Pension Fund showed assets in excess of accrued liabilities, therefore no incremental payment for amortization was required from the City.

In total, the City's minimum municipal obligation was approximately $1.5 million in 2005,[2] a reduction from the previous fiscal year due to unrealized gains in market value for all three pension funds. Offsetting this $1.5 million pension obligation was the Commonwealth's pension contribution of approximately $1.3 million.

[2] Figure per most recent pension actuarial report dated January 1, 2005.

The City's 2005 pension obligation of approximately $2.1 million was delayed until early 2006 because of a cash shortfall in late 2005.

Contract Services

Contract services include costs for items such as legal and auditing fees and trash removal services. From Fiscal Year 1995 through Fiscal Year 2005, the average annual growth for contract services was 7 percent. Driving this large increase was the cost of trash removal services that represents on average 85 percent of total contract services.

Materials and Supplies

In Fiscal Year 2005, materials and supplies expenditures totaled just over $1 million. From Fiscal Year 1995 through Fiscal Year 2004, the average annual growth rate for this category of operating spending was 21.6 percent.

Equipment and Maintenance

This category of operating spending includes expenditures for equipment, equipment leases, repairs, equipment and vehicle rentals, and police vehicle purchases. Annual spending totals represent approximately 3 percent of all operating costs. Repair costs are the largest component of equipment and maintenance expenditures.

Utilities

Fiscal Year 2005 utility costs totaled approximately $700,000, down from $1.2 million in 2004, and included expenditures for heat, light & sewer, telecommunications, street lighting, and vehicle gasoline. Heat, light, and sewer costs are approximately one-half of total utility costs, with expenses fluctuating over time based on market price changes. A significant drop in costs for street lighting occurred in Fiscal Year 1996, when the City negotiated a new agreement with PECO.

Other Expenses

The third largest category of operating expenses, Other Expenses represents over 5 percent of total operating spending. This expense category includes items such as advertising, street projects, and contributions to the library.

Debt Service

Debt service costs include principal and interest payments due on all outstanding short-term and long-term debt, such as revenue bonds, long-term lease obligations, and State loans. From Fiscal Years 1995 through 2005, debt service averaged almost 11 percent of operating expenses, amounting to nearly $3.4 million in Fiscal Year 2005. In Fiscal Year 2006, debt service obligations will total approximately $3.2 million.

Table 3.13 describes the major components of long-term debt and provides comparisons of annual debt service costs to operating revenues and expenses and outstanding debt to assessed property values and population. Outstanding bonds, loans, and long-term leases total approximately $32.6 million. Debt service costs for these obligations represent over 9 percent of total projected operating expenses in 2006. Host Community Fees have been pledged to fund a portion of this annual debt service.

Table 3.13
Long-Term Debt*

	Date of Issue	Final Maturity Date	Interest Rate	Original Amount	Outstanding Amount *	2006 Debt Service
General Obligation Bonds	04/01/01	12/01/08	5.250%	$3,025,000	$3,025,000	$1,238,813
	04/01/01	12/01/13	5.800%	$11,700,000	$11,680,000	$1,092,440
Deficit Funding Debt	9/25/06	9/25/16	5.500%	$7,500,000	$7,500,000	$0
					$22,205,000	$2,331,253
Distressed Municipality Loan	10/01/95	3/31/07	0.000%	$1,000,000	$150,000	$100,000
Highway Loan	3/27/02	4/01/12	2.375%	$1,120,000	$767,993	$127,316
Long-term Lease	7/06/04	3/01/19	--	$9,500,000	$9,495,000	$669,381
Total					$32,617,993	$3,227,950
2006 Debt Service as a percentage of Expenses						9.38%
Outstanding GO Bonds/Assessed Value					0.0829	
Outstanding GO Bonds/Capita					602.51	

* Data for items other than Deficit Funding Debt is as of 1/1/06. Deficit funding debt data is as of 8/3/06.

Cash Flow

The City of Chester, like many government entities, requires annual short-term borrowings to deal with seasonal cash flow needs. Chester typically issues Tax and Revenue Anticipation Notes ("TRANs") in January of each fiscal year and repays the notes in June of the same year after collection of the bulk of its tax revenues.

In addition to the TRANs, the City has relied on long-term financial transactions to support its General Fund operating losses. In Fiscal Years 1995, 2001, and 2002, the City used proceeds from long-term financing to fund over $9 million of General Fund operating losses. Through Fiscal Year 2001, these proceeds enabled the City to maintain positive fund balances for the General and Debt Service Funds. However, the growth in operating deficits became so large that negative year-end General Fund balances were incurred beginning in Fiscal Year 2002. The lack of cash flow became so critical that the City was forced to delay payment of over $2 million of Fiscal Year 2005 obligations until Fiscal Year 2006, when proceeds from another long-term financing could be used to pay the bills.

Even if Chester realizes new revenue sources from gaming as expected, the City must correct its growing structural budget problems or it will need to continue to fund current operations through long-term financings at the expense of capital improvements, tax rate reductions to pre-distressed municipality levels, and other service enhancements.

Chapter Four

Forecast of Financial Results

Introduction

This chapter estimates Chester's ongoing operating deficits should it maintain current operating procedures and ignore corrective actions such as those presented in Chapter 6 of this Plan. The projections presented here establish the framework used to develop the Chapter 6 recommendations, which are designed to place Chester in a stronger financial position and help it to emerge from Act 47 status.

The first section of this chapter discusses the unaudited mid-year results for Fiscal Year 2006. The Plan then estimates year-end General Fund totals for 2006 (based on those mid-year results and input from the City) and outlines forecast assumptions used to project the General Fund results for Fiscal Years 2007 through 2010.

Fiscal Year 2006 Baseline

The General Fund forecast includes debt service obligations that traditionally would be shown as transfers to the Debt Service Fund. Debt service is instead incorporated as an operating expense within the General Fund. This adjustment does not affect bottom-line fund results.

Table 4.1 compares Fiscal Year 2006 revenue projections and Fiscal Year 2005 unaudited results by major category of Chester's General Fund. Fiscal Year 2006 operating revenue projections total $27.1 million, down from $28.8 million in Fiscal Year 2005. The primary reason for the decline is the Fiscal Year 2005 one-time sale of past delinquent real estate tax revenue.[1]

The City projects Fiscal Year 2006 Real Estate tax collections of $6.8 million, $1.2 million less than Fiscal Year 2005, because of a significant decrease in the assessed real estate value in the City. Despite reduced assessment values, the City's Fiscal Year 2006 projected real estate tax collection rate is nearly 85 percent, a noteworthy improvement on past performance.

[1] The City sold its delinquent uncollected real estate taxes through 2004 to a third party, Xspand, for approximately $2.2 million. The City executed a similar deal in Fiscal Year 2006, selling 2005 delinquent uncollected real estate taxes for $693,000, approximately $100,000 over what was budgeted.

Fiscal Year 2006 Earned Income Tax, Business Privilege Tax, and Emergency Municipal Services (EMS) Taxes are all expected to increase over Fiscal Year 2005 levels. The City anticipates a 5 percent increase in Earned Income Tax collections, from $7.6 million in Fiscal Year 2005 to $8.0 million in Fiscal Year 2006. Fiscal Year 2006 Business Privilege Tax revenues are projected to improve 23 percent over 2005 results, from $1.1 million to $1.4 million, in large part because of one-time construction projects in the City. Fiscal Year 2006 EMS Tax revenues are expected to increase 16 percent over Fiscal Year 2005 (the first year that this tax was collected), from $388,000 to $450,000.

Table 4.1
Forecast of Operating Revenues FY2006 (in Dollars)

Revenue	Projected 2006	Actual 2005	Difference 06 Proj/ 05 Actual	Percent Difference
Real Estate Taxes	6,775,000	7,984,360	(1,209,360)	-15.1%
Sale of Delinquent RE Taxes	693,000	2,232,517	(1,539,517)	-69.0%
Earned Income Tax	8,000,000	7,610,099	389,901	5.1%
Business Privilege Tax	1,400,000	1,135,675	264,325	23.3%
Emergency Muni Services Tax	450,000	387,716	62,284	16.1%
State Pension Aid	1,314,405	1,284,853	29,552	2.3%
Host Community Fees	4,211,369	4,088,708	122,661	3.0%
Trash Fees	1,100,000	1,095,552	4,448	0.4%
Licenses and Permits	700,000	630,055	69,945	11.1%
Cable TV	275,000	258,055	16,945	6.6%
Fines	190,677	192,159	(1,482)	-0.8%
Other Revenues	1,982,725	1,925,021	57,704	3.0%
	27,092,176	28,824,770	(1,732,594)	-6.0%

As illustrated in Table 4.2, Fiscal Year 2006 operating expenses are estimated to total $34.4 million, a 7 percent increase over Fiscal Year 2005. Salary and wage costs, forecast to surge almost 12 percent over 2005 levels, are the main factors driving the increase. Increased overtime and a $740,000 payment for retroactive pay raises are the reasons for these higher salary and wage expenses. Another labor related expense, benefits, is expected to grow 6.5 percent from $9.9 million in Fiscal Year 2005 to $10.7 million in Fiscal Year 2006. This expense item includes the City's pension contribution of over $2 million.

Table 4.2
Forecast of Operating Expenses FY2006 (in Dollars)

Expense	Projected 2006	Actual 2005	Difference 06 Proj/ 05 Actual	Percent Difference
Salaries and Wages	14,314,756	12,810,550	1,504,206	11.7%
Benefits	10,697,716	9,888,795	808,921	8.2%
Contract Services	1,500,000	1,628,726	(128,726)	-7.9%
Materials and Supplies	750,000	1,046,838	(296,838)	-28.4%
Equipment and Maintenance	960,000	787,872	172,128	21.8%
Utilities	1,000,000	719,200	280,800	39.0%
Other Expenses	1,960,610	1,749,995	210,615	12.0%
Debt Service	3,227,950	3,380,879	(152,930)	-4.5%
	34,411,031	32,012,855	2,398,176	7.5%

Table 4.3 Projected Fiscal Year 2006 Results ($)	
Total Revenues	27,092,176
Total Expenses	34,411,031
Budget Surplus (Deficit)	(7,318,855)

A Fiscal Year 2006 operating budget deficit of $7.3 million is projected for the City. The forecasted deficit and cash crisis has prompted the City to seek a $7.5 million general obligation financing. Since as of this writing the financing is not yet complete, the Chapter 4 tables showing the forecasted 2006 results do not include the financing proceeds. However, those proceeds are reflected in the Chapter 6 forecasts that include Recovery Plan recommendation actions.

Forecast Assumptions

The forecast of financial results is based on reasonable growth expectations of the City's revenues and expenses. The forecast assumes no corrective actions are taken to eliminate the City's structural deficit and does not include revenues expected from gaming. This provides an estimate of the full operating gap that must be eliminated in each future year given current conditions.

Appendix A-1 includes a table of all assumptions used in the five-year forecast. Key assumptions are highlighted below:

- Real estate property valuation change of 2 percent per year and a current real estate collection rate starting at almost 85 percent in 2006 and increasing 0.5 percent through 2010;
- Increases of 2 percent for annual advances on delinquent real estate tax collections;
- Earned income growth of 2.3 percent per year[2] enlarged by incremental earnings from known construction projects and new redevelopments;
- Host Community Fee growth of 3 percent annually;
- Implementation of the new Emergency Municipal Services tax (or Occupational Privilege tax) that began in Fiscal Year 2005 and future increases for expected job creation;
- Maximum annual wage increases of 2.3 percent for all employees, consistent with projected annual changes in CPI;
- Growth of 5 percent per year for all utility related expenses; and
- Insurance growth of 5 percent per year for all insurance expenses.

[2] Equivalent to projected CPI increases

General Fund Forecast: Fiscal Years 2006 to 2010

The forecast of General Fund financial results for Fiscal Years 2006 to 2010 appear in Table 4.4. This table forecasts the major categories of revenues and expenses.

Table 4.4
Forecast of Operating Results FY2006-2010 ($)

	FY2006	FY2007	FY2008	FY2009	FY2010
Revenues					
Real Estate Taxes	6,775,000	6,957,720	7,138,377	7,323,477	7,513,125
Delinquent RE Tax Advance	693,000	706,860	720,997	735,417	750,125
Earned Income Tax	8,000,000	8,400,000	8,814,168	9,242,944	9,686,781
Business Privilege Tax	1,400,000	1,161,796	1,188,517	1,215,853	1,243,817
Emergency Muni Services Tax	450,000	465,600	481,200	496,800	512,400
State Pension Fund	1,314,405	1,344,636	1,375,563	1,407,200	1,439,566
Host Community Fees	4,211,369	4,337,710	4,467,842	4,601,877	4,739,933
Other Revenues	4,248,402	4,287,635	4,327,769	4,368,827	4,410,829
	27,092,176	27,661,957	28,514,432	29,392,395	30,296,577
Expenditures					
Salaries and Wages	14,314,756	13,883,295	14,202,610	14,529,270	14,863,444
Benefits	10,697,716	11,144,480	11,611,572	12,099,961	12,610,665
Contract Services	1,500,000	1,534,500	1,569,794	1,605,899	1,642,834
Materials and Supplies	750,000	767,250	784,897	802,949	821,417
Equipment and Maintenance	960,000	982,080	1,004,668	1,027,775	1,051,414
Utilities	1,000,000	1,050,000	1,102,500	1,157,625	1,215,506
Other Expenses	1,960,610	1,857,673	1,883,717	1,910,361	1,937,617
Debt Service	3,227,950	3,226,843	3,230,792	3,233,945	3,241,527
	34,411,031	34,446,120	35,390,550	36,367,786	37,384,424
Operating Surplus (Deficit)	(7,318,855)	(6,784,164)	(6,876,118)	(6,975,391)	(7,087,847)

The forecast shows an operating loss of $7.3 million in Fiscal Year 2006 and very little improvement through Fiscal Year 2010. Without corrective action deficits are expected to fluctuate between $6.8 million and $7.1 million from Fiscal Year 2007 through Fiscal Year 2010.

Table 4.5 shows the resulting fund balance changes from Fiscal Year 2006 through Fiscal Year 2010. With net transfers of $650,000, the Fiscal Year 2006 forecast shows a $6.7 million negative change in the fund balance, resulting in an overall year-end fund balance of negative $10.6 million. With additional net transfers of $450,000 per year in Fiscal Years 2007 through 2010, forecasts shows a $36.5 million negative year-end fund balance in Fiscal Year 2010. Projected results do not include corrective actions or revenues associated with gaming. As of this writing, the conditional award of a slots license to Harrah's Chester Downs Racetrack and Casino is probable but not certain.

Table 4.5
Fund Balance Projection FY2006 - 2010 ($)

	FY2006	FY2007	FY2008	FY2009	FY2010
Total Revenues	27,092,176	27,661,957	28,514,432	29,392,395	30,296,577
Total Expenditures	34,411,031	34,446,120	35,390,550	36,367,786	37,384,424
Surplus (Deficit)	(7,318,855)	(6,784,164)	(6,876,118)	(6,975,391)	(7,087,847)
Net Other Transfers	650,000	450,000	450,000	450,000	450,000
Net Transfers	650,000	450,000	450,000	450,000	450,000
Net Change in Fund Balance	(6,668,855)	(6,334,164)	(6,426,118)	(6,525,391)	(6,637,847)
Beginning Fund Balance	(3,948,384)	(10,617,239)	(16,951,403)	(23,377,521)	(29,902,911)
Ending Fund Balance	(10,617,239)	(16,951,403)	(23,377,521)	(29,902,911)	(36,540,758)

Conclusions

The forecasts show a deteriorating financial position on both cash and accrual bases. Delaying payments from one year to the next is not a long-term solution to the City's structural budget problem. In the short-term, the City will need to strictly manage its payables, as the benefits of the Recovery Plan actions realistically will not begin until Fiscal Year 2007. Even if gaming proceeds are realized as expected, general fund expenses will grow faster than revenues unless the City take steps as recommended by this Recovery Plan to reverse this trend.

Chapter Five

Findings and Conclusions

Introduction

This chapter summarizes the critical findings and challenges facing the City as it devises a strategy towards solvency. General conclusions are then presented regarding the approach to crafting the 2006 Recovery Plan.

Key Findings

The foundations of the 2006 Recovery Plan are the key 1996 Recovery Plan recommendations and the City's financial results, outlook, and financial management infrastructure.

In reviewing the 1996 Recovery Plan recommendations and the City's subsequent related actions, it was determined that progress has been achieved primarily in the areas of police, personnel, and economic development. This progress assessment may be in some cases subjective, but the City's financial results are objective and clear. Chester is facing a structural budget deficit that has continued to grow since it was declared a distressed community in 1996.

1. The City experienced operating deficits in each Fiscal Year from 1995 through 2005, except for Fiscal Year 1996, when increased tax rates for residents and non-residents afforded to Chester as an Act 47 municipality pushed operating revenues above operating expenses.

2. In the ten-year period that followed Chester's distressed municipality declaration, the City's average annual rate of expenditure growth outpaced its average annual rate of revenue growth.

3. Chester's year-end General Fund balance fell from nearly $4 million in Fiscal Year 1996 to nearly *negative* $4 million in Fiscal Year 2005.

4. The City has been forced to fund its operating losses by delaying payments and borrowing money through financing transactions, borrowing from the Commonwealth, and other non-recurring actions that do not address the need to achieve a structurally balanced budget.

5. A critical lack of cash flow in Fiscal Year 2005 forced the City to delay payment of a significant portion of Fiscal Year 2005 obligations until the middle of Fiscal

Year 2006, when proceeds from yet another long-term financing were used to pay its obligations.

Even if anticipated gaming revenues are realized, without corrective action, the short and long-term financial outlook for the City is extremely challenging.

1. Without corrective action, growth in general fund expenses will outpace that of revenues.

2. Without corrective action, the City will not be able to implement the policies that would allow Chester to emerge from distressed municipality status and achieve a positive General Fund balance position.

Given the City's poor financial condition, it is important that it has a strong financial management infrastructure in place to assure that financial obligations are met and to illuminate financial information so that the Mayor and Council may make timely and effective decisions. Observation of current financial management practices has resulted in the following findings:

1. Until December 2005, the most basic of financial requirements – a fully functioning chart of accounts – was not in place.

2. Annual financial audits have not been issued in a timely manner.

3. Though the City purchased a new financial system in 1999, it was not fully utilized to properly record both revenues and expenses until the end of 2005, when the updated financial software and hardware was implemented.

4. Before recent months, timely monthly accounting closings did not occur on a regular basis.

5. The financial staff was not preparing standard financial reports and forecasts, though that is also beginning to change.

6. There is no structured citywide budget process, although an annual budget document for Council review, adjustment, and approval is prepared.

7. The City has yet to develop a multi-year capital program and a related capital budget with sources and uses of funds.

8. There are no formal written internal control procedures.

9. There does not appear to be sufficient financial staff to perform required and basic financial duties.

Challenges Faced by the City in Developing Solutions

In developing a set of solutions to combat the City's structural deficit, the benefits from Chester's economic development efforts and the constraints caused by socio-economic and fiscal factors must be considered.

Aggressive efforts on the part of CEDA and the use of tax incentives, grants, and loans to promote private investment and business expansion and relocation have encouraged businesses to re-evaluate Chester as a profitable place to conduct business. To a large extent, these economic development efforts will have positive long-term effects but cannot be counted on to solve short-term City budget deficits. Failure to address near-term fiscal problems will adversely affect the City's success with longer-term economic development issues, as some businesses will be reluctant to commit to a city that cannot achieve and maintain fiscal viability.

A bigger roadblock in the recovery process is that not all of the standard sets of tools used to develop fiscal solutions are available to Chester. Limitations exist due to a number of factors including:

- A weak tax base characterized by a declining population, low-income levels, high unemployment rates, vacant properties, and a high concentration of absentee landlords.
- Over half of the City's property valuation is classified as tax-exempt. The City is further burdened, as these tax-exempt properties receive police, fire, and other municipal services at no cost to the property owners.
- Chester residents are among the most heavily taxed residents of Pennsylvania. Chester levies a 29.792 mill property tax on the assessed valuation of buildings and land, and residents pay the highest earned income tax in Delaware County, currently 2.4 percent.
- The City's prospect for increased tax revenues is primarily limited to growth in earned income taxes. To encourage continued redevelopment, new business and property owners must be provided with tax breaks in the short term and tax rates must be moderated in the long term.
- Over 71 percent of the City's Fiscal Year 2005 operating expenses were labor related (wages, salaries, and benefits).
- With 10.5 percent of City expenses devoted to pay debt service in Fiscal Year 2005, the combined labor and debt service obligations of over 81 percent leave little room for discretionary spending.
- As of January 1, 2005, the City's Police Pension Fund had an unfunded actuarially accrued liability of $13.4 million, requiring the City to contribute over $2 million in operating expenses, which was partially offset by a $1.3 million contribution from the Commonwealth.

- The City does not have a bond rating. Every Chester debt issuance since Fiscal Year 1996 has been privately placed and made without rating agency review. As a result, borrowing costs have been exceedingly high.[1]
- The use of typical financing structures that rely on Host Community Fees for repayment are limited, since 80 percent of the fees are already pledged to pay outstanding debt service in Fiscal Year 2005, and the fee agreement with Covanta Holding Corporation is due to expire in 2019.
- The City's limited access to credit has hampered its ability to establish a regular program of municipal capital improvements. Capital projects initiated in recent years are supported through either federal Community Development Block Grant funds or state highway improvement grants. As a result, the infrastructure needs of the City continue to be insufficiently supported.

Conclusions: Crafting a Recovery Plan

The financial challenges for Chester are vast and there are no easy answers to fiscal solvency. How then do we craft for the City a recovery plan that has a reasonable chance of success?

Fairmount believes that the new recovery plan will need to:

- Incorporate lessons learned in Chester and other distressed municipalities;
- Achieve structural balance in the City's annual operating budget;
- Focus on further strengthening and rebuilding the financial management infrastructure of the City; and
- Recognize that financial relief from slot revenues will not be adequate to resolve projected structural budget deficits.

We know from the 1996 Recovery Plan that setting forth hundreds of sometimes vague or insignificant recommendations for improvement is not likely to work. Therefore, the 2006 Recovery Plan incorporates focused annual milestones that are achievable with reasonable hard work and dedication.

Given the limited progress on financial management issues and the lack of funds, we know that the City does not have the appropriate resources to achieve all of these milestones on its own. The 2006 Recovery Plan therefore recommends an increase in financial support from the Commonwealth and a structured program for plan implementation with external monitoring and support.

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[1] For example, the City's 2004 $9.5 million CEDA Guaranteed Revenue Bonds paid interest at a rate of 6.75 percent for a nine-year term. By comparison, nine-year General Obligation Bonds for A-rated municipalities in 2004 paid an average rate of only 4 percent.

We know from the experience of other municipalities that, although difficult, labor cost containment must be a component of any recovery plan, since labor costs make up a majority of operating and capital expenditures. Therefore, the 2006 Recovery Plan incorporates actions to control labor related costs.

Critical to the success of the 2006 Recovery Plan is the recognition that slot revenues alone will not be sufficient to solve the City's long-term financial crisis. The City still will have to deal with growing operating costs and the need to reduce the earned income tax rates once this new revenue stream is received. The City also must address mounting capital needs after years of deferred capital maintenance. In addition, the City's internal financial infrastructure must practice improved financial management services. The Mayor and Council will require support from the Finance Department in the form of timely information and analyses to make the informed policy and spending decisions and implement the effective budgetary controls necessary to manage a large new revenue source and successfully implement the 2006 Recovery Plan recommendations.

Chapter Six

Recommendations

Introduction

In the ten years since being designated a distressed municipality, the City of Chester's financial condition has worsened. Facing socio-economic and fiscal challenges, the City continues to rely on long-term debt, asset sales, long-term lease transactions, and Commonwealth loans to offset growing operating deficits. Progress has been made with police and fire operations and economic development initiatives, but other areas lag behind. The City has improved its financial management infrastructure by upgrading its Chart of Accounts and financial systems, but financial management practices require further improvement and staffing needs must be addressed (the Finance Department in particular is stretched thin).

This 2006 Recovery Plan is designed to address the City's short-term cash flow needs and structural budget deficits and to prepare the City for a large new revenue stream by implementing improved financial management practices. However, no realistically feasible amount of new money will lead to permanent improvement of the City's financial condition without a solid financial infrastructure in place. Elected officials need timely and accurate information to make decisions; new development requires new services; and new income streams require an educated consideration of spending options among a variety of appropriate needs. Improved financial management practices – before the infusion of a major new revenue source such as gaming proceeds – are critical to the optimal management of funds.

This Recovery Plan uses the next few years as an interim period for short-term cash crisis intervention and financial infrastructure improvement. Around a dozen key milestones are recommended for each of the first two years of the Plan in the belief that a sharper focus will be more effective in achieving long-term success. The long-term period (beyond the third year) is planned as a stabilization period with economic development efforts continuing to provide increased tax base growth.

This chapter provides the recommendations that form the basis of the 2006 Recovery Plan, presents those recommendations as annual milestones, offers a recommended priority for the use of slot revenues, and projects the financial results of those recommendations.

Recommendations

The 2006 Recovery Plan is comprised of actions to be taken by the City and the Commonwealth. Each of the following recommendations represents an action step or component of the plan. The City has begun to implement some of these recommendations as noted in Tables 6.1 and 6.2.

City

Recommendations related to City actions fall into six categories: revenues, expenses, financing, financial management, administration, and economic development.

<u>Revenues</u>

1. Fairmount endorses the City's recent efforts to capture the value of delinquent real estate taxes through a third party contract. This strategy produced a Fiscal Year 2005 incremental benefit of approximately $2.2 million.

2. Fairmount also endorses the sale of specific vacant and unused City property such as the old City Hall site, the proceeds of which went to the Chester Redevelopment Authority.

3. The largest assumption incorporated into this plan is that Chester will be the recipient of incremental revenues from the successful development of the Harrah's Chester Downs Racetrack and Casino and the approval of slot operations at that site by the Pennsylvania Gaming Commission. According to state legislation, a municipality hosting approved slot operations is entitled to receive a minimum annual payment of $10 million. This Plan assumes that the Pennsylvania Gaming Commission will approve slot operations in Chester and that the City would begin to receive the minimum $10 million annual payment in calendar year 2007 (the Fiscal Year 2007 minimum payment is pro-rated based on slot operations for three quarters of the calendar year). As of this writing, the award of the conditional slots license to Harrah's Chester Downs is probable and imminent.

4. Should slot operations be approved, the related increase in operating revenues would allow the City to begin to reduce its earned income tax rates. Under this Recovery Plan, the City would reduce its resident and non-resident earned income tax rates over a three-year period once slot revenues are received. The Plan forecasts assume that the City could begin the earned income tax rate reduction in 2008. By the end of the three-year period, the resident tax rate would be reduced from 2.4 percent to 2 percent, and the non-resident rate would be reduced from 1.4 percent to 1 percent. The cost of this reduction would be approximately $2.2 million per year when fully implemented.

5. The City has worked hard and has been successful in obtaining grants in an environment of shrinking funding, but increased efforts should be made to further grow the amount and breadth of grants received. To focus this effort, the City shall develop a Capital Funding Plan to seek public (federal, state, and local) and private funds for City operating and capital purposes. The aim of the plan would be to identify and prioritize funding needs and match those needs with whatever resources may be available from the appropriate entities. This Recovery Plan incorporates a goal of increasing overall funding for this type of program to $750,000 beginning in Fiscal Year 2007 and then to $1 million beginning in Fiscal Year 2010.

6. The City should reexamine its fee structures for City services and relate service costs to user fees as appropriate. For example, the City should reevaluate its agreement with the Chester Upland School District for certain tax collections and the provision of street crossing guards.

Expenses

This Recovery Plan incorporates a goal of reducing operating costs by the value of inflationary growth. This translates to annual savings between $790,000 and $860,000. The first four expense items described below combined can produce these cost savings:

7. The predominance of labor related costs makes it critical to contain labor and benefit expense growth, particularly given recent increases in health care and insurance costs. The City shall continue to manage overtime and institute work rule changes and shift and organizational restructuring to reduce labor-related expenditures by approximately $500,000 per year beginning in 2007. The following provisions shall apply to all collective bargaining contracts entered into following adoption of this 2006 Recovery Plan:

    a. Cap annual wage and salary growth for both represented and non-represented employees at the lower of 3 percent or the annual inflation rate as represented by the change in the Consumer Price Index (which might require employees to pay a portion of their benefit costs, as is done in many other jurisdictions);

    b. Cap annual health care cost growth rates at the lower of 3 percent or the annual inflation rate as represented by the change in the Consumer Price Index through a combination of employee co-pays and plan restructuring;

    c. Cap all other labor related costs at the lower of 3 percent or the annual inflation rate as represented by the change in the Consumer Price Index; and

    d. Cap the overall City employment level funded through the general fund at the December 31, 2005, actual count, with allowances for increased employment only for the specific positions noted in item #10 below.

To optimize the labor related savings goal and to guide future labor negotiations, the City also shall prepare a detailed Labor Analysis by department, examining items such as the number of employees, wage and salary structure, overtime, shift and organizational structure, and fringe benefit packages. Cost projections by bargaining unit also should be prepared.

8. City management shall work with its third-party providers to reduce non-healthcare insurance and utility costs – two of the City's largest non-labor-related expense categories – by at least $100,000 beginning in 2007. A number of approaches may be taken to reduce existing utility costs. A review of the physical infrastructure used to deliver utilities may result in a reduction or change in the mix of utility services; a review of historical billings may identify areas where alternative rate structures can be employed; and a review of the hardware and software employed and the operational procedures followed may identify opportunities for reducing the volume of energy consumed. Fairmount also encourages the City to take advantage of insurance industry risk management experts who will work cooperatively with the City to identify ways to reduce risk, and therefore costs, in City operations.

9. The City shall, through management review, employee recommendations, and third-party support, prepare an analysis identifying capital investments that will yield operating savings, with an annual cost reduction goal of at least $100,000 beginning in 2007. The City should seek to make those investments itself for projects requiring a small dollar investment and for projects with a one-year or less return. As noted in the Commonwealth recommendations below, Fairmount advises that the Commonwealth support those investment projects that are larger in magnitude or require a longer period of return.

10. The City shall prepare an analysis of current operating expenses that could be appropriately funded with special project fund dollars. These General Fund savings could be used to satisfy the Recovery Plan's cost reduction goals or could be treated as revenue items under the Grants Plan. Results should be incorporated into the Fiscal Year 2007 annual budget.

11. The City shall fill the positions of Public Works Director and Information Technology Director and fill the incremental Finance staff positions as recommended in an organizational assessment (described below) in 2006. This Recovery Plan incorporates $150,000 of incremental spending in Fiscal Year 2007 to fund these positions and escalates this cost at inflationary rates for later years. As the Commonwealth recommendations below note, Fairmount proposes that the Commonwealth provide $250,000 over a two-year period to the City as an Act 47 grant for this purpose.

12. Chester shall use a portion of gaming revenues for the City's capital program. This Recovery Plan includes a $600,000 contribution in Fiscal Year 2007 and an annual $1.2 million contribution in Fiscal Years 2008 though 2010. These funds should be used to reinvest in depreciating City assets, support economic

redevelopment efforts, and provide local matching funds to leverage increased third-party grants.

13. The City shall continue to make annual deposits to the General Fund Reserve Account in an amount equal to (a) 0.5 percent of all General Fund revenues less than or equal to $29,214,806[1] plus (b) 7.5 percent of all General Fund revenues in excess of $29,214,806 to begin to develop a year-end fund balance of 5 percent of General Fund revenues, help to restore the City's credit rating, and provide emergency funds. To the extent that gaming revenues are received, the City must use such revenues to fund the annual reserve requirement and prior year amounts not yet funded. In collaboration with the Recovery Coordinator, the City will develop a formal General Fund Reserve Account policy that will outline funding requirements and detail strict usage conditions. The City will consult with the Recovery Coordinator before spending emergency funds to determine if the appropriation meets the criteria set forth in the policy. Appropriate circumstances for Reserve Account use might include funding unanticipated, nonrecurring expenditures; funding unexpected revenue shortfalls or budget deficits; or covering short-term cash flow deficiencies within a fiscal year. The policy also should commit to restoring any Reserve Account monies that are used.

Improve Internal Financial Management Infrastructure

14. While substantial progress has been made, the City shall implement its Chart of Accounts revisions so that the revenue, expense, asset, and liability components are fully updated and functioning; staff training also must be completed as necessary. The updated Chart of Accounts, combined with the information system improvements and training noted in the next two recommendations, will enable timely monthly closings and electronic (rather than manual) processes.

15. Fairmount endorses the City's efforts to upgrade its financial system hardware and software to create a more reliable, user-friendly, and fully functioning system. The Finance Department currently is hampered in its ability to record and extract financial data. These improvements will make it easier for the department to perform its duties and provide more timely information to the Mayor and City Council. As noted below in the Commonwealth recommendations, Fairmount supports Commonwealth funding of these improvements as an Act 47 grant.

16. For the two prior recommendations to be effectively implemented, Finance staff must be trained in the use of the upgraded system and the structure of the new Chart of Accounts. Initial and follow-up training shall be provided with Commonwealth funding support from an Act 47 grant. This Recovery Plan incorporates $92,450 for financial system hardware, software, and training expenses.

[1] This amount is based on a May 16, 2005 letter to Mayor Butler from Fairmount.

17. Once the Chart of Accounts and financial systems are upgraded and the financial staff is trained, consistent and timely financial reports can be produced. As soon as practicable, the Finance Department shall prepare monthly cash, profit and loss, and balance sheet statements, including accounts receivable and accounts payable detail, in a timely manner.

18. Similarly, bank reconciliations shall be performed at the end of each month, confirming cash positions and reducing the City's exposure to the risk of fraud and embezzlement.

19. Given Chester's fiscal challenges, it is critical that the City is supported by a skilled and well-organized Finance Department. It is recommended that a third party prepare an organizational assessment of the Finance Department that focuses on organization and staff skill levels. Recommendations for organizational restructuring, opportunities for changes in staff mix (employee/consultant/graduate intern), and staff training, if any, shall be provided no later than the 4th quarter of 2006 and shall be implemented by the end of the 1st quarter of 2007. Fairmount recommends that the Commonwealth provide funding for the assessment through an Act 47 grant. This Recovery Plan incorporates the estimated cost for this assessment and other recommended consultant costs.

20. The City currently prepares an annual budget for Council review, adjustment, and approval, but there is no structured citywide budget process. Therefore, the City shall implement a structured budget process for all funds with participation by all departments and senior management. The preparation of the all-funds budget for 2007 should begin no later than September 2006, with a prepared budget calendar and process description for all operating and capital departments.

21. At the start of 2007, the City shall construct a six-year capital program and a one-year capital budget that includes investment requirements for maintaining and upgrading City assets and investment requirements for economic development. This will allow sufficient time to evaluate needs and funding requirements for a long-term capital program. The program should include an analysis of the impact of capital projects on the operating budget. Some capital projects may result in operating savings, but others may require additional expenditures.

22. With the upgrade of the City's financial system and the update of its Chart of Accounts, the annual audit process should become more efficient. Therefore, the City shall begin the 2005 audit process in February 2006 with completion no later than September 2006.

23. Once monthly financial reports of actual activity are consistently prepared, the Finance Department also shall produce monthly forecasts of operating results.

24. The Finance Department, with consultant support, shall assess internal controls and develop a plan to remedy problems and improve control processes. The internal controls plan should be prepared no later than 2007.

25. The City shall develop a Cash Management Plan that will expand in scope and detail over time. The plan should include cash policies and procedures, as well as monthly cash flow forecasts, and should be drafted no later than 2007.

26. The Finance Department shall develop a financial procedures manual for each component of financial operations no later than 2007.

27. The Finance Department shall develop a debt policy that incorporates, among other things, limits for debt service levels and constraints on principal amortization.

<u>Structure Financing Transactions where Reasonable and Appropriate</u>

28. The City shall explore opportunities to finance a portion of its unfunded pension liability to reduce its annual operating contributions. The City should be able to use a portion of the Commonwealth's annual pension contribution as pledged revenue to support such a transaction. This Recovery Plan assumes that savings of $1 million will be achieved beginning in Fiscal Year 2006 with additional savings of approximately $125,000 in each of Fiscal Years 2007 and 2008. Periodic status reports on investment results from the City's financial advisor and/or banking institution shall be submitted to the Recovery Coordinator in addition to the standard progress reports that will be submitted as part of the implementation program.

29. The City should close a $7.5 million loan for cash flow purposes in Fiscal Year 2006 with future general obligations, including gaming revenues and a portion of other host community revenues, used for repayment. The loan will be repaid over ten years with annual level principal payments of $750,000 plus interest beginning in 2007. The preliminary agreement includes a put option for the underwriter after five years. The City also has the option to repay the loan in part or in full after five years if it chooses.

<u>Administration</u>

30. Fairmount endorses the City's hiring of the Mayor's Chief of Staff and recommends that the position carry the responsibilities traditionally borne by a City Manager: assisting the Mayor and City Council in administering the obligations of the departments and agencies of City government.

<u>Economic and Community Development</u>

31. City management shall prepare an analysis of the incremental cost of City services required for existing and planned development. Once this analysis is complete, the Recovery Plan should be updated to reflect these incremental

costs. Additionally, any new economic development efforts that are expected to yield incremental tax and fee revenues should be layered into the Recovery Plan on an annual basis.

32. Fairmount understands that the City's economic development agency, CEDA, has prepared an analysis of abandoned, tax-exempt, and tax arrears property to coordinate property management efforts with economic development efforts. Fairmount endorses CEDA's work and recommends that an update be performed every two to three years in conjunction with economic plan updates.

33. Fairmount understands that the City and CEDA are in the process of updating the *Vision 2000* Plan and recommends that the six-year capital program incorporate the results of that update.

34. As noted earlier in the Economic Development chapter, it is recommended that the City and CEDA pursue any and all opportunities afforded by the new Transit Reinvestment District legislation.

Commonwealth

Fairmount believes that a substantial Commonwealth investment over the next few years will be necessary to support Chester in its recovery process. The City will need substantial financial resources to implement the 2006 Recovery Plan and does not have all of the funds necessary to support that effort.

1. It is recommended that the Commonwealth increase the level of distressed-related grants provided to Chester for the following purposes:

    a. Provide grants to the City to defray costs associated with the first two years of defined incremental positions, including the Public Works Director, Director of Information Technology, and any incremental positions recommended as a result of the Finance Department organizational assessment. This Recovery Plan assumes $250,000 in total costs to the Commonwealth for these positions over the first two years.

    b. Provide grants to the City for the purchase of financial system hardware and software and the training of Finance Department staff in the use of the upgraded system. These costs are estimated to total $92,450.

    c. Increase financial support for consultants and temporary staff to assist the City with the Finance Department organization assessment, departmental labor analyses, Capital Funding Plan, utility cost reductions, internal financial controls, and financial policies and procedures. Costs are estimated to total $175,000 over a two-year period.

    d. Provide funds for capital investments that are projected to yield operating improvements from increased revenues or decreased expenses. The City should prepare written investment analyses that include forecasts of benefits by budget line item and provide any supporting documents.

2. As with other Pennsylvania distressed municipalities that are executing recovery plans, a structured implementation program with monitoring of and support for the City is necessary. Initially, an organization and process plan shall be constructed around annual milestones. Weekly operational meetings between the City and the Recovery Coordinator are recommended with staff responsible for implementing the Recovery Plan and assessing progress. Monthly meetings with the Mayor and City Council also should be held to communicate plan process, issues, and progress.

3. To ensure that gaming revenues are used in accordance with the Recovery Plan, the City will consult with the Commonwealth's Recovery Coordinator to determine the amount of gaming revenues to be used for each of the Plan's recommended purposes (see discussion later in this chapter). As part of the City's annual budget process, the City and the Recovery Coordinator will estimate the value of the subsequent fiscal year's revenues attributed to gaming operations and the portion of those revenues that would be required to fund debt service, the operations reserve fund, the capital program, reductions in the earned income tax, reductions in the structural deficit, increases in services for newly occupied economic development areas, and other tax rate reductions. Gaming revenues remaining after funds are appropriated for the recommended purposes may be used at the City's discretion as long as the spending is consistent with the structural balance of the budget and multi-year plan. New costs for the upcoming fiscal year should be funded by revenue growth from sources other than gaming and reductions in other operating expenses.

Recovery Plan Milestones

The recommendations described in the previous section have been translated into milestones for the City to achieve over the next three years. After each year of implementation, the milestones should be re-examined and reconstructed for another three year-period.

Charts 6.1, 6.2, and 6.3 summarize the Recovery Plan milestones. Chart 6.1 documents Completed and Ongoing Objectives of Note. Chester officials have worked diligently to remedy these areas of concern that had been identified by the City and the Recovery Coordinator.

Chart 6.1
2005 and Prior Years Completed and Ongoing Objectives of Note

1. Complete the sale of delinquent real estate taxes and unused real property.
2. Complete the update of the Chart of Accounts.
3. Complete hardware/software upgrade and implement full use of Financial System.
4. Begin staff training for financial systems and Chart of Accounts.
5. Begin assessment of Finance organization.
6. Prepare analysis of capital funding opportunities for current operating expenses.
7. Begin annual analysis of capital investment opportunities to improve operating results.

Chart 6.2
Fiscal Year 2006 Milestones
(Bold type indicates an item that is completed or underway.)

1. **Pursue cash flow borrowing for 2006**.
2. **Produce monthly cash and budgetary performance statements**.
3. **Produce monthly bank reconciliations at the end of each month**.
4. **Work with third party providers to reduce insurance and utility costs**.
5. **Complete the annual 2005 audit no later than September 2006**.
6. **Produce monthly results and forecasts of operating and capital results**.
7. Explore opportunities to finance all or a portion of the unfunded pension liability.
8. Implement a structured budget process for all funds with participation by all departments and senior management.
9. Have a third party assess the Finance Department with restructuring, staffing, and training recommendations due no later than the 4th quarter of 2006.
10. Construct a six-year capital program and a one-year capital budget.
11. Develop a Capital Funding Plan to seek public and private resources for City operating and capital purposes.

Chart 6.3
Fiscal Year 2007 Milestones

1. Develop a detailed labor analysis to contain growth in labor-related expenses. The following provisions shall apply to all collective bargaining contracts entered into following adoption of this 2006 Recovery Plan:
   - Cap annual wage, salary, and health care cost growth at the lower of 3 percent or the annual inflation rate;
   - Reduce total benefit costs as a percentage of total wages and salaries;
   - Cap employment levels funded through the general fund at the December 31, 2005, actual count, with allowances for increased employment as described in the plan;
   - Continue to manage overtime and institute work rule changes and shift/organizational restructuring.
2. Assess and improve financial internal controls.
3. Develop a Cash Management Plan.
4. Develop a financial procedures manual for financial operations.
5. Implement third party Finance Department assessment organizational changes by the end of the first quarter of 2007.
6. Develop a Debt Management Policy.
7. Incorporate the updated *Vision 2000* plan into the six-year capital program.
8. Determine the incremental cost of City services required for existing and planned development.
9. Update the analysis of abandoned, tax-exempt, and tax arrears property.
10. Complete the annual 2006 audit no later than May 2007.
11. If received, use a portion of gaming revenues for capital investment.

Use of Gaming Revenues

The potential receipt and use of $10 million or more per year from slot machine operations will require annual consideration as part of the City's annual budget process. There are many beneficial ways that these funds can be used. It is Fairmount's recommendation that priority be given to the use of slot revenues for the seven purposes noted in Chart 6.4.

Chart 6.4
Recommended Priority Uses of Gaming Revenues

1. Fund debt service for deficit funding loan.
2. Eliminate the structural budget deficit.
3. Fund the operational reserve account.
4. Reduce earned income tax rates to pre-distressed levels.
5. Invest in a capital program to maintain and improve the City's assets and to reinvest in economic development efforts.
6. Provide increased city services for newly developed areas.
7. Reduce tax rates.

Gaming revenues remaining after funds are appropriated for the recommended purposes may be used at the City's discretion as long as the spending is consistent with the structural balance of the budget and multi-year plan.

Projected Financial Results of Recommendations and Milestones

This section summarizes the proposed level of Commonwealth funding, describes the use of gaming revenues, and analyzes the projected financial results of the Recovery Plan recommendations. The financial results are presented through an examination of General Fund operating results and fund balance results for Fiscal Years 2006 through 2010.

As noted earlier in this chapter, this Recovery Plan assumes an increased level of support from the Commonwealth. Table 6.5 displays the proposed Commonwealth outlays from Fiscal Year 2006 through Fiscal Year 2008.

Table 6.5
Recovery Plan Commonwealth Financial Support
FY2006 to 2008 ($)

	FY2006	FY2007	FY2008
Act 47 Grants: Incremental Positions	0	150,000	100,000
Act 47 Grants: Financial System	92,450	0	0
Act 47 Grants: Consultant Support	0	100,000	75,000
Subtotal	92,450	250,000	175,000
Capital for Operating Improvements	TBD	TBD	TBD

Outlays are proposed to support incremental staff needs, financial system improvements, and training and consultant support for Recovery Plan implementation for a three-year period beginning in Fiscal Year 2006.
The one item that has not been quantified is the amount of capital investment that may be needed operating improvements. Fairmount recommends that the City proceed to identify such opportunities and begin constructing financial analyses to identify investment requirements, financial benefits, and payback periods.

Table 6.6 describes the Recovery Plan's use of slot revenue fees in accordance with Fairmount's recommendations.

Table 6.6
Recovery Plan Use of Slot Revenues FY2006 to 2010 ($)

	FY2006	FY2007	FY2008	FY2009	FY2010
Slot Revenues	**0**	**7,500,000**	**10,000,000**	**10,000,000**	**10,000,000**
Repayment of Deficit Funding Debt	0	(1,240,000)	(1,210,000)	(1,080,000)	(1,038,000)
Fund Operations Reserve Account	0	(610,860)	(816,822)	(74,636)	0
Reduction in EIT	0	0	(531,314)	(1,077,861)	(2,205,304)
Contribution to Capital Program	0	(600,000)	(1,200,000)	(1,200,000)	(1,200,000)
Reduce Structural Deficit	0	(5,049,140)	(6,241,864)	(6,567,503)	(5,556,696)
	0	0	0	0	0

Slot revenues are used to repay slot revenue advances or loans, fund the operations reserve account, offset reductions in the earned income tax rate, contribute to the City's capital program, and reduce the structural budget deficit. Excess revenues, if available, will be used to support incremental operating costs associated with completed economic development projects.

Table 6.7 presents the results of the Recovery Plan's recommendations. Revenues are adjusted for the proposed cash flow loan; new slot revenue fees; delinquent real estate tax and property sales; additional Act 47 grants for staff, consultants, systems and training; and reductions in earned income tax rates. Expenses are adjusted for the 2006 deficit financing loan repayments; incremental staff, consultants, systems and training; labor, utility and insurance cost containment; and pension cost reductions. Operating results are further adjusted by increased grants and contributions to the City's capital program.

Recovery Plan recommendations result in operating surpluses beginning in Fiscal Year 2007 with positive net changes in the fund balance each year beginning in Fiscal Year 2006. This scenario shows an ending fund balance for Fiscal Year 2007 of negative $2.3 million, improving by Fiscal Year 2010 to a positive ending fund balance of over $900,000 after the operating reserve account is fully funded. If this scenario were achieved, the City would be in a much stronger financial position, with the ability to establish a good credit rating, and on its way to eliminating its distressed status.

The operating results of the Recovery Plan recommendations by major account are shown in Table 6.8.

The Recovery Plan forecasts appear promising, but there is still reason for urgency and attention to detail regarding the City's finances. There is risk in the City's 2006 budget, and historical experience tells us that the cash position of the City over the last few years has been tenuous in the second half of the fiscal year. As of the writing of this plan, the City has taken solid steps to carry out the Chart of Account and financial systems upgrades. Once these steps are completed, the City will be able to better monitor and manage its budget progress, implement the Recovery Plan and manage its cash position.

Table 6.7
General Fund Results with Recovery Plan Measures ($)

	FY2006	FY2007	FY2008	FY2009	FY2010
Revenues	27,092,176	27,661,957	28,514,432	29,392,395	30,296,577
Adjustments					
Slot Revenues	0	7,500,000	10,000,000	10,000,000	10,000,000
Additional Act 47 Grants	92,450	250,000	175,000	0	0
Reduction in EIT	0	0	(531,314)	(1,077,861)	(2,205,304)
Total Adjusted Revenues	27,184,626	35,411,957	38,158,118	38,314,534	38,091,273
Expenses	34,411,031	34,446,120	35,390,550	36,367,786	37,384,424
Adjustments					
Repayment of Deficit Funding Debt	0	1,240,000	1,210,000	1,080,000	1,038,000
Incremental Cost of New Staff	0	300,000	306,900	313,959	321,180
Incremental Cost for Consulting Fees	0	100,000	75,000	0	0
Incremental Cost for Information Systems	92,450	0	0	0	0
Reduction in Costs	0	(792,261)	(813,983)	(836,459)	(859,842)
Pension Cost Financing	(1,000,000)	(125,000)	(125,000)	(15,000)	120,000
Total Adjusted Expenses	33,503,481	35,168,860	36,043,467	36,910,285	38,003,762
Operating Surplus (Deficit)	(6,318,855)	243,097	2,114,651	1,404,248	87,511
Net Other Transfers	650,000	450,000	450,000	450,000	450,000
Deficit Funding Debt	7,500,000	0	0	0	0
Adjustments					
Increased Grants and Transfers	0	750,000	750,000	1,000,000	1,000,000
Operations Reserve Account Surplus	0	0	0	0	11,163
Contribution to Capital Program	0	(600,000)	(1,200,000)	(1,200,000)	(1,200,000)
Total Adjusted Transfers	8,150,000	600,000	0	250,000	261,163
Beginning Fund Balance	(3,948,384)	(2,117,239)	(1,274,142)	840,509	2,494,756
Net Change in Fund Balance	1,831,145	843,097	2,114,651	1,654,248	348,674
Ending Fund Balance	(2,117,239)	(1,274,142)	840,509	2,494,756	2,843,430
Operations Reserve Account Contribution	413,408	610,860	816,822	74,636	0
Operations Reserve Account Balance	413,408	1,024,268	1,841,091	1,915,727	1,904,564
Net General Fund Balance Available	(2,530,647)	(2,298,410)	(1,000,582)	579,031	927,705

Table 6.8
Forecast of Operating Results with Recovery Plan Measures FY2006-2010 ($)

	FY2006	FY2007	FY2008	FY2009	FY2010
Revenues					
Real Estate Taxes	6,775,000	6,957,720	7,138,377	7,323,477	7,513,125
Delinquent Real Estate Tax Advances	693,000	706,860	720,997	735,417	750,125
Earned Income Tax	8,000,000	8,400,000	8,282,854	8,165,083	7,481,477
Business Privilege Tax	1,400,000	1,161,796	1,188,517	1,215,853	1,243,817
Emergency Muni Services Tax	450,000	465,600	481,200	496,800	512,400
State Pension Fund	1,314,405	1,344,636	1,375,563	1,407,200	1,439,566
Host Community Fees	4,211,369	4,337,710	4,467,842	4,601,877	4,739,933
Slot Revenues	0	7,500,000	10,000,000	10,000,000	10,000,000
Other Revenues	4,340,852	4,537,635	4,502,769	4,368,827	4,410,829
	27,184,626	35,411,957	38,158,118	38,314,534	38,091,273
Expenditures					
Salaries and Wages	14,314,756	14,097,580	14,421,825	14,753,527	15,092,858
Benefits	9,697,716	10,605,193	11,062,757	11,651,398	12,287,129
Contract Services	1,592,450	1,634,500	1,644,794	1,605,899	1,642,834
Materials and Supplies	750,000	767,250	784,897	802,949	821,417
Equipment and Maintenance	960,000	982,080	1,004,668	1,027,775	1,051,414
Utilities	1,000,000	950,000	1,000,200	1,052,972	1,108,446
Other Expenses	1,960,610	1,665,412	1,683,535	1,701,819	1,720,135
Debt Service	3,227,950	4,466,843	4,440,792	4,313,945	4,279,527
	33,503,481	35,168,858	36,043,466	36,910,284	38,003,761
Operating Surplus (Deficit)	(6,318,855)	243,096	2,114,651	1,404,248	87,510
Net Other Transfers	650,000	450,000	450,000	450,000	450,000
Deficit Funding Debt	7,500,000	0	0	0	0
Adjustments					
Increased Grants and Transfers	0	750,000	750,000	1,000,000	1,000,000
Operations Reserve Account Surplus	0	0	0	0	11,163
Contribution to Capital Program	0	(600,000)	(1,200,000)	(1,200,000)	(1,200,000)
Total Adjusted Transfers	8,150,000	600,000	0	250,000	261,163
Beginning Fund Balance	(3,948,384)	(2,117,239)	(1,274,143)	840,508	2,494,756
Net Change in Fund Balance	1,831,145	843,096	2,114,651	1,654,248	348,673
Ending Fund Balance	(2,117,239)	(1,274,143)	840,508	2,494,756	2,843,431
Operations Reserve Account Contribution	413,408	610,860	816,822	74,636	0
Operations Reserve Account Balance	413,408	1,024,268	1,841,091	1,915,727	1,904,564
Net General Fund Balance Available	(2,530,647)	(2,298,410)	(1,000,581)	579,031	927,705

Conclusion

The City of Chester faces critical financial challenges over the next few years. However, progress with police, fire, and human resource operations, successful economic development efforts, and the prospect of a new revenue stream through gaming provide reassurance that the financial challenges can be overcome.

There are five key components of the City's Recovery Plan:

1. Financial management improvements will place the City in a stronger position to anticipate and react to financial challenges and plan for fiscal stability.

2. Cost containment measures will offset inflationary expense growth, particularly in the areas of labor, utility and insurance costs.

3. Approval of slot operations will bring a significant new revenue stream to the City.

4. Earned income tax and real estate tax rate reductions will provide relief to residents and encourage increased economic and community development.

5. Substantial Commonwealth financial support will be necessary in the short-term to provide the City with the resources necessary to deal with short-term cash issues and provide the groundwork for long-term solutions.

Combined, these efforts can lead to positive financial results and the removal of the City from distressed status.

Fiscal Year 2006 is the crucial year for the City's recovery. If the City adheres to the Recovery Plan milestones and strictly manages its cash position, gaming revenues – if realized an anticipated – can be used for investment in items other than just the structural budget deficit. As economic development efforts succeed and expand, the City will need to invest in its capital program. Without the successful implementation of Recovery Plan actions, this investment will be limited.

Appendix A

Appendix A-1
Forecast Assumptions

CITY OF CHESTER
PROJECTIONS 2007 - 2010

GENERAL FUND

	2007 Projection	2008 Projection	2009 Projection	2010 Projection
REVENUES				
Real Estate Taxes	2% valuation increase	2% valuation increase	2% valuation increase	2% valuation increase
	85.5% collection	86.0% collection	86.5% collection	87.0% collection
Earned Income Tax	CPI for wage growth	CPI for wage growth	CPI for wage growth	CPI for wage growth
	no change in tax rate	no change in tax rate	no change in tax rate	no change in tax rate
	300 new employees	300 new employees	300 new employees	300 new employees
Business Privilege Tax	CPI	CPI	CPI	CPI
	300 new employees	300 new employees	300 new employees	300 new employees
Emergency Muni Services Tax				
Emerg & Muni Serv Tax	$52	$52	$52	$52
Trash Fees	CPI	CPI	CPI	CPI
Licenses and Permits	0.0%	0.0%	0.0%	0.0%
Fines and Forfeits	0.0%	0.0%	0.0%	0.0%
Interest on Investments	0.0%	0.0%	0.0%	0.0%
Rent on Property	0.0%	0.0%	0.0%	0.0%
Public Utilities/PURTA	0.0%	0.0%	0.0%	0.0%
Police Services	CPI	CPI	CPI	CPI
Host Community Fees	3.0%	3.0%	3.0%	3.0%
Refunds	0.0%	0.0%	0.0%	0.0%
State Pension Fund	CPI	CPI	CPI	CPI
Grants & Reimbursements	0.0%	0.0%	0.0%	0.0%
Cable TV	0.0%	0.0%	0.0%	0.0%
County Highway Aid	0.0%	0.0%	0.0%	0.0%
Other Receivables	CPI	CPI	CPI	CPI

Appendix A-1
Forecast Assumptions

CITY OF CHESTER
PROJECTIONS 2007 - 2010

GENERAL FUND

	2007 Projection	2008 Projection	2009 Projection	2010 Projection
EXPENDITURES				
Salaries				
Salaries	CPI	CPI	CPI	CPI
Salaries (Fire)	CPI	CPI	CPI	CPI
Salaries (Police)	CPI	CPI	CPI	CPI
Overtime - Other	CPI	CPI	CPI	CPI
Overtime - Other - Fire	CPI	CPI	CPI	CPI
Overtime - Other - Police	CPI	CPI	CPI	CPI
Overtime - Shift 2 Differential - Police	CPI	CPI	CPI	CPI
Overtime - Shift 3 Differential - Police	CPI	CPI	CPI	CPI
Court Time Compensation - Police	CPI	CPI	CPI	CPI
Benefits				
BC/Bs - Active Employees - All	5.0%	5.0%	5.0%	5.0%
BC/BS - Retirees - All	5.0%	5.0%	5.0%	5.0%
Insurance (Police)	5.0%	5.0%	5.0%	5.0%
Insurances	5.0%	5.0%	5.0%	5.0%
Pensions	CPI	CPI	CPI	CPI
Social Security Contributions	CPI	CPI	CPI	CPI
Worker's Compensation Insurance	CPI	CPI	CPI	CPI
Uniforms	CPI	CPI	CPI	CPI
Contract Services	CPI	CPI	CPI	CPI
Materials & Supplies	CPI	CPI	CPI	CPI
Equipment & Maintenance	CPI	CPI	CPI	CPI

Appendix A-1
Forecast Assumptions

CITY OF CHESTER
PROJECTIONS 2007 - 2010

GENERAL FUND

	2007 Projection	2008 Projection	2009 Projection	2010 Projection
Utilities	5.0%	5.0%	5.0%	5.0%
Other Expenses				
Advertising	CPI	CPI	CPI	CPI
Capital Expenditures	CPI	CPI	CPI	CPI
Care of Prisoners	CPI	CPI	CPI	CPI
Fees Zoning	CPI	CPI	CPI	CPI
Filing Liens & Judgments, etc.	CPI	CPI	CPI	CPI
Grants	0.0%	0.0%	0.0%	0.0%
Library Contribution	CPI	CPI	CPI	CPI
Other Expenses	CPI	CPI	CPI	CPI
Refunds	CPI	CPI	CPI	CPI
Risk Mgt. & Insurance Claims	CPI	CPI	CPI	CPI
Street Projects	CPI	CPI	CPI	CPI
Tax Anticipation	60,000	61,380	62,792	64,236
Debt Service *				
Highway Loan Grant	$127,316	$127,316	$127,316	$127,316
Act 47 Loan	$100,000	$100,000	$100,000	$100,000
City Hall Lease	669,044	668,706	668,369	668,031
GO Series 1995				
GO Series 2001 A	$1,127,113	$968,300		
GO Series 2001 B	$1,203,370	$1,366,470	$2,338,260	$2,346,180
Total	$3,226,843	$3,230,792	$3,233,945	$3,241,527

* 2006 General Obligation financing not included in these assumptions

CPI Source: Congressional Budget Office, Administration Economic Forecast
2007 to 2010 CPI = 2.3%

Appendix A-2
City of Chester Police and Crime Statistics
Organized by Population

	County	Municipality Name	2000 Census Population	Total Police Force: Police Full Time	Police Part Time	TOTAL	2002 Total Crime Index*	Crime per Population	Number of Officers per Pop	# Officers per Crime Index
1	LEHIGH	ALLENTOWN CITY	106,632	214	0	214	6,025	5.650%	0.201%	3.552%
2	ERIE	ERIE CITY	103,717	206	0	206	3,601	3.472%	0.199%	5.721%
3	BERKS	READING CITY	81,207	210	0	210	6,289	7.744%	0.259%	3.339%
4	LACKAWANNA	SCRANTON CITY	76,415	161	0	161	2,549	3.336%	0.211%	6.316%
5	NORTHAMPTON	BETHLEHEM CITY	71,329	136	0	136	2,424	3.398%	0.191%	5.611%
6	LANCASTER	LANCASTER CITY	56,348	163	0	163	3,773	6.696%	0.289%	4.320%
7	BLAIR	ALTOONA CITY	49,523	69	0	69	2,063	4.166%	0.139%	3.345%
8	DAUPHIN	HARRISBURG CITY	48,950	125	0	125	2,957	6.041%	0.255%	4.227%
9	LUZERNE	WILKES BARRE CITY	43,123	76	0	76	2,343	5.433%	0.176%	3.244%
10	YORK	YORK CITY	40,862	107	0	107	820	2.007%	0.262%	13.049%
11	DELAWARE	CHESTER CITY	36,854	98	0	98	1,905	5.169%	0.266%	5.144%
12	LYCOMING	WILLIAMSPORT CITY	30,706	53	0	53	1,478	4.813%	0.173%	3.586%
13	LAWRENCE	NEW CASTLE CITY	26,309	35	0	35	1,419	5.394%	0.133%	2.467%
14	NORTHAMPTON	EASTON CITY	26,263	63	0	63	1,204	4.584%	0.240%	5.233%
15	LEBANON	LEBANON CITY	24,461	43	0	43	1,282	5.241%	0.176%	3.354%
16	CAMBRIA	JOHNSTOWN CITY	23,906	48	0	48	1,221	5.108%	0.201%	3.931%
17	LUZERNE	HAZLETON CITY	23,329	24	0	24	544	2.332%	0.103%	4.412%
18	MERCER	SHARON CITY	16,328	31	0	31	792	4.851%	0.190%	3.914%
19	MERCER	HERMITAGE CITY	16,157	27	0	27	598	3.701%	0.167%	4.515%
20	WESTMORELAND	GREENSBURG CITY	15,889	27	0	27	519	3.266%	0.170%	5.202%
21	SCHUYLKILL	POTTSVILLE CITY	15,549	28	0	28	378	2.431%	0.180%	7.407%
22	BUTLER	BUTLER CITY	15,121	24	0	24	956	6.322%	0.159%	2.510%
23	WESTMORELAND	NEW KENSINGTON CITY	14,701	23	0	23	588	4.000%	0.156%	3.912%
24	ELK	ST. MARYS CITY	14,502	13	3	16	319	2.200%	0.110%	5.016%
25	CRAWFORD	MEADVILLE CITY	13,685	22	1	23	408	2.981%	0.168%	5.637%
26	WESTMORELAND	LOWER BURRELL CITY	12,608	16	0	16	194	1.539%	0.127%	8.247%
27	FAYETTE	UNIONTOWN CITY	12,422	16	0	16	675	5.434%	0.129%	2.370%
28	BEAVER	ALIQUIPPA CITY	11,734	19	8	27	362	3.085%	0.230%	7.459%
29	VENANGO	OIL CITY	11,504	19	0	19	368	3.199%	0.165%	5.163%
	Average		**35,867** #	**72**	**1**	**73**	**1,657**	**4.262%**	**0.187%**	**4.904%**

*Crime Index includes: murders, rapes, robberies, aggravated assaults, burglaries, larceny/thefts, motor vehicle thefts, arsons

Police Data: Pennsylvania Department of Community and Economic Development, Municipal Police Service Report; latest available
Crime Data: Federal Bureau of Investigation, Uniform Crime Reports, Offenses Known to Law Enforcement by City 10,000 and over in Population, 2002

Appendix A-2
City of Chester Police and Crime Statistics
Number of Officers per Population

	County	Municipality Name	2000 Census Population	Total Police Force: Police Full Time	Police Part Time	TOTAL	2002 Total Crime Index*	Crime per Population	Number of Officers per Pop	# Officers per Crime Index
1	LANCASTER	LANCASTER CITY	56,348	163	0	163	3,773	6.696%	0.289%	4.320%
2	DELAWARE	CHESTER CITY	36,854	98	0	98	1,905	5.169%	0.266%	5.144%
3	YORK	YORK CITY	40,862	107	0	107	820	2.007%	0.262%	13.049%
4	BERKS	READING CITY	81,207	210	0	210	6,289	7.744%	0.259%	3.339%
5	DAUPHIN	HARRISBURG CITY	48,950	125	0	125	2,957	6.041%	0.255%	4.227%
6	NORTHAMPTON	EASTON CITY	26,263	63	0	63	1,204	4.584%	0.240%	5.233%
7	BEAVER	ALIQUIPPA CITY	11,734	19	8	27	362	3.085%	0.230%	7.459%
8	LACKAWANNA	SCRANTON CITY	76,415	161	0	161	2,549	3.336%	0.211%	6.316%
9	CAMBRIA	JOHNSTOWN CITY	23,906	48	0	48	1,221	5.108%	0.201%	3.931%
10	LEHIGH	ALLENTOWN CITY	106,632	214	0	214	6,025	5.650%	0.201%	3.552%
11	ERIE	ERIE CITY	103,717	206	0	206	3,601	3.472%	0.199%	5.721%
12	NORTHAMPTON	BETHLEHEM CITY	71,329	136	0	136	2,424	3.398%	0.191%	5.611%
13	MERCER	SHARON CITY	16,328	31	0	31	792	4.851%	0.190%	3.914%
14	SCHUYLKILL	POTTSVILLE CITY	15,549	28	0	28	378	2.431%	0.180%	7.407%
15	LUZERNE	WILKES BARRE CITY	43,123	76	0	76	2,343	5.433%	0.176%	3.244%
16	LEBANON	LEBANON CITY	24,461	43	0	43	1,282	5.241%	0.176%	3.354%
17	LYCOMING	WILLIAMSPORT CITY	30,706	53	0	53	1,478	4.813%	0.173%	3.586%
18	WESTMORELAND	GREENSBURG CITY	15,889	27	0	27	519	3.266%	0.170%	5.202%
19	CRAWFORD	MEADVILLE CITY	13,685	22	1	23	408	2.981%	0.168%	5.637%
20	MERCER	HERMITAGE CITY	16,157	27	0	27	598	3.701%	0.167%	4.515%
21	VENANGO	OIL CITY	11,504	19	0	19	368	3.199%	0.165%	5.163%
22	BUTLER	BUTLER CITY	15,121	24	0	24	956	6.322%	0.159%	2.510%
23	WESTMORELAND	NEW KENSINGTON CITY	14,701	23	0	23	588	4.000%	0.156%	3.912%
24	BLAIR	ALTOONA CITY	49,523	69	0	69	2,063	4.166%	0.139%	3.345%
25	LAWRENCE	NEW CASTLE CITY	26,309	35	0	35	1,419	5.394%	0.133%	2.467%
26	FAYETTE	UNIONTOWN CITY	12,422	16	0	16	675	5.434%	0.129%	2.370%
27	WESTMORELAND	LOWER BURRELL CITY	12,608	16	0	16	194	1.539%	0.127%	8.247%
28	ELK	ST. MARYS CITY	14,502	13	3	16	319	2.200%	0.110%	5.016%
29	LUZERNE	HAZLETON CITY	23,329	24	0	24	544	2.332%	0.103%	4.412%
	Average		**35,867 #**	**72**	**1**	**73**	**1,657**	**4.262%**	**0.187%**	**4.904%**

*Crime Index includes: murders, rapes, robberies, aggravated assaults, burglaries, larceny/thefts, motor vehicle thefts, arsons

Police Data: Pennsylvania Department of Community and Economic Development, Municipal Police Service Report; latest available
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Appendix A-2
City of Chester Police and Crime Statistics
Organized by Crime Index

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2	LEHIGH	ALLENTOWN CITY	106,632	214	0	214	6,025	5.650%	0.201%	3.552%
3	LANCASTER	LANCASTER CITY	56,348	163	0	163	3,773	6.696%	0.289%	4.320%
4	ERIE	ERIE CITY	103,717	206	0	206	3,601	3.472%	0.199%	5.721%
5	DAUPHIN	HARRISBURG CITY	48,950	125	0	125	2,957	6.041%	0.255%	4.227%
6	LACKAWANNA	SCRANTON CITY	76,415	161	0	161	2,549	3.336%	0.211%	6.316%
7	NORTHAMPTON	BETHLEHEM CITY	71,329	136	0	136	2,424	3.398%	0.191%	5.611%
8	LUZERNE	WILKES BARRE CITY	43,123	76	0	76	2,343	5.433%	0.176%	3.244%
9	BLAIR	ALTOONA CITY	49,523	69	0	69	2,063	4.166%	0.139%	3.345%
10	DELAWARE	CHESTER CITY	36,854	98	0	98	1,905	5.169%	0.266%	5.144%
11	LYCOMING	WILLIAMSPORT CITY	30,706	53	0	53	1,478	4.813%	0.173%	3.586%
12	LAWRENCE	NEW CASTLE CITY	26,309	35	0	35	1,419	5.394%	0.133%	2.467%
13	LEBANON	LEBANON CITY	24,461	43	0	43	1,282	5.241%	0.176%	3.354%
14	CAMBRIA	JOHNSTOWN CITY	23,906	48	0	48	1,221	5.108%	0.201%	3.931%
15	NORTHAMPTON	EASTON CITY	26,263	63	0	63	1,204	4.584%	0.240%	5.233%
16	BUTLER	BUTLER CITY	15,121	24	0	24	956	6.322%	0.159%	2.510%
17	YORK	YORK CITY	40,862	107	0	107	820	2.007%	0.262%	13.049%
18	MERCER	SHARON CITY	16,328	31	0	31	792	4.851%	0.190%	3.914%
19	FAYETTE	UNIONTOWN CITY	12,422	16	0	16	675	5.434%	0.129%	2.370%
20	MERCER	HERMITAGE CITY	16,157	27	0	27	598	3.701%	0.167%	4.515%
21	WESTMORELAND	NEW KENSINGTON CITY	14,701	23	0	23	588	4.000%	0.156%	3.912%
22	LUZERNE	HAZLETON CITY	23,329	24	0	24	544	2.332%	0.103%	4.412%
23	WESTMORELAND	GREENSBURG CITY	15,889	27	0	27	519	3.266%	0.170%	5.202%
24	CRAWFORD	MEADVILLE CITY	13,685	22	1	23	408	2.981%	0.168%	5.637%
25	SCHUYLKILL	POTTSVILLE CITY	15,549	28	0	28	378	2.431%	0.180%	7.407%
26	VENANGO	OIL CITY	11,504	19	0	19	368	3.199%	0.165%	5.163%
27	BEAVER	ALIQUIPPA CITY	11,734	19	8	27	362	3.085%	0.230%	7.459%
28	ELK	ST. MARYS CITY	14,502	13	3	16	319	2.200%	0.110%	5.016%
29	WESTMORELAND	LOWER BURRELL CITY	12,608	16	0	16	194	1.539%	0.127%	8.247%
	Average		**35,867** #	**72**	**1**	**73**	**1,657**	**4.262%**	**0.187%**	**4.904%**

*Crime Index includes: murders, rapes, robberies, aggravated assaults, burglaries, larceny/thefts, motor vehicle thefts, arsons

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Crime Data: Federal Bureau of Investigation, Uniform Crime Reports, Offenses Known to Law Enforcement by City 10,000 and over in Population, 2002

Appendix A-2
City of Chester Police and Crime Statistics
Number of Officers per Crime Index

	County	Municipality Name	2000 Census Population	Total Police Force: Police Full Time	Police Part Time	TOTAL	2002 Total Crime Index*	Crime per Population	Number of Officers per Pop	# Officers per Crime Index
1	YORK	YORK CITY	40,862	107	0	107	820	2.007%	0.262%	13.049%
2	WESTMORELAND	LOWER BURRELL CITY	12,608	16	0	16	194	1.539%	0.127%	8.247%
3	BEAVER	ALIQUIPPA CITY	11,734	19	8	27	362	3.085%	0.230%	7.459%
4	SCHUYLKILL	POTTSVILLE CITY	15,549	28	0	28	378	2.431%	0.180%	7.407%
5	LACKAWANNA	SCRANTON CITY	76,415	161	0	161	2,549	3.336%	0.211%	6.316%
6	ERIE	ERIE CITY	103,717	206	0	206	3,601	3.472%	0.199%	5.721%
7	CRAWFORD	MEADVILLE CITY	13,685	22	1	23	408	2.981%	0.168%	5.637%
8	NORTHAMPTON	BETHLEHEM CITY	71,329	136	0	136	2,424	3.398%	0.191%	5.611%
9	NORTHAMPTON	EASTON CITY	26,263	63	0	63	1,204	4.584%	0.240%	5.233%
10	WESTMORELAND	GREENSBURG CITY	15,889	27	0	27	519	3.266%	0.170%	5.202%
11	VENANGO	OIL CITY	11,504	19	0	19	368	3.199%	0.165%	5.163%
12	DELAWARE	CHESTER CITY	36,854	98	0	98	1,905	5.169%	0.266%	5.144%
13	ELK	ST. MARYS CITY	14,502	13	3	16	319	2.200%	0.110%	5.016%
14	MERCER	HERMITAGE CITY	16,157	27	0	27	598	3.701%	0.167%	4.515%
15	LUZERNE	HAZLETON CITY	23,329	24	0	24	544	2.332%	0.103%	4.412%
16	LANCASTER	LANCASTER CITY	56,348	163	0	163	3,773	6.696%	0.289%	4.320%
17	DAUPHIN	HARRISBURG CITY	48,950	125	0	125	2,957	6.041%	0.255%	4.227%
18	CAMBRIA	JOHNSTOWN CITY	23,906	48	0	48	1,221	5.108%	0.201%	3.931%
19	MERCER	SHARON CITY	16,328	31	0	31	792	4.851%	0.190%	3.914%
20	WESTMORELAND	NEW KENSINGTON CITY	14,701	23	0	23	588	4.000%	0.156%	3.912%
21	LYCOMING	WILLIAMSPORT CITY	30,706	53	0	53	1,478	4.813%	0.173%	3.586%
22	LEHIGH	ALLENTOWN CITY	106,632	214	0	214	6,025	5.650%	0.201%	3.552%
23	LEBANON	LEBANON CITY	24,461	43	0	43	1,282	5.241%	0.176%	3.354%
24	BLAIR	ALTOONA CITY	49,523	69	0	69	2,063	4.166%	0.139%	3.345%
25	BERKS	READING CITY	81,207	210	0	210	6,289	7.744%	0.259%	3.339%
26	LUZERNE	WILKES BARRE CITY	43,123	76	0	76	2,343	5.433%	0.176%	3.244%
27	BUTLER	BUTLER CITY	15,121	24	0	24	956	6.322%	0.159%	2.510%
28	LAWRENCE	NEW CASTLE CITY	26,309	35	0	35	1,419	5.394%	0.133%	2.467%
29	FAYETTE	UNIONTOWN CITY	12,422	16	0	16	675	5.434%	0.129%	2.370%
	Average		**35,867 #**	**72**	**1**	**73**	**1,657**	**4.262%**	**0.187%**	**4.904%**

*Crime Index includes: murders, rapes, robberies, aggravated assaults, burglaries, larceny/thefts, motor vehicle thefts, arsons

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Crime Index per Population

	County	Municipality Name	2000 Census Population	Total Police Force: Police Full Time	Total Police Force: Police Part Time	Total Police Force: TOTAL	2002 Total Crime Index*	Crime per Population	Number of Officers per Pop	# Officers per Crime Index
1	BERKS	READING CITY	81,207	210	0	210	6,289	7.744%	0.259%	3.339%
2	LANCASTER	LANCASTER CITY	56,348	163	0	163	3,773	6.696%	0.289%	4.320%
3	BUTLER	BUTLER CITY	15,121	24	0	24	956	6.322%	0.159%	2.510%
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5	LEHIGH	ALLENTOWN CITY	106,632	214	0	214	6,025	5.650%	0.201%	3.552%
6	FAYETTE	UNIONTOWN CITY	12,422	16	0	16	675	5.434%	0.129%	2.370%
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	Average		**35,867** #	**72**	**1**	**73**	**1,657**	**4.262%**	**0.187%**	**4.904%**

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City of Chester Police and Crime Statistics

	2000 Census Population	Number of Police Officers	2002 Total Crime Index*	Crime per Population	Number of Officers per Population	Number of Officers per Crime Index
CHESTER	36,854	98	1905	5.169%	0.266%	5.144%
Other 28 3rd Class Municipalities Average	35,831	72	1648	4.229%	0.184%	4.895%
Chester/Other 3rd Class Municipalies Avg	1.03	1.37	1.16	1.22	1.44	1.05

*Crime Index includes: murders, rapes, robberies, aggravated assaults, burglaries, larceny/thefts, motor vehicle thefts, arsons

The City's Response to the 2006 Recovery Plan:

Major City Accomplishments Since 1996 [i]

Introduction

The City of Chester has undergone significant changes since it officially became an Act 47 community and adopted the 1996 Recovery Plan. The 2006 update to the 1996 Recovery Plan provides a broad review of the City's condition and focuses on recommendations and actions designed to remove the City from the list of Act 47 communities. Since much of the 2006 update to the Recovery Plan focuses on the next five years, it does not fully address the City's accomplishments since 1996. Thus, this section offers further context and analysis of the City's recent progress.

Taxes

There is no question or debate that the City's financial situation has continued to be extremely challenging since entering Act 47 status. However, City Council has astutely subscribed to one fundamental principal that has driven its fiscal policy over the last decade – it cannot raise taxes as a means of achieving equilibrium between annual revenues and expenditures. It has long been understood that raising taxes would only further intensify the disinvestment that has occurred in the City over the last several decades. As businesses and residents have fled the City since the post World War II era, an increase in an already high tax burden would result in an unbearable financial cost on those residents and businesses that have remained. In order to stop this hemorrhaging of residents and businesses, it was clear that the tax burden must not become so onerous that it further exacerbates this vicious downward spiral to the point where the City would fail to exist as a functioning entity.

Thus, in following this basic premise, the City has not raised real estate taxes for eleven consecutive years. In 1996, as permitted by the City's Act 47 status, earned income taxes rates for residents and non-residents were increased by 1 percentage point. Subsequently, the resident and non-resident rates were decreased by 20 percent and 30 percent, respectively, consistent with the Recovery Plan and in conjunction with the Recovery Coordinator. The City's business privilege taxes have been reduced since 1996 as well. Obviously, the cost of government and of providing services to the public has not gone down in the last decade; in fact, in some cases costs have gone up dramatically. This is not a phenomenon unique to the City of Chester, as most municipalities have experienced a general increase in government expenditures. What is exceptional, however, is the City's record of actually reducing the overall tax burden on the public in light of these ever increasing costs. This has not been an easy policy to follow and has resulted in the need to think creatively to cover operating deficits.

The strategy of reducing the overall tax burden as a tool to foster economic development and increase revenues as a result of real growth has started to have a significant impact on the City's budget. For example, the City through the first three quarters of 2006 has seen an $826,000 increase in Act 511 collections over the same previous year time period, for a nearly 12 percent increase. In the aggregate, Act 511 tax collections for 2006 will be significantly higher than at any point in the City's recent history, even with a 20 percent-to-30 percent reduction in earned income tax rates since 1996. In addition, despite a decreased assessed valuation of real estate in the City since 1996, 2006 current year real estate collections are on track to be at the highest level since 1997. This is due, in large part, to the City's collaboration with the County Tax Claim Bureau to aggressively place severely tax delinquent properties back on the tax rolls through the public sale process while pursuing more stringent delinquent tax collections.

The discipline exhibited by City Council over the last eleven years in maintaining its real estate tax levy while simultaneously reducing Act 511 tax rates in times of rising government costs and increases in the demand for public services is a noteworthy achievement. This strategy has already paid significant financial dividends and demonstrates that increasing revenues through economic growth as opposed to increasing tax rates can be successful.

Community/Economic Development

The City's policy of maintaining the same real estate tax rate for the last eleven years and reducing Act 511 taxes has been one of the critical factors in the tremendous level of community and economic development activities seen throughout the City. Many of these projects are recognized in Chapter Two of the 2006 Recovery Plan. It should be noted that the City has now realized over $1 billion in public and private investment since 1996. There is no question that the economic landscape of the City has changed dramatically since 1996. The 1997 U.S. Census of Business estimated that there were only 305 private sector businesses in the City that, in total, employed less than 4,900 people. In 1996 the City's largest private sector employer was Kimberly Clark with an estimated local labor force of approximately 1,000. The next largest private sector employer after Kimberly Clark had less than 250 employees, and the drop-off in number of employees was equally precipitous among the remaining top five employers. Since that time, the City's business base has broadened with a dramatic increase in the number of businesses and the number of people that they employ. Kimberly Clark, still employs nearly 1,000, but now has been surpassed as the City's largest private sector employer by the recent arrival of Wells Fargo Auto Finance to the Wharf at Rivertown. Wells Fargo employs over 1,000 and anticipates growing to over 1,500 employees within the 225,000 square feet of space they will occupy within the Wharf. Synygy, Inc.

and AdminServer, also recent additions to the Chester landscape and located at the Wharf, have approximately 250 and 175 employees respectively. On the other side of the Chester waterfront, Harrah's Chester Casino and Racetrack presently employs over 160 people and will be up to approximately 900 by January of 2007, which would make them one of the largest employers in the City. Taken in the aggregate, four of the five largest private sector employers in the City have made Chester their home within the last three years, adding a significant number of new jobs to the local economy. The impact of these jobs on the collection of Act 511 taxes has had a significantly positive impact on the City's budget, which will continue in the future.

One of the most dramatic economic development projects in all of southeastern Pennsylvania is the conversion of the former Sun Shipbuilding & Dry Dock Company site into Harrah's Chester Casino & Racetrack. The facility opened as a 5/8-mile harness track to the applause of over 4,000 spectators on September 10, 2006; it is the first new racetrack constructed in the Commonwealth in over 30 years. With the granting of a conditional slot license by the Pennsylvania Gaming Control Board on September 25, 2006, the facility is now licensed to operate a slot machine racino; it is anticipated that 2,700 slot machines will be operational in January 2007. It is estimated that upon full operation this facility will employ over 900 people and will be visited by an estimated 3 million people annually, which would make it one of the most visited destination sites in the entire Philadelphia region. The impact on the City's budget as a result of an increase in earned income taxes and an annual host fee of $10 million is unprecedented and a significant piece of the City's redevelopment strategy as part of an overall effort to reach fiscal solvency.

The financial impacts of Harrah's Casino and Racetrack, the Wharf at Rivertown, and other major developments are evident. These projects will provide long-term and equally important non-financial ramifications as well, such as helping to reverse the negative perception many have of the City. This change in perception of the City is critical in order to sustain ongoing development efforts and reinforce the fact that Chester is a safe place to live, work, and play.

For the first time in decades, Chester's waterfront is being recaptured from its days of being nothing more than environmentally contaminated brownfields and is, instead, becoming a regional destination. The Wharf now has over 1,500 employees working in a building that was once vacant and slated for demolition. This development was recently recognized with the Phoenix Award as the best example of brownfield remediation within Region 3 of the U.S. Environmental Protection Agency. The adjacent waterfront Barry Bridge Park, which the City developed at a cost of over $3.2 million in non-general funds, was the premier venue for the recent Riverfront Ramble, which attracted a crowd of over 12,000 for a full day of activities, concerts, and fireworks. As mentioned above, Harrah's already has attracted thousands to its harness track and will draw millions annually once it is operational as a slot facility. The City of Chester is once again becoming a significant regional player, a destination site, and a reemerging center of commerce and activity. The multiplier effect of this has yet to be fully felt and certainly bodes well for future community and economic development initiatives in the City.

Partnerships

One of the hallmarks of the City's revitalization program has been its ability to partner with others to accomplish important objectives.

In 1996, the City worked with Widener University and Crozer Keystone Health System on the creation of what has developed into University Technology Park (UTP). This partnership has involved the acquisition, assembly and conveyance of land to UTP as well as assistance with project financing. A total City investment of $1.5 million has leveraged approximately $14 million in capital investment and the construction of two buildings totaling 70,000 square feet of Class "A" office space. UTP has also been the target for a Keystone Opportunity Zone (KOZ) designation and, more recently, a Keystone Innovation Zone (KIZ). Perhaps, most importantly, this partnership has established UTP and the Widener/Crozer corridor as a center of technology-based company development and has broadened the City's overall economy to include a high technology sector.

In another example of innovative partnerships, the City has joined together with Philadelphia Development Partnership in the establishment and operation of the Chester Microenterprise Partnership (CMP). An early recognition of the importance of entrepreneurial activity to economic revitalization in urban areas led to this joint effort with CMP. The City has provided significant funding to CMP to assist with the provision of technical assistance to City-based entrepreneurs. This partnership has resulted in the emergence of an entrepreneurial climate in the City and has helped create and strengthen a number of small businesses in the City.

The City of Chester is also partnering with the Institute for Economic Development (IED), a consortium of large City-based or City-focused corporations and institutions. This collaboration is still in its early stages, but has already resulted in a unique website (www.chesteryes.com) dedicated to presenting the positive aspects of the City. This website is part of a larger effort designed to help educate the broader community to a more balanced perception of the City. IED will also be assisting the City with other ventures in the near future.

In the area of community development, Chester has established a strong relationship with several housing related non-profit organizations.

The Chester Community Improvement Project (CCIP), a neighborhood-based non-profit organization, and the City have had a longstanding partnership on an extensive effort to increase homeownership in the City. The City operates a Homebuyer Assistance Program that provides down payment and closing cost assistance to first time homebuyers. CCIP handles the required counseling program that prospective buyers must participate in to prepare them for the range of issues they will face as homeowners. In addition, the City has provided significant funding and with CCIP has jointly undertaken a program of targeted residential unit renovation designed to seed the redevelopment of neighborhoods. These joint activities have resulted in more than 200 new homeowners in the City.

More recently, the City has developed an expanding partnership with Habitat for Humanity. The City has been able to assist Habitat with the provision of land for development of homeownership units. This partnership has resulted in the development of six new residential units that will come on line by the end of 2006. The City and Habitat are currently working on plans for a new round of residential development in 2007.

As a complement to the development of new residential units, the City has also partnered with the Delaware County Housing Coalition (DCHC) on a program of targeted neighborhood revitalization. With funding assistance from the City, DCHC has carried out a program of façade renovation, porch repair, neighborhood cleanup and related activities using a large group of committed volunteers along with energized neighborhood residents. This program has significantly improved the appearance and the livability of several neighborhoods throughout the City. This is an ongoing program that moves to a new neighborhood once the targeted neighborhood improvements are completed.

These examples provide a brief overview of how the City is working with a large number of partners to tackle the challenges facing the City. Partnering with other organizations is a central theme of the City's revitalization program.

Blight Elimination

During times of diminishing available resources, the City has still had a significant impact on blight elimination since 1996. The greatest evidence of this is the fact that the City has demolished over 760 blighted properties at a cost of over $4.4 million in the last ten years alone. The total number of demolitions of blighted properties far exceeds this amount when demolition by other parties is taken into consideration. For example, as part of the Chester Housing Authority's efforts to redevelop the Wellington Ridge, Chatham Estates, and William Penn housing development, over 1,000 units of public housing were demolished to make way for the new developments. Furthermore, the widening of Rt. 291, resulted in the acquisition and ultimate demolition of nearly 200 blighted properties. Not taking into consideration other scattered site demolitions that have taken place by other parties, including the private sector, over 2,000 units of vacant and blighted properties have been eliminated from the City of Chester landscape in the last decade.

Infrastructure/Capital Improvements

Recognizing the constraints on the City's General Fund to fund capital improvements, the City has dedicated significant annual expenditures through the

Community Development Block Grant Program (CDBG) as well as other federal and state funded programs to fund the very things that the 1996 Recovery Plan recommended. Page 23 of the 1996 Recovery Plan recommends the "City's priorities for capital improvements shall include: streets and highways, sidewalks, parks and recreation facilities, major capital equipment (fire trucks, etc.), public buildings, and sewers." In recent years, the City's CDBG budget has dedicated millions of dollars for many of these very things.

For example, prior to 1996, the traveling public would have been hard pressed to identify the streets upon which they were traversing as a result of an overwhelming lack of something as simple as street signs. The City made a concerted effort to design and install new colorful street signs throughout the City to provide vehicular and pedestrian travelers the comfort of knowing the names of the roads upon which they were traveling. Since that time, the City has also aggressively sought to replace any missing or damaged street signs to maintain these improvements. To some, this may sound like a rather insignificant accomplishment, but it is certainly something that makes travel through the City a marked improvement that most people generally take for granted in other communities.

The City has also focused on making significant physical improvements to its downtown area. As an overall planning effort to revitalize the Avenue of the States corridor, the City has spent over $750,000 reconfiguring the main downtown spine and adding decorative street lights, sidewalks, curbs, and landscaping to improve not only the flow of the traffic, but the aesthetic feel of this important corridor. This was one of the core recommendations of a planning study commissioned by the City of Chester, which was recently recognized by the Pennsylvania Downtown Center in 2006 with the prestigious "Townie" Award for outstanding public space improvements as part of an overall community revitalization project.

The City also takes great pride in the fact that it was able to construct the City's only outdoor swimming pool located at Memorial Park. The City allocated over $829,000 in funding to this important community amenity. As a result, hundreds of children and their parents now have a place to swim and cool off in the summer.

The City also continues to make annual investments in its public infrastructure. In the last five years alone, the City has resurfaced a great number of public roads throughout the City by milling over 78,248 square yards of streets and resurfacing with over 14,437 tons of paving material. In addition, the City has invested a significant amount in replacing inlets throughout the City during the last five years. Since that time, the City has replaced over 190 storm and sewer inlets and replaced nearly 2,700 linear feet of adjacent curbing. On average, the City invests approximately $250,000 in street resurfacing projects and $150,000 in inlet repairs and replacement on an annual basis.

Although there is certainly additional work that can and should be done, the City has been able to impressively stretch its limited resources to make significant and visible enhancements throughout the City. As part of an overall effort to get the most "bang for the buck", the City has also aggressively identified and received a great number of federal and state grants that have resulted in significant additional capital investments. The following section highlights some of these successes.

Grants

In times of increasingly tight federal and state budgets, the City has had tremendous success in recent years in obtaining significant grant funding in support of various initiatives. The City contends that its success in securing state and federal funding is a direct result of its increased professional capacity and aggressive nature in identifying and applying for funding for very worthwhile and competitive projects. Recent examples include the following:

- U.S. Economic Development Administration - **$2.5 million** for parking lot and bulkhead improvements to support the Wharf at Rivertown.
- U.S. Department of Housing & Urban Development **- $3 million** Section 108 Loan Guarantee to support the revitalization of the Barry Bridge Park from a former superfund site to the premier waterfront park in Delaware County.
- U.S. Department of Housing & Urban Development - **$1.4 million** Brownfield Economic Development Initiative Grant in support of the Barry Bridge Park project.
- U.S. Department of Housing & Urban Development – **$250,000** in funding through the Economic Development Initiative program in support of the City's waterfront revitalization efforts.
- U.S. Department of Housing & Urban Development – **$99,410** in funding through the Economic Development Initiative program as part of the City's ongoing waterfront redevelopment.
- Commonwealth's Department of Community and Economic Development - **$2.5 million** Infrastructure Development Program grant to construct Seaport Drive as the primary access road to the Wharf at Rivertown development.
- U.S. Department of Transportation - **$1.6 million** Transportation Enhancement Program grant to construct a riverwalk and a portion of the East Coast Greenway along the Delaware River waterfront.
- U.S. Department of Transportation - **$495,654** in funding under the Transportation & Community & Systems Preservation program to fund streetscape improvements along Highland Avenue.
- U.S. Department of Transportation - $**339,850** through the National Corridor Planning & Development Program to make improvements to the Exit 6 of I-95 corridor.
- Commonwealth's Department of Conservation & Natural Resources - **$200,000** to construct a recreational fishing pier within Barry Bridge Park.

- Commonwealth's Department of Conservation & Natural Resources - **$163,000** to construct a nature trail in Chester Park.
- Commonwealth's Department of Community & Economic Development - **$250,000** in funding under the Elm Street Program to rehabilitate Holy City.
- Commonwealth's Department of Community & Economic Development - **$2 million** in support of the City's Upper West End Initiative to acquire, demolish, and reconstruct a portion of Highland Gardens.

Many of these grant opportunities were a result of a highly competitive process in which the City's applications and projects were judged on their merits to be worthy of funding. The City certainly recognizes and appreciates that state funded grants reflect the Commonwealth's priority in targeting resources to assist the recovery process for Act 47 municipalities. However, without solid and competitive projects and the ability to manage the grant funding appropriately, the Commonwealth would surely have been less likely to provide the level of financial support that they have shown.

In addition DCED approved Act 47 grants totaling $701,500 for various activities related to the implementation of the initial Recovery Plan recommendations. These activities included assisting with funding management personnel, computerization of the City's financial management system and studies addressing personnel management, facility needs and the development of a housing strategy. An additional $196,260 in Act 47 funding was provided in 2003 to complete the financial management system upgrade as well as the housing strategy and supplement the salaries of management personnel to increase the City's administrative capacity.

Facilities

One of the City's more understated accomplishments since 1996 lies in terms of the overall improvement in the conditions of the facilities that house government services. It should be noted that the City Police Department, significantly under-equipped and under-manned, was once housed in a condemned building. Since that time, the City Police Department has relocated to a more modern and code compliant building, which included moving the holding cells into the same location. In addition to moving to a new facility, the Police Department also has undergone a dramatic transformation in terms of its equipment, which has significantly enhanced its ability to provide public safety services to the community. What was once an antiquated and nearly non-existent fleet of functioning vehicles, has now been replaced with new vehicles equipped with the latest technology. The City has also implemented a police water rescue unit, bike patrols, a weed and seed initiative, and has worked extremely hard to establish a closer and more productive working relationship with county, state, and federal law enforcement. These enhancements and improvements have taken place within the limitations of the City's policy of holding the line on the overall tax burden.

City Hall operations were housed in three dilapidated buildings, leading to significant inefficiencies in providing services to the public. Furthermore, the conditions of the buildings resulted in significantly higher maintenance and utility costs. This was remedied in December 2002 as the City relocated all of its government operations (with the exception of the police and fire departments) into one newly renovated municipal building. This enhanced the delivery of public services and will result in significant long-term maintenance and utility cost savings. Moreover, these three buildings have been sold or are under agreement with private developers who have converted them into productive private sector uses.

Debt Service

It is well-documented in the 2006 Recovery Plan that the City's financial structural imbalance has resulted in its "reliance on long-term debt, asset sales, long-term lease transactions, and Commonwealth loans." The Recovery Plan also observes that the City's limited access to credit has hampered its ability to address municipal capital improvements, which has left infrastructure needs insufficiently supported. It should be noted, however, that the City's annual debt service as a percentage of General Fund revenues is less now than when the City became an Act 47 community. On January 1, 1996, the balance of the City's general obligation bonds totaled $19,185,000, and the annual requirement to amortize this debt service for 1996 was $3,173,207 out of General Fund revenues that totaled $23,419,199. Amortized debt service as a percentage of General Fund revenues equated to approximately 13.5 percent. In contrast, in September of 2006, general obligation bonds equaled $22,205,000, with a total 2006 debt service obligation of $3,227,950 on General Fund revenues estimated at $27,092,176, which equates to 11.9 percent of revenues.

It also should be noted that the City of Chester's debt per capita when compared to other municipalities in the Commonwealth is modest. Based on 2004 data reported in Comprehensive Annual Financial Reports and bond issue Official Statements, the following provides a sample of the total debt of select municipalities:

City	G.O. Debt	Debt/Capita
Harrisburg	$80,592,769	$1,646
Erie	$118,670,031	$1,144
Allentown	$89,330,000	$838
Chester	**$22,205,000***	**$603**

*General Obligation Bonds as of September 2006.

In addition to its General Obligation debt, as of 1/1/06 the City also had $10,412,993 in other outstanding debt obligations, including a $9,495,000 long-term lease obligation, $767,993 highway loan, and $150,000 distressed municipality loan.

Conclusion

The City of Chester has made tremendous progress since the original 1996 Recovery Plan was adopted. The City's accomplishments are particularly noteworthy in light of an overall reduction of the total tax burden in a climate of rising costs. All of this has been accomplished without forcing the City to scale back on the delivery of essential public services.

There is certainly additional work that needs to be done and those points are well defined in the updated 2006 Recovery Plan. However, the accomplishments that have taken place in the past combined with the implementation of the amended 2006 Recovery Plan recommendations will place the City of Chester in a position to reverse its decades long urban decline.

[i] Officials from the City of Chester authored this response. The Recovery Coordinator did not perform the analysis in this addendum.