



EMERGENCY ACTION PLAN

April 23, 2020

The Honorable Thaddeus Kirkland
Mayor of the City of Chester
One Fourth Street
Chester, PA 19013

Dear Mayor Kirkland:

The Governor's Declaration of Fiscal Emergency applicable to the City of Chester (the "City") directs the Department of Community and Economic Development ("DCED") to prepare an Emergency Action Plan as prescribed by Sections 602 and 603 of Act 47 of 1987, as amended. DCED has retained the services of the City's Act 47 Coordinator, Econsult Solutions, Inc., to assist in the preparation of this Emergency Action Plan. This letter outlines the expectations that the Commonwealth has for the City during this fiscal emergency.

The City is facing a serious and immediate fiscal crisis. The COVID-19 pandemic and subsequent collapse in economic activity have exacerbated the City's pre-existing distressed condition. Anticipated revenue shortfalls and delayed General Fund receipts have put enormous pressure on the City's operating cash position, which already had very little room for error.

As of mid-April, the City's available unrestricted cash on hand was approximately \$1 million. The City currently has approximately \$1.5 million in standard operational past due payables, not including payables to the pension fund. Normally, April is a strong month for real estate taxes, which typically provides some immediate cash flow relief. However, since the City extended its discount period deadline for real estate taxes from April 30 to May 31 due to the pandemic, collection timing and magnitude are uncertain and the City will need to manage payables closely to maintain a positive cash balance.

The City has responded to declining revenues by terminating approximately 125 non-uniformed employees (including 39 part-time employees) in late March. The personnel reduction will lower biweekly payroll expenses by about \$230,000, relieving some pressure on the operating budget, but not nearly enough to resolve the dire situation. The City and the Act 47 Recovery Team worked closely on its day-to-day cash management and cash projections. While it is difficult to project the revenue implications of the current economic and health crisis, the negative effects will

be severe. Harrah's Racetrack and Casino closed in mid-March, which had an immediate negative impact on operating revenue. General Fund losses from the closure will rise to at least \$500,000 per month beginning in May. The Pennsylvania Department of Revenue has indicated that it still intends to make the three remaining \$1.5 million gaming host community payments to the City by the year-end, but if that changes it will be another challenge for the General Fund.

Other local businesses, large and small alike, have suspended operations resulting in pervasive layoffs. Earned income tax collections have already shown some decline, but the full impact will not be fully realized until May or June because of a lag between when earned income tax-generating activity actually occurs and the timing of collections. The federal and state governments have initiated aid measures; however, the timing and magnitude of Chester relief is unknown.

The Act 47 Recovery Team projects a General Fund deficit of \$10.2 million if the actions outlined in this plan are not implemented. Depending on the timing of General Fund transfers into the pension funds, the City could face a cash deficit in June or July. The City could avert an operating cash shortfall for fiscal year 2020 by withholding General Fund transfers to the pension funds. The City has paid \$2.5 million of the \$10.2 million minimum municipal obligation (MMO) so far this year. To finish the year in a breakeven cash position, the City would need to limit additional General Fund transfers to the pension funds to about \$2.0 million.

However, the police pension fund is already nearly depleted and essentially in a pay-as-you-go status. As of early April, the police pension fund balance was \$2.9 million, which is equal to less than six months of beneficiary payments. The City must pay another \$2 million to allow for full benefits to be paid for this year; after which the fund will be empty on January 1, 2021.

The City must continue to scrutinize of all expenditures to avoid a cash shortfall; however, any action must not further harm pension funding levels or jeopardize services that are essential to the health, safety, and welfare of the City residents. "Vital and necessary services," as defined in Act 47 of 1987, as amended, include:

1. Police and fire services
2. Ambulance and rescue services
3. Water supply and distribution
4. Wastewater services
5. Refuse collection and disposal
6. Snow removal
7. Payroll and pension obligations
8. Fulfillment of any debt obligations or other financial obligations.

In order to ensure that vital and necessary services are maintained within the City during the state of fiscal emergency, the City shall implement the following provisions of this Emergency Action Plan:

1. Hiring freeze. As noted above, the City has recently terminated a significant portion of its workforce. The City shall implement a full hiring freeze, except for school crossing guards who may be rehired if and when schools reopen. The City shall not rehire any personnel without DCED approval.

2. Overtime restrictions. Advance DCED approval is required for overtime incurred by non-police and non-firefighter personnel. Overtime for the police and fire departments shall be submitted to DCED for weekly review, but can continue at the discretion of the police commissioner and the fire commissioner, respectively.
3. Eliminate benefits for employees who have been terminated or temporarily laid off. The City is still providing benefits for recently terminated and laid off employees. The City shall determine whether it has a legal obligation to continue providing benefits for those individuals. Where a legal obligation does not exist, the City shall cease providing benefits for those former employees effective May 31, 2020 and ensure that appropriate notice is provided to impacted individuals.
4. Freeze discretionary spending. The City shall eliminate any discretionary purchases of materials, supplies, and equipment until current inventories are depleted. Optional contracts for professional services or commodities shall be reduced or eliminated wherever possible. The City must limit its payments to the Police Pension Fund to \$2.0 million over the remainder of the year. The City's Chief Financial Officer and DCED shall approve all discretionary purchases over \$5,000.
5. Grants and third-party funds. The City shall not apply for new grant-funded or third-party-supported programs that require a City General Fund match or in-kind match without the approval of DCED.
6. Debt Issuance. The City shall not incur any other debt without DCED approval.
7. Assets. The City has been considering a potential sale of the utility assets of the Chester Water Authority (the "Authority"). Whether the City has the right to sell part or all of the Authority's assets is an issue that is currently the subject of litigation between the City, the Authority, and other parties. The City shall continue to work with its legal counsel and other professionals, as necessary, to formulate positions related to the Authority and to City assets. However, the City shall not sell, lease, or otherwise monetize any assets in value over \$10,000 without DCED approval.
8. Financial Management and Reporting. Because of the City's seriously distressed fiscal status and the rapidly changing nature of the economy, disciplined financial monitoring and reporting is critical. The City shall provide DCED with the following reports on a weekly basis:
 - a. A projection of the City's daily General Fund cash receipts, expenditures, and fund balance position for the next 14 days.
 - b. A projection of the City's monthly General Fund cash receipts, expenditures, and fund balance position through the year-end.
 - c. Fund balance position of the City's Police, Fire, and Other Employees pension funds.
 - d. Year-to-date General Fund budget versus actual results.
 - e. Pension investment and account activity statements of the City's Police, Fire, and Other Employees pension funds.

City of Chester
2020 General Fund Revenue and Expenses With Emergency Action Plan Steps

	Budget	Adjustments		Revised Revenues
		COVID-19 Related	Other	
Real estate taxes	\$10,581,422	(\$1,051,422)	(\$300,000)	\$9,230,000
Earned income tax	\$15,163,243	(\$2,143,243)	(\$700,000)	\$12,320,000
Business privilege tax	\$1,826,016	(\$276,016)	(\$100,000)	\$1,450,000
Licenses and permits	\$1,319,100	(\$219,100)		\$1,100,000
Gaming	\$11,840,000	(\$2,050,000)		\$9,790,000
Other Host Community Revenue	\$5,048,745			\$5,048,745
Stormwater Authority Reimbursement	\$500,000		(\$500,000)	\$0
Parking Revenue	\$775,000	(\$25,000)	(\$700,000)	\$50,000
Other	\$8,413,314	(\$1,383,314)	(\$300,000)	\$6,730,000
Total Revenues	\$55,466,840	(\$7,148,095)	(\$2,600,000)	\$45,718,745

	Budget	Adjustments		Revised Expenses
		Corrective Actions	Other	
Salaries and Wages	\$17,586,414	(\$3,740,000) ¹		\$13,846,414
Overtime	\$1,876,200		\$200,000	\$2,076,200
Benefits	\$13,391,002	(\$1,660,325) ²		\$11,730,677
Pension	\$10,215,141		(\$6,050,000)	\$4,165,141
Total Employee Expenses	\$43,068,757	(\$5,400,325)	(\$5,850,000)	\$31,818,432
Debt Service	\$4,202,960			\$4,202,960
Other Expenses	\$6,713,901		\$1,500,000	\$8,213,901
Total Departmental Expenses	\$53,985,618	-	\$1,500,000	\$50,585,293
Transfers	\$1,481,222			\$1,481,222
Total	\$55,466,840	(\$5,400,325)	\$4,350,000	\$45,716,515
Cash Surplus/Deficit	\$0	(\$1,740,770)	\$1,750,000	\$2,230

¹ Assumes all recent terminated employees are permanent except for crossing guards to be rehired in September.

² Assumes benefits for recently terminated employees are eliminated as of June 1, 2020.

Even if all of the actions above are implemented in full, the City will come dangerously close to an operating cash shortfall in the coming months and running out of money in the police pension fund. A deposit of approximately \$8 million is required to minimally cover police pension beneficiary payments for the remainder of 2020 and 2021. The City is currently pursuing a financing that would result in a one-time deposit into the pension fund between \$15 million and \$20 million; however, given the fiscal status of the City and recent market turmoil, the financing is doubtful.

The following table summarizes the City’s estimated need for 2020 with and without a pension financing. The estimates below reflect the amounts required to minimally fund the police pension through 2021, address other operating past due payables, and barely avoid a cash deficit. Additional funds would be required for a modest cash cushion heading into the new year or to address any further revenue declines or unanticipated expenses. The \$4.5 million in General Operations need represents approximately one month of operating revenues/expenditures. The City will still require a Tax and Revenue Anticipation Note in January to fund operations in early 2021.

These amounts in the table would not address past due payables into the pension funds, which are over \$25 million.

Scenario	Total	Police Pension	General Operations
No Pension Financing	\$12.5 million	\$8 million ²	\$4.5 million
Pension Financing	\$4.5 million	\$0	\$4.5 million

² When combined with year-to-date General Fund transfers to the pension funds and required MMO payments to the Fire and Other Employee pension funds, the combined contributions to the City’s three pension funds in 2020 would be \$12.75 million, which is about \$2.5 million more than what was budgeted.

Mayor, we appreciate your commitment to the City and its residents. We look forward to collaborating with you and your colleagues to secure a stronger future for Chester.

Sincerely,



Dennis M. Davin
Secretary

- Cc: Councilman William Jacobs
 Councilman William Morgan
 Councilwoman Portia West
 Councilwoman Elizabeth Williams
 Controller Edith Blackwell
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