

Borough of West Chester Unfunded Pension and OPEB Liability Reduction

****PROPOSAL ONLY****

1

18 September 2018

Discussion Agenda:

- Unfunded Pension Liability History
- Unfunded OPEB Liability History
- Funding Options
- Liability Amortization
- Options

Unfunded Pension Liability History

Highlights of the 2017 Actuarial Report from Mockenhaupt indicates the Borough's pension liability continues to increase for a number of reasons:

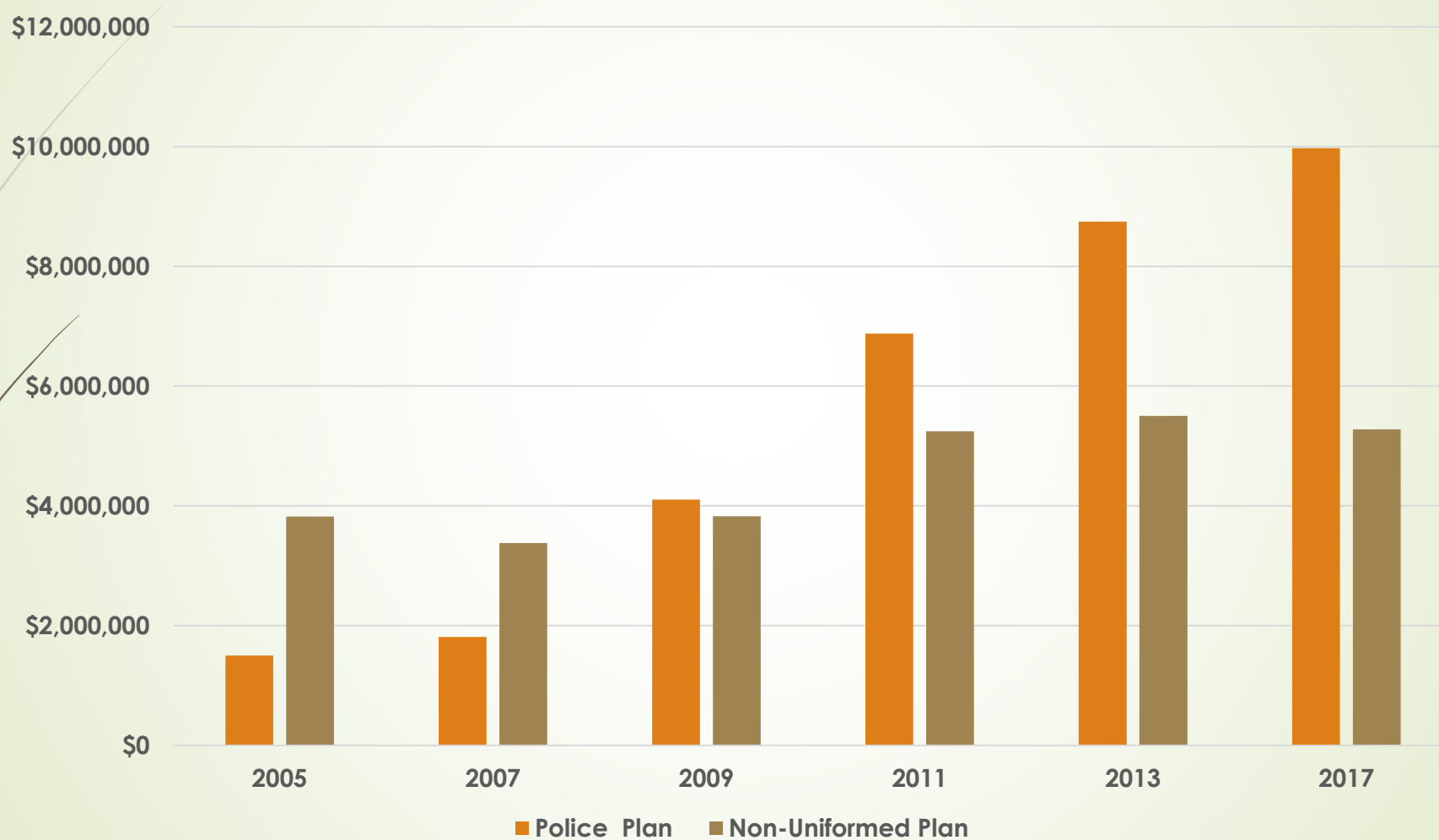
- Assumption changes:
 - reduction in mortality (living longer)
 - increased disability assumptions
 - investment return rate from 7.5% to 7.0%
 - Parameter changes increased annual Minimum Municipal Obligation (MMO) by \$600,000

Unfunded Pension Liability History con't

	Police	Non-Uniformed	Net	INC/(DEC)
	<u>Plan</u>	<u>Plan</u>	<u>Unfunded</u>	<u>Change</u>
2005	\$1,498,628	\$3,823,005	\$5,321,633	
2007	\$1,811,868	\$3,381,313	\$5,193,181	-\$128,452
2009	\$4,106,978	\$3,824,112	\$7,931,090	\$2,737,909
2011	\$6,873,805	\$5,246,377	\$12,120,182	\$4,189,092
2013	\$8,746,185	\$5,502,398	\$14,248,583	\$2,128,401
2017	\$9,972,393	\$5,277,371	\$15,249,764	\$1,001,181

Unfunded Pension Liability History con't

Borough of West Chester Unfunded Pension Plan Liabilities



Unfunded OPEB Liability History

➔ OPEB = Other Post Employment Benefits

What is it?

Generally it is a healthcare benefit to retired officers. It provides Hospital and Major Medical coverage for the officer until the officer either qualifies for Medicare or attains coverage through other employment.

OPEB Fund

- ➔ **2019 Expenditure \$79,000**
- ➔ **2019 Expenditure with
10 year plan \$519,000 (per year)**

Recommendations to Balance Budget

- **Increase Real Estate Transfer Rates**
 - Budget 2019 \$370k (1% current rate)
 - 1.25% rate = \$93k in additional revenue
 - 1.50% rate = \$185k in additional revenue

Recommendations to Balance Budget con't

- **Increase Earned Income Tax Rates**
 - Rate increase from 0.5 to 0.75 points
 - The 0.25 point differential will generate approximately \$1.7 million in additional revenue annually

Recommendations to Balance Budget con't

- Number of Chester County Municipalities with EIT rates equal to 1%: **36**
- Number of Chester County Municipalities with EIT rates below 1%: **14**
- Number of Chester County Municipalities with EIT rates above 1%: **24**

Recommendations to Balance Budget con't
*Chester County Municipalities with EIT rates **above***
 1%:

Municipality	School District Name	Municipal Resident EIT (percent)	School District EIT (percent)	Total Resident Income Tax (percent)
COATESVILLE CITY	COATESVILLE AREA S D	2.00	0.50	2.50
EAST BRADFORD TWP	WEST CHESTER AREA S D	0.75	0.50	1.25
EAST BRANDYWINE TWP	DOWNINGTOWN AREA S D	0.63	0.50	1.13
EAST COVENTRY TWP	OWEN J ROBERTS S D	0.75	0.50	1.25
EAST NANTMEAL TWP	OWEN J ROBERTS S D	0.75	0.50	1.25
EAST NOTTINGHAM TWP	OXFORD AREA S D	0.75	0.50	1.25

Recommendations to Balance Budget con't
*Chester County Municipalities with EIT rates **above***
 1%:

Municipality	School District Name	Municipal Resident EIT (percent)	School District EIT (percent)	Total Resident Income Tax (percent)
EAST PIKELAND TWP	PHOENIXVILLE AREA S D	0.75	0.50	1.25
EAST VINCENT TWP	OWEN J ROBERTS S D	0.83	0.50	1.33
ELK TWP	OXFORD AREA S D	1.00	0.50	1.50
HIGHLAND TWP	OCTORARA AREA S D	1.00	0.50	1.50
HONEY BROOK TWP	TWIN VALLEY S D	1.00	0.50	1.50
KENNETT TWP	KENNETT CONSOLIDATD S D	0.75	0.50	1.25

Recommendations to Balance Budget con't
*Chester County Municipalities with EIT rates **above***
 1%:

Municipality	School District Name	Municipal Resident EIT (percent)	School District EIT (percent)	Total Resident Income Tax (percent)
LONDONDERRY TWP	OCTORARA AREA S D	0.75	0.50	1.25
LOWER OXFORD TWP	OXFORD AREA S D	1.00	0.50	1.50
NEW GARDEN TWP	KENNETT CONSOLIDATD S D	0.63	0.50	1.13
NORTH COVENTRY TWP	OWEN J ROBERTS S D	0.75	0.50	1.25
SCHUYLKILL TWP	PHOENIXVILLE AREA S D	0.75	0.50	1.25
UPPER OXFORD TWP	OXFORD AREA S D	1.00	0.50	1.50

Recommendations to Balance Budget con't

How much will an EIT increase impact a worker in West Chester on an annual basis?

If you have an annual salary of	Current Rate 1.00	Proposed Rate 1.25	Annual Increase	Increase per week
\$ 100,000	\$ 1,000	\$ 1,250	\$ 250	\$ 4.81
\$ 85,000	\$ 850	\$ 1,063	\$ 213	\$ 4.09
\$ 70,000	\$ 700	\$ 875	\$ 175	\$ 3.37
\$ 55,000	\$ 550	\$ 688	\$ 138	\$ 2.64
\$ 40,000	\$ 400	\$ 500	\$ 100	\$ 1.92
\$ 25,000	\$ 250	\$ 313	\$ 63	\$ 1.20

Recommendations to Balance Budget con't

➤ **Increase Real Estate Tax Rates**

➤ Budget 2019 \$5.4 million

➤ 5% increase = \$260k annually

➤ 10% increase = \$519k annually

Recommendations to Balance Budget con't Additional annual real estate tax generated from increase:

<u>Percentage Tax Rate Increase</u>	<u>Additional Tax Revenue Generated</u>
5%	\$ 259,723
10%	\$ 519,446
15%	\$ 779,169
20%	\$ 1,038,892
25%	\$ 1,298,615
30%	\$ 1,558,338
35%	\$ 1,818,061
40%	\$ 2,077,784
45%	\$ 2,337,507
55%	\$ 2,856,953
60%	\$ 3,116,676
65%	\$ 3,376,399
70%	\$ 3,636,122
75%	\$ 3,895,845

Recommendations to Balance Budget con't

Additional annual real estate tax liability per residential property:

<u>Calculation Current:</u>			<u>5%</u>
a)	Average Assessed Resident Home Value	\$	128,876
b)	Millage Rate		6.96
	a X b		896976.96
	divide by 1,000....tax liability	\$	<u>897</u>
<u>Calculation with Increase:</u>			
a)	Assessed Home Value	\$	128,876
b)	Millage Rate		7.31
	a X b		942083.56
	divide by 1,000....tax liability	\$	<u>942</u>
Additional Annual Tax Liability per Residential Home		\$	<u><u>45</u></u>

Recommendations to Balance Budget con't

Additional annual real estate tax liability per residential property:

	Average
Increase	Annual Increase
<u>Rate By</u>	<u>\$ per Parcel</u>
5%	\$ 45
10%	\$ 90
15%	\$ 135
20%	\$ 179
25%	\$ 224
30%	\$ 269
35%	\$ 314
40%	\$ 359
45%	\$ 404
50%	\$ 448

Suggested Funding Options Summary for 2019:

19

- Reduction in services
- Reduction in personnel
- Reduction in Capital Expenditures

Suggested Funding Options Summary for 2019 con't:

20

- Earned Income Tax rate increase
- Real Estate Transfer Tax rate increase
- Real Estate Tax rate increase
- Pursue sale of Waste Water system
- Revisit issue in 2020