
PENNSYLVANIA DEPARTMENT OF THE AUDITOR GENERAL



Pennsylvania Auditor General



PaAuditorGen



Pennsylvania Auditor General



News for Immediate Release

June 15, 2021

Auditor General DeFoor: Audits Show City of Chester Owes More than \$34 Million to its Pension Plans; Municipalities Warned Against Using Federal ARP Aid for Past Pension Debts

HARRISBURG – Auditor General Timothy L. DeFoor today released audits showing the City of Chester owes its pension plans more than \$34 million in back payments while reminding municipalities across Pennsylvania facing similar situations that federal COVID relief funds cannot be used for that purpose.

“No less than nine previous state audits have recommended that the City of Chester correct the pension spiking problem, and nine times the audits have been ignored,” DeFoor said. “The city simply cannot keep throwing money at its pension problem without acting to correct the factors that drive costs to taxpayers.”

Chester, which was placed under state receivership last year, entered Pennsylvania’s Act 47 financially distressed municipality recovery program in 1995. The Delaware County city has long struggled to pay basic operating expenses, a problem worsened by falling revenues during the pandemic.

Joined by Chester Receiver Michael Doweary, DeFoor cautioned Chester and other local governments across Pennsylvania that they cannot use federal COVID relief funding provided under the American Recovery Plan (ARP) Act to pay past pension obligations.

“Pennsylvania did not win the lottery with the ARP,” DeFoor said. “The federal government has been very clear that the ARP relief funding cannot be used to reduce unfunded pension liabilities.”

The compliance audits of the [City of Chester’s Police Pension Plan](#), [Firemen’s Pension Plan](#) and [Officers and Employees Pension Plan](#) Jan. 1, 2018 to Dec. 31, 2019. Significant findings include:

- The city failed to make its legally required employer contributions, known as minimum municipal obligations (MMOs), for a number of years. As of the end of the audit period:
 - The Police Pension Plan was owed \$30.4 million in back contributions and interest dating to 2016.
 - The Officers and Employees plan was owed more than \$2 million in back contributions and interest.
 - The Firemen’s Pension Plan was owed more than more than \$2 million.
- Auditors could not determine whether more than \$10 million in designated earned income tax revenues generated under the special taxing provisions of Act 205 were deposited into the city’s pension plans during 2019 and 2020.

- The city failed to change benefit provisions that allow employees to increase or “spike” their future pension payouts by working overtime in their final years of service, which is inconsistent with the state’s Third Class City Code.

DeFoor said the audit found the city was late depositing its state aid allocation into the police pension plan for several years in a row, but said that it did make a timely deposit of the \$1.9 million in state aid it received from the Department of the Auditor General in 2020.

The audit noted that the aggregate funded status of the city’s pension plans – a measure of the plans’ ability to meet future obligations to retirees– is at Level III severe distress status, according to the [Municipal Pension Reporting Program](#). That status is determined when the funded ratio falls below 50 percent.

The city’s fiscal situation worsened after the end of the audit period in 2019 and as the pandemic unfolded in early 2020. However, this spring, Receiver Doweary [reported](#) that actions taken by the city since then have helped to reduce the risk of the police pension plan running out of cash – but at great expense to local taxpayers.

“Receiver Doweary has also raised concerns about the need to resolve, once and for all, the pension spiking issues,” DeFoor said. “I’m happy to see that he and his team are making progress in getting the city’s finances back on track, working in partnership with city officials.”

Review the audits of the [City of Chester’s Police Pension Plan](#), [Firemen’s Pension Plan](#) and [Officers and Employees Pension Plan](#) and learn more about the Department of the Auditor General online at www.PaAuditor.gov.

###