COMPLIANCE AUDIT

City of Hazleton Aggregate Pension Fund

Luzerne County, Pennsylvania

For the Period

January 1, 2017 to December 31, 2018

September 2019

EUGENE A. DEPASQUALE • AUDITOR GENERAL •

Commonwealth of Pennsylvania
Department of the Auditor General

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EUGENE A. DEPASQUALE
AUDITOR GENERAL

The Honorable Mayor and City Council
City of Hazleton
Luzerne County
Hazleton, PA 18201

We have conducted a compliance audit of the City of Hazleton Aggregate Pension Fund for the period January 1, 2017 to December 31, 2018. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was to determine if the pension fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objective identified above. To determine whether the pension fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.

- We determined whether annual employer contributions were calculated and deposited in accordance with the plans' governing documents and applicable laws and regulations by examining the municipality's calculation of the plans' annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plans as evidenced by supporting documentation.

- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plans in accordance with the plans' governing documents and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plans' governing documents in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plans.

- We determined whether retirement benefits calculated for all 6 police officers and all 4 paid firemen who retired during the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plans' governing document, applicable laws and regulations by recalculating the amount of the monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.

- We determined whether both of the January 1, 2017 actuarial valuation reports (one report for police and separate report for paid firemen) were prepared and submitted by March 31, 2018 in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.

- We determined whether the pension fund is in compliance with Act 205 for distressed municipalities through inquiry of plan officials and evaluation of the recovery remedies implemented during the audit period and through the completion of our fieldwork procedures.

The City of Hazleton contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ended December 31, 2017, which are available at the city's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Hazleton Aggregate Pension Fund is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the city's internal controls as they relate to the city's compliance with those requirements and that we considered to be significant within the context of our audit objective, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objective.

The results of our procedures indicated that, in all significant respects, the City of Hazleton Aggregate Pension Fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Finding No. 1	–	Failure To Maintain Required Documentation And Evidence Of Required Annual Funding Of The City's Pension Plans In Accordance With Special Taxing Provisions Of Act 205
Finding No. 2	–	Failure To Implement Act 44 Mandatory Distressed Provisions

As previously noted, the objective of our audit of the City of Hazleton Aggregate Pension Fund was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Among several provisions relating to municipal pension plans, Act 205, which was amended on September 18, 2009 through the adoption of Act 44 of 2009, provides for the implementation of a distress recovery program. Three levels of distress have been established:

Level	Indication	Funding Criteria
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it. **However, we are extremely concerned about the funded status of the plans contained in the schedules of funding progress included in this report which indicates the police plan's funded ratio is 57.3% and the paid firemen's plan's funded ratio is 51.7% as of January 1, 2017, which is the most recent data available. Based on this information, along with the funding status of the city's non-uniformed pension plan, the Municipal Pension Reporting Program (formerly Pennsylvania Employees Retirement Commission) issued notification that the city is currently in Level II moderate distress status.** We encourage city officials to monitor the funding of its pension plans to ensure their long-term financial stability.

Pursuant to Act 205 regulations, the actuarial assumption as to interest or investment earnings that may be utilized by municipalities is not less than 5.0% or more than 9.0%. As illustrated in the Supplementary Information contained in this report, using the city's current 8.0% investment return assumption, the city's reported Net Pension Liability for the Police and Paid Firemen's plans as of December 31, 2017 is $2,830,008. Using a more conservative 7.0% assumption, the city's Net Pension Liability for the Police and Paid Firemen's plans would be $7,790,439, an increase of $4,960,431. Therefore, the city's reported Net Pension Liability is dependent on investment earnings at the high-end of the allowable assumptions, which could be difficult to sustain in this current economic environment.

It was also noted during the conduct of the current engagement that the city's once aggregated pension trust fund, the funding mechanism for its uniformed (police and paid firemen) pension plans designed to limit expenses and maximize investment earnings, appeared to no longer be aggregated pursuant to mandated remedies prescribed in Act 205 for municipalities in Level II distress as the city maintained three separately executed investment agreements with the plan's new custodian and discontinued preparation of its annual undivided participation in the assets of the combined pension trust fund for each plan as provisioned for in the City Code during the current audit period as later discussed in this report.

The respective plans' funded status and the increase in the city's required contributions to the plans are due, in part, to the effect of prior arbitration awards and memoranda of understanding granting excess pension benefits to the city's police officers and paid firefighters, and the provision of Act 44 of 2009 which mandated that if a municipality assesses or utilizes the special municipal tax increase to fund other post-employment benefits, the cost of those benefits shall be subject to the actuarial funding and reporting standards of this act. Furthermore, as noted later in the Findings and Recommendations section of this audit report, during the current audit period, the City borrowed from designated special tax proceeds collected under the distress provisions of Act 205 in order to pay general operating expenditures of the city, which is not authorized by Act 205. We encourage city officials, as plan fiduciaries, to ensure all pension plan funds are safeguarded to ensure that the aggregate pension fund has adequate resources to meet current and future benefit obligations to the city's hard working police officers and paid firefighters to help ensure the respective plans' long-term financial stability.

The contents of this report were discussed with officials of the City of Hazleton and, where appropriate, their responses have been included in the report. We would like to thank city officials for the cooperation extended to us during the conduct of the audit.

August 21, 2019

Eugene A. DePasquale

EUGENE A. DEPASQUALE
Auditor General

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BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The Act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the City of Hazleton Aggregate Pension Fund is also governed by implementing regulations adopted by the former Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 67 - The Third Class City Code, Act of November 24, 2015 (P.L. 242, No. 67), as amended, 11 Pa. C.S. § 10101 et seq.

Prior to the current audit period, the City of Hazleton Aggregate Pension Fund served as a common investment and administrative agent for the city's police and paid firemen's pension plans; however, as disclosed earlier in this report and later in Finding No. 2 contained in the report, the city's police and paid firemen's pension plans are no longer aggregated for investment and administrative purposes which is contrary to the distress provisions of Act 205.

The City of Hazleton Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1949, as amended, adopted pursuant to Act 67, formerly Act 317. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established October 10, 1968. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2018, the plan had 41 active members, no terminated members eligible for vested benefits in the future, and 50 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2018, selected plan benefit provisions for the police pension plan are as follows:

Eligibility Requirements:

Normal Retirement	Eligible with 20 years of service.
Early Retirement	None
Vesting	100% vesting available after 12 years of service.

Retirement Benefit:

Benefit Level 1 – a monthly benefit equal to 50% of Average Monthly Compensation plus a service increment of 5% of compensation for service in excess of 20 years to a maximum of 75%.

Benefit Levels 2 & 3 – a monthly benefit equal to 50% of average monthly compensation.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions.
After Retirement Eligibility	A monthly benefit equal to 100% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Service Related Disability Benefit:

Same as normal retirement benefit identified by Levels 2 & 3.

The City of Hazleton Paid Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1913, as amended, adopted pursuant to Act 67, formerly Act 317. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters. The plan was established July 20, 1968. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2018, the plan had 20 active members, no terminated members eligible for vested benefits in the future, and 32 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2018, selected plan benefit provisions for the paid firemen's pension plan are as follows:

Eligibility Requirements:

Normal Retirement	Eligible with 20 years of service.
Early Retirement	None
Vesting	100% vesting available after 12 years of service.

Retirement Benefit:

Members Hired Prior To January 1, 1988:

Benefit equals 50% of the final average salary of such member at the time of retirement. A service increment of 5% of final average salary for each year of completed service to a maximum of 75% of final average salary after completing 25 years of service.

Members Hired After January 1, 1988 And Prior To September 1, 2000:

Benefit equals 55% of the final average salary of such member at the time of retirement.

Members Hired After September 1, 2000:

Benefit equals 50% of the final average salary of such member at the time of retirement.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions.
After Retirement Eligibility	A monthly benefit equal to 100% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Service Related Disability Benefit:

Less than 20 years of service, the benefit is equal to $1/20^{th}$ of the normal retirement benefit times years of service to a maximum of 10 years of service (50% of salary).

Finding No. 1 – Failure To Maintain Required Documentation And Evidence Of Required Annual Funding Of The City's Pension Plans In Accordance With Special Taxing Provisions Of Act 205

Condition: The City of Hazleton's pension plans were determined to be Level II Distressed by the former Pennsylvania Employees Retirement Commission. Utilizing a special tax provision provided in Act 205, the city adopted Ordinance No. 86-28 (effective January 1, 1987) increasing its Earned Income Tax above the maximum rate for both residents and non-residents of the city for the sole purpose of defraying the additional costs required to be paid pursuant to Act 205 directly related to the city's pension plans. The city however, failed to provide supporting documentation evidencing the determination of its level of contributions to its pension plans prior to the implementation of the special tax and its continued monitoring over current contribution levels to ensure that the city met its annual funding requirements for 2017 and 2018 in accordance with the distress provisions of Act 205. Furthermore, it was also noted that the city failed to utilize the entire proceeds of its annual special municipal tax collected during 2017 and 2018 pursuant to the distress provisions of the Act.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

> Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

> The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, relative to the additional remedies available to distressed municipalities to assist with the funding of their pension plans, Section 607(f) of Act 205 further states:

> **(f) Special municipal taxing authority.**
> (1) If the tax rates set by the municipality on earned income or on real property are at the maximum provided by applicable law, the municipality may increase its tax on either earned income or real property above those maximum rates. The proceeds of this special municipal tax increase shall be used solely to defray the additional costs required to be paid pursuant to this act, which are directly related to the pension plans of the municipality. <u>The municipality utilizing this special municipal taxing authority shall not reduce the level of municipal contributions to the pension plans prior to the implementation of the special municipal taxing authority.</u> (Emphasis added.)

Finding No. 1 – (Continued)

(2) The average level of municipal contributions to the pension plans from all revenue sources for the three years immediately prior to the implementation of the special municipal taxing authority shall be expressed as a percentage of the average covered payroll for that same three-year period: Provided, however, that any supplemental contributions made to the plans pursuant to any pension recovery legislation enacted by the municipalities shall be excluded for purposes of determining the level of municipal contribution to the pension plans prior to the implementation of the special municipal taxing authority. In each year subsequent to the implementation of the special municipal taxing authority, the municipal contributions to the pension plan from all revenue sources existing prior to the implementation of the special existing municipal taxing authority, reduced by any supplemental pension recovery contributions, shall equal or exceed this average percentage of the current covered payroll. A municipality utilizing the provisions of section 404 may levy or continue to levy the special municipal tax increase under this subsection provided that the municipality does not reduce the level of municipal contributions to the pension plans prior to the implementation of the special municipal taxing authority. In executing the procedure prescribed in this subsection to determine the level of municipal contributions, the debt service payments for bonds or notes issued under section 404 shall be considered municipal contributions. (Emphasis added.)

Cause: The city failed to establish adequate internal control procedures to assist them in complying with the special tax provisions of Act 205. In addition, there was a recent turnover in officials responsible for administering the city's pension plans since enactment of the special tax provision. Current officials were unaware of the city's continued annual funding requirement under the special tax provisions of Act 205 or the necessity to maintain adequate, substantive documentation evidencing the city's continued compliance with such provisions. Moreover, current officials were unable to locate or provide substantive documentation evidencing whether previous plan officials appropriately determined the city's required funding levels prior to enacting the special tax and/or whether the city previously performed procedures necessary to ensure and evidence that annual funding levels mandated by Act 205 since implementation of the special tax were met.

Effect: The failure to establish adequate internal control procedures to apply the distress provisions of Section 607(f) of Act 205 and fund the city's pension plans accordingly, resulted in less annual funding towards the city's distressed pension plans than afforded under the provisions of Act 205 during 2017 and 2018 and could result in the plans not having the necessary resources to meet current and future benefit obligations to its members; however, we were unable to determine the impact on the city's pension plans for 2017 and 2018 because as noted in the Cause section above, the city was unable to provide the original determination of its level of municipal contributions to its plans or its revenue sources existing prior to implementation of the special tax. The failure to maintain the levels of contribution prior to enacting the additional special tax reduces the net overall contributions to the plan, potentially negating benefits of the additional tax.

Finding No. 1 – (Continued)

Furthermore, the city's failure to utilize the entire proceeds from the special tax provisions of Act 205, annually, results in less overall funding available to defray the additional costs of its already distressed pension plans as intended under Act 205 and the risk of misapplication of those proceeds is increased. As was disclosed in an observation in the prior audit report, the city maintains a restricted fund account under the city's general fund where funds collected under the special tax provisions are maintained and it is the city's practice to borrow funds from this restricted account to fund general operations of the city while subsequently repaying these borrowed funds, with interest, during the year back into the restricted fund. During the current audit period, the City of Hazleton withdrew funds from the Act 205 special tax account to fund other general operating expenditures as follows:

Date of Withdrawal	Amount	Date of Repayment	Amount
01/04/17	$ 1,000,000	03/31/17	$ 1,000,699
01/17/18	$ 1,500,000	06/08/18	$ 600,000
		07/24/18	600,000
		12/20/18	370,000
Total 2018 Repayment			$ 1,570,000

Although these funds were repaid back to the special tax fund, with interest, these funds were not available for their intended purpose under Act 205. In addition, as of December 31, 2018, there remains a balance in the special tax account in the amount of $1,349,163.

Recommendation: We recommend that the city, with assistance from its actuary, determine or locate the prior determination of the city's required level of annual contributions under Section 607(f) of Act 205. Copies of these calculations must be maintained by the city for examination during our next audit of the plans.

In addition, we recommend that city officials establish and implement adequate internal control procedures to ensure that the city does not reduce its level of contributions to its pension plans from funding sources prior to the implementation of the special municipal tax in accordance with Act 205 for periods subsequent to this report beginning with the city's 2020 budgetary process. Such procedures should include maintaining appropriate supporting documentation identifying the sources of its annual contributions to its pension plans as well as an annual reconciliation evidencing that funding requirements are appropriately met in accordance with Section 607(f) of Act 205.

Finding No. 1 – (Continued)

Furthermore, we recommend that the city utilize the remaining balance in the special tax account as of December 31, 2018, $1,349,163, in accordance with the special tax provisions of Act 205 and, in the future, the city implement procedures to ensure that annual proceeds received under its special municipal tax are utilized appropriately and timely in accordance with the distress provisions of Act 205.

Management's Response: Municipal officials indicated acknowledgement and agreement with the finding as provided and indicated a commitment to correct the issue and work with the city's actuary to rectify the problem as soon as possible.

Auditor's Conclusion: Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

Finding No. 2 – Failure To Implement Act 44 Mandatory Distressed Provisions

Condition: Among several provisions relating to municipal pension plans, Act 205, which was amended on September 18, 2009, through the adoption of Act 44 of 2009, provides for the implementation of a distress recovery program. Three levels of distress have been established:

Level	Indication	Funding Criteria
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

Based on the police pension plan's funded ratio of 57.3% and the paid firemen's pension plan's funded ration of 51.7%, in aggregation with the funded ratio of the municipality's non-uniformed pension plan's funded ratio of 74.9% as of January 1, 2017, the Municipal Pension Reporting Program (MPRP) *(formerly the Public Employee Retirement Commission)* issued notification in 2018 that the city was in Level II moderate distress status.

Included with the determination notices, the MPRP sent the municipality the Act 205 Recovery Program Election Form outlining the mandatory remedies that must be implemented and the voluntary remedies that the municipality could elect to implement. This form was required to be signed by the plan's Chief Administrative Officer and returned. And although the municipality submitted the election forms to the MPRP, as of the date of this audit report, the city failed to comply with the mandatory provision regarding the aggregation of pension trust funds for administration and investment purposes under Act 205.

Finding No. 2 – (Continued):

Criteria: For financially distressed municipal pension systems, Section 605(a) of Act 205, as previously amended by Act 44, states:

> Recovery program level II.
> (a) Mandatory remedies. Any municipality to which level II of the recovery program applies shall utilize the following remedies:
> (1) The aggregation of trust funds pursuant to section 607(b).
> (2) The submission of a plan for administrative improvement pursuant to section 607(i).

Cause: Prior to the current audit period, the City of Hazleton Aggregate Pension Fund served as a common investment and administrative agent for the city's police and paid firemen's pension plans; however, during 2015, the city entered into three separate investment agreements with the plan's current custodian for the management of its police, paid firemen's, and non-uniformed pension funds. Current plan officials were unaware of the administrative change in the management of its pension funds or the underlying cause for the changes; however, it appears that prior city officials formerly responsible for administration of its pension plans failed to implement adequate internal control procedures to ensure continued compliance with the mandatory distress provisions of Act 205.

Effect: As a result, the city is not in compliance with the mandatory distress provisions of Act 205 applicable to Level II distressed municipal pension systems designed to improve the funding status and administrative efficiency of its pension plans.

Recommendation: We recommend that municipal officials contact the Municipal Pension Reporting Program for guidance in the implementation of the mandatory distress remedies applicable to Level II pursuant to Act 205 and aggregate its pension funds accordingly, pursuant to section 607(b).

Management's Response: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the fund.

CITY OF HAZLETON AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 9 through 15 reflects the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2015

POLICE PENSION PLAN

	2014	2015
Total Pension Liability		
Service cost	$ 625,308	$ 651,669
Interest	1,869,821	2,022,205
Difference between expected and actual experience	-	623,443
Changes of assumptions	-	405,787
Benefit payments, including refunds of member contributions	(1,602,647)	(1,689,195)
Net Change in Total Pension Liability	892,482	2,013,909
Total Pension Liability – Beginning	23,548,775	24,441,257
Total Pension Liability – Ending (a)	$ 24,441,257	$ 26,455,166
Plan Fiduciary Net Position		
Contributions – employer *	$ 2,147,054	$ 2,455,598
Contributions – state aid	294,324	290,141
Contributions – member	116,492	115,002
Net investment income	493,831	(463,527)
Benefit payments, including refunds of member contributions	(1,602,647)	(1,689,195)
Administrative expense	(170,375)	(223,695)
Net Change in Plan Fiduciary Net Position	1,278,679	484,324
Plan Fiduciary Net Position – Beginning	19,424,553	20,703,232
Plan Fiduciary Net Position – Ending (b)	$ 20,703,232	$ 21,187,556
Net Pension Liability – Ending (a-b)	$ 3,738,025	$ 5,267,610
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.7%	80.1%
Estimated Covered Employee Payroll	$ 2,511,634	$ 2,577,195
Net Pension Liability as a Percentage of Covered Employee Payroll	148.8%	204.4%

* Since the City utilizes proceeds from the Act 205 special municipal tax to fund other post-retirement benefits, the employer contributions on this schedule include the City's contributions for postemployment benefits in addition to its annual required pension contributions.

CITY OF HAZLETON AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

POLICE PENSION PLAN

	2016	2017
Total Pension Liability		
Service cost	$ 687,511	$ 662,391
Interest	2,098,797	2,239,003
Difference between expected and actual experience	-	855,759
Changes of assumptions	-	54,187
Benefit payments, including refunds of member contributions	(1,815,430)	(2,021,695)
Net Change in Total Pension Liability	970,878	1,789,645
Total Pension Liability – Beginning	26,455,166	27,426,044
Total Pension Liability – Ending (a)	$ 27,426,044	$ 29,215,689
Plan Fiduciary Net Position		
Contributions – employer *	$ 2,183,811	$ 2,819,641
Contributions – state aid	314,973	-
Contributions – member	116,181	123,688
Net investment income	1,706,641	3,490,722
Benefit payments, including refunds of member contributions	(1,815,430)	(2,021,695)
Administrative expense	(115,386)	(113,337)
Net Change in Plan Fiduciary Net Position	2,390,790	4,299,019
Plan Fiduciary Net Position – Beginning	21,187,556	23,578,346
Plan Fiduciary Net Position – Ending (b)	$ 23,578,346	$ 27,877,365
Net Pension Liability – Ending (a-b)	$ 3,847,698	$ 1,338,324
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.0%	95.4%
Estimated Covered Employee Payroll	$ 2,375,493	$ 2,510,364
Net Pension Liability as a Percentage of Covered Employee Payroll	162.0%	53.3%

* See explanation on page 9.

CITY OF HAZLETON AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2015

PAID FIREMEN'S PENSION PLAN

	2014	2015
Total Pension Liability		
Service cost	$ 271,143	$ 281,709
Interest	1,020,605	1,133,001
Difference between expected and actual experience	-	706,057
Changes of assumptions	-	505,597
Benefit payments, including refunds of member contributions	(1,121,531)	(1,096,510)
Net Change in Total Pension Liability	170,217	1,529,854
Total Pension Liability – Beginning	13,047,186	13,217,400
Total Pension Liability – Ending (a)	$ 13,217,403	$ 14,747,254
Plan Fiduciary Net Position		
Contributions – employer *	$ 1,253,128	$ 1,508,839
Contributions – state aid	162,653	164,675
Contributions – member	61,224	63,765
Net investment income	222,060	(242,817)
Benefit payments, including refunds of member contributions	(1,121,534)	(1,096,510)
Administrative expense	(94,482)	(104,368)
Net Change in Plan Fiduciary Net Position	483,049	293,584
Plan Fiduciary Net Position – Beginning	9,429,196	9,912,245
Plan Fiduciary Net Position – Ending (b)	$ 9,912,245	$ 10,205,829
Net Pension Liability – Ending (a-b)	$ 3,305,158	$ 4,541,425
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.0%	69.2%
Estimated Covered Employee Payroll	$ 1,214,031	$ 1,248,015
Net Pension Liability as a Percentage of Covered Employee Payroll	272.2%	363.9%

* Since the City utilizes proceeds from the Act 205 special municipal tax to fund other post-retirement benefits, the employer contributions on this schedule include the City's contributions for postemployment benefits in addition to its annual required pension contributions.

CITY OF HAZLETON AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

PAID FIREMEN'S PENSION PLAN

	2016	2017
Total Pension Liability		
Service cost	$ 297,203	$ 311,316
Interest	1,160,057	1,180,893
Difference between expected and actual experience	-	(110,419)
Changes of assumptions	-	44,091
Benefit payments, including refunds of member contributions	(1,087,480)	(1,201,715)
Net Change in Total Pension Liability	369,780	224,166
Total Pension Liability – Beginning	14,747,254	15,117,034
Total Pension Liability – Ending (a)	$ 15,117,034	$ 15,341,200
Plan Fiduciary Net Position		
Contributions – employer *	$ 1,332,227	$ 1,849,759
Contributions – state aid	183,735	-
Contributions – member	65,253	66,385
Net investment income	805,070	1,756,565
Benefit payments, including refunds of member contributions	(1,087,480)	(1,201,715)
Administrative expense	(62,342)	(63,770)
Net Change in Plan Fiduciary Net Position	1,236,463	2,407,224
Plan Fiduciary Net Position – Beginning	10,205,829	11,442,292
Plan Fiduciary Net Position – Ending (b)	$ 11,442,292	$ 13,849,516
Net Pension Liability – Ending (a-b)	$ 3,674,742	$ 1,491,684
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.7%	90.3%
Estimated Covered Employee Payroll	$ 1,286,369	$ 1,323,401
Net Pension Liability as a Percentage of Covered Employee Payroll	285.70%	112.7%

* See explanation on page 11.

CITY OF HAZLETON AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

Sensitivity Of The Net Pension Liability To Changes In The Discount Rate

The following presents the net pension liability of the city as of December 31, 2015, 2016 and 2017, calculated using the discount rate of 8.0%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability – 12/31/15 – (Police Plan)	$ 8,712,252	$ 5,267,610	$ 2,411,288
Net Pension Liability – 12/31/16 – (Police Plan)	$ 7,462,841	$ 3,847,698	$ 846,006
Net Pension Liability – 12/31/17 – (Police Plan)	$ 4,584,959	$ 1,338,324	$ (1,662,045)

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability – 12/31/15 – (Paid Firemen's Plan)	$ 6,220,925	$ 4,541,425	$ 3,118,876
Net Pension Liability – 12/31/16 – (Paid Firemen's Plan)	$ 5,411,521	$ 3,674,742	$ 2,202,289
Net Pension Liability – 12/31/17 – (Paid Firemen's Plan)	$ 3,205,480	$ 1,491,684	$ (72,491)

CITY OF HAZLETON AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

POLICE PENSION PLAN

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2009	$ 1,152,628	$ 1,152,628	$ -	$ 2,150,212	53.6%
2010	1,123,199	1,123,199	-	2,292,546	49.0%
2011	1,160,376	1,160,376	-	2,371,667	48.9%
2012	1,150,109	1,150,109	-	2,494,207	46.1%
2013	1,451,683	1,451,683	-	2,373,180	61.2%
2014	1,446,209	1,446,209	-	2,511,634	57.6%
2015	1,833,875	1,833,875	-	2,577,195	71.2%
2016	2,498,784	2,498,784	-	2,375,493	105.2%
2017	2,819,641	2,819,641	-	2,510,364	112.3%
2018	3,381,827	3,381,827	-	*	N/A

PAID FIREMEN'S PENSION PLAN

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2009	$ 531,056	$ 531,056	$ -	$ 1,052,286	50.5%
2010	606,603	606,603	-	1,137,483	53.3%
2011	628,103	628,103	-	1,121,363	56.0%
2012	637,702	637,702	-	1,120,550	56.9%
2013	648,030	648,030	-	1,154,591	56.1%
2014	810,934	810,934	-	1,214,031	66.8%
2015	1,104,056	1,104,056	-	1,248,015	88.5%
2016	1,515,962	1,515,962	-	1,286,369	117.8%
2017	1,849,759	1,849,759	-	1,323,401	139.8%
2018	2,107,857	2,107,857	-	*	N/A

* Due to the timing of this audit, covered-employee payroll for 2018 was not provided in this schedule.

Note: Prior to 2016, contributions for post-retirement benefits were not included on these schedules.

CITY OF HAZLETON AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

POLICE PENSION PLAN

2017	7.92%
2016	7.92%
2015	(2.18%)
2014	2.49%

PAID FIREMEN'S PENSION PLAN

2017	14.93%
2016	7.73%
2015	(2.38%)
2014	2.32%

CITY OF HAZLETON AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2013, is as follows:

POLICE PENSION PLAN

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-13	$ 17,036,267	$ 35,412,542	$ 18,376,275	48.1%
01-01-15	21,267,396	37,528,221	16,260,825	56.6%
01-01-17	25,159,504	43,899,179	18,739,675	57.3%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a four-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

The plan's actuarial accrued liability at 01-01-13, 01-01-15 and 01-01-17 includes the cost of postemployment benefits funded through the proceeds of the Act 205 special tax.

CITY OF HAZLETON AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS – (Continued)

PAID FIREMEN'S PENSION PLAN

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-13	$ 8,719,067	$ 19,709,578	$ 10,990,511	44.2%
01-01-15	10,156,221	20,888,771	10,732,550	48.6%
01-01-17	12,241,710	23,674,930	11,433,220	51.7%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a four-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

The plan's actuarial accrued liability at 01-01-13, 01-01-15 and 1-01-17 includes the cost of postemployment benefits funded through the proceeds of the Act 205 special tax.

CITY OF HAZLETON AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

CITY OF HAZLETON AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	10 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.5%
Cost-of-living adjustments	3.0% compounded annually

CITY OF HAZLETON AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

PAID FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	10 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.5%
Cost-of-living adjustments	3.0% compounded annually

CITY OF HAZLETON AGGREGATE PENSION FUND
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