

CITY AUDITOR'S REPORT

MONDAY, OCTOBER 28, 2013

2003 - 2014 MINIMUM MUNICIPAL OBLIGATION

THE FOLLOWING CHARTS ILLUSTRATE THE CITY OF READINGS MINIMUM MUNICIPAL OBLIGATION (MMO) FROM 2003-2014. THE MMO IS A STATE REQUIREMENT PER THE MUNICIPAL PENSION PLAN FUNDING & RECOVERY ACT (**ACT 205 OF 1984**). THIS ACT REQUIRES THAT MUNICIPALITIES MUST PROPERLY FUND THEIR MUNICIPAL PENSION PLANS AND THAT THE STATE WILL ALSO ASSIST BY GIVING FINANCIAL AID.

THE COMPLEX MMO CALCULATION REQUIRES SUCH INFORMATION AS NORMAL AND ADMINISTRATIVE COSTS AND PERCENTAGES, ESTIMATED ANNUAL PAYROLL, ALLOWANCES FOR ACTUARILY OVER/UNDER FUNDED PLANS, AS WELL AS EMPLOYEE CONTRIBUTIONS. PENSION PLAN GAINS AND LOSSES AND ACTUARIAL ASSUMPTIONS ARE ALSO INCLUDED IN THIS CALCULATION.

IN 2003, THE TOTAL MMO WAS \$1,790,587. THE STATE AID RECEIVED THAT YEAR WAS \$1,716,415. THE STATE AID RECEIVED BY THE CITY WAS THEN PAID INTO OUR MUNICIPAL PENSION PLANS. THE DIFFERENCE OF \$74,172 WAS THE CITY'S NET OBLIGATION. BEGINNING IN 2005, THERE WAS AN ENORMOUS INCREASE IN THE MMO TOTAL AND BALANCES DUE FIGURES. IN 2005, THE TOTAL MMO WAS \$5,314,058. THE STATE AID RECEIVED IN 2005 YEAR WAS \$3,046,770. THE DIFFERENCE OF \$2,267,288 WAS THE CITY'S NET OBLIGATION. FOR 2013 THE CITY'S NET OBLIGATION AGAIN INCREASED DRAMATICALLY. IN 2013, THE TOTAL MMO WAS \$11,180,278. THE STATE AID WAS \$3,068,643. THE DIFFERENCE OF **\$8,111,635** IS THE CITY'S NET OBLIGATION.

IN 2014, THE MMO IS \$11,103,535. THE ESTIMATED STATE AID IS APPROXIMATELY \$3 MILLION, WHICH REDUCES THE CITY'S NET OBLIGATION TO APPROXIMATELY \$8.1 MILLION DOLLARS, WHICH IS SIMILAR TO LAST YEAR'S AMOUNT.

THE VARIOUS CITY FUNDS THAT HAVE EMPLOYEES, ALL CONTRIBUTE THEIR FAIR SHARE TOWARDS THAT NET OBLIGATION. THEREFORE, NOT ONLY DOES THE CITY GENERAL FUND CONTRIBUTE, BUT ALSO THE WATER, SEWER, COMMUNITY DEVELOPMENT AND OTHER FUNDS.

THE MAJOR REASONS FOR THE SUBSTANTIAL INCREASES ARE AS FOLLOWS:

- PRIOR YEARS NEGATIVE INVESTMENT RETURNS IN ALL THREE PLANS
- INCREASES IN BENEFITS (CONTRACTS)
- HIGHER PAYROLL COSTS
- USING THE UPDATED 2011 ACTUARY REPORTS
- ALL THREE PLANS HAVE GONE FROM THE ACTUARIAL STATUS OF FULLY-FUNDED TO UNDER-FUNDED
- UPDATED MORTALITY TABLES
- INTEREST RATE ASSUMPTION CHANGES
- NO CURRENT STATE LEGISLATIVE FUNDING RELIEF ACT(S) PASSED

2003 - 2014 MINIMUM MUNICIPAL OBLIGATION (continued)

THE FOLLOWING TWO (2) CHARTS ILLUSTRATE:

1. THE MMO BY PENSION FUND
2. THE BALANCE DUE AFTER APPLYING STATE AID

MMO	2003	2004	2005	2006	2007	2008
POLICE PENSION	1,581,096	2,583,681	2,497,175	3,496,058	3,203,156	1,705,470
FIRE PENSION	0	0	1,479,698	1,268,949	1,209,423	1,289,485
O&E PENSION	209,491	1,371,476	1,337,185	1,650,339	1,933,737	598,539
TOTAL	1,790,587	3,955,157	5,314,058	6,415,346	6,346,316	3,593,494

	2003	2004	2005	2006	2007	2008
TOTAL MMO	1,790,587	3,955,157	5,314,058	6,415,346	6,346,316	3,593,494
STATE AID	1,716,415	3,083,125	3,046,770	3,205,886	3,289,757	3,307,410
BALANCE DUE	74,172	872,032	2,267,288	3,209,460	3,056,559	286,084

MMO	2009	2010	2011	2012	2013	2014 EST.
POLICE PENSION	2,428,329	2,607,362	3,932,110	3,663,429	6,057,188	6,051,235
FIRE PENSION	1,346,126	1,380,603	1,976,423	1,903,883	2,286,856	2,282,336
O&E PENSION	775,359	800,416	1,376,733	1,488,269	2,836,234	2,769,964
TOTAL	4,549,814	4,788,381	7,285,266	7,055,581	11,180,278	11,103,535

	2009	2010	2011	2012	2013	2014 EST.
TOTAL MMO	4,549,814	4,788,381	7,285,266	7,055,581	11,180,278	11,103,535
STATE AID	2,843,364	2,972,820	4,487,287	2,689,235	3,068,643	3,000,000
BALANCE DUE	1,706,450	1,815,561	2,797,979	4,366,346	8,111,635	8,103,535

PUBLIC UTILITY REALTY TAX 1997-2013

ON 10/08/13, WE RECEIVED \$50,473.18 FOR THE STATE PUBLIC UTILITY REALTY TAX FROM THE COMMONWEALTH OF PA. STARTING IN 1999, THERE WAS A CHANGE IN THE FORMULA TO CALCULATE THE AMOUNTS PAYABLE TO MUNICIPALITIES FOR THE STATE PUBLIC UTILITY REALTY TAX. AS THE FOLLOWING CHART REVEALS, WE HAVE EXPERIENCED A MAJOR REDUCTION IN THIS REVENUE SOURCE SINCE 1999. THE ESTIMATED REVENUE FROM THIS SOURCE IN 2014 IS EXPECTED TO BE \$49,000.00.

PUBLIC UTILITY TAX	BUDGET	ACTUAL
1997	291,000	277,867
1998	291,000	267,198
1999	290,000	205,284
2000	170,000	80,921
2001	60,000	41,693
2002	80,000	35,924
2003	42,000	39,294
2004	36,000	29,027
2005	40,000	42,151
2006	40,000	51,455
2007	51,000	48,885
2008	51,000	45,976
2009	46,000	43,342
2010	46,000	40,781
2011	45,000	45,721
2012	45,000	49,068
2013	49,000	50,473