

Rochester Borough Council
Special Meeting in Council Chambers
November 4, 2019, 6:00 p.m.

Present: President Benjamin Rader, Marjorie White, Howard Howe, Ron Becker, Don Brothers,
Manager John Barrett

Absent: Vice-President Brandy Dietrich, Donna Short, Martin Knafelc, Mayor Keith Jackson,

The meeting was called to order at 6:00 p.m. The purpose of the meeting was to review and discuss the proposed preliminary 2020 budget.

Persons in Attendance:

There were no public comments.

Manager Barrett reviewed the estimated final revenues and expenses for 2019. The Manager is projecting a tentative surplus of \$13,680 in the operating budget (general fund) and a tentative surplus of \$15,470 in the debt service budget (debt service fund).

Manager Barrett reviewed the preliminary 2020 operating and debt service budgets. The Manager is projecting a surplus of \$1,321 in the operating budget and a surplus of \$6,327 in the debt service budget. Manager Barrett stated that there are several outstanding factors that could impact his proposed budget. They are: both union contracts expire at the end of this year and a tentative agreement has not been reached for either union; 2020 renewal premiums for insurances have not been received except for the health insurance. The 2020 renewal premiums for health insurance reflect a 29% increase from 2019. The Borough's insurance broker is reaching out to UPMC to see what might be causing this significant increase. Hopefully a reduction in this increase can be negotiated. Mrs. White asked if the Borough had ever looked into health care coverage through COG Care. The Manager stated that he has not but will look at other potential group coverages for available options. The Manager noted the difficulty with finding alternative group coverage given the current health plan the Borough offers and the two unions' reluctance to accepting changes to the benefit coverage offered under the current plan. The Manager also noted that the current health care plan is not compliant with the Affordable Care Act (ACA). The President did sign an extension allowing employers to continue their current non-compliant plans. The Borough's insurance broker is projecting a 40% to 50% increase in premiums if these extensions are ever stopped and the Borough had to become compliant with the ACA.

Manager Barrett distributed the recently completed Police Pension Plan Actuarial Report, valuation date 1/1/2019 and information on the landscape and trends for public pension plans provided by CS McKee, the firm hired to invest the police pension funds. Manager Barrett discussed several items impacting the current assumptions being made by the Actuary: changes to the life expectancy tables and the rate of return on investments. Life expectancy is rising causing the plan to extend the liability to cover benefits earned for retired and active employees. The current assumed rate of return used by the Actuary is 7.25%, CS McKee is recommending a

6.5% rate of return be assumed given the current state of the various markets. This would significantly increase the Borough's annual obligation to meet the funding needs of the plan. The Actuary states the benefit payments made by the plan were 12.33% of the total plan assets for 2018 and that most of his other clients are running around 5% to 6% of the total plan assets. This higher percentage of payments creates the need to draw on the principle funds of the plan to cover these obligations thereby having less funds available for investment. All of these underlining factors point out the need for additional funding to make the plan sustainable and to work towards reducing the unfunded liability of the plan. Manager Barrett discussed the possibility of a special tax to generate additional funding for the police pension plan. There are 2 options: a property tax increase or an earned income tax increase. The Manager is recommending an increase of .005% to the earned income tax. The current .005% earned income tax generates approximately \$300,000 annually. This increase would double the income providing approximately \$300,000 of additional funding for the police pension fund. With the Borough maintaining their annual contribution level and assuming a continued positive return on investment along with this additional funding the pension fund would begin realizing an increase in its principle fund balance. The pension plan is currently at a distress level II, 58.29% funded. The Manager stated this special tax would need to be kept in place for a minimum of 5 years, depending upon the rate of return realized over that span. The plans funding level should be reviewed every 2 years to determine the need for continuing this special tax. Regarding the property tax option, the Manager stated that it would take a 10 mill property tax increase to generate the same \$300,000 in additional funding for the plan. Given that the Borough's current property tax assessment is already one of the higher rates in the County, he felt that this was not a viable option to pursue.

After some discussion, the Manager will put this tentative 2020 budget on the agenda for approval at the November 18th regular meeting with final adoption to be considered at the December 16th regular meeting following all the necessary advertisements. The Manager will also put the special tax of .005% on earned income on the November 18th meeting agenda for Council's consideration for possible adoption at the December 16th regular meeting.

Meeting adjourned at 7:05 p.m.

Submitted by,

John M. Barrett
Borough Manager