

# COMPLIANCE AUDIT

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## City of Jeannette Police Pension Plan Westmoreland County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

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May 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

The Honorable Mayor and City Council  
City of Jeannette  
Westmoreland County  
Jeannette, PA 15644

We have conducted a compliance audit of the City of Jeannette Police Pension Plan for the period January 1, 2016 to December 31, 2017. 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report; and
2. To determine if the pension plan 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 objectives identified above. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan 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 plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined whether retirement benefits calculated for all 4 of the plan members 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 plan's governing document, applicable laws and regulations by recalculating the amount of the monthly pension benefit due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, respectively, 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 all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- We determined whether the pension plan 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.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Jeannette Police Pension Plan 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 Jeannette Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Failure To Properly Fund The City's Pension Plans In Accordance  
With Special Taxing Provisions Of Act 205

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.

The contents of this report were discussed with officials of the City of Jeannette 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.

February 20, 2019

  
EUGENE A. DEPASQUALE  
Auditor General

# CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings .....	3
Finding and Recommendation:	
Finding – Failure To Properly Fund The City’s Pension Plans In Accordance With Special Taxing Provisions Of Act 205 .....	4
Supplementary Information .....	9
Comments .....	16
Report Distribution List .....	18

## 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 Jeannette Police Pension Plan 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.
- Act 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

The City of Jeannette Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 00-10, as amended, adopted pursuant to Act 67. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established December 17, 1959. Active members are required to contribute 5 percent of compensation plus \$1 per month to the plan until age 65. As of December 31, 2017, the plan had 10 active members, no terminated members eligible for vested benefits in the future, and 29 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

As of December 31, 2017, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement    Completion of 20 years of service

Early Retirement     None

Vesting                100% after 12 years of service

### Retirement Benefit:

A monthly benefit, payable for life, equal to 50% of the greater of Average Compensation during the 5-year period that produces the highest average, or monthly longevity pay, holiday pay, night time differential and base pay during the last month of employment, plus a monthly service increment equal to 1/40 of the retirement benefit for each year of service in excess of 20. The maximum service increment is \$100. Service after age 65 does not count towards the monthly service increment.

### Survivor Benefit:

#### Before Retirement Eligibility:

The surviving spouse will receive 50% of the average compensation during the final 5 years of employment payable for life. In the event of the spouse's death, the participant's children will share the benefit until age 18.

#### After Retirement Eligibility or if Killed in Service:

The surviving spouse (if married prior to the participant's effective retirement date) will receive a monthly benefit for life, equal to 100% of the participant's benefit entitlement. If the spouse is or becomes ineligible for the benefit, the participant's children under age 18 share the benefit.

### Service Related Disability Benefit:

For total and permanent disablement, the participant's normal retirement benefit calculated at date of disablement will be payable for life.

CITY OF JEANNETTE POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendations

The City of Jeannette has complied with the prior audit recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment of State Aid

During the audit period, the city reimbursed \$8,319 to the Commonwealth for the overpayment of state aid received in 2015 including interest and complied with the instructions accompanying Certification Form AG 385 and accurately reported the required data during the current period.



CITY OF JEANNETTE POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Failure To Properly Fund The City’s Pension Plans In Accordance With Special Taxing Provisions Of Act 205**

Condition: The City of Jeannette’s pension plans were determined to be Level II Distressed by the former Pennsylvania Employees Retirement Commission (PERC). Act 44 of 2009 provides short-term fiscal relief to local governments operating public pension plans and includes discretionary remedies available for distressed municipalities to assist with the funding of their pension plans. Utilizing a special tax provision provided in Act 44, the city adopted Ordinance No. 10-08 (effective January 1, 2011) increasing its Earned Income Tax 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. Additionally, the city commissioned its pension plan actuarial firm to prepare the calculation necessary to determine the appropriate funding levels mandated under the distress provisions of Act 205. The city did not however, properly determine or fully pay its minimum required funding obligation for the police, firemen’s, and non-uniformed pension plans for the years 2016 and 2017 as required by Act 205. Based on an estimate prepared by this department, the city appears to have an overall funding deficiency totaling \$496,354 for the years 2016 (\$240,355) and 2017 (\$255,998) according to Act 205. A similar condition may have existed during 2018; however, we were unable to determine the impact due to the timing of this engagement.

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 funding of certain distressed pension plans, Section 607(f) of Act 205 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. 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. [Emphasis added.]

CITY OF JEANNETTE POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (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: Although prior city administrators commissioned an actuarial firm to prepare the calculation necessary to determine the appropriate funding levels mandated by Section 607(f) of Act 205, after enacting the special taxing legislation, prior plan officials failed to implement adequate internal control procedures to ensure that the city did not reduce its level of contributions to its pension plans and from funding sources in effect prior to the implementation of the special municipal tax. In addition, there was a recent turnover of plan officials responsible for the administration of the city's pension plans and current plan officials, operating on assurances provided by former city officials, continued to utilize the city's past practice of using only state aid and the proceeds from the special tax to fund the city's annual plan obligations while eliminating any contributions from the city's general fund and were unaware that such practice was contrary to Act 205.

Effect: The failure to properly apply the provisions of Section 607(f) of Act 205 and fund the pension plans, accordingly, resulted in reduced annual funding towards the city's distressed pension plans than afforded under the provisions of Act 205 during 2016 and 2017 and could result in the plans not having sufficient resources to meet current and future benefit obligations to its members.

CITY OF JEANNETTE POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Recommendation: We recommend that city officials implement adequate internal control procedures to ensure that the city does not reduce its level of contributions to its pension plans from funding sources in effect prior to the implementation of the special municipal tax in accordance with Act 205 for periods subsequent to this report. 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 were properly met in accordance with Section 607(f) of Act 205.

Management’s Response: City officials provided the following response:

In response to the presented finding relating to the purported failure to properly fund the City’s pension plans in accordance with special tax provisions of Act 205, the City posits that it acted in accordance with a reasonable interpretation of the applicable statute, particularly, subsections 607(f) and (f.1), 53 P.S. § 895.607(f), (f.1). As a result, the City would request formal legislative or regulatory action to resolve the apparent ambiguity in the statute before the City is penalized or otherwise sanctioned or required to act as a result of this finding.

The City directs attention to the language in subsection 607(f.1), which provides, in pertinent part, as follows: “Beginning January 1, 2010, and continuing for each year thereafter, the special municipal tax authorized in subsection (f) may no longer be assessed or used for any purpose *other than to defray* the additional costs required to be paid pursuant to this act which are directly related to the pension plans of the municipality and which are included in the calculation of the financial requirements of the pension plan *and the minimum municipal obligation.*” [Emphasis added]. The City points out that this subsection can be interpreted and applied to enable the special municipal tax to be used to defray both (1) the additional costs required to be paid pursuant to the act and (2) the minimum municipal obligation. The City notes that there is no other applicable limitation language in subsection (f.1), including any provision making the use of the special municipal tax as permitted under subsection (f.1) subject to the limitations of subsection (f). Accordingly, on its face, subsection (f.1) appears to permit a municipality to use the entirety of its special municipal tax to defray and, therefore, offset the municipality’s minimum municipal obligation.

CITY OF JEANNETTE POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Furthermore, that the language of subsection (f.1) was added without any limiting language as part of Act 44 in 2009, almost twenty-five years after the initial passage of Act 205 in 1984, suggests the preeminent and preemptive scope of the unrestricted authority provided in subsection (f.1). This is consistent with applicable rules and guidance for statutory construction. See 1 Pa.C.S.A §§ 1933, 1936 (giving priority to later-enacted statutory provisions in the event of a conflict); *Jericho v. Liggett Spring & Axle Co.*, 106 A.2d 846 (Pa.Super.Ct. 1954) (instructing that if there is a conflict between a limitation clause as contained in a statute as originally passed and a limitation clause in a statute as amended, the latter clause, being last in order of date and position, must prevail). Such a reading would not contradict the legislative intent of the statute and would still accomplish at least two of the general legislative purposes of Act 205 and Act 44, including (i) providing relief for municipal budgets and general funds and (ii) enduring that special municipal tax revenues are used only to support municipal pensions or to fund other post-employment benefits. Portions of the legislative histories of Act 205 and, primarily, Act 44 are also consistent with and could support this interpretation. Additionally, this reading is consistent with the general precept found in subsection 302(d) of Act 205 that “[t]he minimum municipal obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.” Subsection 302(d) refers only to “revenue” generally and contains no clarification or limitation with regard to what types of revenue a municipality may use to pay its minimum municipal obligation, thereby further suggestion that this reading of subsection 607(f.1) does not violate the overall intent of Act 205.

Therefore, the City acted reasonably in funding its pension plans as it did in conformity with a reasonable interpretation of the applicable statute and, in particular, subsections 607(f) and (f.1). The City used its revenues to pay the minimum municipal obligation and used the special municipal tax, as one of its revenue sources, to defray and offset that minimum municipal obligation. Given the ambiguity in the applicable statute and the presumed novelty of this issue and the interpretation and applicable of this statutory language, the City ask both (1) that this finding and the City’s actions in the audited years not be held against the City and (2) that legislative or regulatory guidance resolving the ambiguity be promulgated to establish a clear and consistent directive for future years.

CITY OF JEANNETTE POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Auditor’s Conclusion: Section 607(f.1) of Act 205 states that the additional special municipal tax may no longer be assessed for any purpose other than to defray the additional costs of a plan required to be paid pursuant to Act 205 and which are directly related to the pension plan(s). We do not disagree with this part of the city’s interpretation of the Act. Where the city has incorrectly applied this section is that it reduced its level of municipal contribution to the plans from previously-existing revenue sources which existed prior to its implementation of the additional special municipal tax. Section 607 (f)(2) does not permit this additional assessment beyond that maximum permitted to be used as a replacement for other revenues, but rather to supplement existing plan funding streams for the purpose of increasing the positive funding ratio of distressed pension plans. Section 607(f.1) is not an alternative funding mechanism for a municipality’s general fund, but was enacted solely to increase funding to distressed pension plans. Any other interpretation of this section would be contra to the entire purpose of the Act.

To further demonstrate this point, Section 607 (f)(2) does not permit a municipality which is utilizing the additional special tax to continue to assess the same to decrease its level of municipal contributions to its pension plans and from revenue sources existing prior to the implementation of the additional special municipal tax and this required level of municipal contributions shall equal or exceed the average percentage of the current covered payroll. The revenue from the special municipal tax was meant to supplement, not replace, the city’s portion of its annual municipal obligation at a level and from revenue sources available prior to the implementation of this special municipal tax. Substituting the revenue collected from the special tax to pay the city’s required portion of its funding obligations to its pension plans circumvents the funding requirements of Act 205 and results in reduced overall contributions towards the city’s distressed pension plans. As such, the finding remains as stated.

CITY OF JEANNETTE POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 9 through 12 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 YEAR ENDED DECEMBER 31, 2014 AND 2015

	2014	2015
Total Pension Liability		
Service cost	\$ 174,687	\$ 109,800
Interest	735,815	728,978
Change of benefit terms	-	247,040
Difference between expected and actual experience	-	(540,251)
Benefit payments, including refunds of member contributions	(678,336)	(620,841)
Net Change in Total Pension Liability	<u>232,166</u>	<u>(75,274)</u>
Total Pension Liability – Beginning	10,670,384	10,902,550
Total Pension Liability – Ending (a)	<u>\$ 10,902,550</u>	<u>\$ 10,827,276</u>
Plan Fiduciary Net Position		
Contributions – employer (including interest on deficiency)	\$ 520,384	\$ 1,000,607
Contributions – member	47,563	47,146
Net investment income	386,686	33,924
Benefit payments, including refunds of member contributions	(678,336)	(620,841)
Administrative expense	-	(39,389)
Other	62,463	-
Net Change in Plan Fiduciary Net Position	<u>338,760</u>	<u>421,447</u>
Plan Fiduciary Net Position – Beginning	6,919,498	7,258,258
Plan Fiduciary Net Position – Ending (b)	<u>\$ 7,258,258</u>	<u>\$ 7,679,705</u>
Net Pension Liability – Ending (a-b)	<u>\$ 3,644,292</u>	<u>\$ 3,147,571</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.6%	70.9%
Estimated Covered Employee Payroll	\$ 803,295	\$ 946,882
Net Pension Liability as a Percentage of Covered	453.7%	332.4%

CITY OF JEANNETTE POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

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

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 115,290	\$ 137,675
Interest	743,527	773,938
Difference between expected and actual experience	-	(34,462)
Changes of assumptions	-	310,429
Benefit payments, including refunds of employee contributions	(652,550)	(795,296)
Net Change in Total Pension Liability	<u>206,267</u>	<u>392,284</u>
Total Pension Liability – Beginning	10,827,276	11,033,543
Total Pension Liability – Ending (a)	<u>\$ 11,033,543</u>	<u>\$ 11,425,827</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 552,000	\$ 988,241
Contributions – employee	43,474	38,917
Net investment income	389,586	1,062,726
Benefit payments, including refunds of employee contributions	(652,550)	(795,296)
Administrative expense	(49,775)	(53,606)
Additional administrative expense	-	(8,319)
Net Change in Plan Fiduciary Net Position	<u>282,735</u>	<u>1,232,663</u>
Plan Fiduciary Net Position – Beginning	7,679,705	7,962,440
Plan Fiduciary Net Position – Ending (b)	<u>\$ 7,962,440</u>	<u>\$ 9,195,103</u>
Net Pension Liability – Ending (a-b)	<u>\$ 3,071,103</u>	<u>\$ 2,230,724</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.2%	80.5%
Covered Employee Payroll	\$ 683,733	\$ 802,681
Net Pension Liability as a Percentage of Covered Employee Payroll	449.2%	277.9%

CITY OF JEANNETTE POLICE PENSION PLAN  
 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, 2014, 2015, 2016 and 2017, calculated using the discount rate of 7.0%, 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 (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net Pension Liability – 12/31/14	\$ 4,878,961	\$ 3,644,292	\$ 2,615,307
Net Pension Liability – 12/31/15	4,283,702	3,147,571	2,197,639
Net Pension Liability – 12/31/16	4,200,008	3,071,103	2,127,231
Net Pension Liability – 12/31/17	3,494,053	2,230,724	1,187,811



CITY OF JEANNETTE POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2008	\$ 217,836	\$ 217,836	\$ -	\$ 1,042,985	20.9%
2009	254,809	254,809	-	-	-
2010	255,258	255,258	-	1,014,282	25.2%
2011	415,415	347,276	68,139	-	-
2012*	414,406	414,406	-	1,070,622	38.7%
2013**	536,956	536,956	-	-	-
2014**	520,384	520,384	-	803,295	64.8%
2015	547,946	988,058	(440,112)	946,882	104.3%
2016	552,000	552,000	-	683,733	80.7%
2017	488,241	988,241	(500,000)	802,681	123.1%

For 2011, the contribution deficiency reflects the 25 percent reduction to the plan's amortization contribution elected by the municipality under Act 44 for distressed municipalities which allows for such reduction.

\* Portion paid in 2013 and 2014, with interest. Deficiency no longer exists.

\*\*Portion paid in 2014 and 2015, with interest. Deficiency no longer exists.

Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount the Covered-Employee Payroll was not provided for all years presented.

SCHEDULE OF INVESTMENT RETURN

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

2017	13.87%
2016	5.20%
2015	0.50%
2014	6.91%

CITY OF JEANNETTE POLICE PENSION PLAN  
 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:

	(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	\$ 5,968,048	\$ 10,373,181	\$ 4,405,133	57.5%
01-01-15	7,013,462	10,609,339	3,595,877	66.1%
01-01-17	8,305,729	11,309,510	3,003,781	73.4%

Note: The market value 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 4-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.

CITY OF JEANNETTE POLICE PENSION PLAN  
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 JEANNETTE POLICE PENSION PLAN  
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:

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	11 years (aggregate)
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases *	5.0%

\* Includes inflation at 2.75%

CITY OF JEANNETTE POLICE PENSION PLAN  
COMMENTS

**Special Municipal Taxing Authority**

As disclosed in the prior audit report, the City of Jeannette enacted a special tax pursuant to Section 607 (f) of Act 205 to assist the city in funding its pension plans. The special earned income tax rate initially adopted January 1, 2011 was 0.15% of earned income. During the prior audit period, the city increased the rate to .50% of earned income effective January 1, 2014, and 1.0% effective January 1, 2015. During the current audit period, the city reduced the rate to .85%, effective January 1, 2016, and this rate has remained in effect throughout the current audit period as well as subsequent to our audit period through January 1, 2019. However, as disclosed earlier in the finding and recommendation section of this report, after enacting the special municipal taxing authority pursuant to Act 205, the city did not continue its level of municipal contributions to its pension plans in amounts and from funding sources available immediately prior to the implementation of the special municipal tax for the years 2016, 2017 and 2018, as required by Act 205 (*refer to finding and recommendation contained in this report*).

**DROP Plan**

The City of Jeannette adopted Ordinance No. 14-05 on July 9, 2014, that provided for a Deferred Retirement Option Plan (DROP) for its police officers. The DROP provision allows participants to collect a pension while continuing to work, up to a maximum of 5 years. The monthly pension benefit is calculated as of the date the member enters DROP (retires) and is credited to a DROP account and held in escrow until the members leaves the DROP. The initial actuarial cost study dated June 5, 2014, revealed that providing the benefit modification would increase the plan's unfunded actuarial accrued liability by \$335,600 and the City's minimum municipal obligation funding standards under Act 205 by \$40,500. Since its inception, 4 police officers have elected to participate in the DROP program and as of December 31, 2017, there are currently 3 active police officers participating in the DROP program.

**Continuing Practice - Automatic Promotions Granted Prior To Retirement**

The City of Jeannette has maintained the current practice of promoting police officers to the next higher grade in rank for a period of at least one month immediately prior to retirement.

Section II of Ordinance No. 66-9 established a past practice, which the city continues to follow, which states, in part:

Any participant in the plan before retiring shall be promoted to the next higher grade in rank for a period of at least one month immediately prior to his retirement and said next higher grade in rank shall be at least that of a Lieutenant.

CITY OF JEANNETTE POLICE PENSION PLAN  
COMMENTS

Section 4303(a) of the Third Class City Code states, in part:

The basis of the apportionment of the pension shall be determined by the rate of the monthly pay of the member at the date of injury, death, honorable discharge, vesting under section 4302.1 or retirement, or the highest average annual salary which the member received during any five years of service preceding injury, death, honorable discharge, vesting under section 4302.1 or retirement, whichever is the higher, and except as to service increments provided for in subsection (b) of this section, shall not in any case exceed in any year one-half the annual pay of such member computed at such monthly or average annual rate, whichever is the higher. [Emphasis added.]

While the city's practice is not considered to be unauthorized by the Third Class City Code, it does serve to inflate the pension benefits of retirees from the city's police pension plan and increases the municipal contributions required to fund the plan in accordance with Act 205 funding standards.

Although the funding status of the police pension plan has improved over time with the City's imposition of the special municipal pension tax, we encourage City officials to continue making fiscally responsible decisions as plan fiduciaries that will benefit the City of Jeannette and its taxpayers such as obtaining required cost studies prior to implementation of any future benefit modifications in order that the City may assess the long-term impact on the plan's funding status and ensure that the pension plan has adequate resources to meet current and future benefit obligations to the city's hard working police officers that are determined in accordance with the provisions and the intent of the Third Class City Code and help ensure the plan's long-term financial stability.

CITY OF JEANNETTE POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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