

**HARRISBURG CITY
PENSION PLAN
SUMMARY INFORMATION
AS REPORTED
INDEPENDENT AUDIT
2016 FISCAL YEAR
(CAFR)**

**Section No. 3
Exhibit No. 21**

15. SETTLEMENT WITH SUBURBAN MUNICIPALITIES

The City had an agreement to transport and treat sewage for several suburban municipalities, from whom the City collected fees for such transportation and treatment. The suburban municipalities alleged that the City had overcharged for at least 10 years, evidenced by the alleged excessive transfer of "administrative fees" from the sewer fund into the City's General Fund. The municipalities claimed they were owed approximately \$15 million in reimbursement. The Receiver, with the cooperation and agreement of the suburban municipalities, through their counsel, negotiated a compromise of the claim and other amounts that might be owed to the suburban municipalities as a result of the overcharging of sewer rates. In settlement of these claims, in addition to the City's agreement to credit certain amounts as part of the suburban municipalities' prospective financial commitments to the comprehensive overhaul of the sewer system, the City will make payments to the suburban municipalities pursuant to the following payment schedule.

<u>Year Ending December 31,</u>	
2017	\$ 1,000,000
2018	1,000,000
2019	<u>225,000</u>
	<u>\$ 2,225,000</u>

16. PENSION PLANS

Primary Government

Plan Description and Administration

The City has four defined benefit pension plans. Two of the plans, Non-uniformed Employees' Plans A and B, are controlled by provisions of Ordinance-Bill No. 49-1984, adopted pursuant to Act 15. On January 2, 2002, the assets of Plans A and B were combined, but the requirements for eligibility and benefits remain separate. The Combined Firefighters' Plan is controlled by provisions of Ordinance-Bill No. 44-2002. For these plans, the City contributes to the Pennsylvania Municipal Retirement System (PMRS), an agent multiple-employer Public Employees Retirement System (PERS). The remaining plan, the Combined Police Pension Plan, was established January 1, 1999 under Ordinance-Ordinance No. 21 of 1998 and is controlled by the provisions of Ordinance No. 5 of 2001, as amended. This ordinance withdrew the Police Officers' Plan A and Police Officers' Plan B from PMRS, and established an amended and restated pension plan for police officers of the City. The Combined Police Pension Plan is a single-employer pension plan and is controlled by a separate independent board of trustees.

The plans have been established to cover substantially all full-time employees. Employees become eligible for participation in a plan immediately upon employment and become fully vested after 20 years of service for Non-uniformed Employees' A Plan, 10 years for Non-uniformed Employees' B and Combined Firefighters' Plans, and 20 years for the Combined Police Pension Plan. The plans have been established by City ordinance in accordance with the authority for municipal contributions required by Act 205-1984 (Act 205) of the Pennsylvania legislature, as amended by Act 189-1990. The plans require covered employees to contribute a percentage of total compensation.

PMRS issues a separate Comprehensive Annual Financial Report (CAFR), which may be obtained by writing to the Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, PA 17108-1165 or by calling 1-800-622-7968.

In addition, the City of Harrisburg Police Pension Board issues a separate publicly available financial report that includes financial statements and required supplementary information for the Combined Police Pension Fund. That report may be obtained by writing to the City of Harrisburg Police Pension Board, The Reverend Dr. Martin Luther King, Jr. City Government Center, 10 North Second Street, Harrisburg PA 17101 or by calling 717-255-6507.

The Combined Police Pension Plan is governed by the City of Harrisburg Police Pension Board, which consists of three persons appointed by the City, three persons appointed by the representatives of the Members' collective bargaining unit, and a neutral person appointed by a majority of the first six representatives. The City of Harrisburg Police Pension Board is responsible for the management of the Combined Police Pension Plan assets, appointment of the Combined Police Pension Plan trustee or custodian, and selection of investment advisors and managers.

Administrative costs, including the investment manager, custodial trustee, and actuarial services, are charged to the Combined Police Pension Plan and funded through investment earnings.

Benefit Provisions

Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act (Act 205), grants the authority to establish and amend the benefit terms of the Non-uniformed Employees' Plan A and B and Combined Firefighters' Plan to City Council. As outlined in Ordinance No. 21 of 1998, as amended by Ordinance No. 5 of 2001, the authority to establish and amend benefit provisions of the Combined Police Pension plan rests with the participants' collective bargaining unit and the City's administration. It then must be approved by the Board of the Combined Police Pension Plan and ratified and enacted by City Council.

The benefits provided by the plans differ by employment group and are based upon average compensation and length of service. Normal benefits are calculated at 2.5% per year of credited service multiplied by the final average annual salary for the Non-uniformed Employees' A and Combined Firefighters' plan. In no case may the benefit exceed 50% of the final average annual salary. The benefits provided by the Non-uniformed Employees' B plan are calculated at 2.0% per year of credited service multiplied by the final average annual salary. In no case may the benefit exceed 75% of the final average annual salary. For participants of the Combined Police Pension Plan, participants are eligible for normal retirement after attainment of age 50. For participants of the Combined Police Pension Plan hired after September 2013, participants are eligible for normal retirement after attainment of age 50 and completion of 20 years of service. The benefits provided by the Combined Police Pension Plan are calculated at 50% of the participant's average monthly compensation, plus an incremental pension equal to 2.5% of the average monthly compensation for each complete year of service in excess of 20 years, up to a maximum of 65% of average monthly compensation for participants who complete 26 years of service. An additional 5% of average monthly compensation is added to participants who complete 27 years of service, up to a maximum monthly pension of 70% of average monthly compensation. Effective September 2013, the benefit provisions of the Combined Police Pension Plan for new hires were changed to decrease the maximum monthly pension to 50% of average monthly compensation plus an incremental pension equal to 1/40th of the pension for each

complete year of service in excess of 20 years and before age 65, up to a maximum of \$100 per additional month. The Combined Police Pension Plan defines average monthly compensation as the final annualized basic compensation rate, including longevity payments, or the average monthly compensation, including longevity payments, received during the last five years of employment, if higher.

The plans provide retirement, disability, and death benefits to plan members and their beneficiaries. Cost-of-living allowances are provided at the discretion of the plans.

In addition, Non-uniformed Employees' Plan A is closed to new entrants.

Contributions

Act 205 requires that annual contributions be based upon the plan's minimum municipal obligation (MMO). The MMO is based upon the plan's bi-annual actuarial valuation.

Contributions by the City are determined under the entry age normal method. Unfunded past service liability is amortized over the average future service of active participants.

Employee contributions to the plan are based on a percentage of compensation. There are no active employees of the Non-uniformed plan A at December 31, 2016. Non-uniformed employees are required to contribute 5% of annual compensation for plan B, currently reduced to 4%. Fire and police employees contribute 5% of annual compensation plus \$1 per month. An interest rate of 5.5% is applied to the non-uniformed and fire employees' accounts. Employees' accumulated contributions plus interest (if applicable) will be returned upon termination or death if no other benefits are payable under the plan. As outlined in Ordinance No. 21 of 1998, as amended, the authority to make amendments to the contribution rate of the Combined Police Pension Plan participants rests with the participants' collective bargaining unit and the City's administration. It then must be approved by the Board of the Combined Police Pension Plan and ratified and enacted by City Council. The plans are also eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program, which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the City in accordance with Act 205.

The Commonwealth of Pennsylvania allocates foreign fire and casualty insurance premium collections to aid individual municipalities. The monies received must be contributed to the pension plans or used to pay debt service on unfunded pension liability bonds. Significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the annually required contribution. During the year ended December 31, 2015, the City made a contribution of \$358,000 to the Combined Firefighters' Pension Plan. The MMO for the year ended December 31, 2015 was \$358,000. During the year ended December 31, 2016, the City made a contribution of \$280,858 to the Combined Firefighters' Pension Plan. The 2016 contribution is reported as a deferred outflow of resources at December 31, 2016. The City contributed \$2,906,315 to the Combined Police Pension Plan for the year ended December 31, 2016.

Contributions are recognized when due as required by Act 205.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

Plan Membership

Membership related to the Non-uniform Employees' and Combined Firefighters' Plans at December 31, 2014 and membership related to the Combined Police Plan at December 31, 2016 consisted of the following:

	Non-Uniformed Employees'	Combined Firefighters'	Combined Police
Active members	138	75	131
Inactive members or beneficiaries currently receiving benefits	217	130	212
Inactive members entitled to but not yet receiving benefits	32	1	1
	<u>387</u>	<u>206</u>	<u>344</u>

Changes in the Net Pension Liability (Asset)

The changes in the net pension liability (asset) of the City for the year ended December 31, 2016 were as follows:

Non-uniformed Employees' Pension Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2015 (based on the measurement date of December 31, 2014)	\$ 60,344,065	\$ 74,232,967	\$ (13,888,902)
Changes for the year:			
Service cost	737,701	-	737,701
Interest	3,244,391	-	3,244,391
Changes of assumptions	335,514	-	335,514
Contributions - member	-	388,780	(388,780)
Investment income	-	(414,677)	414,677
Benefit payments, including refunds	(4,242,451)	(4,242,451)	-
Administrative expenses	-	(176,532)	176,532
Net changes	<u>75,155</u>	<u>(4,444,880)</u>	<u>4,520,035</u>
Balances at December 31, 2016 (based on the measurement date of December 31, 2015)	<u>\$ 60,419,220</u>	<u>\$ 69,788,087</u>	<u>\$ (9,368,867)</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>115.5%</u>

The net pension asset of the Non-uniformed Employees' Pension Plan is allocated between the governmental activities and the business-type activities in the amounts of \$8,241,792 and \$1,127,075, respectively, at December 31, 2016.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

Combined Firefighters' Pension Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2015 (based on the measurement date of December 31, 2014)	\$ 66,237,962	\$ 73,117,624	\$ (6,879,662)
Changes for the year:			
Service cost	1,253,437	-	1,253,437
Interest	3,611,615	-	3,611,615
Changes of assumptions	(60,658)	-	(60,658)
Contributions - employer	-	358,000	(358,000)
Contributions - member	-	250,526	(250,526)
Investment income	-	(595,792)	595,792
Benefit payments, including refunds	(3,700,881)	(3,700,881)	-
Administrative expenses	-	(169,934)	169,934
Net changes	1,103,513	(3,858,081)	4,961,594
Balances at December 31, 2016 (based on the measurement date of December 31, 2015)	\$ 67,341,475	\$ 69,259,543	\$ (1,918,068)
Plan fiduciary net position as a percentage of the total pension liability			102.8%

Combined Police Pension Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2015	\$ 90,276,750	\$ 73,580,318	\$ 16,696,432
Changes for the year:			
Service cost	1,564,700	-	1,564,700
Interest	7,106,970	-	7,106,970
Contributions - employer	-	2,906,315	(2,906,315)
Contributions - member	-	479,598	(479,598)
Investment income	-	4,175,445	(4,175,445)
Benefit payments, including refunds	(6,008,655)	(6,008,655)	-
Administrative expenses	-	(53,331)	53,331
Net changes	2,663,015	1,499,372	1,163,643
Balances at December 31, 2016	\$ 92,939,765	\$ 75,079,690	\$ 17,860,075
Plan fiduciary net position as a percentage of the total pension liability			80.8%