

**PENNSYLVANIA-AMERICAN WATER COMPANY**

**2017 GENERAL BASE RATE CASE**

**R-2017-2595853**

**STATEMENT NO. 14 – DIRECT TESTIMONY OF**

**DANIEL D. CONNELLY**

**EXHIBITS NO. 14-A THROUGH 14-F**

**STATEMENT NO. 15 – DIRECT TESTIMONY OF**

**EUGENE P. BARRETT**

**EXHIBIT NO. 15-A**

**DIRECT TESTIMONY  
OF  
DANIEL D. CONNELLY**

**WITH REGARD TO  
PENNSYLVANIA-AMERICAN WATER COMPANY'S ACQUISITION OF THE  
ASSETS OF THE SCRANTON SEWER AUTHORITY**

**DOCKET NO. R-2017-2595853**

**DATE: April 28, 2017**

**PENNSYLVANIA-AMERICAN WATER COMPANY**

**DIRECT TESTIMONY OF DANIEL D. CONNELLY**

1

2 **Q. Please state your name and business address.**

3 A. My name is Daniel D. Connelly and my business address is 1435 Walnut Street, Suite 300,  
4 Philadelphia, Pennsylvania 19102.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am employed by Fairmont Capital Advisors, Inc. as an independent municipal advisor to  
7 tax-exempt entities.

8 **Q. Please summarize your educational background and professional experience.**

9 A. I earned a Bachelor's Degree in Business Administration with a major in Finance and  
10 second major in Japanese from the University of Notre Dame. I earned a Master of Public  
11 Administration with a certificate in public finance from the Fels Institute of Government at  
12 the University of Pennsylvania.

13 I have fifteen years of government financial and management consulting experience.  
14 Since 2005, I have worked at Fairmount Capital Advisors, an independent municipal advisor  
15 registered with the Municipal Securities Rulemaking Board and U.S. Securities and  
16 Exchange Commission. In my role as municipal advisor, I provide independent advice to  
17 governmental and non-profit clients on debt issuance and financial management. I provide  
18 transaction management, credit analysis, covenant calculations, debt structuring, debt  
19 capacity, refinancing analysis, and rating agency strategy support to my clients. I am  
20 experienced with publicly issued and privately placed debt, fixed and variable rate  
21 structures, and interest rate hedging strategies. I passed my Series 50 municipal advisor  
22 certification examination at the first available opportunity, which was February 2016.

1           In addition to my traditional municipal advisor responsibilities, I also lead the firm’s  
2           government consulting practice. I have been the Act 47 financial Recovery Coordinator for  
3           the City of Chester, Pennsylvania and the Borough of Colwyn, Pennsylvania where my  
4           responsibilities include developing and monitoring the implementation of a multi-year  
5           financial recovery that eliminates deficits and sets the course for structural budgetary  
6           balance. As Recovery Coordinator, I work closely with elected and appointed municipal  
7           officials in the distressed communities as well as professionals from the Commonwealth of  
8           Pennsylvania’s Department of Community and Economic Development, the state agency  
9           charged with administering the distressed municipalities program. In addition, I have also  
10          developed multi-year financial plans for other Pennsylvania communities that are not part of  
11          the Act 47 program, but faced preliminary signs of distress.

12           From 1999 to 2003, I worked as a management consultant for a firm called American  
13          Management Systems, Inc. (now part of CACI, International) where I provided business  
14          process consulting services for Department of Defense agencies.

15   **Q.    Have you previously testified before regulatory agencies?**

16   A.    No.

17   **Q.    What is the purpose of your testimony?**

18   A.    The purpose of my testimony is to discuss the relationship between the City of Scranton (the  
19          “City”) and the Scranton Sewer Authority (“SSA” or the “Authority”) and how the financial  
20          condition of the City affects that of the Authority and its long-term viability.

21   **Q.    What is the Municipalities Financial Recovery Act?**

22   A.    In 1987, the Commonwealth of Pennsylvania enacted the Municipalities Financial Recovery  
23          Act, commonly referred to as Act 47, with the stated public policy intent to “foster fiscal

1 integrity of municipalities so that they provide for the health, safety and welfare of their  
2 citizens; pay principal and interest on their debt when due; meet financial obligations to their  
3 employees, vendors and suppliers; and provide for proper financial accounting procedures,  
4 budgeting and taxing practices.” Act 47 provides participating communities with a set of  
5 tools to strengthen fiscal capacity - enhance revenues, reduce expenditures, and improve  
6 operational efficiency. The tools available through Act 47 include, but are not limited to, the  
7 ability for a municipality to petition the local county court of common pleas to increase  
8 certain tax rates above maximum rate allowed by law, file for emergency loans from the  
9 Commonwealth, and receive first priority for Commonwealth grants.

10 **Q. Who administers Act 47 and what are some of its key components?**

11 A. The Commonwealth’s Department of Community and Economic Development (“DCED”) is  
12 charged with administering Act 47, including making the determination of eligibility for the  
13 Act 47 program, appointing a Recovery Coordinator, approving the Recovery Coordinator’s  
14 plan, and overseeing its implementation. The Recovery Coordinator’s plan must include a  
15 quantification of all operating deficits for the current fiscal year and a projection of revenues  
16 and expenses for the next five fiscal years. The plan must include recommendations for  
17 eliminating deficits and alleviating the financially distressed status of the municipality.

18 Act 47 details procedures for the publication, review, and final adoption of the  
19 Recovery Coordinator’s plan. Pursuant to Act 47, the municipal governing body either  
20 exacts an ordinance approving the plan, including enactment of necessary related ordinances  
21 and revisions to ordinances, or rejects the plan, which would trigger another set of  
22 procedures detailed in the Act.

1           If the Recovery Coordinator’s plan is adopted by the municipal governing body, the  
2 Recovery Coordinator is charged with implementing the plan. Though the Recovery  
3 Coordinator is responsible for overseeing the plan’s implementation, the principal  
4 responsibility for the conduct of financial affairs and operations remains with local officials.

5 **Q. What is the City’s status in Act 47?**

6 A. The City entered Act 47 in 1992 and has remained in the program since that time. The City  
7 has been unable to correct its structural budgetary imbalance and remains in a very weak  
8 financial position. The City’s current challenges result from the compounding effect of years  
9 of budgetary imbalance and tax base deterioration as evidenced by weak and declining  
10 economic and demographic characteristics. These factors have combined to have a  
11 detrimental impact on the local economy, which has the spiraling effect of exacerbating tax  
12 base erosion and worsening structural budget deficits.

13           Like many urban areas throughout the United States, the City’s population has  
14 shrunk and its tax base has deteriorated. Scranton’s experience is consistent with the  
15 national trend since the mid-20<sup>th</sup> century of population shifting away from cities into the  
16 suburbs. The migration to the suburbs coupled with significant job losses in manufacturing  
17 led to a 31.7% population decline for Scranton from 1960 to 2010. Over the same time  
18 period, Lackawanna County’s population declined by 9.0%, while the state and national  
19 population grew by 12.9% and 76.5%, respectively (see Exhibit No. 14-A).

20           Those households that did move into the cities tended to be lower income, which  
21 meant that the cities were hosting an increasing portion of the nation’s poor. The most recent  
22 American Community Survey shows that from 2011 through 2015, on average, 22.1% of

1 Scranton residents were below the poverty line compared with just 13.5% in Pennsylvania  
2 and 15.5% nationwide (see Exhibit No. 14-B).

3 The shrinking tax base and growing liabilities have put pressure on the City to raise  
4 revenues to address budget deficits, provide essential services to its citizens, and fund legacy  
5 costs such as pension liabilities and retiree health care benefits. From 2009-2013, the City  
6 experienced General Fund operating deficits in three out of the five years, as shown in  
7 Exhibit No. 14-C. Moreover, these deficits mask the true size of the structural budget  
8 imbalance as the City employed several “one-time” revenue strategies over this time period,  
9 which by definition are non-recurring and will not remedy ongoing budget shortfalls.  
10 Exhibit No. 14-D summarizes one-time revenues from 2009-2013 and the deficits without  
11 these sources.

12 Reversing the trend of tax base deterioration and promoting economic development  
13 is critical to achieving sustained budgetary balance. However, cities in Scranton’s position  
14 are often faced with undesirable choices that are counterproductive to these efforts.

15 The City enacted a series of real estate tax increases from 2013 through 2015 in an  
16 attempt to eliminate projected deficits. The City also increased the Real Estate Transfer Tax  
17 Rate and reenacted an Amusement Tax. While increasing tax rates may have a positive  
18 budget impact in the short-run, in the medium to long-term, the higher tax rates discourage  
19 tax base growth and incentivize residents and businesses to relocate to other jurisdictions  
20 offering more appealing tax rate/service mixes. As those taxpayers flee, a circular problem  
21 emerges as pressure mounts to raise tax rates on remaining taxpayers reducing their  
22 incentive to stay in the City.

1           In addition, the increased tax rates will have a negative effect on tax collection rates,  
2 especially in a relatively low income city like Scranton. Eventually, the City will reach a  
3 point where raising tax rates will no longer result in increased revenues, even in the short-  
4 term.

5 **Q.    When is the last time the City passed a comprehensive update of its Recovery Plan?**

6 A.    The City adopted a Revised and Updated Act 47 Recovery Plan in February 2015 (the “2015  
7 Plan”). The 2015 Plan describes a very weak current financial position and projects large  
8 and growing operating deficits into the future, absent significant corrective action. The  
9 baseline financial forecast in the 2015 Plan shows deficits growing from \$3.2 million in  
10 2015 to \$19.4 million in 2020 for a cumulative deficit over the five-year period of \$79.6  
11 million (see Exhibit No. 14-E). The 2015 Plan details a number of recommendations to  
12 eliminate the projected deficits including, but not limited to, raising certain tax rates,  
13 refinancing debt, limiting personnel costs, and converting City assets including the Scranton  
14 Sewer Authority. The recommendation to pursue the conversion of the Authority is  
15 mandated by the 2015 Plan. The 2015 Plan also states that, if after implementing all of its  
16 mandated recommendations, the City still projects operating deficits, then the City shall  
17 increase its real estate tax millage in the amount necessary to eliminate operating deficits,  
18 meet its financial obligations, and maintain vital and necessary services.

19 **Q.    Are there penalties for not implementing a Recovery Plan?**

20 A.    Under Act 47, a municipality that does not comply with its adopted Recovery Plan is  
21 vulnerable to sanctions including the withholding of grant funds that support municipal  
22 services. However, the most severe penalties are not the formal sanctions handed down by  
23 those overseeing the program. Rather, the penalties of inaction are incurred by allowing



1 deficits to persist and compound to the point where more draconian action and/or outside  
2 intervention is required.

3 **Q. When was the last time Act 47 legislation was updated and how are the updates**  
4 **relevant to the City?**

5 A. The Commonwealth enacted updates to Act 47 in 2014, which went into effect on January 1,  
6 2015. The updates included provisions that limited the distressed designation for  
7 municipalities in the Act 47 program. Under the new legislation, a municipality would no  
8 longer be able to remain in Act 47 for over 20 years like Scranton, which has been  
9 designated as distressed since 1992. Municipalities operating pursuant to a Recovery Plan as  
10 of the effective date of the amendment are subject to a termination date five years from the  
11 effective date of the most recent recovery plan or amendment. When the new legislation was  
12 enacted, Scranton's most recent Recovery Plan was adopted in 2012, which set its  
13 termination date in August of 2017. As the termination date approaches, the new legislation  
14 charges the Recovery Coordinator with completing a report stating the financial condition of  
15 the municipality and including one of the following findings: 1) termination of distressed  
16 municipality status, 2) disincorporation, 3) determination of a fiscal emergency, or 4) a  
17 three-year exit plan. In the case of a determination of a fiscal emergency, the Governor is  
18 given special powers to implement an emergency action plan and the Governor may direct  
19 the secretary of DCED to appoint a receiver for the distressed municipality. Setting limits on  
20 the duration of distressed municipality status and the possibility of outcomes such as  
21 disincorporation or receivership is designed to promote fiscal discipline and the full  
22 implementation of adopted Recovery Plans.

23

1 **Q. Why was the recommendation to convert the Scranton Sewer Authority important?**

2 A. The 2015 Plan recommended that the City “continue discussions with the SSA Board to  
3 determine a meaningful and substantive process that will provide the City with a significant  
4 source of funds or a continuing revenue stream that shall be used to reduce the unfunded  
5 liability of City pension funds.” This process led to the eventual sale of the Authority’s  
6 wastewater system.

7 In addition to a challenging economic and demographic profile, the inability to  
8 control liabilities, such as unfunded pension obligations, have contributed to the City’s  
9 financial distress. The growth of these liabilities put pressure on the operating budget  
10 forcing the City to make difficult decisions between reducing essential services and raising  
11 tax rates on an already overburdened taxpaying population. The ability of the City to address  
12 existing liabilities is critical to Scranton controlling operating expenses and avoiding a fiscal  
13 emergency or the appointment of a receiver.

14 **Q. If the SSA had not been sold, what would the implications have been for the City?**

15 A. In lieu of the Authority sale, the 2015 Plan recommended an increase in the real estate tax  
16 millage to close the operating budget gap, which would be in addition to recent millage  
17 increases in 2012, 2013, and 2014. Though the tax increases may help achieve a balanced  
18 operating budget in the short-term, as noted above, there are negative intermediate and long-  
19 term consequences that must be considered. First, higher tax rates exacerbate local tax base  
20 deterioration and encourage businesses to migrate to other districts with more attractive tax  
21 burden and service offerings. Economic and tax base growth is key to the financial health of  
22 any municipality, but it is especially important to distressed communities such as Scranton,  
23 which have high tax burdens relative to nearby jurisdictions.

1           Second, the higher millage would strain already low tax collection rates. The City's  
2           current real estate tax collection rate (after accounting for abatements and other deductions)  
3           was 87% in 2015, which is well below the 95-98% of most other Pennsylvania  
4           municipalities. The poor collection rate is more likely a symptom of the City's low income  
5           population combined with relatively high tax rates rather than inefficient collection  
6           practices.

7   **Q.    What is the relationship between the City and the Authority?**

8    A.    The SSA was formed pursuant to an ordinance passed by the Council of the City of Scranton  
9           and approved by the Mayor of Scranton in 1953. In 1966, the Borough of Dunmore,  
10           Pennsylvania applied to join the SSA. Though it was established by Scranton, the SSA is  
11           considered an independent body and acts relatively independent of the City. The finances of  
12           the City and the SSA are separated and there is no comingling of reserves or cash between  
13           the two entities.

14           However, due to the process by which the SSA board is formed, which involves  
15           appointments by Scranton and Dunmore governmental officials, there is a clear link between  
16           the management of the SSA and that of its associated governments. The Board of the SSA is  
17           comprised of five members, with four members appointed by the Scranton Mayor and  
18           confirmed by the Scranton City Council and one member appointed by the Borough Council  
19           of Dunmore. The Scranton Mayor and Dunmore Borough Council would presumably  
20           endorse the governance capabilities of their appointees and tend to appoint board members  
21           that shared their general interests. Moreover, the Municipalities Authorities Act, under  
22           which the SSA is established, provides that upon the resolution or ordinance of the  
23           municipality that appointed the Board of an authority signifying the municipality's desire to

1 acquire the assets of an authority, the authority must convey those assets to the municipality  
2 upon the assumption by the municipality of all of the obligations of the authority with those  
3 assets. So, the possibility always existed that the Scranton and Dunmore governing bodies  
4 could convey SSA's assets to the municipalities, which would likely have a strong impact on  
5 the governance and management decisions of the Board and dilute the boundaries between  
6 the entities.

7 **Q. Please describe the role of the credit rating agencies in the debt issuance process.**

8 A. Governmental entities seeking to raise funds in the capital markets will typically seek a  
9 credit rating from a rating agency to help market bonds to investors. The credit rating  
10 agencies will analyze the entity's credit strength and assign a rating that measures the  
11 debtor's ability to pay back debt and the likelihood of default. Entities with stronger credit  
12 ratings are able to issue debt at lower costs. The credit rating agencies publish rating criteria  
13 that are used to establish their credit ratings in an effort to promote transparency with  
14 investors and borrowers.

15 **Q. Does SSA have a credit rating?**

16 A. Yes, on March 20, 2015, Standard and Poor's Financial Services LLC ("S&P") assigned  
17 SSA an "A-" rating on its sewer revenue bonds issued in 2015 and affirmed its "A-" rating  
18 on other outstanding sewer revenue bonds. While an "A-" rating is investment grade, the  
19 S&P report identified several credit weaknesses including:

- 20 • "Somewhat limited local service area economy"
- 21 • "High leverage position"
- 22 • "Sewer rates we consider somewhat high at about \$59 per month juxtaposed with area  
23 income levels."

1 **Q. How would increasing the City’s real estate tax millage rate affect the Authority’s**  
2 **financial position and its credit rating?**

3 A. Increasing the City’s real estate tax millage rate would have a negative impact on the  
4 collection rates for other governmental revenue streams, including those of the Authority  
5 whose customers largely overlap with City real estate taxpayers. SSA collection rates would  
6 face additional pressure considering its planned sewer rate increases necessary to implement  
7 the terms of the court-approved Consent Decree that binds the Authority,<sup>1</sup> fund other capital  
8 improvements, and satisfy general operating expenses. To meet these requirements, SSA  
9 estimated 4.57% average annual rate increases through 2042, which is well above the rate of  
10 inflation. As noted in S&P’s credit rating report published in 2015, SSA’s sewer rates were  
11 already considered “slightly high, representing 2.3% of City median household effective  
12 buying income and may inhibit future revenue raising flexibility.” Repeated annual 4.57%  
13 increases on existing rates would be particularly onerous in a relatively low-income  
14 community facing population contraction like Scranton.

15 The decline in collection rates would have a cascading effect for the Authority.  
16 Lower collection rates would lead to reduced revenues, which would make it more difficult  
17 to pay debt service. Weaker financial metrics would result in a lower credit rating, which  
18 would increase the cost of debt and annual debt service costs. To cover the new operating  
19 costs, the SSA would face the prospect of raising rates, which would set the series of  
20 negative reactions into motion again. This would create a particularly perilous situation for

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<sup>1</sup> The Consent Decree was entered into to resolve complaints filed in United States District Court by the Environmental Protection Agency and Pennsylvania Department of Environmental Protection alleging violations of federal and state environmental laws and permit requirements. The Consent Decree mandates capital improvements and process changes as discussed in detail by Mr. Kaufman in PAWC Statement No. 3.

1 the Authority at a time when it would be seeking to borrow large amounts of debt to  
2 implement the mandated Consent Decree.

3 Even if the Authority would be able to overcome the ability-to-pay issues inherent in  
4 its funding strategy, raising rates would face political challenges. While the Board has  
5 demonstrated the willingness to enact increases in recent years, its willingness to enact  
6 future increases would be tested. The Board would likely face resistance from customers as  
7 sewer rates regularly increase faster than wages and effective buying income.

8 The City's elected officials would no doubt face political pressure from their  
9 constituents - most of whom pay both real estate taxes and sewer fees - to avoid increases.  
10 Since the City appoints four of the five SSA Board members, the Mayor and Council could  
11 use their influence to reduce or eliminate planned sewer rate increases jeopardizing the  
12 Authority's financial viability.

13 **Q. How do the credit rating agencies view the relationship between a municipal utility and**  
14 **its associated government?**

15 A. The relationship between the credit rating of a municipal utility and that of its associated  
16 government is described explicitly in the credit rating methodologies for S&P and Moody's  
17 Investor Service ("Moody's), two of the primary credit rating services.

18 S&P utilizes the criteria outlined in "U.S. Public Finance Waterworks, Sanitary  
19 Sewer, and Drainage Utility Systems: Methodology and Assumptions (January 19, 2016)"  
20 which details the relative importance of the factors that determine the initial indicative credit  
21 rating for an entity such as the Authority. The S&P methodology lists a number of factors  
22 that cap the final rating and among those factors is the financial health of the affiliated  
23 governmental entity. The methodology sets a "BBB+" rating cap if a "utility or its affiliated

1 LRG (local and regional government) is recovering from a financial crisis, emerging out of a  
2 recent bankruptcy or receivership, or has significant consultant oversight following an event  
3 of default, including a covenant violation.” The City has been addressing ongoing financial  
4 distress and has been subject to significant oversight from the Act 47 Recovery Coordinator  
5 and DCED since it entered the distressed municipalities program in 1992. In addition, in  
6 2012, the City and the Parking Authority of the City of Scranton, Pennsylvania failed to  
7 perform their payment obligations related to Guaranteed Parking Revenue Bonds, Series  
8 2007 (the “2007 Bonds”), constituting an event of default.

9 Despite the City’s history of financial distress and the default on the Series 2007  
10 Bonds, the 2015 S&P rating report deemphasized the connection between the City and the  
11 Authority noting that the Authority “remains insulated from the city’s finances” and  
12 “furthermore, the authority’s bond provisions include a closed flow of funds whereby the  
13 authority retains all surplus monies within its funds, separate and apart from any of the city’s  
14 finances with no comingling of reserves or cash whatsoever.”

15 While provisions exist to protect the Authority’s finances, the linkages between City  
16 and Authority management and governance, as described above, are inescapable. Further  
17 real estate tax increases, which would have been required if not for the sale of the SSA,  
18 would absorb the limited taxing capacity of all governmental entities and diminish the  
19 political will of the SSA Board to implement additional rate increases. That political  
20 pressure is intensified since the City’s governing body appoints the SSA Board and may  
21 exert its influence to avoid rate increases.

22 Absent the SSA sale, the financial relationship between the City and SSA would  
23 likely have become more apparent over time and would be reflected in SSA’s credit rating.

1 This cascade of negative events would have amplified the credit weaknesses described in the  
2 2015 S&P Rating Report, which cited a limited local service area, high leverage, and  
3 relatively high fee levels. As the City’s financial position deteriorated, there would have  
4 been even more downward pressure on the credit rating, which would have increased debt  
5 service costs and may have ultimately led to being cut off from the capital markets  
6 completely. Without access to capital to fund deferred maintenance and required  
7 improvements under the Consent Decree, SSA simply would not have been a viable long-  
8 term utility.

9 Moody’s rating methodology “US Municipal Utility Revenue Debt” published on  
10 December 15, 2014, also describes the relationship between a municipal utility’s revenue  
11 bond rating and the associated municipality’s general obligation (“GO”) rating. The  
12 Moody’s methodology acknowledges exposure to similar credit strengths and pressures for  
13 the municipal utility and GO rating based on linkages, such as the local economy that both  
14 the municipality and the utility serve, close ties between management and governance of the  
15 two entities, and similar capital markets that both the municipality and the utility need to  
16 access for funding. The report notes that because of these linkages, in most cases, ratings of  
17 a municipality’s utility debt will be within two notches of its GO rating. Moody’s does not  
18 rate the City or the SSA, but, like S&P, Moody’s methodology makes clear that the City’s  
19 financial weakness has negative credit rating implications for its utilities. Thus, the City’s  
20 weak financial position also has negative capital market access implications for the SSA.

21 **Q. Based on your analysis, what were the prospects for the SSA if the City had not**  
22 **addressed its structural budgetary deficit in order to achieve long-term financial**  
23 **stability?**



1 A. The SSA's long-term viability relied on its ability to implement regular revenue increases  
2 necessary to implement the Consent Decree, fund other capital improvements, and satisfy  
3 general operating expenses. The City's poor financial position, severe structural budgetary  
4 imbalance, and potential dramatic real estate tax increases put the Authority's ability to  
5 implement these revenue increases at risk from both an economic and political perspective.

6 As a consequence, the Authority would have faced a lower credit rating and  
7 increased debt costs at a time when it would have needed large amounts of capital to satisfy  
8 the Consent Decree's mandates. The combination of reduced revenue and increased  
9 borrowing costs would have spurred a potential series of rate increases and customer base  
10 erosion, eventually putting the Authority's investment grade rating at risk. Without access to  
11 the capital markets, compliance with the Consent Decree would be impossible, thereby  
12 jeopardizing the Authority's long-term financial viability and solvency. These risks were  
13 mitigated by monetizing the Scranton wastewater system, which is helping to secure the  
14 financial stability of the City..

15 **Q. Does this conclude your direct testimony?**

16 A. Yes it does.

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY  
COMMISSION**

**v.**

**PENNSYLVANIA-AMERICAN WATER  
COMPANY**

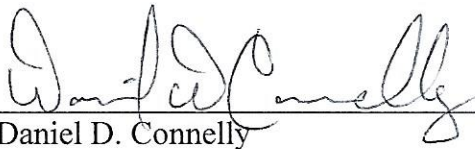
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**DOCKET NO. R-2017-2595853**

**VERIFICATION**

I, **Daniel D. Connelly**, hereby state that the facts set forth in the pre-marked Statement No. 14 and accompanying exhibits, if any, are true and correct to the best of my knowledge information and belief. I understand that this verification is made subject to the provisions and penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Date: April 28, 2017

  
\_\_\_\_\_  
Daniel D. Connelly

## Exhibit No. 14-A

### Population Trends, 1960-2015

| <b>Year</b>            | <b>Scranton</b> | <b>Lackawanna<br/>County</b> | <b>Pennsylvania</b> | <b>United States</b> |
|------------------------|-----------------|------------------------------|---------------------|----------------------|
| 1960                   | 111,443         | 234,531                      | 11,319,366          | 179,323,175          |
| 1970                   | 102,696         | 234,107                      | 11,800,766          | 203,302,031          |
| 1980                   | 88,117          | 227,908                      | 11,864,720          | 226,542,199          |
| 1990                   | 81,879          | 219,039                      | 11,881,643          | 248,709,873          |
| 2000                   | 76,415          | 213,295                      | 12,281,054          | 281,421,906          |
| 2010                   | 76,089          | 214,437                      | 12,702,379          | 308,745,538          |
| 2015                   | 76,064          | 213,459                      | 12,779,559          | 316,515,021          |
| Pct Change (1960-2015) | -31.7%          | -9.0%                        | 12.9%               | 76.5%                |

Source: U.S. Census Bureau and 2011-2015 American Community Survey 5-Year Estimates

## Exhibit No. 14-B

### Select Economic and Demographic Information, 2011-2015

|                                  | Scranton | Lackawanna<br>County | Pennsylvania | United States |
|----------------------------------|----------|----------------------|--------------|---------------|
| Median Home Value                | 103,700  | 144,800              | 166,000      | 178,600       |
| Owner Occupied Housing Units     | 54.0%    | 69.6%                | 72.3%        | 65.4%         |
| Vacant Housing Units             | 13.8%    | 12.4%                | 11.2%        | 12.3%         |
| Median Household Income          | 37,218   | 46,271               | 53,599       | 53,889        |
| Mean Household Income            | 49,704   | 61,757               | 73,175       | 75,558        |
| Per Capita Income                | 20,114   | 25,608               | 29,291       | 28,930        |
| Pct of Individuals Below Poverty | 22.1%    | 14.8%                | 13.5%        | 15.5%         |
| High School Graduate or Higher   | 85.3%    | 89.9%                | 89.2%        | 86.7%         |
| Bachelors Degree or Higher       | 20.9%    | 25.9%                | 28.6%        | 29.8%         |

Source: 2011-2015 American Community Survey 5-Year Estimates

**Exhibit No. 14-C**

General Fund Surplus/(Deficit)  
City of Scranton  
2009-2013  
(Excluding Annual Tax and Revenue Anticipation Notes)

|                   | <b>2009</b>    | <b>2010</b>    | <b>2011</b>   | <b>2012</b>   | <b>2013</b>    | <b>Change 2009 to 2013</b> |       |
|-------------------|----------------|----------------|---------------|---------------|----------------|----------------------------|-------|
| Revenues          | \$ 58,124,461  | \$ 57,823,942  | \$ 64,371,827 | \$ 81,128,371 | \$ 66,452,791  | \$ 8,328,330               | 14.4% |
| Expenditures      | 63,476,817     | 62,401,768     | 62,316,336    | 73,607,872    | 69,185,642     | 5,708,825                  | 9.1%  |
| Surplus (Deficit) | \$ (5,352,356) | \$ (4,577,826) | \$ 2,055,491  | \$ 7,520,499  | \$ (2,732,851) |                            |       |

Source: Revised and Updated Act 47 Recovery Plan City of Scranton, February 2015, Table A.1, pg A-1

## Exhibit No. 14-D

### Impact of One-Time Events on General Fund Surplus/(Deficit) City of Scranton 2009-2013

|   | 2009                   | 2010                  | 2011                  | 2012                   | 2013                  |
|---|------------------------|-----------------------|-----------------------|------------------------|-----------------------|
| Surplus (Deficit)                         | \$ (5,352,356)         | \$ (4,577,826)        | \$ 2,055,491          | \$ 7,520,499           | \$ (2,732,851)        |
| <b>One Time Events</b>                    |                        |                       |                       |                        |                       |
| Delinquent Earned Income Tax              | \$ (3,625,737)         |                       |                       |                        |                       |
| Advance on Delinquent Real Estate Tax     | \$ (3,707,543)         | \$ (2,000,000)        |                       |                        |                       |
| Workers' Comp Fund Transfer               |                        |                       | \$ (5,305,920)        |                        |                       |
| Golf Course Proceeds                      |                        | \$ (1,847,473)        |                       |                        |                       |
| Deficit Financing                         |                        |                       |                       | \$ (20,070,000)        |                       |
| State Loan                                |                        |                       |                       | \$ (2,000,000)         |                       |
| State Grant                               |                        |                       |                       | \$ (250,000)           |                       |
| <b>Surplus/(Deficit) without one time</b> | <b>\$ (12,685,636)</b> | <b>\$ (8,425,299)</b> | <b>\$ (3,250,429)</b> | <b>\$ (14,799,501)</b> | <b>\$ (2,732,851)</b> |

Source: Revised and Updated Act 47 Recovery Plan City of Scranton, February 2015, Table A.2, pg A-2

**Exhibit No. 14-E**

**Baseline General Fund Projections  
City of Scranton  
2015-2020**

|                    | <b>2015</b>    | <b>2016</b>     | <b>2017</b>     | <b>2018</b>     | <b>2019</b>     | <b>2020</b>     |
|--------------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenues           | \$ 92,046,613  | \$ 82,695,202   | \$ 82,702,900   | \$ 82,713,626   | \$ 82,727,337   | \$ 82,743,990   |
| Expenditures       | \$ 95,228,990  | \$ 90,960,225   | \$ 96,428,355   | \$ 99,320,007   | \$ 101,190,250  | \$ 102,139,202  |
| Surplus (Deficit)  | \$ (3,182,377) | \$ (8,265,023)  | \$ (13,725,455) | \$ (16,606,381) | \$ (18,462,913) | \$ (19,395,212) |
| Cumulative Deficit | \$ (3,182,377) | \$ (11,447,400) | \$ (25,172,855) | \$ (41,779,236) | \$ (60,242,149) | \$ (79,637,361) |

Source: Revised and Updated Act 47 Recovery Plan City of Scranton, February 2015, Table 3.1, pg 3-3

**Exhibit No. 14-F**

**Baseline Projected Annual Pension and Debt Service Expenses  
City of Scranton  
2015-2020**

|  | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Pension  | 12,657,667  | 14,537,273  | 18,538,734  | 19,845,734  | 19,893,734  | 19,702,734  |
| Debt Service (incl SPA guarantee)                | 15,195,068  | 15,582,717  | 15,650,588  | 15,555,925  | 15,555,688  | 15,547,141  |
| All Other Expenses                               | 67,376,255  | 60,840,235  | 62,239,033  | 63,918,348  | 65,740,828  | 66,889,327  |
| Total  | 95,228,990  | 90,960,225  | 96,428,355  | 99,320,007  | 101,190,250 | 102,139,202 |
| <b>Pension and Debt Service as Pct of Budget</b> | <b>29%</b>  | <b>33%</b>  | <b>35%</b>  | <b>36%</b>  | <b>35%</b>  | <b>35%</b>  |

Source: Adapted from Revised and Updated Act 47 Recovery Plan City of Scranton,  
February 2015, Table 3.3, pg 3-5



**DIRECT TESTIMONY  
OF  
EUGENE P. BARRETT**

**WITH REGARD TO  
PENNSYLVANIA-AMERICAN WATER COMPANY'S  
ACQUISITION OF THE ASSETS OF THE SEWER AUTHORITY OF THE CITY OF  
SCRANTON**

**DOCKET NO. R-2017-2595853**

**DATE: April 28, 2017**

**PENNSYLVANIA-AMERICAN WATER COMPANY**

**DIRECT TESTIMONY OF EUGENE P. BARRETT**

1 **Q. Please state your name and business address.**

2 A. My name is Eugene P. Barrett and my business address is 312 Adams Avenue, Scranton,  
3 Pennsylvania 18503.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by Pennsylvania-American Water Company (“PAWC” or the “Company”)  
6 as Manager of Business Development.

7 **Q. Please summarize your educational background and professional experience.**

8 A. I received a B.A. in Political Science from Kings College and completed post graduate  
9 courses in Urban Affairs and Planning at Boston University. I was a Senior Executive at  
10 Community Central Energy Corporation where I worked from 1985 to 2006. I was the  
11 Executive Director for the Sewer Authority of the City of Scranton (“Scranton Authority”)  
12 from 2006 until the Scranton Authority was acquired by PAWC on December 29, 2016.  
13 Since that time I have been employed by PAWC. The full description of my education and  
14 work experience is attached to my testimony as Appendix A.

15 **Q. Have you previously testified before regulatory agencies?**

16 A. Yes. I submitted testimony of behalf of the Scranton Authority during the Pennsylvania  
17 Public Utility Commission’s (the “Commission”) proceeding related to the acquisition of the  
18 Scranton Authority by PAWC (see Docket No. A-2016-2537209). I also submitted  
19 testimony in Commission proceedings as part of my role at Community Central Energy  
20 Corporation.

1 **Q. What is the purpose of your testimony?**

2 A. The purpose of my testimony is to describe the financial condition of the City of Scranton  
3 (the “City”) and the Scranton Authority and explain how the financial condition of the City  
4 and the Scranton Authority were related.

5 **The Financial Condition of the City of Scranton**

6 **Q. Please describe the City generally.**

7 A. Scranton is the sixth-largest city in Pennsylvania. With a population of 76,089, it is the  
8 largest city in the Scranton-Wilkes-Barre-Hazleton, Pennsylvania Metropolitan Statistical  
9 Area, which has a total population of 570,000.

10 **Q. Please describe the financial difficulties that have challenged the City over the last**  
11 **twenty-five years.**

12 A. Under the Municipalities Financial Recovery Act (“Act 47”), the Department of Community  
13 and Economic Development (“DCED”) has a responsibility to assist Pennsylvania  
14 municipalities that are experiencing severe financial distress in order to ensure the health,  
15 safety and welfare of their citizens. Financial distress primarily means a chronic inability to  
16 meet expenditures with revenue – i.e., a structural defect.

17 The City was first determined by the DCED to be in a “distressed” condition under Act 47  
18 on January 10, 1992 , when I was a member of the Scranton City Council, and has remained  
19 so since that time. As a result, the City was appointed a Recovery Coordinator, the  
20 Pennsylvania Economy League, which was tasked with reviewing the City’s operating  
21 deficits and projected revenues and expenses and developing a financial recovery plan. The  
22 City is currently implementing its Revised and Updated Act 47 Recovery Plan (“Revised  
23 Recovery Plan”), covering 2015-2020, which is provided with my testimony as Exhibit No.

24 15-A

1 **Q. Please address the primary factors contributing to the City’s financial distress.**

2 A. ***Budget Deficits.*** For many years, the City generated substantial budget deficits and it  
3 projected that such deficits would continue to grow unless an additional source or sources of  
4 funds could be tapped. The Revised Recovery Plan projected an overall baseline deficit of  
5 \$13,725,454 in 2017, climbing to \$19,395,212 by 2020 (See Exhibit No. 15-A, Page 1-2).

6 ***Unfunded Pension Obligations.*** The City has the most distressed major pension funds in  
7 the Commonwealth. In fact, the funds have been declared “severely distressed” by the  
8 Auditor General and the City’s actuary since at least 1993, with funded ratios of only 17%  
9 (fire), 27% (non-uniformed) and 31% (police), meaning that in each case assets are  
10 significantly less than liabilities. Pension costs have grown by 131% in the last ten years  
11 (from \$5.5 million in 2005 to \$12.6 million in 2015). Each year, the City’s actuary,  
12 pursuant to Act 205, calculates a Minimum Municipal Obligation (“MMO”) that the City  
13 must pay into the pension fund. If a payment is not made, the City can be charged  
14 substantial interest. In addition, the condition of the pension fund on January 1 of every odd  
15 numbered year is assessed in an actuarial valuation report. That report informs the City’s  
16 MMO for the following two years. If the City had failed to obtain the necessary funds to  
17 make its required MMO by January 1, 2017, the City’s future MMOs would be higher until  
18 2020 as a result because they would be based on an actuarial valuation report that did not  
19 reflect any cash infusions made after January 1, 2017.

20 ***City Debt and Cost of Capital.*** In 2012, the City defaulted on guaranteed debt related to the  
21 Scranton Parking Authority and it also recently issued debt with very high interest rates  
22 (7.25% and 8.50%) (See Exhibit No. 15-A, pages B-2 to B-3). Each year, the City must pay  
23 nearly \$ 4 million to meet debt service requirements. In addition, the City has added a

1 roughly equivalent amount of new debt service after ending a decade long dispute with the  
2 City's police and fire unions and consummating a reorganization and modernization of the  
3 Scranton Parking Authority. Absent a cash infusion from the sale of the Scranton Authority,  
4 the City's debt load would have retained one \$4 million obligation and added another.

5 ***Population and Demographics.*** As described in detail by PAWC Witness Connelly, the  
6 City's population has decreased over time and a relatively high percentage of the City's  
7 residents live below the poverty line. For example, over the period of 1960-2010,  
8 Lackawanna County's population declined by 9.0%, while the state population grew by  
9 12.9% (See Exhibit No. 14-A). In addition, according to the most recent American  
10 Community Survey, from 2011 to 2015, on average, 22.1% of City residents were below the  
11 poverty line compared with 13.5% in Pennsylvania (See Exhibit No. 14-B).

12 **Q. Were there opportunities for the City to increase tax revenues?**

13 A. Opportunities for increased revenues were limited in light of recent and significant tax  
14 increases, the City's relatively high tax rates, and the shrinking tax base that I described  
15 earlier. In accordance with the mandates of the Revised Recovery Plan, the City had already  
16 tripled its Local Services Tax ("LST") (see Exhibit No. 15-A, page 1-6). Since 2013, the  
17 average City residential tax bill increased by 97%, from \$504 to \$ 993 in 2016, as compared  
18 to a median household income in the City of \$37,551. A further increase of approximately  
19 32-35% in the millage rate would have been required to fund the City's 2017 budget  
20 shortfall, resulting in a 160% increase in real estate tax bills since 2013, absent a cash  
21 infusion from the sale of the Scranton Authority. This would represent 3.5% of median  
22 household income. In addition, the City's earned income tax rate of 3.4% (combined  
23 municipal and school district) is well above that of its outlying municipalities, which places

1 the City at a competitive disadvantage for attracting population and business growth.

2 Finally, the Scranton Authority's customers had incurred a 46.99% increase in rates in 2012,  
3 which is significant because the City residents and the Scranton Authority's customers are  
4 largely the same. Further tax increases from the City could have had a cascading impact that  
5 would have driven further populations losses and eroded the ability of residents to pay their  
6 tax bills.

7 For all these reasons, the Revised Recovery Plan concluded that "[r]elying solely on tax  
8 increases to eliminate projected operating deficits will place an undue burden on City  
9 taxpayers that will adversely impact their welfare as well as jeopardize the City's economic  
10 development position." (see Exhibit No. 15-A, page 1-1).

11 **Q. What action was the City required to take under the Revised Recovery Plan in  
12 addition to the LST tax increase?**

13 A. The Revised Recovery Plan identified a number of operational and fiscal restructuring  
14 mandates to eliminate the City's projected operating budget deficits, enable the City to  
15 provide vital and necessary services to its residents, and prevent a declaration of fiscal  
16 emergency and receivership under Sections 6 and 7 of Act 47. A primary mandate, in  
17 addition to the LST tax increase, was that the City continue discussions with the Scranton  
18 Authority "to determine a meaningful and substantive process that will provide the City with  
19 a significant source of funds or a continuing revenue stream that shall be used to reduce the  
20 unfunded liability of City pension funds." (see Exhibit No. 15-A, page 1-7).

21 **The Financial Condition of the Scranton Authority and Its Relationship To The City**

22 **Q. Please describe the relationship between the City and the Scranton Authority.**

23 A. The Scranton Authority was established pursuant to the Municipality Authorities Act and is  
24 a separate corporate entity from the City. The finances of the Scranton Authority and the

1 City are separate with no comingling of reserves or cash between the two entities. PAWC  
2 Witness Connelly describes how the City and Borough of Dunmore were involved in the  
3 appointment of Scranton Authority board members.

4 **Q. Did the Scranton Authority have a credit rating?**

5 A. Yes, on March 20, 2015, Standard and Poor's Financial Services LLC ("S&P") assigned  
6 SSA an "A-" rating on its sewer revenue bonds issued in 2015 and affirmed its "A-" rating  
7 on other outstanding sewer revenue bonds. While an "A-" rating is investment grade, the  
8 S&P report identified several concerns with respect to the Authority's operations, including:  
9 (1) the Scranton Authority's "somewhat limited local service area economy"; (2) the  
10 Scranton Authority's system is "highly leveraged" and is likely to remain high; (3) the  
11 Scranton Authority's rates are likely to experience upward pressure to offset capital and debt  
12 costs related to the Long Term Control Plan; and (4) the City's income indicators (i.e.,  
13 median household effective buying income) are "adequate yet below average."

14 **Q. What is the Long Term Control Plan?**

15 A. As described in detail by PAWC witness David Kaufman, on January 31, 2013, the Scranton  
16 Authority entered into a Consent Decree obligating it to implement a Long Term Control  
17 Plan that requires approximately \$140 million in capital investment over the next 20 years.  
18 Additional investments could be expected over that period to meet other capital  
19 requirements of the wastewater system, including approximately \$23 million for the  
20 Chesapeake Bay mandate and \$40 million in normal capital replacements. The Scranton  
21 Authority's consultants conservatively estimated that continued ownership by the Scranton  
22 Authority would require customers' wastewater rates to increase an average of 4.57% per

1 year over the next 30 years. As previously noted, the Scranton Authority's customers had  
2 already experienced a 46.99% increase in rates in 2012.

3 **Q. Did the City's financial condition influence the economic well-being of the Scranton**  
4 **Authority?**

5 A. Yes. Most of the Scranton Authority's customers are residents and businesses located in the  
6 City. If the acquisition had not taken place, and the City had to rely upon continued tax  
7 increases to address its budget deficits, additional pressure would have been placed on the  
8 decreasing number of City property owners to meet their utility expenses, including  
9 wastewater service. This would have forced City residents to balance paying their property  
10 tax bill or their wastewater bill. Increased wastewater delinquencies would have negatively  
11 impacted the Scranton Authority's cash flow and its ability to satisfy its operating financial  
12 obligations. This may have led to an increase in wastewater rates as more customers fell  
13 delinquent or simply left the City for economic reasons, creating a downward spiral of rising  
14 rates on an already stressed customer base.

15 As discussed by PAWC Witness Connelly, the credit rating methodologies for S&P and  
16 Moody's Investor Service acknowledge the relationship between the credit rating of a  
17 municipal utility and that of its associated government. Absent the acquisition, the  
18 increasingly stressed condition of the City could have caused all of the "key concerns"  
19 identified by S&P for the Scranton Authority to be realized. As a consequence, the Scranton  
20 Authority would have faced increasing debt costs at a time when it needed large amounts of  
21 capital to implement the Long Term Control Plan.

22 **Q. Does this conclude your direct testimony?**

23 A. Yes it does



**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY  
COMMISSION**

v.

**PENNSYLVANIA-AMERICAN WATER  
COMPANY**

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:  
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**DOCKET NO. R-2017-2595853**

**VERIFICATION**

I, **Eugene P. Barrett**, hereby state that the facts set forth in the pre-marked Statement No. 15 and accompanying exhibits, if any, are true and correct to the best of my knowledge information and belief. I understand that this verification is made subject to the provisions and penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Date: April 28, 2017

  
\_\_\_\_\_  
Eugene P. Barrett

**PAWC EXHIBIT NO. 15-A**

Revised and Updated Act 47 Recovery Plan  
City of Scranton  
Dated February 2015

**Revised and Updated Act 47 Recovery Plan**

**City of Scranton**

**Effective Upon Adoption**



Prepared by:

Pennsylvania Economy League, Central PA LLC

February 2015

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**CHAPTER 1**  
**Revisions to Adopted Recovery Plan,**  
**Duration of Act 47 Status, and**  
**Impact of Failure to Implement Plan Mandates**

**Revision to the 2012 Revised Recovery Plan**

The Commonwealth of Pennsylvania (State) has designated the Pennsylvania Economy League to serve as the appointed Act 47 Coordinator (Coordinator) for the City of Scranton (City) under the Municipalities Financial Recovery Act (Act 47). It is the Coordinator's opinion that the Revised and Updated Act 47 Recovery Plan for the City dated August 24, 2012, (2012 Revised Recovery Plan) must be amended:

- 1) Under the provisions of Act 199 Section 254 (b)(1) relating to duration of distressed status; and
- 2) Due to the 2015 expiration of workforce mandates contained in the 2012 Revised Recovery Plan.

This amendment to the 2012 Revised Recovery Plan shall be referred to as the Revised and Updated Act 47 Recovery Plan for the City of Scranton (2015 Revised Recovery Plan).

**Baseline Projections and Elimination of Operating Budget Deficits**

As highlighted within this 2015 Revised Recovery Plan and noted in Table 1.1 below, the City has a projected structural General Fund operating budget deficit growing from \$8.3 million in 2016 to \$19.4 million in 2020 that will require ongoing revenue growth and significant restructuring of operations to maintain vital and necessary services. Absent tax increases and the performance of the measures contained in the 2015 Revised Recovery Plan, the City's recurring projected operating revenues will be insufficient to meet anticipated operating expenditures and owed court award judgments for 2016 and future fiscal years.

The City has attempted to eliminate its prior years' General Fund operating budget deficits by using yearly unfunded borrowings and real estate tax millage increases. However, it is the Coordinator's opinion that a careful conversion of certain City assets, changes to public service design and delivery, and current operating and legacy expenditure reductions are necessary to eliminate the projected structural operating deficits. Relying solely on tax increases to eliminate projected operating deficits will place an undue burden on City taxpayers that will adversely impact their welfare as well as jeopardize the City's economic development position.

This opinion is shared by HJA Strategies LLC (HJA), a consultant hired by the Greater Scranton Chamber of Commerce to review and make recommendations concerning City finances. As stated in the introduction to its July 2014 report:

"As the City begins the implementation of many of its broader strategies over the course of the coming months, we must arrive at a more detailed understanding of what each approach entails

and what contingency plans the City may follow should some of these possible approaches become challenged. Moreover, it is vital that the City act according to a timeline that is defined in months—and, in some cases, even weeks—as pressure from various stakeholders continues to mount and the very real consequences of forestalling action become more acute.

Generally speaking, it is vitally important that the individual elements of the overall strategy occur, essentially, in tandem. Each stakeholder must also genuinely “give” something and become a true part of the recovery effort; there cannot be any stakeholders who benefit unusually from any of the proposed changes or, really, any who simply do not share in the burden.”

**General Fund Operating Surplus/(Deficit)  
City of Scranton  
2015 - 2020**

(Without Implementation of 2015 Revised Recovery Plan Mandates)

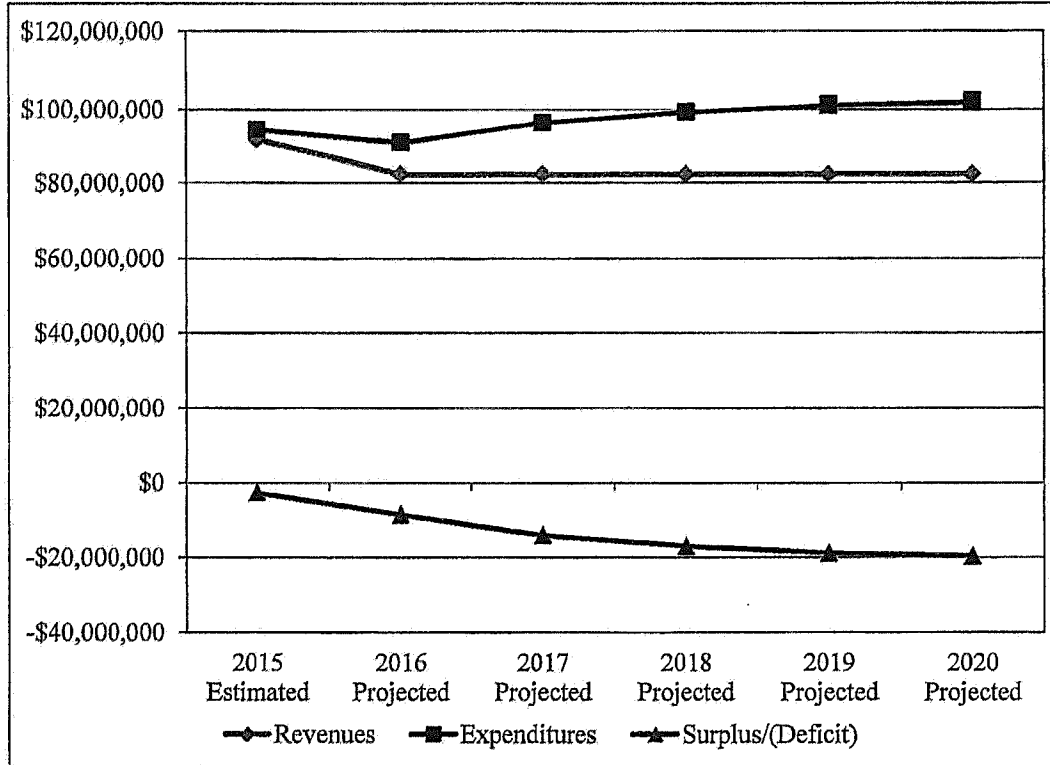
Table 1.1

|                                   | 2015                | 2016                | 2017                 | 2018                 | 2019                 | 2020                 |
|-----------------------------------|---------------------|---------------------|----------------------|----------------------|----------------------|----------------------|
|                                   | Estimated           | Projected           | Projected            | Projected            | Projected            | Projected            |
| <u>Revenue</u>                    |                     |                     |                      |                      |                      |                      |
| Real Estate Taxes                 | \$32,946,752        | \$31,371,752        | \$31,371,752         | \$31,371,752         | \$31,371,752         | \$31,371,752         |
| EIT                               | 24,800,000          | 24,921,250          | 25,043,106           | 25,165,572           | 25,288,650           | 25,412,343           |
| LST (without Plan increase)       | 1,653,300           | 1,656,607           | 1,659,920            | 1,663,240            | 1,666,566            | 1,669,899            |
| Mercantile/Business Privilege     | 2,740,000           | 2,745,200           | 2,750,410            | 2,755,631            | 2,760,862            | 2,766,104            |
| Other Taxes                       | 3,055,000           | 3,049,800           | 3,044,610            | 3,039,431            | 3,034,262            | 3,029,104            |
| Non tax revenue                   | 22,051,561          | 18,950,594          | 18,833,102           | 18,718,001           | 18,605,245           | 18,494,789           |
| Borrowing for Court Award         | 4,800,000           | 0                   | 0                    | 0                    | 0                    | 0                    |
| <b>Total Revenue</b>              | <b>\$92,046,613</b> | <b>\$82,695,202</b> | <b>\$82,702,900</b>  | <b>\$82,713,626</b>  | <b>\$82,727,337</b>  | <b>\$82,743,990</b>  |
| <u>Expenditures</u>               |                     |                     |                      |                      |                      |                      |
| Direct Compensation               | \$30,789,182        | \$31,861,841        | \$32,534,054         | \$33,156,544         | \$33,906,488         | \$33,965,083         |
| Benefits                          | 14,844,418          | 15,691,605          | 16,590,906           | 17,545,653           | 18,559,362           | 19,635,781           |
| Pension                           | 12,657,667          | 14,537,273          | 18,538,734           | 19,845,734           | 19,893,734           | 19,702,734           |
| Workers Comp                      | 3,038,986           | 3,038,986           | 3,038,986            | 3,038,986            | 3,038,986            | 3,038,986            |
| Departmental Expenditures         | 7,947,604           | 7,991,737           | 7,866,046            | 7,921,099            | 7,979,927            | 8,040,437            |
| Non-departmental Expenditures     | 5,616,065           | 1,916,065           | 1,869,040            | 1,916,065            | 1,916,065            | 1,869,040            |
| Debt Service exc. TRAN & SPA      | 12,295,068          | 12,682,717          | 12,750,588           | 12,655,925           | 12,655,688           | 12,647,141           |
| TRAN Interest                     | 340,000             | 340,000             | 340,000              | 340,000              | 340,000              | 340,000              |
| SPA Guarantee                     | 2,900,000           | 2,900,000           | 2,900,000            | 2,900,000            | 2,900,000            | 2,900,000            |
| Payment on Court Award            | 4,800,000           | 0                   | 0                    | 0                    | 0                    | 0                    |
| <b>Total Expenditures</b>         | <b>\$95,228,990</b> | <b>\$90,960,225</b> | <b>\$96,428,355</b>  | <b>\$99,320,007</b>  | <b>\$101,190,250</b> | <b>\$102,139,202</b> |
| <b>BASELINE SURPLUS/(DEFICIT)</b> | <b>-\$3,182,378</b> | <b>-\$8,265,023</b> | <b>-\$13,725,454</b> | <b>-\$16,606,380</b> | <b>-\$18,462,913</b> | <b>-\$19,395,212</b> |

**General Fund Operating Surplus/(Deficit)  
City of Scranton  
2015 - 2020**

(Without Implementation of 2015 Revised Recovery Plan Mandates)

Graph 1.1



**Mandates to Eliminate Projected Operating Budget Deficits**

It is the express intention of the Coordinator that the City shall implement all of the Recovery Plan mandates in a timely fashion. The 2015 Revised Recovery Plan mandates are designed to:

- Eliminate the projected operating budget deficits identified in Table 1.1;
- Enable the City to promptly pay its debt service obligations and judgments;
- Firmly place the City on a course to re-establish an acceptable credit rating by restoring the City's credit worthiness and reducing the level of necessary tax increases;
- Enable the City to pay its employees and its vendors in a timely manner;
- Maintain the health and safety of residents through an adequate level of vital and necessary public services;
- Prevent a declaration of fiscal emergency and receivership under sections 6 and 7 of Act 47 in 2016; and

- Enable the Commonwealth to rescind the City's determination of Act 47 financial distress in 2020 if not earlier.

### **2015 Revised Recovery Plan Duration and Termination of Act 47 Status**

Section 254 (b) (1) of Act 199 states, "Municipalities operating pursuant to a recovery plan on the effective date of this section shall be subject to a termination date five years from the effective date of the most recent recovery plan or amendment enacted in accordance with this act, ..." For the purposes of this 2015 Revised Recovery Plan, the Act 47 Coordinator has determined that the Recovery Plan period began upon plan adoption on August 24, 2012 and will terminate, unless extended, on August 24, 2017. Section 255 of Act 199 states: "(a) General Rule-Not later than 180 days after the beginning of the final year of distressed status as determined in accordance with Section 254 (a) and (b) (1), the coordinator shall complete a report stating the financial condition of the municipality and include one of the following findings:

- (1) Conditions within the municipality warrant a termination in status in accordance with section 255.1. A report containing a recommendation under this paragraph shall address each of the factors set forth in section 255.1(c).
- (2) Conditions are such that the municipality should be dis-incorporated in accordance with Chapter 4.
- (3) Conditions are such that the secretary should request a determination of a fiscal emergency in accordance with Chapter 6.
- (4) A three-year exit plan in accordance with section 256 is warranted."

This 2015 Revised Recovery Plan contains financial projections through 2020. This Recovery Plan will establish limits in accordance with Act 133 on total expenditures for 2018 for those Collective Bargaining Units with contracts expiring before December 31, 2017. During the last year of the Recovery Plan, the Coordinator will prepare a Report in accordance with Section 255 of the Act. It is the intention of the Act 47 Coordinator that the successful implementation of the mandates contained within will lead to a successful termination of distressed status.

### **Failure to Implement Plan Mandates**

The successful implementation of the 2015 Revised Recovery Plan mandates during fiscal years 2015 and 2016 is crucial for the City to maintain solvency and provide vital and necessary services (Section 102 (b) (3) Act 199 of 2014) such as public safety, refuse collection and disposal, and snow removal. The costs projected in Chapter 3 of this Plan indicate that an increasingly larger share of tax revenue must be dedicated to the payment of past contractual employee benefits (legacy costs) rather than to current financial obligations or to direct, immediate, and beneficial public services and infrastructure improvements. The cascading impact of these confiscatory and corrosive taxes will ultimately erode the value of City homes and businesses without providing the citizens with basic and fundamental services required to secure their health, safety and welfare. As the erosion of the wealth housed in their estates



continues, citizens and their posterity will suffer severe damage, as they depend on these resources for their long-term personal economic health and welfare. Ultimately, undermining the value of City property through unchecked tax increases will lead to an increasing flight of residents and businesses from the City, resulting in blight and further reduction of the tax base that will only exacerbate the City's financial distress.

**Accordingly, the failure of the City to comprehensively accomplish the operational and financial restructuring mandates outlined in this Plan will result in a fiscal emergency. This fiscal emergency will not be of the nature of the 2012 cash flow shortage, but rather one of increasing burden on property owners, wage earners, and all Scranton citizens that imperils the City's long-term viability.**

It is the Coordinator's opinion and recommendation that ultimate resolution of this fiscal emergency will require State action under sections 6 and 7 of Act 47 as amended. Such action includes a declaration by the Governor of a fiscal emergency; efforts to negotiate a consent agreement between the State and the municipality; and should that fail the appointment of a receiver in order to implement actions necessary to maintain vital and necessary services in the short term and, in the long term, to reverse the reduction in property values and municipal services caused by extraordinary taxation and legacy costs.

As stated in the HJA report:

"A failure to *comprehensively* execute on the recommendations outlined ... will require the City to raise total Real Estate Tax revenues by at least 119 percent over the 2013 level to meet the projected 2017 deficit. The City would also almost certainly remain in Act 47 and be forced to drastically cut City services to a far greater extent ...."

**Therefore, it is imperative that the City shall take the necessary actions to timely implement all of the following mandates to eliminate the projected 2016 -- 2020 operating budget deficits.**

In order to ensure timely and effective implementation of plan mandates by the City, the Act 47 Coordinator will continue to monitor and support the City as necessary, including seeking assistance from the State as permitted under Act 47.

## **Mandates For Implementation During 2015**

The following mandates for implementation under the 2015 Revised Recovery Plan are the result of a thorough and cooperative process involving the City's Mayor, Council, and Business Administrator over the preceding twelve months. The Coordinator has also cooperated with HJA Strategies throughout the development of the recommendations stated in the HJA report and has included those recommendations where appropriate with modifications necessary to conform with Act 47.

### **Immediately Upon Adoption Of The 2015 Revised Recovery Plan.**

1. **Implement an Increase in the City's Local Services Tax.**  
The City shall petition the Lackawanna County Court of Common Pleas for an increase in the City's Local Services Tax from \$52 per year to \$156 per year. This increase is included in the City's adopted 2015 budget and any delay in seeking approval will jeopardize the City's ability to pay its 2015 obligations in a timely manner.
2. **Consider Application for Act 47 Grant Assistance.**
  - (1) The City may apply for an Act 47 grant in the amount of approximately \$35,000 to review the feasibility of, and to provide options for, the creation of a Municipal Solid Waste Collection Authority or a combined purpose authority. The feasibility study will provide recommendations and procedures for the retention of existing employees of the City's Refuse Bureau into the Authority, review the appropriate level of solid waste disposal under the current fee structure, review the revenue potential of the recyclable stream, and examine the possibility of sub-contracting the collection of refuse.
  - (2) The City may apply for an Act 47 grant in the amount of approximately \$35,000 to review the feasibility of the creation of a Storm Water Management Authority either in connection with the actions relative to the Scranton Sewer Authority or separately as an independent authority. The authority will have the ability to levy storm water assessment fees under applicable law. These revenues may be used to further reduce the City's public works financial responsibility as well as the cost of storm water management, especially as the separation of combined sanitary/storm water sewer lines continues through the next decade. The review shall consider the expansion of public works service to the most practical extent and the transfer of existing employees of the City's Public Works Department to the greatest extent possible.

### **Mandates to be Completed by Date Indicated.**

#### **Conversion of Assets.**

1. **Scranton Parking Authority.** As of the preparation date of this Revised Recovery Plan, the City had issued a Request for Qualifications (RFQ) from interested parties relative to a monetization of the Scranton Parking Authority (SPA) and the City's on-street parking franchise. The City shall use the RFQ

response to develop a list of qualified parties to negotiate and finalize arrangements for the parking franchise in the City. **(December 31, 2015)**

- a. Unless otherwise provided for in an overall debt management strategy prior to September 30, 2015, proceeds from the above process shall first be used to reduce the outstanding SPA indebtedness. Any excess of funds from the parking monetization after satisfaction of debt shall be used to reduce the City's unfunded liability for its pension funds.

## **Mandates To Be Completed During 2015 – 2016.**

### **Conversion of Assets.**

1. **Scranton Sewer Authority.** The City shall continue discussions with the Scranton Sewer Authority board to determine a meaningful and substantive process that will provide the City with a significant source of funds or a continuing revenue stream that shall be used to reduce the unfunded liability of City pension funds.
2. **Review of Other City Assets.** In concert with the mandates regarding the parking and sewer authorities, the City shall assess the feasibility of divesting any City asset that is not directly related to the provision of vital and necessary services. These assets may include real property, apartments or other rental properties, unused buildings, recreational assets, and rolling stock. Funds from the sale of assets, after satisfaction of any associated debt, shall be used to reduce the City's unfunded liability for its pension funds.

### **Refinancing of the City's Debt.**

As a companion effort to the monetization of the Scranton Parking Authority assets, the City shall undertake and explore the feasibility of restructuring outstanding City debt. The City, in addition to its guaranty of the SPA obligations, has approximately \$132.9 million outstanding in general obligation and lease rental debt obligations. These Bonds and Notes bear interest at both fixed and variable rates, and consist of both tax-exempt and taxable securities.

This evaluation and analysis should also be conducted as part of the City's strategy to develop alternatives to improve the fiscal position of the City's composite employee pension systems. The City does not currently have an investment grade rating from any of the major municipal credit rating agencies. A comprehensive restructuring and refinancing of the City's existing debt portfolio will require continued improvement in the City's creditworthiness with the municipal market, financial institutions, and other investment institutions. Implementation of the Recovery Plan provisions is a crucial element in the process to improve the City's credit posture.

### **Payroll Preparation Tax.**

The Coordinator shall provide to the City an analysis of the impact of a payroll preparation tax replacing the current business privilege and mercantile taxes. The analysis shall include (to the extent possible using available data) the impact on taxpayers from

the payroll preparation tax. The study shall also examine the elimination of the business privilege and mercantile taxes without the levying of a payroll preparation tax, including the impact on the City's projected 2016-2020 budgets and possible revenue to replace the business privilege and mercantile taxes.

**Employee Benefits/Health Care.**

The City shall initiate a major review of its health care insurance and related programs, advisors and administrators. The goal of the review shall be a reduction in the rate of increase of employee health care costs. This review should be completed as soon as practical, but no later than 180 days after the adoption of this 2015 Revised Recovery Plan. The City shall have sole discretion in conducting the review of the health care options provided for employees.

**Scranton Housing Authority.**

Not later than 120 days after the adoption of this 2015 Revised Recovery Plan, representatives of the City shall meet with the Board of the Scranton Housing Authority to determine what other financial assistance might be provided by the Authority to the City in addition to the normal in lieu of tax payments already committed by the Authority.

**Real Estate Tax Millage Rate Increases.**

If after implementing all of the above mandates the City is still projected to incur operating deficits for the years 2016 through 2020, the City shall increase its real estate tax millage in the amount necessary to eliminate the operating deficits, to meet its financial obligations, and to maintain vital and necessary services. The successful implementation of this Plan's comprehensive mandates will greatly reduce the magnitude of future tax increases; however, no Plan can eliminate the need for future periodic increases in tax revenue.

**Verification of Property Exempt From Taxation Status.**

The City shall undertake an examination of the actual status of use for each real estate property exemption from taxation currently granted for tax assessment purposes. The City may utilize an outside contractor, its own employees, or temporary help to perform the canvas of properties. The intent of the survey is to review the current condition and use of exempt properties. The City shall appeal the status of any property that does not qualify by use for exempt from taxation status.

**Restructure City Staff Assignments.**

Over the past five years, the City has reduced certain elements of its staff compliment through attrition and by not filling budgeted positions. The City shall review and modify the work assignments and abilities of the current staff employed in the offices of the Mayor, Business Administrator, Controller, and Treasurer. The goal is to provide adequate staff support across office lines and smooth out workflow peaks and troughs during the year. The City shall consider the appropriate collective bargaining agreements and the appropriate level of internal fiscal control when re-assigning; nonetheless, this mandate will apply as broadly as possible to the staff for both elected and appointed

officials of the above offices and shall allow for the highest and best utilization of staff time in service to the City.

**Employee Pension Options for Non-Represented Employees.**

The City shall consider the feasibility of changes to the pension plan design for those employees not represented by a collective bargaining agreement or applicable law. The redesign of the pension plans will include a component of defined benefit and defined contribution for the pension benefit; employees not yet hired may be offered a pension benefit that differs from the benefit extended to current employees (e.g. a defined contribution plan without a defined benefit component).

**Mandates Available to the City Throughout the Recovery Plan Period.**

**Municipal Pension Plan Funding Standard and Recovery Act (Act 205).**

The City should utilize the provisions of Act 205 and Act 47 relating to the levying of a dedicated earned income tax to provide fiscal relief for the funding of the City's public employee pension plan. The revenue from this dedicated earned income tax may be used to finance the repayment of a pension bond.

**Shared Services and Municipal Cooperation.**

Appoint a commission of municipal stakeholders, community leaders, City officials and other key players from the private and public sectors to study the implementation of various shared services programs.

**Land Banks (Act 153 of 2012).**

Vacant, abandoned and tax-delinquent properties impose significant costs on the City by lowering property values, increasing fire and police protection costs, decreasing tax revenues and undermining community cohesion. The City's Office of Community and Economic Development should work with community leaders, City officials, Redevelopment and Housing Authority Officials, community development corporations, and the Tax Claim Bureau to study creation of a land bank within the City, as authorized by Act 153.

## CHAPTER 2

### Workforce and Collective Bargaining

While the cash compensation and benefits provided to City employees will vary greatly by individual, the Act 47 Coordinator's financial review of City personnel expenditures presented within this Recovery Plan exhibit a very clear conclusion – the City must control its future personnel expenditures to sustain operations. As with many municipal governments, personnel expenditures represent the majority of the City's General Fund operating expenses. City personnel expenses have risen annually during the review period. In addition to direct compensation growth, additional opportunities for employee cash compensation and benefits are available to eligible employees through: longevity; overtime compensation; a health plan with a high level of medical coverage and a lower employee cost than found in private or other public sector employers; retiree health care coverage; and a taxpayer guaranteed level of retirement benefits through a defined benefit pension plan. This level of cash compensation and benefits is offered within the context of the City and region's high unemployment, the City's weak tax base and the stagnation or even reduction of major City revenue sources absent tax increases.

Restoration of the City's fiscal health cannot be achieved without controlling its future personnel expenses, especially direct compensation, overtime and health care expenses. Control over personnel expenses is essential to the City of Scranton's fiscal survival. Without it, the City will eventually have to make dramatic workforce reductions that will limit its ability to provide the most basic municipal services to its residents. In the past, the City of Scranton has resorted to layoffs because it was unable to reduce or contain other components of compensation. While reducing the City's employee complement will reduce City operating expenditures, the City cannot adequately address its structural operating deficits without restructuring the entire employee compensation package it offers its employees so that employee compensation and benefit expenditure growth more closely tracks the City's level of revenue. Complement reductions must also be balanced with the City's need to provide necessary and vital services to its businesses and residents

Therefore, the limits on expenditures outlined in this chapter of the 2015 Revised Recovery Plan are intended to assist the City in controlling its personnel expenses. The intended goal is to move the City toward a structurally balanced budget so that it can focus its attention on improving City services, instead of merely sustaining them, and pursuing financial recovery and growth, instead of merely surviving as a municipal entity. A financially insolvent city benefits no one, especially City employees.

**Revised Recovery Plan Compliance With Act 133 of 2012** As required by the Act 133 amendments to the Financially Distressed Municipalities Act (Act 47) the 2015 Revised Recovery Plan will segregate costs related to each collective bargaining unit included in the baseline cost projections contained in the Plan, both assuming the continuation of current operations and as impacted by the measures in the Plan. This approach enables each bargaining unit to have an active and unit-specific role in collective bargaining. The 2012 Amendments to Act 47 call for the Coordinator to project revenues and expenditures for the current and next three fiscal years, and to include a cap on expenditures for individual collective bargaining units that the distressed municipality shall not be exceeded. With limited exceptions, arbitration awards for Act 111 units are also subject to this provision.

**Mandated Expenditure Limits:**

The maximum allocated amounts shown below shall be the maximum dollars available for each bargaining unit in each year. These amounts include the "baseline" costs and are prior to any adjustments through good faith negotiation or arbitration, as well as additional allowances for collective bargaining. The "baseline" does not include the costs for the City portion in support of pension obligations. These limits include the following assumptions which may be changed through collective bargaining but total expenditures are not to exceed the total limits for each bargaining unit. The individual expenditure categories are included within the "baseline" total with the following assumptions used to calculate the yearly amounts.

- The number of personnel is held constant at the 2015 Operating Budget workforce level.
- Current yearly wages have been increased as specified in collective bargaining agreements, interest arbitration awards or court orders. At the conclusion of the current collective bargaining agreements or arbitration awards, wage increases are anticipated at two percent for all bargaining units. Salaries for non-represented City employees are projected at two percent growth through 2018.
- Other salary is held constant at the 2015 budget amount.
- Longevity salary has been increased as specified in collective bargaining agreements, interest arbitration awards or court orders.
- Overtime salary is held constant.
- Uniform allowances are held at the 2015 budget level.
- Employee medical insurance expenditures were increased annually by six percent from 2016 through 2018 in conformance with recently observed City experience and similar annual increases projected for other local government entities.
- Life and disability insurance is increased at 3.0% annually.
- Pension payments for the IAM pension are increased based on contracted amounts.
- Social Security costs have been increased by the rate of the underlying salaries and wages.

The amounts shown following are maximum expenditure limits for each bargaining unit and group of employees with a contract expiring between January 1, 2015 and January 1, 2018. It will be the intent of this Recovery Plan to provide the City and its unions with flexibility to negotiate a pattern of compensation consistent with Act 47, provided the total employee cost does not exceed the limits on expenditures for each bargaining unit.

### Maximum Allocations by Employee Unit

**International Association of Machinists and  
Aerospace Workers Local 2305**

|  | 2015               | 2016               | 2017               | 2018               |
|--|--------------------|--------------------|--------------------|--------------------|
|  | Estimated          | Projected          | Projected          | Projected          |
| <b>Public Works</b>                              |                    |                    |                    |                    |
| Standard Salary                                  | \$3,657,889        | \$3,739,835        | \$3,822,258        | \$3,904,315        |
| Other Salary (Misc)                              | 2,975              | 2,975              | 2,975              | 2,975              |
| Longevity Salary                                 | 209,475            | 214,223            | 219,015            | 223,795            |
| Overtime Salary                                  | 340,500            | 340,500            | 340,500            | 340,500            |
| Uniform Allowance                                | 36,148             | 36,148             | 36,148             | 36,148             |
| Health Insurance - DPW Union Active              | 1,009,224          | 1,069,636          | 1,133,815          | 1,201,843          |
| Health Insurance - DPW Union Active Contribution | -125,375           | -132,898           | -140,871           | -149,324           |
| Health Insurance - DPW Union Retiree             | 1,024,052          | 1,085,379          | 1,150,502          | 1,219,532          |
| Life/Disability Insurance                        | 47,283             | 48,736             | 50,199             | 51,704             |
| IAM Pension                                      | 300,344            | 345,064            | 389,784            | 389,784            |
| Social Security                                  | <u>322,129</u>     | <u>328,761</u>     | <u>335,433</u>     | <u>342,076</u>     |
| <b>Total Bargaining Unit Expenditures</b>        | <b>\$6,824,644</b> | <b>\$7,078,361</b> | <b>\$7,339,758</b> | <b>\$7,563,350</b> |

**International Association of Machinists and  
Aerospace Workers Local 2462**

|   | 2015               | 2016               | 2017               | 2018               |
|---|--------------------|--------------------|--------------------|--------------------|
|   | Estimated          | Projected          | Projected          | Projected          |
| <b>Clerical</b>                                       |                    |                    |                    |                    |
| Standard Salary                                       | \$2,075,822        | \$2,146,079        | \$2,222,313        | \$2,292,337        |
| Other Salary (Misc)                                   | 5,916              | 5,916              | 5,916              | 5,916              |
| Longevity Salary                                      | 54,792             | 58,016             | 59,865             | 61,641             |
| Overtime Salary                                       | 8,000              | 8,000              | 8,000              | 8,000              |
| Uniform Allowance                                     | 16,260             | 16,260             | 16,260             | 16,260             |
| Health Insurance - Clerical Union Active              | 624,945            | 662,372            | 702,115            | 744,242            |
| Health Insurance - Clerical Union Active Contribution | -53,846            | -72,459            | -72,459            | -72,459            |
| Health Insurance - Clerical Union Retiree             | 741,555            | 785,964            | 833,122            | 883,109            |
| Life/Disability Insurance                             | 24,025             | 24,764             | 25,506             | 26,272             |
| Social Security                                       | <u>164,056</u>     | <u>169,678</u>     | <u>175,651</u>     | <u>181,144</u>     |
| <b>Total Bargaining Unit Expenditures</b>             | <b>\$3,661,525</b> | <b>\$3,804,590</b> | <b>\$3,976,289</b> | <b>\$4,146,460</b> |

Examples of components of compensation impacted by negotiations include, but are not limited to wages/salaries, longevity, shift pay, special assignment pay, other cash premiums and bonuses, applicable payroll taxes, vacation, holidays, paid leave, active employee life insurance, and other miscellaneous fringe benefits. Included in the maximum allocations for each year are the costs carried forward from recurring increases in prior contract years.



**Workforce Mandates and Recommendations Applicable to  
All City Employees and Department/Bureau/Offices**

The following workforce mandate and recommendations are cost containment initiatives that are both reasonable and necessary to the City's financial recovery.

The workforce provisions included in this 2015 Revised Recovery Plan will only be applicable to collective bargaining agreements or arbitration settlements executed after the adoption of this revised recovery plan. The terms and provisions of any current collective bargaining agreement, arbitration settlement or arbitration award now in existence shall be followed for the remainder of the agreement, settlement or award's current term, except to the extent that said agreements, settlements or awards are modified or vacated as a result of any pending appeals relating to said agreements, settlements or awards or if the parties voluntarily amend an existing agreement, settlement or award.

It is the intention of the Act 47 Coordinator that any labor negotiations by the City with its employees' bargaining unit representatives conducted after the adoption of this 2015 Revised Recovery Plan be conducted in good faith to incorporate the workforce initiatives listed below. However, to the extent that the City is unable to reach agreement with any of its bargaining units, resulting in interest arbitration or other legal proceedings, it is the express intention of the Act 47 Coordinator that the implementation of the Act 133 initiatives is mandatory.

Wherever reference is made to parameters for all bargaining units, employee groups, collective bargaining agreements, arbitration settlements or arbitration awards, such provision shall also apply fully to non-represented City personnel unless expressly stated otherwise. Wherever reference is made to parameters for provisions in collective bargaining agreements, such provisions shall also fully apply to any memoranda of understanding, side agreements, settlement agreements, arbitration settlements or arbitration awards, or any other documents.

**Mandated**

1. Pension Cost of Living Increases During the Recovery Plan Term — There shall be no pension cost of living (COLA) increases provided during the term of this Revised Recovery Plan. The City's pension funds are severely underfunded and it is contrary to Commonwealth law and proper pension administration to grant adjustments for retiree COLA payments. Any pension COLA adjustments granted will cause further deterioration of the funds' financial status and a corresponding increase cost to the City in the form of higher minimum municipal obligation costs.

**Recommended**

1. Precluded Contractual Provisions — It is recommended that any new collective bargaining agreement not provide for:

- a. Any term or provision which continues or adds any restrictions on the City's Management Rights. Examples of prohibited terms or provisions include, but are not limited to, provisions limiting the City's ability to subcontract bargaining unit or other work; to determine employees' work hours, shifts and schedules; to implement a layoff in employee complement in any City department, division, bureau, office, etc.; or to decide which bargaining unit member performs a particular duty or function.
- b. Any provision which expands any bargaining unit members' rights to present grievances to the City or to appeal grievances to arbitration.
- c. Any new benefit of any kind for current employees and retirees or improvements to existing benefits, including without limitation retiree pension and health care benefits.

2. Recommendations on Base Salary and Base Hourly Wages

a. Back Pay

Any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2015 Revised Recovery Plan will not provide any retroactive base salary or base hourly wage adjustment or back payments of any kind for the period 2015 - 2018 unless modified in a subsequent Revised Recovery Plan.

b. Bonuses

Any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2015 Revised Recovery Plan will not provide any monetary bonus of any kind for the period 2015 - 2018 unless modified in a subsequent Revised Recovery Plan.

4. Recommendations on Holidays, Personal Days, Vacation Days; Limitations on Paid Leave.

Employees will not be entitled to payment for any holidays or personal days which occur after their retirement, discharge, or layoff date. Further, at the time of discharge, retirement, or layoff an employee will be entitled to vacation pay only if the employee is currently on active pay status. Except as provided by law, no vacation time will be earned by an employee who is on extended leave because of injury, sickness, personal days, or holidays, which would result in the employee being paid for more than 52 weeks in a year. There will be no duplication of any form of paid leave or accrual of paid leave for the same period of time.

5. Recommendations on Paid Leave

In addition to the compensation limitations on holidays, personal days, and vacations enumerated above, there will be no increase or improvement in any other form of paid leave. The scheduling of vacation, holidays, and personal days will be balanced and evenly distributed throughout the year in such a manner as to preclude the need for overtime. The City will adopt and strictly enforce a management/supervisory oversight policy covering all types of leave (sick, family, bereavement, etc.).

6. Recommendations on Compensatory Time

Any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2015 Revised Recovery Plan will not provide compensatory time off to any City employee for the period 2015 - 2018 and indefinitely thereafter unless modified in a subsequent Revised Recovery Plan.

7. Recommendations on Sick Days

Any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2015 Revised Recovery Plan will not increase the total number of annual sick days above the number of days provided for in current collective bargaining agreements, arbitration settlements or arbitration awards. Subject to the provisions of any current collective bargaining agreement, arbitration settlement or arbitration award, full-time employees hired on or after the adoption of this 2015 Revised Recovery Plan, will earn one sick day per month beginning the first day of the month following the date of hire. Employees may earn sick days only while on active pay status (i.e., when an employee is actually working and not on any form of leave—paid or unpaid).

Except as provided by law and as permitted below, any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2015 Revised Recovery Plan will not provide for annual buyout of unused sick days. A City employee will be eligible for sick day buyout of a maximum of 120 days only upon an employee's death or retirement at the rate of fifty (50) percent of the employee's base salary or base hourly wage at the time of death or retirement. There will be no buyout for accumulated sick days upon termination of employment other than death or retirement.

8. Recommendations on Retirees Healthcare

Any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2015 Revised Recovery Plan will not provide any retiree health care benefits to any current or future City employee that retires from City employment for the period 2015 - 2018 and indefinitely thereafter unless modified in a subsequent Revised Recovery Plan.

9. Recommendations on Regular Part-time Employees

The City will have the right to hire regular part-time employees. Regular part-time employees will be used or scheduled in such a fashion so as to virtually eliminate the need for nonemergency overtime within the City. Regular part-time employees will be part of the applicable bargaining unit, and regular part-time police and firefighters will be hired through Civil Service procedures. Regular part-time employees may be scheduled at any time but will not be scheduled to work more than 28 hours per week. The City will have the right, in its sole discretion, to determine the starting wages and job duties of regular part-time employees. Regular part-time employees will not be eligible for any form of employee benefits or paid leave.

10. Recommendations on Elimination of Minimum Manning

Except where required by law, any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2015 Revised Recovery Plan will not contain any minimum manning requirements of any kind for any particular bargaining unit, shift, platoon, job classification, specialization, apparatus, equipment or vehicle manning or position for the period 2015 - 2018 and indefinitely thereafter unless modified in a subsequent Revised Recovery Plan.

11. Recommendations on "No Layoff" Clauses

Any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2015 Revised Recovery Plan will not contain a "no layoff" clause. The City will have the sole right to determine the number of personnel employed and utilized by the City. Further, the City will have the right to layoff any employees for economic or any other reasons, without limitation. These provisions will be applicable for the period 2015 - 2018 and indefinitely thereafter unless modified in a subsequent Revised Recovery Plan.

12. Recommendations on Longevity

Any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2015 Revised Recovery Plan will not provide any increase above the absolute dollar amount paid to each employee at the conclusion of current collective bargaining agreements, arbitration settlements or arbitration awards. No longevity will be paid to any management employee.

13. Recommendations on Elimination of Subcontracting Clauses

Any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2015 Revised Recovery Plan will not contain any provision which prohibits or limits the right of the City to subcontract any service, function, or activity for the period 2015 - 2018 and indefinitely thereafter unless modified in a subsequent Revised Recovery Plan.

14. Recommendations on Duplication of Benefits

Except as otherwise specifically required by law, any duplication of payment for sick leave, disability leave, workers compensation, Heart and Lung benefits, paid leave, pension benefits, or regular pay will be eliminated. All pension plans will be amended to include a provision to offset pension benefits by the amount of Social Security disability benefits. Employees will be required to make an election concerning available benefits in order to avoid any duplication of benefits. There will be no duplication of pension benefits and workers' compensation benefits. In accordance with Pennsylvania law, Act 57 of 1996, 77 P. S. §71, as amended, the amount of workers' compensation benefits paid to any employee will be offset by the amount of pension benefits payable to the same employee.

15. Recommendations on Sick Leave/Doctors Evaluation

Any employee who is off work as a result of any illness or injury for more than three consecutive work days or who exhibits a pattern of possible sick leave abuse will be required to furnish, at the employee's expense, a doctor's certification concerning the nature of the

illness or injury. In addition, the City may, at its discretion, order an evaluation of the employee's condition by medical personnel of the City's choosing at the City's expense.

16. Recommendations on Family Medical Leave Act.

The City will comply with The Family Medical Leave Act (FMLA) of 1993, which provides up to 12 weeks of leave in a 12-month period and which guarantees the same or an equivalent job upon return to work.

17. Recommendations on Short-term Disability Insurance.

The City will have the right to adjust the terms and conditions of its Short-term Disability program in order to provide that compensation under the program does not begin until after the employee is unable to work for ten consecutive work days. The City's insurance policy for its Short-term Disability Program will be changed accordingly.

18. Recommendations on Workers' Compensation and Heart Lung Benefits

An employee who suffers a work related accident, injury, or illness will follow the procedures developed by the Department of Human Resources, unless governed by the State Workers' Compensation Act or other applicable law.

19. Recommendations on Elimination of Past Practices

Any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2015 Revised Recovery Plan will not contain any provision or clause which protects past practices or any rights which are not specifically set forth in the applicable agreement, settlement or award. The Unions will be given the opportunity to identify and negotiate with the City any specific practices or rights which they would like to preserve and have included in future collective bargaining agreements. These provisions will be applicable for the period 2015 - 2018 and indefinitely thereafter unless modified in a subsequent Revised Recovery Plan.

20. Recommendations on Drug and Alcohol Testing

The City will have the right to establish and implement a policy requiring a drug and alcohol test prior to employment with the City and providing for random drug and alcohol testing for current employees. No provision of any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2015 Revised Recovery Plan will prohibit the City from exercising this right.

21. Recommendations on Modified Duty

Employees who are partially disabled because of a work or non-work related injury or illness and unable to perform their assigned duties or are unable to work due to non-work related illness may be required to report for "modified duty" based on medical documentation provided by a physician designated by the City. Modified duty hours may be consistent with regular City Hall hours, Monday through Friday. Modified duty may be limited to a maximum of twelve months from the date the injury occurred or illness began. The City may develop a modified duty program which may be implemented across bargaining unit functions.

22. Recommendations on Payments for Non-Coverage under Employee Health Insurance Benefits

The City will review the payment of “opt-out” money to employees that do not participate in the employee health insurance benefit. As of the date of preparation of this Plan, there were 81 employees that participated in the opt-out, which pays employees a percentage of the cost for the plan for which they would be eligible. The City may consider a fixed amount for payment for non-participation in the City’s health insurance. These savings would be a source of credits toward the Act 133 expenditure limits.

| Union   | 2016        | 2017        | 2018        |
|---|-------------|-------------|-------------|
| <b>For Contracts Expiring December 31, 2015</b>   |             |             |             |
| International Association of Machinists and Aerospace Workers Local 2462 (Clerical)     | \$3,804,590 | \$3,976,289 | \$4,146,460 |
| Single Tax Office   | 984,160     | 1,028,281   | 1,074,740   |
| <b>For Contracts Expiring December 31, 2017</b>   |             |             |             |
| International Association of Machinists and Aerospace Workers Local 2305 (Public Works) | \$7,078,361 | \$7,339,758 | \$7,563,350 |
| <b>Non-Represented Employees</b>  |             |             |             |
| Non Represented   | \$2,126,004 | \$2,193,314 | \$2,263,530 |

## CHAPTER 3

### Financial Baseline and Plan Implementation General Fund Revenue and Expenditure Projections and Elimination of Operating Deficits 2015 - 2020

As part of the 2015 Revised Recovery Plan process, the Act 47 Coordinator developed 2015 – 2020 baseline financial projections for future rates of increase or decrease in individual City General Fund operating revenue and expenditure line items.

In order to calculate the projections, the Act 47 Coordinator first conducted a review of the City's historical financial data to determine the City's revenue and expenditure baseline. The review, which can be found in Appendix A, was completed using financial data independently maintained by the Act 47 Coordinator, the City's annual audits through 2012, and City supplied data for 2013 - 2014 (subjected to monthly review and analysis by the Act 47 Coordinator). In addition to the historical financial review, the Act 47 Coordinator utilized the City's adopted 2015 Operating Budget and independent trend analysis, where appropriate.

#### Baseline Projections 2015 – 2020

The assumptions below were used by the Act 47 Coordinator to develop the City's 2015 – 2020 baseline financial projections.

#### Revenue Assumptions:

- All 2015 rates for taxes and fees were held constant through 2020 unless noted below.
- Revenue from real estate taxes was reduced from 2016 – 2020 due to the expected monetization of delinquent taxes in 2015. While this should provide an increase in 2015 subsequent year delinquent collections will be reduced.
- Local Services Tax (LST) was maintained at the 2014 level.
- The following revenue items were reviewed on a line-by-line basis. Revenue from the Earned Income Tax (EIT) was increased by 0.5 percent per year, Business Privilege and Mercantile Tax revenue was increased by 0.2 percent per year, and real estate transfer tax revenue was decreased by 0.2 percent per year over the 2015 estimated base. Revenues from the anticipated 2015 parking tax increase were included for the projection period. All other tax revenue was either held constant or adjusted based on the Act 47 Coordinator's historical data and trend analysis.
- Other revenues are held constant over the period based upon the Act 47 Coordinator's historical data and trend analysis.
- No increase in financing beyond the 2015 budget amount is assumed for payment on the judgment for the Supreme Court Award.



### **Expenditure Assumptions:**

- The number of personnel was held constant at the 2015 Operating Budget workforce level.
- Current wages have been increased as specified in collective bargaining agreements, interest arbitration awards or court orders. At the conclusion of the current collective bargaining agreements or arbitration awards, wage increases are anticipated at two percent for all bargaining units. Salaries for non-represented City employees are projected at two percent growth through 2020.
- Employee/retiree medical insurance expenditures were increased annually by six percent from 2016 through 2020 in conformance with recently observed City experience and similar annual increases projected for other local government entities.
- Other major insurance costs have been projected on a line-by-line basis.
- Expenditures for each year include a \$2.9 million payment for the Scranton Parking Authority debt that is guaranteed by the City.
- No new capital expenditures are included.
- Municipal pension obligations are adjusted based on increased employee costs.
- No payment beyond the 2015 budget owed on the balance from the Supreme Court Award is assumed in the expenditure projections. The Coordinator is assuming that payment on the judgment will be part of the overall refinancing of City obligations.
- Other expenditures were increased at various levels based on the Act 47 Coordinator's historical data and trend analysis.
- No further increases in the costs of any other benefits were included.

Based on the above assumptions, Table 3.1 and Graph 3.1 illustrate that the City's projected deficit is expected to grow from \$3.2 million in 2015 to \$19.4 million in 2020, an increase of \$16.2 million. The cumulative General Fund deficit for the period 2015 - 2020 is projected to be \$79.6 million.

**General Fund Projections**  
**City of Scranton**  
**2015 – 2020**  
 Excludes TRAN Principal  
 (Without Implementation of 2015 Revised Recovery Plan Mandates)

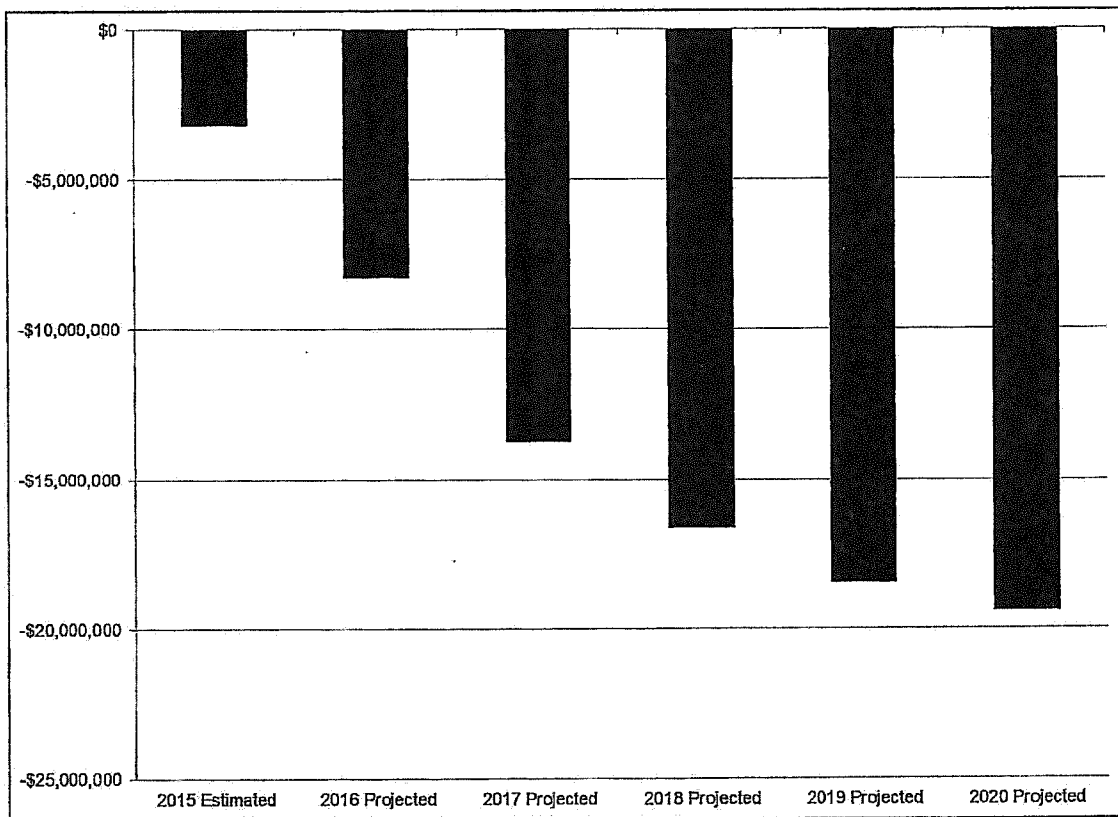
Table 3.1

|                    | 2015         | 2016          | 2017          | 2018          | 2019          | 2020          |
|--------------------|--------------|---------------|---------------|---------------|---------------|---------------|
|                    | Estimated    | Projected     | Projected     | Projected     | Projected     | Projected     |
| Revenues           | \$92,046,613 | \$82,695,202  | \$82,702,900  | \$82,713,626  | \$82,727,337  | \$82,743,990  |
| Expenditures       | \$95,228,990 | \$90,960,225  | \$96,428,355  | \$99,320,007  | \$101,190,250 | \$102,139,202 |
| Surplus/(Deficit)  | -\$3,182,378 | -\$8,265,023  | -\$13,725,454 | -\$16,606,380 | -\$18,462,913 | -\$19,395,212 |
| Cumulative Deficit | -\$3,182,378 | -\$11,447,401 | -\$25,172,855 | -\$41,779,235 | -\$60,242,148 | -\$79,637,360 |

Note: Totals may not add due to rounding

**General Fund Projections**  
**City of Scranton**  
**2015 – 2020**  
 (Without Implementation of 2015 Revised Recovery Plan Mandates)

Graph 3.1



## Revenue Projections—2015 – 2020

As shown in Table 3.2, the City's General Fund operating revenues are projected to decrease by \$9.3 million or 10.2 percent from \$92.0 million in 2015 to \$82.7 million in 2020. Revenues from Other Financing Sources peak in 2015. Other Financing Sources in 2015 include the proceeds from the borrowing to pay a portion of the Supreme Court award (\$4.8 million) and \$1.5 million in the proceeds from sale of delinquent real estate taxes.

Tax revenue is anticipated to fall from \$65.3 million in 2015 to \$64.3 million in 2020, a decline of \$945,850 or 1.4 percent. As previously noted, real estate tax revenue is anticipated to decrease based on anticipated monetization of delinquent taxes in 2015. The difference in real estate revenue is a decrease of \$1.6 million or 4.8 percent, from \$32.9 million in 2015 to \$31.3 million in 2020. Projected increases are expected in EIT (\$612,343), mercantile/business privilege (\$26,014) and LST (\$16,599).

Nontax revenue, which accounts for about 20 percent of total revenues, also declines over the projection period, dropping by \$2.1 million or 10.8 percent. The largest decreases are in refuse fees (\$962,099), licenses and permits (\$689,845) and intergovernmental reimbursements (\$400,000).

**General Fund Revenue Projections**  
**City of Scranton**  
**2015 – 2020**  
 (Without Implementation of 2015 Revised Recovery Plan Mandates)

Table 3.2

|                         | 2015                | 2016                | 2017                | 2018                | 2019                | 2020                |
|-------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Revenue                 | Estimated           | Projected           | Projected           | Projected           | Projected           | Projected           |
| Tax Revenue             | \$65,256,052        | \$63,805,608        | \$63,930,798        | \$64,056,625        | \$64,183,092        | \$64,310,202        |
| Nontax Revenue          | 19,065,561          | 17,464,594          | 17,347,102          | 17,232,001          | 17,119,245          | 17,008,789          |
| Other Financing Sources | 7,725,000           | 1,425,000           | 1,425,000           | 1,425,000           | 1,425,000           | 1,425,000           |
| <b>Total Revenue</b>    | <b>\$92,046,613</b> | <b>\$82,695,202</b> | <b>\$82,702,900</b> | <b>\$82,713,626</b> | <b>\$82,727,337</b> | <b>\$82,743,990</b> |

| Revenue                 | Percentage of Total Revenue |              |              |              |              |              |
|-------------------------|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Tax Revenue             | 70.9                        | 77.2         | 77.3         | 77.4         | 77.6         | 77.7         |
| Nontax Revenue          | 20.7                        | 21.1         | 21.0         | 20.8         | 20.7         | 20.6         |
| Other Financing Sources | 8.4                         | 1.7          | 1.7          | 1.7          | 1.7          | 1.7          |
| <b>Total Revenue</b>    | <b>100.0</b>                | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

Note: Totals may not add due to rounding

## Expenditure Projections—2015 - 2020

As illustrated in Table 3.3, the City's operating expenditures are projected to increase from \$95.2 million in 2015 to \$102.1 million in 2020. This 8.2 percent increase in projected operating expenditures from 2015 - 2020 is a continuation of the 9.1 percent increase in operating expenditures identified in the City's 2009 - 2013 financial review period. The principal factor for the increase in City expenditures is personnel expenditures, primarily pension (\$7.1 million or

55.7 percent), health insurance (\$4.5 million or 33.8 percent) and direct compensation (\$3.2 million or 10.3 percent).

Other Departmental Expenditures are projected to increase slightly from \$7.9 million in 2015 to \$8.0 million in 2020 or 1.2 percent. Projected increases in liability/casualty insurance (13.6 percent), gas, oil and lubricants (11.0 percent) and all other expenses (5.5 percent) are offset by a projected decrease in landfill fees (10.9 percent) and utilities (4.7 percent).

Non-Departmental Expenditures are projected to drop from \$26.0 million in 2015 to just under \$17.8 million in 2020 due to the one-time payment of the court award for public safety employees noted above and \$4.9 million for prior year's expenditures.

**General Fund Expenditure Projections**

**City of Scranton**

**2015 - 2020**

(Without Implementation of 2015 Revised Recovery Plan Mandates)

Table 3.3

|  | 2015                | 2016                | 2017                | 2018                | 2019                 | 2020                 |
|--|---------------------|---------------------|---------------------|---------------------|----------------------|----------------------|
|  | Estimated           | Projected           | Projected           | Projected           | Projected            | Projected            |
| <b>Employee Expenses</b>                   |                     |                     |                     |                     |                      |                      |
| Direct Compensation                        | \$30,789,182        | \$31,861,841        | \$32,534,054        | \$33,156,544        | \$33,906,488         | \$33,965,083         |
| Health Insurance                           | 13,434,834          | 14,240,924          | 15,095,380          | 16,001,102          | 16,961,169           | 17,978,839           |
| Workers' Compensation                      | 3,038,986           | 3,038,986           | 3,038,986           | 3,038,986           | 3,038,986            | 3,038,986            |
| Pension                                    | 12,657,667          | 14,537,273          | 18,538,734          | 19,845,734          | 19,893,734           | 19,702,734           |
| Other Employee                             | 1,409,584           | 1,450,681           | 1,495,526           | 1,544,551           | 1,598,194            | 1,656,942            |
| <b>Total Employee Expenditure</b>          | <b>\$61,330,253</b> | <b>\$65,129,706</b> | <b>\$70,702,680</b> | <b>\$73,586,917</b> | <b>\$75,398,570</b>  | <b>\$76,342,583</b>  |
| <b>Other Departmental Expenses</b>         |                     |                     |                     |                     |                      |                      |
| Professional Services                      | \$753,355           | \$754,772           | \$756,271           | \$757,798           | \$759,353            | \$760,936            |
| Gas, Oil, Lubricants, Vehicle Repair       | 946,017             | 964,732             | 984,582             | 1,006,292           | 1,028,635            | 1,050,531            |
| Landfill                                   | 1,600,850           | 1,600,850           | 1,426,252           | 1,426,252           | 1,426,252            | 1,426,252            |
| Capital Expenditures                       | 390,000             | 390,000             | 390,000             | 390,000             | 390,000              | 390,000              |
| Liability/Casualty Insurance               | 1,000,000           | 1,024,582           | 1,050,322           | 1,077,341           | 1,105,721            | 1,135,502            |
| Utilities                                  | 1,417,683           | 1,400,809           | 1,385,152           | 1,370,625           | 1,357,176            | 1,344,772            |
| All Other Departmental                     | 1,839,698           | 1,855,993           | 1,873,468           | 1,892,791           | 1,912,789            | 1,932,444            |
| <b>Other Departmental Expenditures</b>     | <b>\$7,947,604</b>  | <b>\$7,991,737</b>  | <b>\$7,866,046</b>  | <b>\$7,921,099</b>  | <b>\$7,979,927</b>   | <b>\$8,040,437</b>   |
| <b>Non-Departmental Expenditures</b>       |                     |                     |                     |                     |                      |                      |
| Interest & Debt Exc TRANs                  | \$12,295,068        | \$12,682,717        | \$12,750,588        | \$12,655,925        | \$12,655,688         | \$12,647,141         |
| TRAN Series A & B Interest                 | 340,000             | 340,000             | 340,000             | 340,000             | 340,000              | 340,000              |
| SPA Guarantee                              | 2,900,000           | 2,900,000           | 2,900,000           | 2,900,000           | 2,900,000            | 2,900,000            |
| Other Non-Operating Expenses               | 9,565,700           | 1,065,700           | 1,065,700           | 1,065,700           | 1,065,700            | 1,065,700            |
| Other Non-Departmental                     | 850,365             | 850,365             | 803,340             | 850,365             | 850,365              | 803,340              |
| <b>Total Non-Departmental Expenditures</b> | <b>\$25,951,134</b> | <b>\$17,838,782</b> | <b>\$17,859,628</b> | <b>\$17,811,990</b> | <b>\$17,811,753</b>  | <b>\$17,756,182</b>  |
| <b>Total Expenditures</b>                  | <b>\$95,228,990</b> | <b>\$90,960,225</b> | <b>\$96,428,355</b> | <b>\$99,320,007</b> | <b>\$101,190,250</b> | <b>\$102,139,202</b> |

Note: Totals may not add due to rounding

### **Conclusion of Baseline Projections**

Baseline revenue and expenditure projections for the City's General Fund **without** implementation of any of the mandates provided herein by this 2015 Revised Recovery Plan indicate that the City will encounter substantial General Fund operating budget deficits from 2015 - 2020 with a cumulative deficit of \$79.6 million. Total General Fund expenditures are projected to increase by \$6.9 million or 7.3 percent through 2020 while the City's revenues are projected to decrease by \$9.3 million or 10.1 percent during the same period. **Clearly, the City of Scranton will not be able to maintain the current level of vital and necessary services to its residents in future years if this revenue and expenditure mismatch is not addressed by revenue increases, reductions in unfunded pension liability and other post-employment benefits, and by a restructuring of the delivery of necessary and vital services.**

### **Implementation of Recovery Plan Mandates and Elimination of Operating Deficits**

The following Table 3.4 outlines the operating deficits projected through 2020, the Act 47 mandates contained herein, and the resultant revenue actions necessary to eliminate the projected operating deficits. Because many of the actions outlined under this Plan require significant planning, cooperation, and a level of uncertainty concerning revenue increases or expenditure decreases, the Coordinator cannot determine a reasonable dollar value impact from every Plan mandate. Accordingly, the Coordinator has used the revenue increases from property tax millage to offset the projected deficits and to maintain necessary and vital services.

It is anticipated in this Plan that the City will realize results from the Plan mandates that will ameliorate the amount of increases necessary from property taxes. However, to the extent that the City's implementation of Plan mandates do not entirely reduce operating deficits, the City shall increase the tax rates on property to eliminate yearly operating deficits. The City may consider increases in other rates of taxation to reduce the impact of relying solely on property taxes for deficit reduction.

## Implementation of Recovery Plan Mandates

Table 3.4

|  | 2015                | 2016                | 2017                 | 2018                 | 2019                 | 2020                 |
|--|---------------------|---------------------|----------------------|----------------------|----------------------|----------------------|
|  | Projected           | Projected           | Projected            | Projected            | Projected            | Projected            |
| <b>Revenue</b>                                       |                     |                     |                      |                      |                      |                      |
| Real Estate Taxes                                    | \$32,946,752        | \$31,371,752        | \$31,371,752         | \$31,371,752         | \$31,371,752         | \$31,371,752         |
| EIT  | 24,800,000          | 24,921,250          | 25,043,106           | 25,165,572           | 25,288,650           | 25,412,343           |
| LST  | 1,653,300           | 1,656,607           | 1,659,920            | 1,663,240            | 1,666,566            | 1,669,899            |
| Mercantile/Business Privilege                        | 2,740,000           | 2,745,200           | 2,750,410            | 2,755,631            | 2,760,862            | 2,766,104            |
| Other Taxes  | 3,055,000           | 3,049,800           | 3,044,610            | 3,039,431            | 3,034,262            | 3,029,104            |
| Non tax revenue                                      | 22,051,561          | 18,950,594          | 18,833,102           | 18,718,001           | 18,605,245           | 18,494,789           |
| Borrowing for Partial Payment of Supreme Court Award | 4,800,000           | 0                   | 0                    | 0                    | 0                    | 0                    |
| <b>Total Revenue</b>                                 | <b>\$92,046,613</b> | <b>\$82,695,202</b> | <b>\$82,702,900</b>  | <b>\$82,713,626</b>  | <b>\$82,727,337</b>  | <b>\$82,743,990</b>  |
| <b>Expenditures</b>                                  |                     |                     |                      |                      |                      |                      |
| Direct Compensation                                  | \$30,789,182        | \$31,861,841        | \$32,534,054         | \$33,156,544         | \$33,906,488         | \$33,965,083         |
| Benefits   | 14,844,418          | 15,691,605          | 16,590,906           | 17,545,653           | 18,559,362           | 19,635,781           |
| Pension  | 12,657,667          | 14,537,273          | 18,538,734           | 19,845,734           | 19,893,734           | 19,702,734           |
| Workers Comp   | 3,038,986           | 3,038,986           | 3,038,986            | 3,038,986            | 3,038,986            | 3,038,986            |
| Departmental Expenditures                            | 7,947,604           | 7,991,737           | 7,866,046            | 7,921,099            | 7,979,927            | 8,040,437            |
| Non Departmental Expenditures                        | 5,616,065           | 1,916,065           | 1,869,040            | 1,916,065            | 1,916,065            | 1,869,040            |
| Debt Service excluding TRAN & SPA                    | 12,295,068          | 12,682,717          | 12,750,588           | 12,655,925           | 12,655,688           | 12,647,141           |
| TRAN Interest  | 340,000             | 340,000             | 340,000              | 340,000              | 340,000              | 340,000              |
| SPA Guarantee  | 2,900,000           | 2,900,000           | 2,900,000            | 2,900,000            | 2,900,000            | 2,900,000            |
| Partial Payment of Supreme Court Award               | 4,800,000           | 0                   | 0                    | 0                    | 0                    | 0                    |
| <b>Total Expenditures</b>                            | <b>\$95,228,990</b> | <b>\$90,960,225</b> | <b>\$96,428,355</b>  | <b>\$99,320,007</b>  | <b>\$101,190,250</b> | <b>\$102,139,202</b> |
| <b>BASELINE SURPLUS/(DEFICIT)</b>                    | <b>-\$3,182,378</b> | <b>-\$8,265,023</b> | <b>-\$13,725,454</b> | <b>-\$16,606,380</b> | <b>-\$18,462,913</b> | <b>-\$19,395,212</b> |

## Implementation of Recovery Plan Mandates

Table 3.4

|                                      | 2015             | 2016             | 2017             | 2018             | 2019             | 2020             |
|--------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                                      | <u>Projected</u> | <u>Projected</u> | <u>Projected</u> | <u>Projected</u> | <u>Projected</u> | <u>Projected</u> |
| <b>BASELINE SURPLUS/(DEFICIT)</b>    | -\$3,182,378     | -\$8,265,023     | -\$13,725,454    | -\$16,606,380    | -\$18,462,913    | -\$19,395,212    |
| <b>Act 47 Plan Mandates</b>          |                  |                  |                  |                  |                  |                  |
| Additional Local Service Tax         | 2,634,200        | 2,639,468        | 2,644,747        | 0                | 0                | 0                |
| Healthcare Buyout Caps               | 0                | 0                | 0                | 0                | 0                | 0                |
| Scranton Parking Authority           | 0                | 0                | 0                | 0                | 0                | 0                |
| Scranton Sewer Authority             | 0                | 0                | 0                | 0                | 0                | 0                |
| Act 205 Earned Income Tax            | 0                | 0                | 0                | 0                | 0                | 0                |
| Storm Water Authority                | 0                | 0                | 0                | 0                | 0                | 0                |
| Debt Refinancing                     | 0                | 0                | 0                | 0                | 0                | 0                |
| Shared Services                      | 0                | 0                | 0                | 0                | 0                | 0                |
| <b>ACT 47 PLAN SURPLUS/(DEFICIT)</b> | -\$548,178       | -\$5,625,555     | -\$11,080,707    | -\$16,606,380    | -\$18,462,913    | -\$19,395,212    |
| Increase Real Estate Tax             |                  |                  |                  |                  |                  |                  |
| Eliminate 2016 Deficit               |                  | \$5,625,555      | \$5,625,555      | \$5,625,555      | \$5,625,555      | \$5,625,555      |
| Revised Deficit Projection 2017      |                  | \$0              | -\$5,455,153     | -\$10,980,826    | -\$12,837,358    | -\$13,769,657    |
| Eliminate 2017 Deficit               |                  |                  | \$5,455,153      | \$5,455,153      | \$5,455,153      | \$5,455,153      |
| Revised Deficit Projection 2018      |                  |                  | \$0              | -\$5,525,673     | -\$7,382,205     | -\$8,314,505     |
| Eliminate 2018 Deficit               |                  |                  |                  | \$5,525,673      | \$5,525,673      | \$5,525,673      |
| Revised Deficit Projection 2019      |                  |                  |                  | \$0              | -\$1,856,532     | -\$2,788,831     |
| Eliminate 2019 Deficit               |                  |                  |                  |                  | \$1,856,532      | \$1,856,532      |
| Revised Deficit Projection 2020      |                  |                  |                  |                  | \$0              | -\$932,299       |
| Eliminate 2020 Deficit               |                  |                  |                  |                  |                  | \$932,299        |
| <b>Real Estate Tax Increase</b>      |                  | 18.3%            | 15.0%            | 13.2%            | 3.8%             | 1.9%             |

## **CHAPTER 4**

### **Plan Implementation and General Plan Mandates**

#### **Overview**

Successful implementation of this 2015 Revised Recovery Plan will necessitate changes in the way the City currently provides services and how it finances those services. The ultimate goal of this 2015 Revised Recovery Plan is to avoid a fiscal emergency and to restore the community's confidence in the City of Scranton's ability to effectively maintain current operations into the future.

#### **Communication with the Act 47 Coordinator**

##### **Reporting**

It is important that that the City continue to regularly report its progress in implementing this 2015 Revised Recovery Plan to the Act 47 Coordinator. This, in turn, allows the Act 47 Coordinator, as the agent of DCED, to ensure that the Commonwealth is up-to-date on the status of implementation efforts. Therefore, the City shall provide cash flow, revenue and expenditure status reports to the Act 47 Coordinator no less frequently than monthly during the period it remains under a determination of distress. These reports may be in spreadsheet form, written memo or other form as requested by the Act 47 Coordinator or may take the form of weekly or monthly meetings. Additional on-site meetings involving the Act 47 Coordinator and appropriate officials and employees shall also be held on an as needed basis to review implementation efforts and to aid in the overall recovery plan implementation process.

##### **Submission of Data**

The City shall continue to routinely provide the Act 47 Coordinator with all data pertinent to the City's financial recovery effort. For example, the annual budget shall be sent to the Act 47 Coordinator as required by Act 199 of 2014. In addition, key management, administrative, and financial decisions made by the City, which may or may not relate directly to the 2015 Revised Recovery Plan, shall also be promptly communicated to the Act 47 Coordinator. This is particularly important if these actions entail an abrupt change or alteration in the policies or practices of the City.

##### **Types of Items/Data**

Among the specific items which shall be regularly transmitted or made available to the Act 47 Coordinator are:

- Council Meeting Agendas (prior to the meetings) - all regular and special meetings;
- Council Meeting Minutes - all regular and special meetings;
- Notice of any meetings involving the City and third parties on any matter relating to City finances and operations (e.g., meetings with creditors, vendors, etc.);
- Relevant communications with creditors, vendors, etc.;
- All non-privileged correspondence (in and out, internal and external) on matters relating to employee unions, collective bargaining, arbitration, grievances, etc.;



- All proposed ordinances;
- All litigation initiated/settled;
- All personnel actions (including worker's compensation claims and employee grievances);
- Monthly financial reports (as of the last day of each month) and related documents;
- Major contracts awarded and grant applications made;
- All other relevant correspondence (internal and external, in and out); and
- Anything that the Act 47 Coordinator should be made aware of in regards that materially impacts the operation of the City.

### **Failure to Comply**

If the City and its elected or appointed officials fail to communicate and consult with the Act 47 Coordinator on a regular basis as provided for in this 2015 Revised Recovery Plan and/or fail to provide the information, reports or documentation requested by the Act 47 Coordinator, the City may be found to have violated this 2015 Revised Recovery Plan which may result in sanctions by the state which includes the withholding of Commonwealth funding.

### **Cooperation Among City's Leadership**

Governance and leadership of the City of Scranton under the Home Rule Charter rests with both the Executive branch (Mayor) and Legislative branch (City Council) of the municipal government. While the Executive-Legislative form of municipal government provides for a separation of powers and checks and balances between the two branches, it ultimately requires both branches to work together to provide effective governance and leadership.

In any community (regardless of size of population, area, or distressed status), it is not unusual that the Mayor and City Council will not agree on every issue. However, a fundamental cornerstone of governance is that elected leaders work together on behalf of all residents to effectively manage municipal financial operations, adopt a balanced budget and maintain municipal services. In Scranton, collaboration, cooperation and compromise will be necessary from all elected officials in order to lead the City out of its currently unstable financial condition.

Throughout 2014 both the City Administration and City Council have been actively and progressively working together for the betterment of the City. It is this cooperation and shared goals that may lead the City away from a fiscal emergency and the resulting oversight. **It is imperative that the City's elected leaders continue to work together and cooperate on managing the myriad issues that impact the City's financial and administrative operations.**

Once this 2015 Revised Recovery Plan is adopted the next step will be implementation. The Mayor (or a designee), representatives from City Council, the Business Administrator, and key management staff (as appropriate) shall participate in regular meetings, organized by the Act 47 Coordinator, to discuss and execute implementation of the mandates included in this 2015 Revised Recovery Plan. Within these meetings, the participants shall discuss key 2015 Revised Recovery Plan policy mandates and determine how each will be implemented. At the implementation meetings, other management issues may be discussed, including but not limited to current finances, human resources, economic development, general City operations and intergovernmental cooperation. The Act 47 Coordinator will be responsible for preparing each

meeting's agenda and will lead the meetings. These gatherings are intended for a small number of attendees to focus on priority-setting and problem-solving and may result in follow-up assignments and associated progress reports.

### **General Plan Provisions**

The following outlines the general provisions of the City of Scranton's 2015 Revised Recovery Plan for 2015 - 2017, unless modified in a subsequent Revised Recovery Plan.

**Capital Items/Budget.** The City of Scranton shall develop a comprehensive list of capital needs and funding sources. All capital budgets must be prepared and approved under the terms of the City's Home Rule Charter and any applicable laws.

With respect to Capital Items/Budget:

- In general, it is the intent of the Act 47 Coordinator that the City shall fund these projects to the greatest extent possible using federal and/or state grants (or grants from other sources) as well as other "one-time" sources.
- In addition to the major capital projects, lesser capital purchases (especially vehicles, other rolling stock, technology infrastructure, and like items) shall generally be funded from funds budgeted for capital acquisition in the City's General Fund.
- The City has considered in the past the strategy of meeting its capital needs for vehicles and other rolling stock through the purchase of used equipment through dealers and auctions. This strategy shall be further developed by written policies so that appropriate controls on purchases ensure that the equipment purchased is in mechanically sound condition.
- In accordance with the terms of the City's Home Rule Charter, the Mayor shall annually submit a five-year Capital Budget for consideration and action by City Council. To the extent possible, specific plans and dollar estimates as well as funding sources shall be included along with timelines for project initiation and completion.

**Insurance Costs and Risk Management.** The City shall utilize professional risk managers to ensure the sound management of the Workmen's Compensation program and other City insurance. The City, primarily through the Business Administrator, shall take action to comply with the Irrevocable Trust Agreement, as amended, for funding the City's workers' compensation claims to ensure annual self-insurance certification from the Department of Labor and Industry. Specifically, the City shall ensure that the highest priority is given to: the funding requirements of the agreement including any unfunded liability, fulfilling the reporting requirements delineated in the agreement, and securing the required annual actuarial estimates which are to be used for budgeting the mandated funding.

In addition, the Business Administrator in conjunction with the City Attorney, Human Resources Director, and professional risk managers shall review the City's existing liability and property

insurance policy. The Business Administrator shall make recommendations to the Mayor on changes that might be undertaken in terms of overall coverage, deductible limits, and excess insurance in order to provide for either enhancements in coverage or reduction in cost.

**Delinquent Collection--Tax and Nontax Revenues.** The City shall take all aggressive action permitted by law to collect delinquent tax and non tax accounts including real estate and other taxes as well as refuse collection and other fees. To this end, the City has engaged a third-party collection firm. The City shall periodically evaluate these collection results to maximize its return. The City shall also create a committee consisting of the City Attorney, Business Administrator, City Treasurer, and such other individuals as deemed appropriate by the Mayor to review the database of delinquent real estate and non-real estate collectibles. The purpose of this review shall be to purge uncollectible accounts while aggressively pursuing the balance of collectibles.

**Delinquent Real Estate Tax Collection.** The City shall appeal to its legislative delegation to change Pennsylvania's Real Estate Tax Sale Law, 72 P.S. Section 5860.101 et seq., to require that Cities of Second Class A take part in the county tax claim bureau and to amend the Local Tax Collection Law, 72 P.S. Section 5511.1, et seq., so as to provide Cities of Second Class A with the opportunity to utilize all of the powers and remedies under this law including, but not limited to, initiating litigation against individuals and/or entities which are delinquent in their real estate tax obligations and obtaining judgments against the individuals and/or entities that would be personal in nature and thereby go beyond the potential of attachment to the underlying real estate. This would benefit the City of Scranton by providing an enforcement mechanism that is not presently available under existing statutes which would aid the City in receiving the tax revenue to which it is entitled in a more expeditious manner. Concurrently, the City shall explore the legality of participating in the county's tax claim bureau process.

**Financial Management and Reporting.** The City has made significant progress since 2002 in developing a reliable financial and accounting system. However, many of the policies relevant to the system are not compiled and available in a comprehensive plan. A systematic review of existing financial reporting policies shall be undertaken. The plan shall delineate appropriate policies and procedures which shall be in conformance with applicable state law, the City's Home Rule Charter, and Generally Accepted Accounting Principles (GAAP). The plan shall include, but not be limited to:

- Utilization of a modified accrual accounting system.
- Full encumbrance accounting, including encumbrances for contracts.
- Streamlining the City's purchasing and invoicing system including receipts of merchandise purchased or services performed.
- Development and use of information and data system technology.
- Timely financial reporting on a monthly or demand basis.
- Development of various cost-accounting processes.
- A review of the financial management and reporting practices of the City's component units and the Single Tax Office, and requirements for audits where appropriate.
- Preparation for meeting recent GASB reporting requirements and a time line for meeting their requirements.

- Centralization of the accounting function to the maximum extent feasible.
- Review and integrate where possible the OECD financial system with that of the base City system.
- Accounting for accrued personnel liabilities such as compensated absences and related items.
- Review of budgeting practices including transfer procedures.
- Determination of a "date certain" for year-end cut-off including procedures for accrual estimation.
- Recommendations on retaining additional trained accounting staff or contracted accounting professionals.
- Development of financial procedures for emergency situations.
- In order to achieve the focus on financial management identified, the City shall begin a dispersion of non-financial or department specific responsibilities away from the Office of Business Administrator and to the responsible City department. The fundamental objective of the operation of the Office of Business Administration should remain the administration of the yearly budget and completion of the audit on a timely basis. The Business Administrator's office presently assumes responsibility for departmental initiatives outside of its administrative code responsibilities. To achieve the identified financial management objectives, the various City departments will assume greater responsibility for direct department initiatives, such as Request for Proposal preparation and execution to the greatest extent as allowed under the Home Rule Charter and Administrative Code.

**Audits.** It shall be the goal of the City to receive all prior year audits required under its Home Rule Charter and Administrative Code by the date specified in the Charter or Code. The City shall pursue actions for non-compliance against the auditing firm as available under the request for proposal for the particular audit. The City shall also insure that the audits performed for its component units and other relevant entities are timely completed and forward to the City as required by applicable law.

**Investment Policy and Program.** The City shall set forth a plan which defines investment policies, fixes investment responsibilities, and provides for a clear investment process. The City needs a formally adopted investment policy to protect officials from legal actions for questionable investment practices. A properly prepared policy will also facilitate the protection of the City's liquid assets, the maintenance of sufficient liquidity to meet operating requirements, and earning of market rates of return on investments.

An investment policy should:

- Fix investment responsibilities and identify the type of investment instruments that are allowable and set forth investment diversification requirements.
- Set forth the procedures for identifying when idle "money" will be available for investment and for how long a period of time it will be available.
- Specify means to be used in evaluating the performance of the investment program.
- Identify the City's safekeeping and collateralization requirements.
- Specify reporting requirements by the officials responsible for implementing the investment program.

The City shall also consider joining an intergovernmental investment pool; such as, Pennsylvania Local Government Investment Trust (PLGIT) or the investment pool operated by the State Treasurer – INVEST. These intergovernmental investment pools are professionally operated programs, and they often provide higher returns on investments and permit greater flexibility, particularly if an investment must be retired before maturity.

After due consideration and review by all relevant parties, the Mayor shall authorize the implementation of the investment policy and program. Should any of the proposals require action by City Council, the Mayor shall promptly propose such ordinances/resolutions to Council.

**Update Human Resources Management Plan.** Subject to other provisions of this 2015 Revised Recovery Plan, the City shall review and update its Human Resources Management Plan where necessary. To the extent that any management practices are not in a unified and comprehensive format, they shall be consolidated into the City's Human Resources Management Plan.

The Human Resources Management Plan shall contain, but not be limited to:

- The development of an integrated personnel database which will record and track for each City employee such items as date of hire, medical insurance coverage, pension eligibility, work attendance, holiday eligibility, vacation eligibility, sick time eligibility and other related items. All data collected shall be subject to applicable legal requirements and individual employee confidentiality. The database shall have the capability of providing relevant management reports.
- Policies for management (FLSA exempt) personnel relating to eligibility for benefits, work schedule, vacations, sick leave eligibility, and termination procedures unless provided for under state statute or City ordinances (including the Administrative Code). Criteria for exempt status under the Fair Labor Standards Act (FLSA) shall be explained in the Plan.
- Procedures for employees "reporting off" because of sickness, injury, or other reasons.
- The development of job descriptions and qualifications subject to any contractually required consultation with the bargaining units.
- Staff training for employees to improve overall City efficiency with particular emphasis on training in information technology.
- Cross training for all employees so that the absence of any one employee will not endanger operational efficiency.
- Written guidelines for travel reimbursement while on City business.
- Policies for the use of City vehicles and/or reimbursement for use of an employee's vehicle while on City business.
- Compilation of all relevant policies and procedures in an updated Personnel Manual. The Personnel Manual shall be completed and provided to all employees by September 1, 2016. The Personnel Manual shall be designed to aid in the understanding and adherence to City policies and to minimize misunderstandings among personnel. The Personnel Manual should—at a minimum—include the following:

- Mission statement and core values.
- Organization structure.
- Business hours, work schedules, overtime policies and time keeping procedures.
- Employee classifications, salary and overtime rates, and pay dates.
- Criteria set forth by the Fair Labor Standards Act relative to exempt and non-exempt status.
- Holiday, vacation, sick leave, and other compensated absence policies.
- Attendance policies.
- Employee benefit plan descriptions and eligibility.
- Employee conduct policy and appropriate use of City equipment.
- Employee separation and termination procedures.

**Inspections and Licenses.** The City's Department of Permits, Licensing, and Inspections is responsible for the issuance of all licenses and building, housing, health, and zoning inspections and enforcement. The City shall ensure that all its inspectors continue to maintain required certifications. Further, the Department shall determine what new and additional requirements, if any, have been imposed on the City by applicable law. The Director, in conjunction with the City Business Administrator and Director of Information Technology shall explore data/informational systems which may be used to facilitate the various permitting and licensing functions of the department.

**APPENDIX A**  
**Financial Review**  
**2009 – 2013**  
**2014 Estimated Versus 2014 Budget**

**Introduction**

The Act 47 Coordinator used the City’s audits and the most recent available financial data provided by the City’s Business Administrator’s office to prepare this financial review and also to provide the basis for the financial projections contained elsewhere in this 2015 Revised Recovery Plan. The Act 47 Coordinator also analyzed current data monthly and asked various questions to further confirm received data. The City’s financial statements are on a budget basis which includes some, but not all, accruals.

**General Fund Surplus / (Deficit) and Impact of One-Time Revenues**

Table A.1 below illustrates the City of Scranton’s General Fund operating budget performance for the years 2009 - 2013. The City experienced a General Fund operating budget deficit in three out of five years during the historical review period, most recently in 2013. However, as demonstrated in Table A.2 and Graph A.1, the City would have seen deficits for all five years during the review period without the impact of one-time events. This is particularly true in 2012, when the City would have experienced a \$15.8 million deficit without funds from deficit refinancing combined with a state loan and grant. In addition, without one-time events, deficits in 2009 and 2010 would have been more severe.

By the Act 47 Coordinator’s definition, a one-time revenue source is revenue that a municipality receives in a budget year that will not be available in future budget years. One-time revenue sources can be included as an integral part of a municipality’s adopted budget or they may be generated during the fiscal year from an unanticipated occurrence. The City has used various one-time revenue sources during the historical review period that include revenue from delinquent taxes, asset sale proceeds (golf course), and a workers’ compensation fund transfer, in addition to the use of deficit refinancing and intergovernmental revenue from the state. Reliance on one-time revenues sources to conduct municipal operations is not a best practice for municipal budget operations. Municipal budgeting is best performed by reliance upon recurring, stable revenue sources.

**General Fund Surplus/(Deficit)**  
**City of Scranton**  
**2009 - 2013**  
**(Excluding Annual Tax and Revenue Anticipation Notes)**

Table A.1

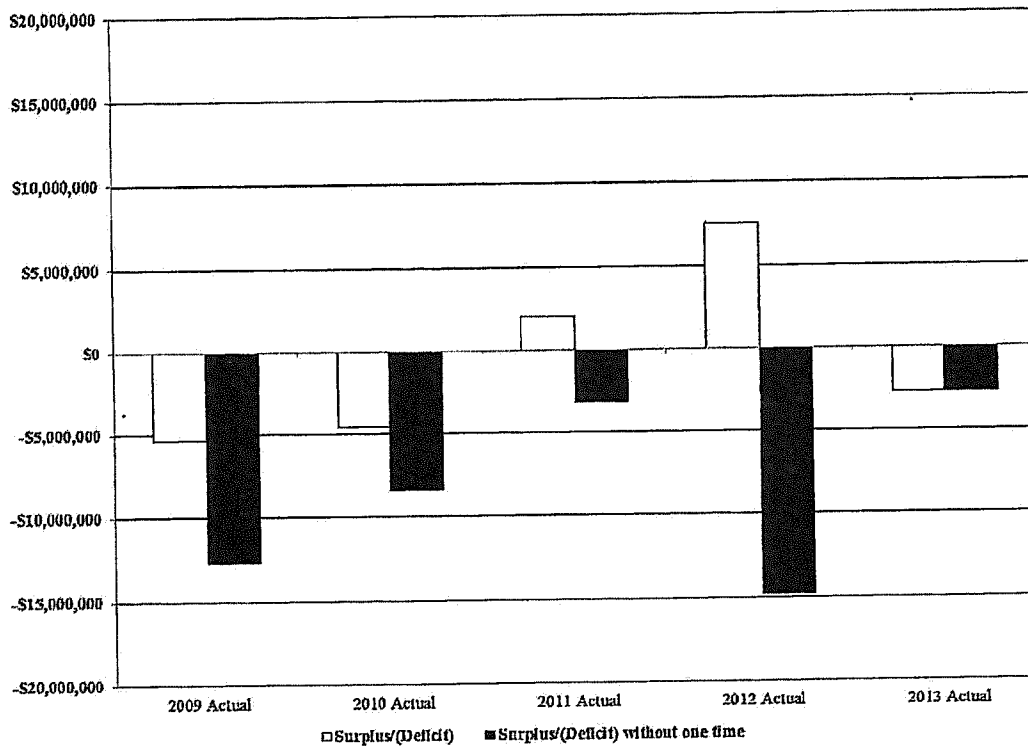
|                   | 2009              | 2010              | 2011              | 2012              | 2013              | Change 2009 to 2013 |      |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|------|
| Revenues          | \$58,124,461      | \$57,823,942      | \$64,371,827      | \$81,128,371      | \$66,452,791      | \$8,328,331         | 14.4 |
| Expenditures      | <u>63,476,817</u> | <u>62,401,768</u> | <u>62,316,336</u> | <u>73,607,872</u> | <u>69,185,642</u> | \$5,708,825         | 9.1  |
| Surplus/(Deficit) | -\$5,352,356      | -\$4,577,826      | \$2,055,491       | \$7,520,499       | -\$2,732,850      |                     |      |

**Impact of One-Time Events on General Fund Surplus/(Deficit)**  
**City of Scranton**  
**2009 - 2013**  
**(Excluding Annual Tax and Revenue Anticipation Notes)**

Table A.2

|   | 2009                 | 2010                | 2011                | 2012                 | 2013                |
|---|----------------------|---------------------|---------------------|----------------------|---------------------|
|   | <u>Actual</u>        | <u>Actual</u>       | <u>Actual</u>       | <u>Actual</u>        | <u>Actual</u>       |
| Surplus/(Deficit)                         | -\$5,352,356         | -\$4,577,826        | \$2,055,491         | \$7,520,499          | -\$2,732,850        |
| <b>One Time Events</b>                    |                      |                     |                     |                      |                     |
| Delinquent Earned Income Tax              | -3,625,737           |                     |                     |                      |                     |
| Advance on Delinquent Real Estate Tax     | -3,707,543           | -2,000,000          |                     |                      |                     |
| Workers' Comp Fund Transfer               |                      |                     | -5,305,920          |                      |                     |
| Golf Course Proceeds                      |                      | -1,847,473          |                     |                      |                     |
| Deficit Financing                         |                      |                     |                     | -20,070,000          |                     |
| State Loan                                |                      |                     |                     | -2,000,000           |                     |
| State Grant                               |                      |                     |                     | -250,000             |                     |
| <b>Surplus/(Deficit) without one time</b> | <b>-\$12,685,636</b> | <b>-\$8,425,299</b> | <b>-\$3,250,429</b> | <b>-\$14,799,501</b> | <b>-\$2,732,850</b> |

Graph A.1





## Revenue Review—2009 - 2013

Table A.3 below illustrates that the City's operating revenues, excluding tax and revenue anticipation notes, increased by 14.3 percent between 2009 and 2013 from \$58.1 million in 2009 to almost \$66.5 million in 2013. Revenues peaked in 2012, reflecting the considerable use of one-time revenue sources.

### General Fund Operating Revenues City of Scranton 2009 - 2013 (Including One-Time Revenue Sources; Excluding Annual TRAN Revenue)

Table A.3

|                         | 2009                | 2010                | 2011                | 2012                | 2013                | Change 2009 - 2013 |             |
|-------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|--------------------|-------------|
|                         | Actual              | Actual              | Actual              | Actual              | Actual              | \$                 | %           |
| Tax Revenue             | \$44,279,662        | \$42,079,667        | \$44,403,006        | \$44,827,357        | \$50,196,210        | 5,916,548          | 13.4        |
| Nontax Revenue          | 11,893,694          | 12,364,745          | 13,080,685          | 11,505,425          | 14,731,169          | 2,837,476          | 23.9        |
| Other Financing Sources | 1,951,105           | 3,379,530           | 6,888,136           | 24,795,590          | 1,525,412           | -425,693           | -21.8       |
| <b>Total Revenue</b>    | <b>\$58,124,461</b> | <b>\$57,823,942</b> | <b>\$64,371,827</b> | <b>\$81,128,371</b> | <b>\$66,452,791</b> | <b>8,328,331</b>   | <b>14.3</b> |

Source: Historical Data from City As Provided

### Tax Revenue

Table A.4 below shows that total taxes grew by \$5.9 million or 13.4 percent from 2009 to 2013 from \$44.3 million in 2009 to \$50.2 million in 2013, the peak for the historical review period. Total tax revenue fell to its lowest point in 2010 when total taxes dipped to \$42.1 million.

### Tax Revenue City of Scranton 2009 - 2013

Table A.4

| Tax Category         | 2009                | 2010                | 2011                | 2012                | 2013                | Change 2009 - 2013 |             |
|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|--------------------|-------------|
|                      | Actual              | Actual              | Actual              | Actual              | Actual              | \$                 | %           |
| Real Estate          | \$14,919,926        | \$14,580,300        | \$13,785,260        | \$15,533,058        | \$17,701,666        | 2,781,740          | 18.6        |
| Real Estate Transfer | 2,212,139           | 2,216,784           | 4,256,548           | 4,258,040           | 2,377,721           | 165,582            | 7.5         |
| Earned Income        | 23,538,769          | 21,737,008          | 22,899,489          | 21,647,581          | 25,822,170          | 2,283,401          | 9.7         |
| Merc/Bus Privilege   | 1,919,567           | 1,811,059           | 1,607,903           | 1,869,139           | 2,177,069           | 257,502            | 13.4        |
| Parking              | 0                   | 0                   | 0                   | 0                   | 243,907             | 243,907            | 100.0       |
| Commuter             | 0                   | 0                   | 0                   | 0                   | 0                   | 0                  | 0.0         |
| Local Services       | 1,628,348           | 1,671,481           | 1,794,980           | 1,459,574           | 1,598,507           | -29,841            | -1.8        |
| Amusement            | 0                   | 0                   | 0                   | 0                   | 217,277             | 217,277            | 100.0       |
| Other                | 0                   | 0                   | 0                   | 0                   | 0                   | 0                  | 0.0         |
| PURTA                | 60,913              | 63,034              | 58,826              | 59,965              | 57,893              | -3,020             | 0.0         |
| <b>Total Taxes</b>   | <b>\$44,279,662</b> | <b>\$42,079,667</b> | <b>\$44,403,006</b> | <b>\$44,827,357</b> | <b>\$50,196,210</b> | <b>5,916,548</b>   | <b>13.4</b> |

### Real Estate Tax

Real estate taxes were the City's second most productive tax, providing between 31.0 percent and 35.3 percent of total tax revenue. Revenue from real estate taxes decreased from \$14.9 million in 2009 to \$14.6 million in 2010, and then declined again in 2011 when the millage rate was lowered from 103.145 mills on land and 22.432 mills on improvements to 92.263 mills on land and 20.065 mills on improvements, as shown in Table A.4A. Property taxes were raised in 2012 and 2013, and the City saw a corresponding increase in real estate revenues for that year. In 2014, real estate millage increased again to 184.867 mills on land and 40.202 mills on improvements. Real estate tax rates rose 79.2 percent between 2009 and 2014.

### Municipal Tax Rates (City Share of Taxes) City of Scranton 2009 - 2014

Table A.4A

|                                    | Tax Rates |         |        |        |         |         | Change<br>2009 -2014 |       |
|------------------------------------|-----------|---------|--------|--------|---------|---------|----------------------|-------|
|                                    | 2009      | 2010    | 2011   | 2012   | 2013    | 2014    | #                    | %     |
| Land Millage                       | 103.145   | 103.145 | 92.263 | 96.701 | 117.975 | 184.867 | 81.722               | 79.2  |
| Improvement Millage                | 22.432    | 22.432  | 20.065 | 21.03  | 25.656  | 40.202  | 17.77                | 79.2  |
| Earned Income Tax Resident (%)     | 2.4       | 2.4     | 2.4    | 2.4    | 2.4     | 2.4     | 0                    | 0.0   |
| Earned Income Tax Non Resident (%) | 1.0       | 1.0     | 1.0    | 1.0    | 1.0     | 1.0     | 0                    | 0.0   |
| Local Services Tax (\$)            | \$47      | \$47    | \$47   | \$47   | \$47    | \$47    | 0                    | 0.0   |
| Business Privilege Tax Rate (%)    | 1.00      | 1.00    | 0.75   | 0.875  | 1.00    | 1.00    | 0                    | 0.0   |
| Mercantile Tax Rate (%)            | 1.00      | 1.00    | 0.75   | 0.875  | 1.00    | 1.00    | 0                    | 0.0   |
| Real Estate Transfer Tax Rate (%)  | 2.7       | 2.7     | 2.7    | 2.8    | 2.9     | 2.9     | 0.2                  | 7.4   |
| Parking Tax Rate (%)               | 0.0       | 0.0     | 0.0    | 15.0   | 15.0    | 15.0    | 15.0                 | —     |
| Amusement Tax Rate (%)             | 10.0      | 0.0     | 0.0    | 0.0    | 5.0     | 5.0     | -5.0                 | -50.0 |

Source: Municipal Tax Reports, NewPA.com

### Act 511 Taxes

Earned income (EIT) was the City's most productive tax, providing the City between 48.3 percent and 53.2 percent of total operating revenue during the historical review period. Revenue from EIT fluctuated during the period, which occurred during the national economic downturn. EIT collections decreased from 2009 to 2010, and then rose in 2011, dipped in 2012, and then ended at the historical period high of \$25.8 million in 2013. The change between 2009 and 2013 was an increase of almost \$2.3 million or 9.7 percent from \$23.5 million in 2009 to \$25.8 million in 2013. The increase in 2013 was likely the result of the new countywide tax collection process.

In comparison to neighboring municipalities, the City levies a relatively high earned income tax (EIT) rate of 2.4 percent on resident income. In addition, the Scranton School District levies a 1.0 percent EIT on City residents for a total 3.4 percent EIT rate on City residents.

The real estate transfer tax accounted for approximately 5 percent of total taxes in 2009, 2010 and 2013, resulting in approximately \$2.3 million in revenue. The amount collected increased by approximately \$2 million annually in 2011 and 2012 due to the sale of several significant parcels including two City hospitals. The higher real estate transfer tax revenue helped the City make up the difference in 2011 and 2012 when real estate, mercantile and business privilege taxes were

lowered. Local services tax revenue peaked in 2011 at \$1.8 million and then fell to almost \$1.5 million, rising again in 2013 to \$1.6 million. The change between 2009 and 2013 was a decrease of 1.8 percent.

### Non Tax Revenue

During the review period, City revenue from all other revenue sources grew by \$2.8 million or 23.9 percent from \$11.9 million in 2009 to \$14.7 million in 2013. The largest absolute increases were in licenses and permits (\$1.2 million); fines, forfeits and violations, (\$566,356); refuse fees, (\$410,822); miscellaneous revenues (372,772); and intergovernmental reimbursements (\$214,209). Refuse fees increased in 2013 after the City hired a new collection agency. The growth in licenses and permits was a reflection of major construction projects including, those undertaken by the University of Scranton, and renovations of downtown buildings. Table A.5 below provides a summary of operating revenue from all other revenue sources.

### General Fund Non Tax Revenue City of Scranton 2009 - 2013

Table A.5

|                              | 2009                | 2010                | 2011                | 2012                | 2013                | Change 2009 - 2013 |             |
|------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|--------------------|-------------|
|                              | Actual              | Actual              | Actual              | Actual              | Actual              | \$                 | %           |
| <b>Non Tax Revenue</b>       |                     |                     |                     |                     |                     |                    |             |
| Refuse Fees                  | 4,308,606           | 4,118,995           | 3,943,655           | 3,890,668           | 4,719,428           | 410,822            | 9.5         |
| Penalties & Interest         | \$40,962            | \$32,267            | \$40,654            | \$9,690             | \$102,962           | 62,000             | 151.4       |
| Licenses & Permits           | 1,753,926           | 2,160,675           | 1,222,908           | 1,595,918           | 2,990,400           | 1,236,474          | 70.5        |
| Fines, Forfeits & Violations | 743,143             | 923,789             | 743,932             | 685,277             | 1,309,500           | 566,356            | 76.2        |
| Interest Earnings            | 73,593              | 13,978              | 6,603               | 1,995               | 4,435               | -69,158            | -94.0       |
| Rents & Concessions          | 700                 | 0                   | 0                   | 0                   | 6,500               | 5,800              | 828.6       |
| Intergov Reimburse           | 2,801,326           | 2,642,097           | 4,761,118           | 2,987,286           | 3,015,535           | 214,209            | 7.6         |
| In Lieu of Taxes             | 132,386             | 203,314             | 210,427             | 210,427             | 211,663             | 79,277             | 59.9        |
| Departmental Earnings        | 1,141,487           | 1,373,000           | 1,257,461           | 1,111,348           | 1,126,098           | -15,389            | -1.3        |
| User Fees                    | 78,057              | 51,842              | 48,747              | 50,787              | 52,369              | -25,688            | -32.9       |
| MBROs                        | 0                   | 0                   | 0                   | 0                   | 0                   | 0                  | 0.0         |
| Miscellaneous Revenues       | 819,507             | 844,787             | 845,180             | 962,027             | 1,192,279           | 372,772            | 45.5        |
| <b>Total Non-Tax Revenue</b> | <b>\$11,893,694</b> | <b>\$12,364,745</b> | <b>\$13,080,685</b> | <b>\$11,505,425</b> | <b>\$14,731,169</b> | <b>2,837,476</b>   | <b>23.9</b> |

### Other Financing Sources

Table A.6 summarizes other financing sources, which are primarily one-time events as described earlier in the chapter. The most significant other financing source during the historical review period was \$20.0 million for deficit refinancing in 2012.

**General Fund Other Financing Sources  
City of Scranton  
2009 – 2013**

Table A.6

|                                      | 2009               | 2010               | 2011               | 2012                | 2013               | Change<br>2009 - 2013 |              |
|--------------------------------------|--------------------|--------------------|--------------------|---------------------|--------------------|-----------------------|--------------|
|                                      | Actual             | Actual             | Actual             | Actual              | Actual             | \$                    | %            |
| <b>Other Financing Sources</b>       |                    |                    |                    |                     |                    |                       |              |
| Sale of Assets                       | \$0                | \$1,847,473        | \$0                | \$0                 | \$0                | 0                     | 0.0          |
| Interfund Transfers                  | 1,951,105          | 1,532,058          | 6,888,136          | 1,475,590           | 1,525,412          | -425,693              | -21.8        |
| State Grant Receipts                 | 0                  | 0                  | 0                  | 250,000             | 0                  | 0                     | 0.0          |
| Deficit Financing                    | 0                  | 0                  | 0                  | 20,070,000          | 0                  | 0                     | 0.0          |
| State Loan Receipts                  | 0                  | 0                  | 0                  | 2,000,000           | 0                  | 0                     | 0.0          |
| <b>Total Other Financing Sources</b> | <b>\$1,951,105</b> | <b>\$3,379,530</b> | <b>\$6,888,136</b> | <b>\$23,795,590</b> | <b>\$1,525,412</b> | <b>-425,693</b>       | <b>-21.8</b> |

**Revenue Review—2009-2013: Summary**

The following summary regarding the City's 2009-2013 historical General Fund operating revenues and other sources can be made:

- The City's operating revenues increased by 14.4 percent compared to expenditure growth of 9.1 percent.
- EIT and refuse fee revenues likely grew in 2013 because of new collectors.
- The City's real estate tax revenue growth is stagnant and has only increased when the City increases the millage rate. The City is unable to benefit from increasing real estate market value due to Lackawanna County's outdated reassessment.
- The City has chronically balanced its annual operating budgets or mitigated more severe deficits through the use of one-time revenue sources.
- City revenue declined midway through the historical review period because of tax decreases. The City was fortunate in that economic development produced additional revenue for those two years that offset the tax revenue reduction or the problem would have been even more severe. It should also be noted that the City has no control over the production of development-related revenue, which is dependent on outside forces.

## Expenditure Review—2009 - 2013

Table A.7 and Graph A.2 below both illustrate that the City's operating expenditures increased from \$63.5 million in 2009 to \$69.2 million in 2013. Total general fund operating expenditures (excluding TRAN principal repayments) rose during the historical review period by \$4.7 million or 7.4 percent.

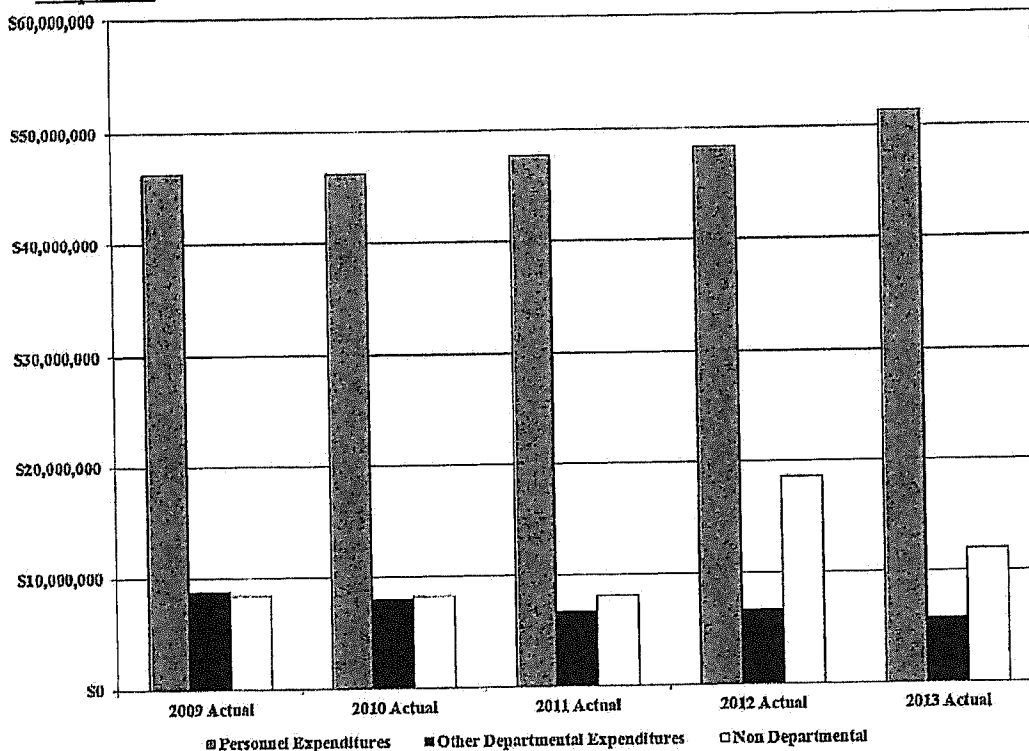
### General Fund Operating Expenditures City of Scranton 2009 - 2013 (Excluding Annual TRAN Principal Repayments)

Table A.7

|                                      | 2009                | 2010                | 2011                | 2012                | 2013                | Change 2009 - 2013 |               |
|--------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|--------------------|---------------|
|                                      | <u>Actual</u>       | <u>Actual</u>       | <u>Actual</u>       | <u>Actual</u>       | <u>Actual</u>       | \$                 | %             |
| <b>Employee Expenses</b>             |                     |                     |                     |                     |                     |                    |               |
| Direct Compensation                  | \$24,230,465        | \$23,869,392        | \$25,520,696        | \$25,374,169        | \$26,731,886        | 2,501,422          | 10.3          |
| Health Insurance                     | 13,135,052          | 13,413,227          | 15,237,940          | 13,797,633          | 13,303,285          | 168,234            | 1.3           |
| Workers' Comp                        | 4,129,073           | 3,913,030           | 1,629,790           | 3,090,912           | 2,618,505           | -1,510,568         | (36.6)        |
| Pension                              | 3,851,760           | 4,108,937           | 4,255,166           | 4,514,909           | 7,579,642           | 3,727,882          | 96.8          |
| Other Employee Expenses              | 897,107             | 908,012             | 977,099             | 1,523,591           | 1,189,231           | 292,124            | 32.6          |
| <b>Total</b>                         | <b>\$46,243,455</b> | <b>\$46,212,598</b> | <b>\$47,620,691</b> | <b>\$48,301,213</b> | <b>\$51,422,550</b> | <b>5,179,095</b>   | <b>104.4</b>  |
| <b>Other Dept. Expenses</b>          |                     |                     |                     |                     |                     |                    |               |
| Prof. Services                       | \$655,033           | \$574,751           | \$483,641           | \$504,125           | \$449,987           | -205,046           | (31.3)        |
| Vehicle Expenditures                 | 815,893             | 805,421             | 860,051             | 855,415             | 966,523             | 150,631            | 18.5          |
| Landfill                             | 1,627,050           | 1,471,131           | 1,422,225           | 1,426,252           | 426,709             | -1,200,341         | (73.8)        |
| Capital Expenditures                 | 1,019,393           | 610,284             | 173,775             | 134,851             | 151,596             | -867,797           | (85.1)        |
| Liability/Casualty Insurance         | 1,078,945           | 977,100             | 828,678             | 1,103,401           | 996,853             | -82,092            | (7.6)         |
| Utilities                            | 1,327,692           | 1,630,269           | 1,417,825           | 1,325,476           | 1,238,656           | -89,036            | (6.7)         |
| Other Dept. Expenditures             | 2,273,887           | 1,903,878           | 1,430,918           | 1,361,560           | 1,573,866           | -700,021           | (30.8)        |
| <b>Total</b>                         | <b>\$8,797,893</b>  | <b>\$7,972,833</b>  | <b>\$6,617,113</b>  | <b>\$6,711,079</b>  | <b>\$5,804,191</b>  | <b>-2,993,702</b>  | <b>(34.0)</b> |
| <b>Non Departmental Expenditures</b> |                     |                     |                     |                     |                     |                    |               |
| Interest & Debt Exc TRANs            | \$6,955,636         | \$6,547,156         | \$6,769,962         | \$12,018,212        | \$6,746,318         | -209,318           | (3.0)         |
| Tan Series A & B Interest Expense    | 323,155             | 460,369             | 507,168             | 2,031,241           | 704,930             | 381,775            | 118.1         |
| SPA Guarantee                        | 0                   | 0                   | 0                   | 1,510,949           | 2,310,000           | 2,310,000          | 100.0         |
| Other Operating Expense              | 251,627             | 491,462             | 218,395             | 2,290,860           | 1,629,006           | 0                  | 0.0           |
| Other Non Depart Expenditure         | 905,051             | 717,349             | 583,007             | 744,318             | 568,647             | 0                  | 0.0           |
| <b>Total</b>                         | <b>\$8,435,469</b>  | <b>\$8,216,336</b>  | <b>\$8,078,532</b>  | <b>\$18,595,579</b> | <b>\$11,958,901</b> | <b>2,482,457</b>   | <b>29.4</b>   |
| <b>Total Expenditures</b>            | <b>\$63,476,817</b> | <b>\$62,401,768</b> | <b>\$62,316,336</b> | <b>\$73,607,872</b> | <b>\$69,185,642</b> | <b>\$4,667,850</b> | <b>7.4</b>    |

**General Fund Operating Expenditures  
City of Scranton  
2009 - 2013  
(Excluding Annual TRAN Principal Repayments)**

Graph A.2



**Personnel Expenditures**

Similar to most local governments, the services provided by the City of Scranton are labor-intensive. People are needed to prevent and investigate crime, respond to fire emergencies, maintain safe and clean streets, collect refuse and provide the delivery of other important services of municipal government. Table A.8 below presents the City's historic General Fund personnel expenditures for 2009 through 2013.

**Historic Personnel Expenditures – All City Employees  
City of Scranton  
2009 - 2013**

Table A.8

|   | 2009                | 2010                | 2011                | 2012                | 2013                | Change 2009 - 2013 |             |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|--------------------|-------------|
|   | Actual              | Actual              | Actual              | Actual              | Actual              | \$                 | %           |
| Standard Salary                           | \$19,625,492        | \$19,536,532        | \$22,185,582        | \$21,316,419        | \$22,484,171        | 2,858,679          | 14.6        |
| Other Salary (Misc)                       | 811,724             | 729,836             | 436,810             | 546,309             | 484,618             | -327,106           | -40.3       |
| Longevity Salary                          | 1,080,835           | 1,085,495           | 1,288,612           | 1,474,535           | 1,631,432           | 550,596            | 50.9        |
| Overtime Salary                           | 1,711,391           | 1,511,620           | 708,323             | 1,078,666           | 1,168,809           | -542,582           | -31.7       |
| Court Appearance Salary                   | 116,152             | 136,520             | 152,387             | 128,919             | 107,018             | -9,134             | -7.9        |
| Social Security                           | 884,871             | 869,388             | 748,981             | 829,321             | 855,839             | -29,032            | -3.3        |
| <b>Total Direct Compensation</b>          | <b>\$24,230,465</b> | <b>\$23,869,392</b> | <b>\$25,520,696</b> | <b>\$25,374,169</b> | <b>\$26,731,886</b> | <b>2,501,422</b>   | <b>10.3</b> |
| Uniform Allowance                         | \$267,798           | \$259,626           | \$254,878           | \$240,881           | \$252,878           | -14,920            | -5.6        |
| Health Insurance                          | 13,135,052          | 13,413,227          | 15,237,940          | 13,797,633          | 13,303,285          | 168,234            | 1.3         |
| Life/Disability Insurance                 | 305,621             | 305,253             | 260,960             | 578,778             | 556,871             | 251,250            | 82.2        |
| Unemployment Insurance                    | 57,650              | 75,958              | 175,397             | 363,591             | 49,536              | -8,114             | -14.1       |
| Workers' Comp Transfer                    | 4,129,073           | 3,913,030           | 1,629,790           | 3,090,912           | 2,618,505           | -1,510,568         | -36.6       |
| City 10% Early Retirement                 | 220,465             | 218,424             | 237,312             | 279,911             | 266,697             | 46,232             | 21.0        |
| City Pension                              | 3,851,760           | 4,108,937           | 4,255,166           | 4,514,909           | 7,579,642           | 3,727,882          | 96.8        |
| Police Education Allowance                | 45,573              | 48,751              | 48,551              | 60,429              | 63,250              | 17,678             | 38.8        |
| <b>Total Other Personnel Expenditures</b> | <b>\$22,012,990</b> | <b>\$22,343,207</b> | <b>\$22,099,995</b> | <b>\$22,927,044</b> | <b>\$24,690,663</b> | <b>2,677,673</b>   | <b>12.2</b> |
| <b>Total Personnel Expenditures</b>       | <b>\$46,243,455</b> | <b>\$46,212,598</b> | <b>\$47,620,691</b> | <b>\$48,301,213</b> | <b>\$51,422,550</b> | <b>5,179,095</b>   | <b>11.2</b> |

Source: Historical Data from City As Provided.

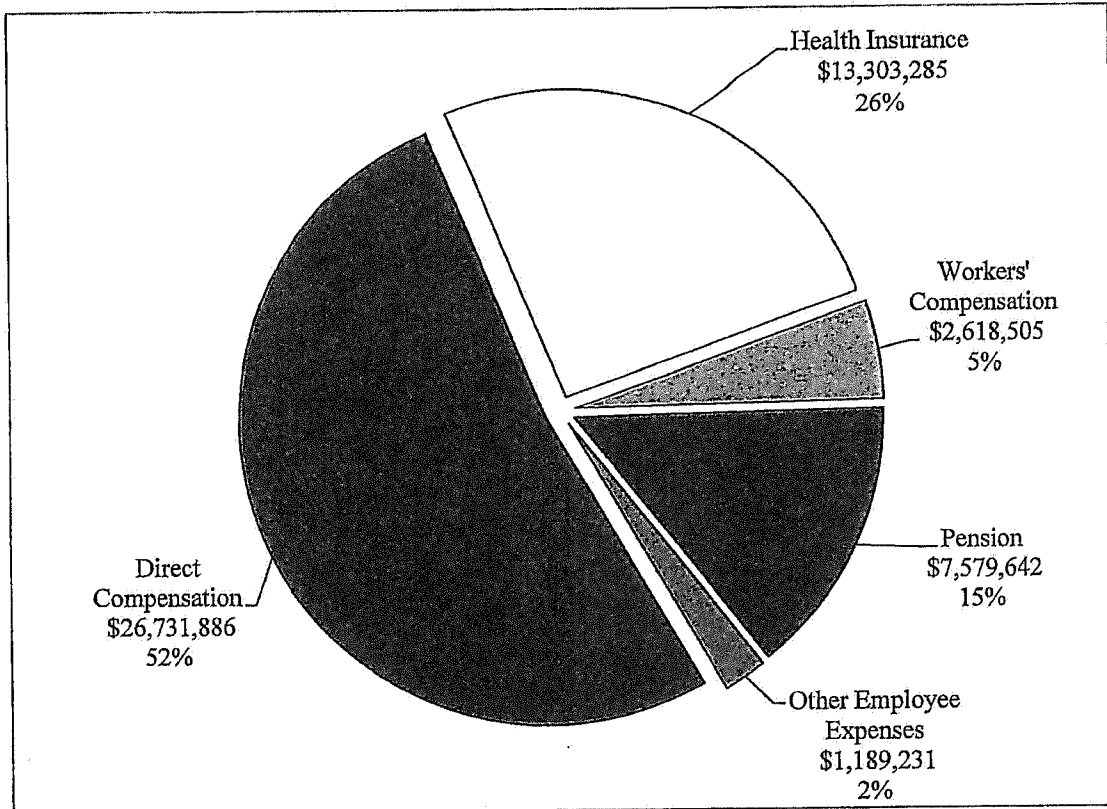
Total direct employee compensation increased by 10.3 percent between 2009 and 2013. Standard salary saw the largest growth in direct compensation and the second highest absolute growth of any personnel expenditure, rising by \$2.9 million or 14.6 percent. Longevity experienced the highest percentage growth in direct compensation, increasing by 50.9 percent or \$550,596. Overtime costs fell by \$542,582 or 31.7 percent.

Total other personnel expenditures increased by almost \$2.7 million or 12.2 percent during the historical review period, a greater amount than direct compensation. Pension costs were the main factor for the growth. Pension experienced the largest absolute increase of any personnel category, gradually rising from almost \$3.9 million in 2009 to \$4.5 million in 2012. In 2013, pension costs grew by over \$3 million to \$7.6 million. The change from 2009 to 2013 was an increase of \$3.7 million. Pension actuarial valuations are performed every two years and will vary based on the value of assets held on the date of valuation.

City health care expenditures for employee and retiree health care grew by only 1.3 percent from 2009 through 2013, from a total of \$13.1 million in 2009 to \$13.3 million in 2013. Health insurance costs peaked in 2011 at \$15.2 million and then declined through 2013. Workers' compensation related expenditures decreased by \$1.5 million or 36.6 percent. Graph A.3 illustrates the proportion of City personnel expenditures in 2013.

**Personnel Expenditures General Fund  
FY2013 Actual  
City of Scranton**

Graph A.3



**Other Departmental Expenditures**

Other departmental expenditures fell by \$3.0 million or 34.0 percent during the historical review period from \$8.8 million in 2009 to \$5.8 million in 2013. The largest decrease was for landfill expenditures. However, the \$1 million drop in 2013 was a one-time event that deferred payment to subsequent years. The City is repaying the full \$1 million in annual payments from 2014 through 2016. Landfill costs returned to the contractual level in 2014 plus the extra payment from the 2013 reduction. Capital expenditures dropped significantly over the historical review period, decreasing from \$1.0 million in 2009 to \$151,596 in 2013. The change was a reduction of \$867,797 or 85.1 percent. This indicates the City's failure to adequately invest in critical City infrastructure and other capital assets, which may limit the City's ability to adequately provide future services to its residents. Other decreases included professional services (\$205,046), utilities (\$137,213), and all other departmental expenditures (\$651,844). Gas, oil, lubricants and vehicle repair was the only category to increase, rising by 18.5 percent.



Table A.9 below provides summary data on the City's Other Departmental Expenditure categories.

**Other Departmental Expenditures  
City of Scranton  
2009 - 2013**

Table A.9

|  | 2009               | 2010               | 2011               | 2012               | 2013               | Change 2009 - 2013  |              |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|--------------|
|  | Actual             | Actual             | Actual             | Actual             | Actual             | \$                  | %            |
| Other Departmental                           |                    |                    |                    |                    |                    |                     |              |
| Professional Services                        | \$655,033          | \$574,751          | \$483,641          | \$504,125          | \$449,987          | -205,046            | -31.3        |
| Gas, Oil, Lubricants, Vehicle Repair         | 815,893            | 805,421            | 860,051            | 855,415            | 966,523            | 150,631             | 18.5         |
| Landfill                                     | 1,627,050          | 1,471,131          | 1,422,225          | 1,426,252          | 426,709            | -1,200,341          | -73.8        |
| Capital Expenditures                         | 1,019,393          | 610,284            | 173,775            | 134,851            | 151,596            | -867,797            | -85.1        |
| Liability/Casualty Insurance                 | 1,078,945          | 977,100            | 828,678            | 1,103,401          | 996,853            | -82,092             | -7.6         |
| Utilities                                    | 1,519,692          | 1,806,269          | 1,616,394          | 1,534,355          | 1,382,480          | -137,213            | -9.0         |
| All Other Departmental Expenditures          | 2,081,887          | 1,727,878          | 1,232,349          | 1,152,681          | 1,430,043          | -651,844            | -31.3        |
| <b>Total Other Departmental Expenditures</b> | <b>\$8,797,893</b> | <b>\$7,972,833</b> | <b>\$6,617,113</b> | <b>\$6,711,079</b> | <b>\$5,804,191</b> | <b>-\$2,993,702</b> | <b>-34.0</b> |

Source: Historical Data from City As Provided

**Non-Departmental Expenditures**

Debt service, which represents the bulk of the City's non-departmental expenditures, remained relatively stable from 2009 through 2011 at between \$6 million and \$7 million. In 2012, debt service almost doubled following the addition of costs for new borrowing, payment of a loan that had been obtained by the Scranton Redevelopment Authority as an advance for proceeds on a proposed tax lien sale, and payment on a state loan. Debt service costs dropped in 2013 when the City refinanced. Also in 2012, the City became responsible for the portion of annual debt service that the Scranton Parking Authority was unable to pay from SPA resources following default on a SPA loan.

Table A.10 below provides summary data on the City's Non-Departmental Expenditure categories.

**Non-Departmental Expenditures  
City of Scranton  
2009 - 2013**

Table A.10

|                               | 2009               | 2010               | 2011               | 2012                | 2013                | Change 2009 - 2013 |             |
|-------------------------------|--------------------|--------------------|--------------------|---------------------|---------------------|--------------------|-------------|
|                               | Actual             | Actual             | Actual             | Actual              | Actual              | \$                 | %           |
| Non Departmental Expenditures |                    |                    |                    |                     |                     |                    |             |
| Interest & Debt Exc Tans      | \$6,955,636        | \$6,547,156        | \$6,769,962        | \$12,018,212        | \$6,746,318         | -209,318           | (3.0)       |
| Tan Series A & B Interest Exp | 323,155            | 460,369            | 507,168            | 2,031,241           | 704,930             | 381,775            | 118.1       |
| SPA Guarantee                 | 0                  | 0                  | 0                  | 1,510,949           | 2,310,000           | 2,310,000          | 100.0       |
| Other Operating Expenditure   | 251,627            | 491,462            | 218,395            | 2,290,860           | 1,629,006           | 0                  | 0.0         |
| Other Non Depart Expenditure  | 905,051            | 717,349            | 583,007            | 744,318             | 568,647             | 0                  | 0.0         |
| <b>Total</b>                  | <b>\$8,435,469</b> | <b>\$8,216,336</b> | <b>\$8,078,532</b> | <b>\$18,595,579</b> | <b>\$11,958,901</b> | <b>2,482,457</b>   | <b>29.4</b> |

## **Expenditure Review—2009 – 2013: Summary**

During the review period, the following summary regarding the City's General Fund operating expenditures can be made:

- The City's annual operating expenditures have increased by 9.1 percent over the past 5 years.
- Public services provided by the City are labor-intensive—employee-related expenditures accounted for 74.3 percent of City's operating expenditures in 2013.
- Pension expenditures have increased by 96.8 percent between 2009 and 2013 but health care costs, which traditionally have experienced significant growth, remained relatively flat.
- Non-departmental expenditures increased in part because the City became responsible for a portion of SPA debt.
- Overtime declined in the fire department and public works from 2009 to 2013. Police department overtime experienced significant increases in 2012 and 2013. That trend appears to continue for the police department in 2014, while fire department overtime is also expected to rise for that year.
- Almost all other departmental expenditures decreased during the historical review period, including significant reductions in capital expenditures that could have implications for city infrastructure and other capital needs in the future.
- Landfill spending was lowered in 2013 but that money must be repaid over three years in addition to the City's regular contractual landfill payment, thus providing one-time relief for only one year while increasing costs in subsequent years.
- In addition to its annual Personnel Expenses, the City of Scranton's taxpayers are responsible for long-term personnel liabilities that include retiree pension, retiree health care and worker's compensation.

## **2014 Operating Budget Review**

The City's adopted 2014 Operating Budget, as amended, projected revenues of \$130.5 million and expenditures of \$130.2 million. The budget included an estimated borrowing of \$28.0 million and payment of \$22.0 million for the public safety union court settlement. The budget increased the real estate tax rate to 184.867 mills on land and 40.202 on improvements or a 56.7 percent increase over 2013. The city also increased its refuse rate by 65.5 percent from \$178 to \$300.

The Act 47 Coordinator has reviewed the 2014 Operating Budget's preliminary and unaudited operating revenues and expenditures. This review as shown in Table A.11 estimates a 2014 deficit of \$4.8 million. The City did not borrow for or pay the court award in 2014. Net revenues received are anticipated to fall short of budget estimates by \$10.3 million. Net expenditures are expected to be less budget estimates by \$11.2 million.

**2014 Operating Budget  
City of Scranton**

Table A.11

|                                 | 2014                | 2014                 | Est vs. Budget     |              |
|---------------------------------|---------------------|----------------------|--------------------|--------------|
|                                 | Estimated           | Budget               | \$                 | %            |
| <b>Revenues</b>                 | \$88,471,090        | \$130,536,998        | -42,065,908        | -32.2        |
| <b>Less:</b>                    |                     |                      |                    |              |
| Tax & Revenue Anticipation Note | -\$12,200,000       | -\$16,000,000        | 3,800,000          | -23.8        |
| Proceed from Borrowing          | 0                   | -28,000,000          | 28,000,000         | -100.0       |
| <b>Net Revenues</b>             | <b>\$76,271,090</b> | <b>\$86,536,998</b>  | <b>-10,265,908</b> | <b>-11.9</b> |
| <b>Expenditures</b>             | <b>\$93,225,023</b> | <b>\$130,195,163</b> | <b>-36,970,139</b> | <b>-28.4</b> |
| <b>Less:</b>                    |                     |                      |                    |              |
| Tax & Revenue Anticipation Note | -\$12,200,000       | -\$16,000,000        | 3,800,000          | -23.8        |
| Settlement Award                | 0                   | -22,000,000          | 22,000,000         | -100.0       |
| <b>Net Expenditures</b>         | <b>\$81,025,023</b> | <b>\$92,195,163</b>  | <b>-11,170,139</b> | <b>-12.1</b> |

**Revenue**

As shown in Table A.12, the majority of 2014 revenue items are estimated to be lower than budgeted amounts, with several categories expected to be \$1 million or more under budgeted amounts including intergovernmental reimbursements (\$2.0 million), interfund transfers (\$2.1 million), miscellaneous revenue (\$1.1 million), and licenses and permits (\$1.0 million). Intergovernmental reimbursements were less than budgeted primarily because SAFER grant revenue was lower than anticipated and the amount received was booked as a credit against Fire Department expenses. Interfund transfers were lower than budgeted as anticipated increases in liquid fuels funding did not materialize. In addition, the City did not complete an asset sale that was expected to provide \$1.7 million.

The parking tax is expected to be \$117,065 or 46.8 percent lower than budgeted. In terms of other taxes, mercantile/business privilege taxes are projected to be under budgeted amounts by \$433,119 or 16.8 percent, while the real estate transfer tax is expected to generate more revenue than budgeted (\$429,005 or 17.0 percent). The amusement tax, in its second year, was also one of the few items that brought in more revenue than expected. The difference was an increase of \$44,685 or 14.9 percent.

## 2014 Operating Revenues

Table A.12

|                                   | 2014                | 2014                | Est vs. Budget     |              |
|-----------------------------------|---------------------|---------------------|--------------------|--------------|
|                                   | Estimated           | Budget              | \$                 | %            |
| Real Estate Taxes                 | \$27,552,292        | \$27,943,903        | -391,611           | -1.4         |
| Refuse Revenues                   | 6,926,473           | 7,000,000           | -73,527            | -1.1         |
| Real Estate Transfer Tax          | 2,949,005           | 2,520,000           | 429,005            | 17.0         |
| Earned Income Tax                 | 23,862,293          | 24,650,000          | -787,707           | -3.2         |
| Mercantile/Business Privilege Tax | 2,150,945           | 2,584,064           | -433,119           | -16.8        |
| Parking Tax                       | 132,935             | 250,000             | -117,065           | -46.8        |
| Commuter Tax                      | 0                   | 0                   | 0                  | 0.0          |
| LST                               | 1,610,627           | 1,650,000           | -39,373            | -2.4         |
| Amusement Tax                     | 344,685             | 300,000             | 44,685             | 14.9         |
| Other Taxes                       | 0                   | 0                   | 0                  | 0.0          |
| PURTA                             | 63,797              | 61,000              | 2,797              | 4.6          |
| Penalties & Interest              | 131,289             | 124,100             | 7,189              | 5.8          |
| Licenses & Permits                | 2,666,258           | 3,678,900           | -1,012,642         | -27.5        |
| Fines, Forfeits & Violations      | 938,229             | 1,407,500           | -469,271           | -33.3        |
| Interest Earnings                 | 432                 | 10,000              | -9,568             | -95.7        |
| Rents & Concessions               | 5,000               | 25,000              | -20,000            | -80.0        |
| Intergovernmental Reimbursements  | 2,950,982           | 4,976,090           | -2,025,108         | -40.7        |
| In Lieu of Taxes                  | 243,762             | 300,000             | -56,238            | -18.7        |
| Departmental Earnings             | 1,323,417           | 1,735,000           | -411,583           | -23.7        |
| User Fees                         | 55,592              | 60,500              | -4,908             | -8.1         |
| MBROs                             | 0                   | 0                   | 0                  | 0.0          |
| Miscellaneous Revenues            | 939,439             | 2,076,500           | -1,137,061         | -54.8        |
| Sale of Assets                    | 0                   | 1,700,000           | -1,700,000         | -100.0       |
| Interfund Transfers               | 1,423,638           | 3,484,441           | -2,060,803         | -59.1        |
| Bond Proceeds Other               | 0                   | 0                   | 0                  | 0.0          |
| <b>Total Operating Revenues</b>   | <b>\$76,271,090</b> | <b>\$86,536,998</b> | <b>-10,265,908</b> | <b>-11.9</b> |

### Expenditures

As shown in Table A.13, total employee expenditures are expected to be \$1.7 million or 2.8 percent over budgeted amounts. Health insurance is anticipated to be over budgeted amounts by \$3.3 million or 23.4 percent, which balances against lower than expected expenditures for direct compensation (\$641,186), workers compensation (\$703,402) and pension (\$293,304).

Other departmental expenditures are projected to be lower than budgeted by \$971,586 or 12.8 percent primarily because of reductions in landfill and utility costs. Interest and debt under non-departmental expenses were paid in part through other revenue sources that are not reflected in the 2014 estimated budget figures.

The TAN repayment is anticipated to be lower than budgeted because the City borrowed only \$13 million rather than the budgeted \$17 million. Unpaid prior year expenses were paid but not recorded in 2013. As previously noted, a borrowing for the \$22 million court award was not obtained so the expenditure was not made. The combination of not paying the court award, along with unpaid prior year expense and interest and debt payments that are not reflected in the

comparison, are the major reasons that total estimated expenditures are \$37.0 million or 28.4 percent lower than budgeted expenditures for 2014.

**2014 Operating Budget--Expenditures  
City of Scranton**

Table A.13

| <b>Employee Expenses</b>                     | 2014                | 2014                 | <b>Est vs. Budget</b> |              |
|--|---------------------|----------------------|-----------------------|--------------|
|  | <b>Estimated</b>    | <b>Budget</b>        | <b>\$</b>             | <b>%</b>     |
| Direct Compensation                          | \$28,617,652        | \$29,258,839         | -641,186              | -2.2         |
| Health Insurance                             | 17,255,449          | 13,979,150           | 3,276,299             | 23.4         |
| Workers' Compensation                        | 2,997,206           | 3,700,608            | -703,402              | -19.0        |
| Pension                                      | 12,151,452          | 12,444,756           | -293,304              | -2.4         |
| Other Employee Expenses                      | 1,377,593           | 1,308,914            | 68,678                | 5.2          |
| <b>Total Employee Expenditure</b>            | <b>\$62,399,352</b> | <b>\$60,692,267</b>  | <b>1,707,085</b>      | <b>2.8</b>   |
| <b>Other Departmental Expenditures</b>       |                     |                      |                       |              |
| Professional Services                        | 426,593             | 562,800              | -136,207              | -24.2        |
| Gas, Oil, Lubricants, Vehicle Repair         | 876,326             | 922,229              | -45,903               | -5.0         |
| Landfill                                     | 1,355,680           | 1,681,911            | -326,231              | -19.4        |
| Capital Expenditures                         | 78,336              | 153,000              | -74,664               | -48.8        |
| Liability/Casualty Insurance                 | 992,617             | 1,000,000            | -7,384                | -0.7         |
| Utilities                                    | 1,424,126           | 1,884,450            | 4,886,016             | 259.3        |
| All Other Departmental Expenditures          | 1,438,007           | 1,358,881            | -5,267,214            | -387.6       |
| <b>Total Other Departmental Expenditures</b> | <b>\$6,591,685</b>  | <b>\$7,563,271</b>   | <b>-971,586</b>       | <b>-12.8</b> |
| <b>Non-departmental Expenses</b>             |                     |                      |                       |              |
| Interest & Debt-Exc Tans                     | 7,418,615           | 12,163,140           | -4,744,525            | -39.0        |
| Interest & Debt Leases                       | 0                   | 0                    | 0                     | 0.0          |
| Scranton Parking Authority                   | 2,653,813           | 2,450,000            | 203,813               | 8.3          |
| State Loan Repayment                         | 100,000             | 100,000              | 0                     | 0.0          |
| Other Operating Expense                      | 951,416             | 1,227,829            | -276,413              | -22.5        |
| <b>Non Departmental Expenditure</b>          | <b>\$11,123,844</b> | <b>\$15,940,969</b>  | <b>-4,817,124</b>     | <b>-30.2</b> |
| <b>Total Operating Expenditures</b>          | <b>\$80,114,881</b> | <b>\$84,196,506</b>  | <b>-4,081,626</b>     | <b>-4.8</b>  |
| TAN Repayment                                | 12,986,733          | 17,000,000           | -4,013,267            | -23.6        |
| Unpaid Prior Year Expenses                   | 0                   | 6,798,656            | -6,798,656            | -100.0       |
| Court Awards                                 | 123,409             | 22,200,000           | -22,076,591           | -99.4        |
| <b>Total Expenditures</b>                    | <b>\$93,225,023</b> | <b>\$130,195,163</b> | <b>-36,970,139</b>    | <b>-28.4</b> |

**2014 Year End Carryover**

As net 2014 estimated expenditures exceeded net 2014 estimated revenues, the City did not have enough cash on hand to satisfy its full 2014 pension payment or various outstanding bills. As shown in Table A.14, 2014 is projected to end with a negative outstanding cash balance of \$6.6 million as a result.

**2014 Year End Outstanding Payables  
City of Scranton**

Table A.14

| 2014 Estimated Year End Balances |              |
|----------------------------------|--------------|
| Cash                             | \$0          |
| Accounts Payable                 | -\$2,800,000 |
| Pension Payable                  | -\$3,800,000 |
| 2014 Outstanding Balance         | -\$6,600,000 |

## **Appendix B**

### **Debt Obligations, Pension, and Other Post-Employment Benefits**

The City of Scranton uses various types of municipal borrowings to finance its operations both short-term and long term. This is a common practice among many larger municipal corporations. The City's short-term general debt obligations include debt that has a maturity date of less than one year, such as tax and revenue anticipation notes (TRANs). The City's long-term debt obligations include bonds and notes with a maturity date of longer than one year. Along with long-term personnel expenses such as pension and health care, the City's long-term debt obligations will impact the City's finances for decades into the future.

#### **Debt Policy**

The Act 47 Coordinator recommends that the City and the City's Authorities implement a debt management policy that would include comprehensive guidelines related to the issuance of debt. This debt policy would establish criteria for the use of debt, establish guidelines for the City's guaranty of any Authority debt issues, insure compliance with the Debt Act, require the City and its Authorities to retain appropriate debt management professionals if engaged in debt issuance, and stipulate regular updates of the debt policy to ensure that the City and its Authorities use their resources to meet the needs of the citizens of the City.

The City has retained Public Financial Management (PFM) as the City's Financial Advisor. PFM is the largest independent municipal financial advisor in the country and is assisting the City in developing and evaluating its options and alternatives to improve the City's creditworthiness and access to the financial markets.

#### **Long-Term Debt Obligations**

As of January 1, 2015, the City's General Fund is responsible for annual debt service payments on 12 series of bonds and notes. The City's current annual debt service payments range from \$10.6 million to \$10.7 million from 2015 through 2020.

The City's current annual debt service requirements do not include any amortization requirements for the balance of the estimated \$22.0 million Supreme Court award to the police and firefighter unions. The two unions and the City have entered into a consent judgment regarding the award, and the City continues to explore alternatives to develop a financing structure for the award.

#### **Short-Term Debt Obligations**

The City's short-term debt includes a 2015 Tax and Revenue Anticipation Note (TRAN) for \$13.0 million, plus interest, due on December 15, 2015. The 2015 TRAN is payable from the revenues generated by the City's 2015 taxes and revenues to be collected in 2015. The City's long-term and short-term debt obligations are illustrated in Table B.1 and Table B.2.

**Long-Term Debt Obligations  
As of January 1, 2015  
City of Scranton**

Table B.1

| Outstanding Series                     | Maturity   | Remaining Debt<br>Service Jan. 1, 2015 |
|--|------------|--|
| <b>General Obligation</b>              |            |  |
| Notes Series of 2002                   | 08/01/2028 | \$6,467,425                            |
| Bonds Series A of 2003                 | 09/01/2014 | matured                                |
| Bonds Series B of 2003                 | 09/01/2031 | 39,285,724                             |
| Bonds Series C of 2003                 | 09/01/2033 | 23,341,120                             |
| Bonds Series D of 2003                 | 09/01/2023 | 9,697,450                              |
| Bonds Series A of 2012                 | 12/31/2022 | 11,873,275                             |
| Notes Series B of 2012                 | 12/31/2022 | 1,774,450                              |
| Bonds Series C of 2012                 | 12/31/2022 | 11,260,525                             |
| Bonds Series A of 2013                 | 12/31/2023 | 6,365,975                              |
| <b>Guaranteed Lease Revenue</b>        |            |  |
| Bonds Series of 2004                   | 12/15/2016 | 1,240,470                              |
| Bonds Series of 2006                   | 11/01/2024 | 13,241,565                             |
| Bonds Series of 2008                   | 11/01/2026 | 8,350,411                              |
| <b>Total General Fund Debt Service</b> |            | <b>\$132,898,690</b>                   |

**Current Annual Long-Term Debt Service  
As of January 1, 2015  
2015 – 2020**

Table B.2

|              | 2015         | 2016         | 2017         | 2018         | 2019         | 2020         |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Debt Service | \$10,642,849 | \$10,646,211 | \$10,721,880 | \$10,634,372 | \$10,641,462 | \$10,640,353 |

**Guaranteed Authority Debt**

In addition to the City's General Obligation debt service, the City guarantees the debt of the Scranton Parking Authority (SPA). As a debt guarantor, the City is not directly responsible for budgeting or making annual debt service payments on its guaranteed debt.

The SPA has not been able to generate sufficient net revenue from its operation of the SPA parking garages to provide the funds required to pay the annual debt service on the SPA's outstanding bonds. Annual debt service requirements on the SPA's outstanding bonds amounts to approximately \$3.3 million, and the SPA has only been able to generate about \$500,000 to \$1.0 million in net revenue per year for debt service. In June 2012, the City Council refused to transfer approximately \$1.0 million that was budgeted to pay for the shortfall in the SPA debt service to the SPA debt service account. As a result, the SPA defaulted on a debt payment and the SPA bond trustee had to use the debt service reserve fund to make the required debt payment. The trustee and the insurers of the SPA's outstanding bonds then petitioned the Lackawanna



County Common Pleas Court to appoint a receiver for the SPA. The receiver now oversees the operations of the SPA parking garages.

The City has now been required to budget and pay approximately \$2.9 million per year to fund its guaranty on the SPA bonds. The City has issued a Request for Qualifications (RFQ) to solicit and determine interest from the investment and financial community on the feasibility of a proposed sale, concession, or lease of the SPA. Initial responses to the RFQ were due to the City by January 9, 2015, and the City has received ten responses to the RFQ. These initial series of responses to the RFQ will be evaluated by the City and its Financial Advisor to determine which respondents have met the guidelines established in the RFQ. Those firms meeting these guidelines will then be offered the opportunity to conduct due diligence, access all documents and information pertaining to City and SPA operations, and then develop definite proposals to monetize the SPA operations. The City anticipates that the monetization process will be substantially complete by September 30, 2015.

As of January 1, 2015, the total outstanding principal and interest of the Scranton Parking Authority bonds amounted to \$85.4 million. In November 2014, the SPA also refinanced two defaulted bank loans amounting to approximately \$3.0 million. These loans are not guaranteed by the City. The City will include the operation of the on-street parking meter system in the monetization proposed for the SPA garages. The parking meters generate approximately \$1.3 million in annual revenue that currently flows to the City and not to the SPA.

#### **Letter of Credit**

The City of Scranton currently has an outstanding \$5.8 million PNC Bank Letter of Credit (LOC) related to the Redevelopment Authority 2008 Bond issue that is due to expire in November 2015. The City was able to negotiate a series of one-year term extensions of this LOC beginning in 2011 when the original LOC term was scheduled to expire. The LOC provides credit enhancement and market liquidity for the Series 2008 Bond issue, which is guaranteed by the City. If the LOC is not renewed while the Series 2008 Bonds are outstanding, the City would be required to redeem the outstanding bonds at par plus accrued interest or refinance the outstanding Series 2008 Bonds.

The City will need to seek an annual renewal of the LOC from PNC Bank, seek a replacement for the LOC in the form of an alternative LOC or other form of credit enhancement for the Series 2008 Bonds, or refinance the Series 2008 Bonds.

#### **Pension Funding and Other Post-Employment Benefits**

While payments to the City's combined pension funds and payments for retiree health care are not considered debt under state law, these obligations require that the City make annual outlays to support these payments to the City's retired employees.

Combined as distressed pension plans since 1987 under the provisions of the Commonwealth's Act 205, the City's police, firefighter, and non-uniformed pension funds provide annual pension payments to the City's retired employees. According to the Auditor General's Compliance Audit

of August 2014, as of January 1, 2013, the Scranton police pension fund has a funded ratio of 28.8%; the Scranton firefighter's pension fund has a funded ratio of 16.7%; and the Scranton non-uniformed pension fund had a funded ratio of 23.0%. The combined pension funds paid out approximately \$13.0 million in pension benefits to retirees in 2014, while receiving approximately \$5.0 million per year in investment earnings and contributions from current employees. The City currently contributes approximately \$9.0 million per year as its required annual Minimum Municipal Obligation (MMO) and the Commonwealth contributes approximately \$3.0 million in annual aid.

The City's annual MMO is currently about 75 percent of the actuarially required contribution under the provision of the Commonwealth's Act 44, which has allowed municipalities to "smooth" their MMOs for up to six years. The City's ability to "smooth" its MMO will cease at the end of 2016 fiscal year. For the 2017 fiscal year, the City's MMO will increase to at least \$17.0 million, depending on the actuarial valuation of the combined funds, and is estimated to total about \$19.0 million per year by 2020.

The City currently spends approximately \$14 million on health care for current and retired employees. Since the City is self-insured for health care, it can be difficult to precisely separate definitive health care payments to current employees and to retired employees. The City estimates that retiree health care payments amount to approximately \$7 million per year.

The City, as part of the overall plan to manage its legacy costs, must begin to establish an Other Post-Employment Benefits (OPEB) trust fund and to initiate annual contributions to the trust fund. A pay-as-you-go structure for retiree health care and other post-employment payments is not a recommended best practice or a sustainable practice for long-term stability.

### **Refinance the City's Debt**

The current interest rate environment in the municipal market should provide an opportunity for the City to refinance its outstanding debt obligations to lower debt service payments on the Bonds and Notes outstanding. The City, however, does not have an existing investment grade credit rating. Standard & Poor's (S&P) reduced the City's BBB- credit rating, which was the lowest level of investment grade, to BB-, a speculative grade rating level, in September 2011. The City then asked S&P to withdraw the public rating. Without an investment grade rating, and with the history of the SPA default fresh in the marketplace, the City has encountered difficulty in acquiring financing from the capital markets and from financial institutions. The City has paid significant interest rate premiums to current market interest rates to borrow TANS and to issue the 2012 and 2013 Series Bonds.

The City must continue the efforts already underway to rebuild the City's creditworthiness, including the reduction in the Scranton Parking Authority debt, continued balanced budgets, improved cash flow management, and use of various options to improve the fiscal position of the City pension system.