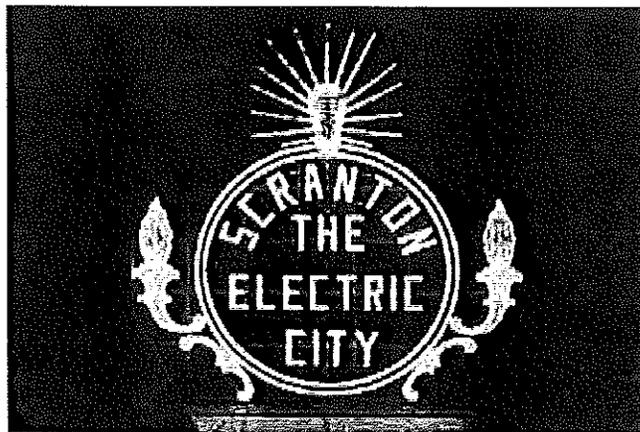


Revised and Updated Act 47 Recovery Plan

For the

City of Scranton

(To be effective upon adoption)



Prepared by:

Pennsylvania Economy League, Central PA LLC

August 24, 2012

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CHAPTER 1

Mandates to Eliminate Projected Operating Budget Deficits

As highlighted in Appendices A and B of this Revised and Updated Act 47 Recovery Plan for the City of Scranton dated August 24, 2012, (2012 Revised Recovery Plan) and noted in Table 1.1 below, the City of Scranton has a structural General Fund operating budget deficit crisis. The City's recurring operating revenues received in the past and projected to be received in the future have not been, and will not be, enough to meet its 2012 and future years operating expenditures. The City has attempted to eliminate its prior years' General Fund operating budget deficits by using one time revenue sources and most recently by reducing its personnel complement. However, as the City's appointed Act 47 Coordinator it is the Pennsylvania Economy League's (Act 47 Coordinator) opinion that further fiscal consolidation of the City's revenues and expenditures is necessary to eliminate the projected structural operating deficits. This chapter of the 2012 Revised Recovery Plan identifies mandates that the City must implement to eliminate the City's operating budget deficits as projected by the Act 47 Coordinator.

General Fund Operating Surplus/(Deficit)

City of Scranton

2012 - 2015

[Without Implementation of 2012 Revised Recovery Plan Mandates]

Table 1.1

	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Revenues as of March 2012 RRP	\$60,761,018	\$59,184,199	\$59,231,975	\$59,281,850
Revenue Variances As Projected	\$0	\$2,302,258	\$2,004,482	\$2,291,408
Expenditures	\$65,586,955	\$63,746,788	\$71,983,614	\$72,532,596
Surplus/(Deficit)	-\$4,825,937	-\$2,260,331	-\$10,747,157	-\$10,959,338
Unfunded Borrowing Proceeds	9,850,000	0	0	0
2011 Carry Over	-9,256,338	0	0	0
Net Surplus/(Deficit)	-\$4,232,275	-\$2,260,331	-\$10,747,157	-\$10,959,338

Mandates to Eliminate Projected Operating Budget Deficits

It is the express intention of the Act 47 Coordinator that the City shall timely implement all of the following mandates to:

- Eliminate the projected operating budget deficits identified in Table 1.1;
- Enable the City to promptly pay its debt service obligations;
- Firmly place the City on a course to fiscal stability by restoring the City's credit worthiness;
- Enable the City to pay its employees and its vendors in a timely manner; and
- Put the City on a path that will allow the Commonwealth to rescind the City's determination of Act 47 financial distress.

Therefore, it is imperative that City shall take the necessary actions to timely implement all of the following mandates to eliminate the projected 2012 – 2015 operating budget deficits.

- 1) **2012 Budgeted \$9,850,000 Unfunded Debt Borrowing and \$6,000,000 Debt Service Refinancing.** The City shall notify the Act 47 Coordinator of a proposed lender when identified by the City and forward to the Act 47 Coordinator upon receipt a copy of the lender's commitment letter for this debt mandate. These two debt mandates are an integral part of the City's adopted 2012 budget. It is imperative that the City execute these two borrowing mandates immediately to restore adequate cash flow to the City for the remainder of 2012.
- 2) **Additional 2012 Unfunded Debt Borrowing--\$6,000,000.** The Act 47 Coordinator projects that the City's adopted 2012 Operating Budget is unbalanced and will incur a deficit of \$4,232,275.¹ Upon the approval of this 2012 Revised Recovery Plan, the City will immediately begin the process of an unfunded debt borrowing for up to \$6,000,000. The City shall notify the Act 47 Coordinator of a proposed lender when identified by the City and forward to the Act 47 Coordinator a copy of the lender's commitment letter. The City of Scranton shall immediately petition the Lackawanna County Court of Common Pleas for a hearing date to seek the Court's approval for this unfunded borrowing mandate.
- 3) **DCED 2012 Loan/Grant.** In a letter dated July 12, 2012, the Secretary of the Department of Community and Economic Development, C. Alan Walker, offered the City a \$2,000,000 zero interest loan and \$250,000 grant conditioned upon the City's adoption of an acceptable recovery plan. The Act 47 Coordinator fully supports the Secretary's offer. Upon adoption of this 2012 Revised Recovery Plan, the City shall continue to partner with the Act 47 Coordinator and DCED to process the City's application to DCED for a \$2,000,000 zero interest loan and \$250,000 grant. The City shall use the Act 47 loan and grant funds for payment of current City expenses as required by 53 P.S. §11701.303.
- 4) **Repayment of 2012 Worker's Compensation Loan--\$1,500,000.** The City's General Fund shall repay the \$1,500,000 funds borrowed from the City's Worker's Compensation Trust Fund in April 2012 no later than December 31, 2012.
- 5) **Nonresident Earned Income Tax Increase.** Section 123(c)(3) of Act 47², authorizes the City of Scranton (a Second Class A City) to implement an increase of its nonresident earned income tax rate above the City's current 1% levy. Immediately upon adoption of this 2012 Revised Recovery Plan the City shall petition the Lackawanna County Court of Common

¹ The Coordinator's \$4.2 million estimate of the 2012 operating budget deficit is subject to further adjustment as the City's actual 2012 operating revenue and expenditure experience occurs.

² "A petition filed by a city of the second class A under this subsection may not include an increase in a tax on nonresident income unless the municipality certifies to the court, with regard to those provisions of the plan having a measurable fiscal impact, that: (i) the municipality has substantially implemented the provisions which are within the authority of the chief executive officer or governing body, including, but not limited to, provisions of the plan that call for increasing existing tax rates levied on residents and increasing fees charged by the municipality; (ii) the municipality has taken those actions required to obtain the approval of other parties for those provisions which may not be implemented without such approval, including, but not limited to, the approval of a court, local electors or any collective bargaining unit; and (iii) the additional income from the aforementioned actions is insufficient to balance the municipal budget, necessitating additional revenue from an increase in the tax on nonresident income." 53 P.S. §11701.123(c)(3).

Pleas (Court) for a hearing date to seek the Court's approval to increase the City's nonresident earned income tax rate from 1% to 2%. The City shall prepare supporting legal evidence as referenced below in Footnote 2. The City's implementation of this mandate shall be subject to the following conditions:

- a. If the City receives a final order from the Court on or before December 1, 2012, approving the City's increased nonresident earned income tax, then the City shall levy the increased nonresident earned income tax rate no later than January 1, 2013. Pursuant to Section 123, the City will have to seek Court approval annually to continue implementing this increased nonresident earned income tax rate in 2014 and 2015.
 - b. If the Court denies the City's petition or the Court fails to issue a final order on or before December 1, 2012, then the City shall notify the Act 47 Coordinator of the equivalent sources of revenues and/or expenditure reductions the City will utilize to compensate for the 2013 \$2,500,000 nonresident earned income tax revenue loss and include these revenue sources and/or expenditure reductions in the City's adopted 2013 operating budget.
 - c. If the Court denies the City's petition after December 1, 2012, the City shall notify the Act 47 Coordinator no later than December 1, 2013, of the equivalent sources of revenues and/or expenditure reductions the City will utilize to compensate for the 2014 \$1,500,000 nonresident earned income tax revenue loss and include these revenue sources and/or expenditure reductions in the City's adopted 2014 operating budget.
 - d. If the Court shall approve the City's petition after December 1, 2012, the City may reduce the revenue source(s) and/or restore the expenditure reduction(s) utilized in 2 or 3 above. Annual Court approval will be necessary for the City to levy the increased nonresident earned income tax for subsequent fiscal years.
- 6) **Increase Payments In Lieu of Taxes (PILOT) contributions.**³ The City shall implement a discussion and consent process with owners of properties exempt from taxation with the intent to increase their PILOT contributions to the City to a total of \$1,300,000 for 2013, to \$1,950,000 for 2014, and to \$2,400,000 in 2014. The City shall emphasize its efforts regarding current PILOT contributions for either general fund expenses or other City expenses as specified by the donor. If feasible, the City may also review the implementation of an Act 155 format for the formal agreement and payment of specified PILOT revenue from organizations exempt from property taxation. The City's implementation of this mandate shall be subject to the following conditions:
- a) The City shall provide the Act 47 Coordinator with written commitments from PILOT contributors on or before December 1, 2012, detailing the amount of committed 2013 PILOT contributions the City will receive in 2013. To the degree that the level of written commitments as of December 1, 2012, is less than the City's \$1,300,000 PILOT projection for 2013, the City shall notify the Act 47 Coordinator of the equivalent sources of revenues and/or expenditure reductions the City will utilize to

³ The General Assembly enacted Act 155 of 1933, as amended, to exempt institutions of purely public charity from taxation. These institutions are not required by statute to make any PILOT contribution to the municipality in which it is located. Any PILOT contribution to a municipality by a purely public charity is at the discretion of the purely public charity.

compensate for the 2013 PILOT revenue shortfall and include these revenue sources and/or expenditure reductions in the City's adopted 2013 operating budget.

- b) This December 1st notification to the Act 47 Coordinator and City identification of alternative revenue sources and/or expenditure reductions to be included in the City's adopted 2014 and 2015 operating budgets shall also be required for the City's 2014 \$1,950,000 PILOT projection and 2015 \$2,400,000 PILOT projection.
- 7) **2012 Sale/Leaseback Borrowing--\$22,100,000.** To meet the City's \$17,000,000 financial obligation to its police and firefighters from the October 19, 2011, Pennsylvania Supreme Court Order and the City's 2013 increased City Pension Minimum Municipal Obligation (MMO) of \$5.1 million, the City shall immediately begin the process of a sale/leaseback borrowing for approximately \$22,100,000 upon approval of this 2012 Revised Recovery Plan. To ensure that the City has sufficient cash flow throughout 2013, the City's implementation of this mandate shall be subject to the following condition:
- a) The City shall provide the Act 47 Coordinator with a written commitment from a lender for this sale/leaseback borrowing on or before December 1, 2012. If the City cannot provide the Coordinator with a firm commitment from a lender for these projected leaseback revenues on or before December 1, 2012, the City shall notify the Act 47 Coordinator of the equivalent sources of revenues and/or expenditure reductions the City will utilize to compensate for the 2013 \$5,100,000 MMO sale/leaseback borrowing loss and include these revenue sources and/or expenditure reductions in the City's adopted 2013 operating budget.
- 8) **Refuse Fee.** The City has projected refuse fee revenues to be \$5,000,000 annually over the 2013 – 2015 period. This is \$1,000,000 more than the Act 47 Coordinator's baseline March 2012 RRP estimate. The City Mandates do not include a refuse fee increase to support the City projection of \$5,000,000. During the period 2006 to 2011 the City's actual refuse fee collections has trended downward from \$4.7 million in 2006 to \$4.1 million in 2010 to \$3.9 million in 2011. If by December 1, 2012, the City cannot provide the Act 47 Coordinator with support for the projected refuse revenue, then the City must provide equivalent sources of revenues and/or expenditure reductions to compensate for this baseline amount difference in the City's adopted 2013 operating budget.
- 9) **Real Estate Transfer Tax Increase.** The City shall include in its adopted 2013 operating budget a real estate transfer tax rate increase to 2.9%.
- 10) **Amusement Tax.** Immediately upon the adoption of this 2012 Revised Recovery Plan the City shall begin the process of levying an amusement tax to be effective January 1, 2013. The Local Tax Enabling Act (Act 511 of 1965) authorizes the City to levy an amusement tax and the City's implementation of this tax shall comply with Act 511.
- 11) **Increase Business Privilege & Mercantile.** The City shall include in its adopted 2013 operating budget a reinstatement to the 2010 rate for the business privilege and mercantile tax rates.
- 12) **Health Care Savings.** The City shall provide for employee contributions to the cost of employee health care insurance. Unless such contributions are already provided for under an existing collective bargaining agreement settled or awarded prior to the adoption of this 2012 Revised Recovery Plan, the contribution shall be based on a percentage of the base salary or base hourly wage contribution percentage of each City employee as specified in the schedule below to help defray the cost of City provided healthcare, unless the employee opts

out of the City provided health care plan because the employee has other health care insurance coverage. Proof of other health insurance coverage must be provided to the City before an employee can opt out of City provided health care coverage. For the years beyond 2015, the 2015 contribution percentage shall apply indefinitely thereafter unless modified in a subsequent Revised Recovery Plan or as otherwise provided for by any current collective bargaining agreement, arbitration settlement or arbitration award executed, settled or awarded prior to the adoption of this 2012 Revised Recovery Plan.

The percentage below will apply only to base salary or base hourly wages and not to additional compensation such as longevity pay, pay differentials related to rank and/or education, overtime, shift differential, etc.

<u>Coverage</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
	Percent of Base Salary or Base Hourly Wage Per Pay Period			
Single	2.5	3.0	3.5	4.0
Parent/Child	3.0	3.0	3.5	4.0
Employee/Spouse	3.0	3.5	4.0	4.5
Family	5.0	5.5	6.0	6.5

- 13) Explore Market Based Revenue Opportunity Agreements.** In 2012, the City shall pursue a RFP process to select a commissioned broker to help identify potential City assets available for a Market Based Revenue Opportunity program, assist with establishment of a policy framework and market available and approved opportunities to begin in January 2013. The Act 47 Coordinator is projecting the City can receive approximately 1% of General Fund revenues from a fully realized MBRO program. The projections for revenue estimate that yearly revenues from an MBRO program will gradually increase to 1% of General Fund revenues once an MBRO program is fully implemented by 2015.

Market based revenue opportunities (MBRO) have been used by many municipalities in Pennsylvania and around the country to produce revenue from advertising, service concessions, marketing and sponsorship opportunities. The City's location as a regional destination and core community, an increasing tourist destination, and a regular venue for business meetings makes an MBRO effort an important alternative to increases in local fees and taxes.

- 14) Reduction in Departmental Expenditures.** The City shall include in its adopted 2013, 2014, and 2015 operating budgets a reduction in departmental expenditures from the 2012 operating budget level which shall total \$1,600,000 over the three years. The expenditure reductions may not reflect the reductions in departmental expenditures achieved through other mandates in this 2012 Revised Recovery Plan. The expenditure reductions shall include the total expenditures of each appropriate departmental category so that the reduction in expenditures will not occur in a single category or budget classification. The budgeted expenditure reductions shall not be less than:

For FY 2013, \$500,000 less than the 2012 operating budget.

For FY 2014, \$700,000 less than the 2013 operating budget.

For FY 2015, \$400,000 less than the 2014 operating budget.

- 15) Parking Enhancement Program.** The City of Scranton shall continue the process to implement a Parking Meter Revenue Enhancement Program in order to achieve the

anticipated meter enforcement revenues. If the Revenue Enhancement Program cannot be implemented in a timely fashion that achieves the net revenue estimates contained in the 2013-15 mandates, the City shall notify the Act 47 Coordinator of the equivalent sources of revenues and/or expenditure reductions the City will utilize to compensate for the reduction in estimated net revenue for each succeeding annual operating budget and include these revenue sources and/or expenditure reductions in the respective annual adopted operating budgets.

16) Debt Service Increases. The City shall increase its debt service expenditures for the years 2013 – 2015 as identified in Table 1.2.

Table 1.2

	2013	2014	2015
Repayment of Unfunded Borrowing A	\$1,800,000	\$1,800,000	\$1,800,000
Repayment of Unfunded Borrowing B	\$1,050,000	\$1,050,000	\$1,050,000
Repayment of DCED Loan	\$100,000	\$100,000	\$100,000
Supreme Court Award & Sale/Leaseback	\$1,500,000	\$3,000,000	\$3,000,000

Real Estate Tax Millage Rates Increases. After the implementation of all of the above mandates the City is still projected to incur operating deficits for the years 2014 and 2015. In addition to any revenue increases that may be necessary to generate revenue for mandates listed above that are not fully implemented for whatever reasons, the City shall increase its real estate tax millage by the following percentages:

The City shall include in its adopted 2013 operating budget an increase in the real estate tax millage rate of 12.00% to be effective January 1, 2013, as required by the January 26, 2012, Lackawanna County Court of Common Pleas order for the City's 2012 \$9,850,000 unfunded debt borrowing.

The City shall include in its adopted 2014 operating budget an increase in the real estate tax millage rate of 44.7% effective January 1, 2014 to eliminate the projected 2014 operating budget deficit.

The City shall include in its adopted 2015 operating budget an increase in the real estate tax millage rate of 10.6% effective January 1, 2015 to eliminate the projected 2015 operating budget deficit.

If the City shall receive legislative authorization to implement or be eligible to receive any other tax revenue during the 2012 – 2015 period, *i.e.*, sales tax, payroll tax, etc., the City may use the revenue generated from these alternative sources to offset any mandated real estate or other tax increase included in this 2012 Revised Recovery Plan. The Act 47 Coordinator, in consultation with the City's elected leadership, will make the appropriate amendments to this 2012 Revised Recovery Plan to incorporate these alternative revenue sources should they become available to the City.

Impact of Implementation of 2012 Revised Recovery Plan Mandates

A summary of the annual impact of implementation of the 2012-2015 Revised Recovery Plan's mandates (excluding real estate tax millage increases) is illustrated in Table 1.3 below.

General Fund Operating 2012 Revised Recovery Plan Mandated Actions City of Scranton 2012 - 2015

Table 1.3

Mandate Impact Summary					
City of Scranton					
2012 - 2015					
	2012	2013	2014	2015	
	Estimated	Projected	Projected	Projected	
Operating Revenues	\$60,761,018	\$61,736,457	\$61,236,457	\$61,573,258	
Operating Expenditures	65,586,955	63,746,788	71,983,614	72,532,596	
Unrealized Savings 2012 Debt Service Refinancing Savings	2,900,000	-	-	-	
Current Year -Surplus/(Deficit)	(7,725,937)	(2,010,331)	(10,747,157)	(10,959,338)	
Prior Year -Surplus/(Deficit)	(9,444,272)	1,129,791	3,475,881	250,000	
Total Surplus/(Deficit)	(17,170,209)	(880,540)	(7,271,276)	(10,709,338)	
Budget Initiatives:					
ADD: Cash Inflows/ Expense Reductions:					
Unfunded Borrowing A	9,850,000	-	-	-	
Unfunded Borrowing B	6,000,000	-	-	-	
Unrealized Savings from 2012 Debt Refinancing	2,900,000				
DCED Loan	1,000,000	-	-	-	
DCED Grant	250,000	-	-	-	
Commuter Tax Pending Court Approval	-	2,500,000	4,000,000	4,000,000	
Increase RE Transfer to 2.9%	-	185,000	185,000	185,000	
Health Care Savings	-	815,000	850,000	1,125,000	
Amusement Tax	-	200,000	250,000	250,000	
PILOT Program	-	1,300,000	1,950,000	2,400,000	
Increase License and Permit Fees	-	185,000	185,000	185,000	
Increase BP & Mercantile	-	500,000	500,000	500,000	
MBRO	-	353,421	530,490	707,818	
Department Expense Reduction	-	500,000	1,200,000	1,600,000	
Sale/Leaseback Borrowing	-	5,000,000	-	-	
Parking enhancement program (net)	-	700,000	1,000,000	1,300,000	
LESS: Cash Outflows:					
Work Comp - refunding	(1,500,000)	-	-	-	
Add. Firefighters (SAFER Grant beginning 2012)	(200,000)	-	-	-	

Mandate Impact Summary					
City of Scranton					
2012 – 2015					
		2012	2013	2014	2015
		Estimated	Projected	Projected	Projected
Repayment of Unfunded Borrowing - A		-	(1,800,000)	(1,800,000)	(1,800,000)
Repayment of Unfunded Borrowing - B			(1,050,000)	(1,050,000)	(1,050,000)
Repayment of DCED Loan		-	(100,000)	(100,000)	(100,000)
Supreme Court Award & Sale/Lease Back -Annual Debt Service		-	(1,500,000)	(3,000,000)	(3,000,000)
Additional Pension Min. Obligation		-	(5,100,000)	(5,100,000)	(5,100,000)
Additional Firefighters (Safer Grant June 2015)		-	-	(700,000)	(1,500,000)
Net Surplus (Deficit) Before Property Tax Impact		1,129,791	1,807,881	(8,370,786)	(11,006,520)
Conditional Real Estate Tax Increase					
Real Estate Tax Increase Millage Increase 2013	12.0%	-	1,668,000	1,668,000	1,668,000
Real Estate Tax Increase Millage Increase 2014	44.7%	-	-	6,952,786	6,952,786
Real Estate Tax Increase Millage Increase 2015	10.6%	-	-	-	2,385,734
Net Surplus/(Deficit) After Conditional Property Tax Impact		1,129,791	3,475,881	250,000	-
Mandates to Offset Property Tax Impact					
1% Additional Sales and Use Tax		-	-	5,500,000	5,500,000
Total		-	-	5,500,000	5,500,000
Adjusted Real Estate Tax Impact					
Real Estate Tax Increase Millage Increase 2013	12.0%	-	1,668,000	1,668,000	1,668,000
Real Estate Tax Increase Millage Increase 2014	9.7%	-	-	1,509,214	1,509,214
Real Estate Tax Increase Millage Increase 2015	13.3%	-	-	-	2,274,685
Net Surplus/(Deficit) After Adjusted Property Tax Impact		1,129,791	3,475,881	306,428	1,807

CHAPTER 2

Workforce

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 in Appendix A and personnel projections in Appendix B 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 employee's 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 declination of major City revenue sources absent tax increases.

Revised Recovery Plan Compliance With Act 133 of 2012. In July 2012 Governor Corbett signed Act 133 into law, changing how Act 47 Recovery Plans may impact employee compensation at the conclusion of current collective bargaining agreements. Act 133 of 2012 provides that a Revised Recovery Plan may provide "limits on projected expenditures for individual collective bargaining units that may not be exceeded by the distressed municipality..." When Act 133 of 2012 was signed, the ongoing process of development and consultation of this August 2012 Revised Recovery Plan, combined with the City's very serious financial crisis, did not allow the Act 47 Coordinator and representatives of the City government and its labor organizations the opportunity to fully integrate Act 133 compliance in the August 2012 Revised Recovery Plan. Accordingly, the Act 47 Coordinator shall provide to the governing bodies of the City of Scranton an amendment to this August 24, 2012 Revised Recovery Plan that will meet the provisions and requirements of Act 133. The Act 47 Coordinator shall prepare this amendment no later than November 1, 2012 so that there can be established a maximum annual budget allocation for employee compensation for each bargaining unit with a contract expiring between January 1, 2013 and January 1, 2016. The Act 47 Coordinator has identified two collective bargaining agreements that will expire under during this term -- those agreements covering employees of the Department of Public Works (DPW) and Clerical employees. It shall be the intent of the amendment to provide the City and its unions with flexibility to negotiate a pattern of compensation consistent with Act 133. This pattern may vary from the one contained in the August 2012 Revised Recovery Plan, provided the total employee compensation does not exceed maximum annual allocations for each bargaining unit.

The amendment to the August 2012 Revised Recovery Plan will allocate maximum amounts for employee compensation for active members of the City's DPW and Clerical bargaining units. The allocation shall not include compensation for any non-bargaining unit employees contained in the annual operating budget. The amendment shall set forth the maximum amounts the City shall pay to active bargaining unit members for any of the following:

1. Salaries including step or tenure-based increases and any additional pay overtime or court hearing compensation.
2. Holiday pay, longevity and shift differential.
3. Incentives related to sick leave usage, workers' compensation usage and tuition reimbursement.
4. Health insurance coverage including medical, dental, vision, and prescription drug coverage; any reimbursements for prescription drug costs and payments in lieu of hospitalization coverage.

5. Life insurance and other kinds of insurance coverage.
6. Uniform or special assignment allowances and all other new or existing forms of cash compensation.
7. The allocation will not include the City's costs for retired employee health insurance or pension payments for current, retired or future employees.

Without corrective action, City personnel expenditures will consume a larger portion of the City's limited resources. Table 2.1 below shows the projected personnel expenditures for the City of Scranton through FY2015. Bargaining unit employee expenditures are based on increases as outlined in current collective bargaining agreements, arbitration awards or court orders and assume no increases after the expiration of existing collective bargaining agreements or arbitration awards. Salaries for non-represented employees are projected to grow at 0% through 2015.

**Projected Personnel Expenditures - All City Employees
City of Scranton
2012 - 2015**

(Without Implementation of 2012 Revised Recovery Plan Mandates)

Table 2.1 Source: 2012 - 2015 PEL Estimated/Projected

	2012	2013	2014	2015	Change 2012-2015	
	Projected	Projected	Projected	Projected	\$	%
Standard Salary	\$21,355,881	\$22,130,223	\$22,865,518	\$22,929,280	1,573,399	7.4
Other Salary (Misc)	554,793	554,443	554,443	554,443	-351	-0.1
Longevity Salary	1,601,541	1,463,345	1,516,457	1,520,217	-81,324	-5.1
Overtime Salary	498,500	518,455	528,704	528,866	30,366	6.1
Court Appearance Salary	160,000	166,829	174,082	174,510	14,510	9.1
Social Security	896,111	833,424	849,112	854,534	-41,577	-4.6
Total Direct Compensation	\$25,066,826	\$25,666,719	\$26,488,315	\$26,561,850	\$1,495,023	6.0
Uniform Allowance	233,662	235,987	235,987	235,987	2,325	1.0
Health Insurance Incl'd Retirees	15,237,940	16,304,596	16,956,780	17,635,051	2,397,111	15.7
Life/Disability Insurance	363,105	382,848	404,244	427,460	64,355	17.7
Unemployment Insurance	932,499	624,774	418,599	280,461	-652,038	-69.9
Workers' Comp Transfer	3,500,000	3,500,000	3,500,000	3,500,000	0	0.0
City 10% Early Retirement	284,657	284,657	284,657	284,657	0	0.0
City Pension	4,500,895	4,697,293	4,764,035	4,764,997	264,102	5.9
Police Education Allowance	57,590	57,590	57,590	57,590	0	0.0
Total Other Employee Expense	\$25,110,348	\$26,087,746	\$26,621,892	\$27,186,203	\$2,075,856	8.3
TOTAL PERSONNEL EXPENSE	\$50,177,174	\$51,754,465	\$53,110,207	\$53,748,053	\$3,570,879	7.1

Total City personnel expenses are projected to increase by 7.1% from 2012 to 2015. For comparison, total employee expenses during the previously reviewed 2006 - 2010 period increased by 7.2%. The main cost drivers of the projected increase in the projected 2012 - 2015 employee expenses are: a 15.7 % increase in active and retired employee health care costs; a 7.4% increase in base salary or base hourly wage expenses; and a 6.1% increase in overtime expense.

Table 2.2 below shows the projected increase or decrease for base salary or base hourly wages for newly hired City employees during 2011 - 2014 as specified in current collective bargaining agreements, interest arbitration awards or court orders. For comparison, data from the American Community Survey estimates the 2010 Scranton median household income at \$35,596 and the median family income in Scranton at \$ 44,982.

**Estimated Base Salary or Base Hourly Wages
For City Employment Classifications
Based on Current Compensation and Collective Bargaining Agreements
2011 — 2014**

Table 2.2

	2011 End Of Year Estimate	2012 End Of Year Estimate	2013 End Of Year Estimate	2014 End Of Year Estimate
Administrative Average	\$38,221	\$39,170	\$39,170	\$39,170
Business Administrator	\$59,500	\$53,550	\$53,550	\$53,550
Clerical Average	\$33,425	\$33,700	\$34,964	\$36,188
Clerk to Council	\$45,800	\$41,220	\$41,220	\$41,220
Firefighter	\$57,574	\$61,402	\$64,133	\$66,986
Police Patrolman	\$51,357	\$56,961	\$59,495	\$62,141
Public Works Average	\$38,539	\$39,829	\$41,379	\$41,379

Source: 2011 – 2014 PEL Estimated From CBAs

Firefighter total year wages represent a 48 hour work week

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 recent 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.

Therefore, the mandates outlined in this Workforce Mandates chapter of the 2012 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. While workforce changes are difficult, City personnel expenditures must become aligned with the City's revenue receipts. A financially insolvent city benefits no one, especially City employees.

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

The following workforce mandates in this 2012 Revised Recovery Plan are cost containment mandates that are both reasonable and necessary to the City's financial recovery. These mandates become effective as of the date of the City's adoption of this 2012 Revised Recovery Plan. They cover the financial projection period of 2012 through 2015 at which time they shall expire.

The workforce provisions included in this 2012 Revised Recovery Plan shall 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.

The terms and provisions of any current collective bargaining agreement, arbitration settlement or arbitration award 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 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 employee's bargaining unit representatives conducted after the adoption of this 2012 Revised Recovery Plan be conducted in good faith to incorporate the workforce mandates 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 these workforce mandates and all other mandates enumerated throughout this 2012 Revised Recovery Plan is mandatory. Except as otherwise required by law, the only exception to the mandatory intent and nature of these mandates will be by amendment to said mandates, based upon approval from the Act 47 Coordinator, in conjunction with the Pennsylvania Department of Community and Economic Development. Any such amendment must comply with Act 47 and be in conformance with the financial parameters set forth in this 2012 Revised Recovery Plan.

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.

In some cases, the 2012 Revised Recovery Plan workforce mandates may represent a reaffirmation or clarification of existing management rights. Although some 2012 Revised Recovery Plan workforce mandates will require changes to collective bargaining agreements for union-represented personnel, inclusion of any specific workforce mandates herein should not automatically be interpreted to imply that the workforce mandate is currently constrained.

Workforce Mandates

1. Precluded Contractual Provisions

- 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. See Management Rights more fully discussed in item (2).
- 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. Management Rights.

- a. The City shall have the right to determine the organizational structure and operation of each City Department, division, bureau, office, etc. including, but not limited to, the right to determine and change job duties for each position, the right to determine and change schedules for each employee, and the right to assign work to any employee. Any provision in any collective bargaining agreement, arbitration settlement or arbitration award which is inconsistent with, or which interferes with, the "Management Rights" of the City shall be eliminated to the extent of such inconsistency or interference, and the City's "Management Rights" shall not be the subject of any grievance procedure or arbitration clause in any agreement, settlement or award between the City and any of its unions. The term "Management Rights," also includes, without limitation, the rights to: promulgate and enforce work rules, policies and procedures; select, hire, promote, transfer, assign, determine the duties of, evaluate, layoff, recall, reprimand, suspend, discharge and otherwise discipline employees; establish, eliminate and redefine positions in accordance with the City's needs; determine the qualifications and establish performance standards for jobs and assignments; determine the methods, processes and means of performance, where and when work shall be performed, and the equipment to be used; determine the composition of the work force; create, abolish and change jobs and job duties; determine employees' hours and days of work, work schedules, shifts and reporting stations; determine whether to assign overtime and the amount required; require employees to work overtime; determine when a job vacancy exists, and select the best qualified candidate to fill it; take necessary actions in emergency situations; extend, curtail or change City operations and otherwise manage the City, its operations and its employees in its discretion.

3. 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 2012 Revised Recovery Plan shall not provide any retroactive base salary or base hourly wage adjustment or back payments of any kind for the period 2012 - 2015 and indefinitely thereafter 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 2012 Revised Recovery

Plan shall not provide any monetary bonus of any kind for the period 2012 - 2015 and indefinitely thereafter unless modified in a subsequent Revised Recovery Plan.

4. Holidays, Personal Days, and Vacation Days

- a. Holidays and Personal Days. Any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2012 Revised Recovery Plan shall not provide any increase above the combined annual holidays and personal days provided for in current collective bargaining agreements, arbitration settlements or arbitration awards for the period 2012 - 2015 and indefinitely thereafter unless modified in a subsequent Revised Recovery Plan.
- b. Vacation Days. Any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2012 Revised Recovery Plan shall not increase the number of vacation 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, for all City employees hired on or after the adoption of this 2012 Revised Recovery Plan, the maximum number of vacation days shall be earned according to the following schedule:

Five (5) work days vacation after one year of continuous service.
Ten (10) work days vacation after four years of continuous service.
Fifteen (15) work days vacation after eight years of continuous service.
Twenty (20) work days vacation after twelve years of continuous service.

Annual vacation shall be scheduled and used during the year for which it is earned. If, due to operational reasons, leave cannot be used within this time period, said leave may be carried forward into the next calendar year for a period of three (3) months. Carryover leave not used within the first three (3) months of the subsequent year shall be lost. In order for an employee to carry over leave, the written approval of the respective department head and the Director of Human Resources shall be required. The Director of Human Resources in consultation with the department heads shall establish standards and guidelines for granting such approval.

- c. 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 shall be entitled to vacation pay only if the employee is currently on active pay status. Except as provided by law, no vacation time shall 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 shall be no duplication of any form of paid leave or accrual of paid leave for the same period of time.

5. Paid Leave

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

6. Compensatory Time

Any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2012 Revised Recovery Plan shall not provide compensatory time off to any City employee for the period 2012 - 2015 and indefinitely thereafter unless modified in a subsequent Revised Recovery Plan.

7. Sick Days

Any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2012 Revised Recovery Plan shall 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 2012 Revised Recovery Plan, shall 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 2012 Revised Recovery Plan shall 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 shall be no buyout for accumulated sick days upon termination of employment other than death or retirement.

8. Health Insurance Benefits

Any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2012 Revised Recovery Plan shall include the base salary or base hourly wage contribution percentage of each City employee as specified in the schedule below to help defray the cost of City provided healthcare, unless the employee opts out of the City provided health care plan because the employee has other health care insurance coverage. Proof of other health insurance coverage must be provided to the City before an employee can opt out of City provided health care coverage. For the years beyond 2015, the 2015 contribution percentage shall apply indefinitely thereafter unless modified in a subsequent Revised Recovery Plan or otherwise provided for by any current collective bargaining agreement, arbitration settlement or arbitration award executed, settled or awarded prior to the adoption of this 2012 Revised Recovery Plan.

The percentage below will apply only to base salary or base hourly wages and not to additional compensation such as longevity pay, pay differentials related to rank and/or education, overtime, shift differential, etc. The Act 47 Coordinator has estimated that clerical employees (with contract termination of December 31, 2015) and Public Works employees (with contract termination of December 31, 2013) currently contribute a health care cost that is approximately equivalent to the contribution amount under this mandate.

<u>Coverage</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
	Percent of Base Salary or Base Hourly Wage Per Pay Period			
Single	2.5	3.0	3.5	4.0
Parent/Child	3.0	3.0	3.5	4.0
Employee/Spouse	3.0	3.5	4.0	4.5
Family	5.0	5.5	6.0	6.5

Table 2.3

Employee Group	Description	Term of CBA	Effective Date of Contributions
International Association of Machinists and Aerospace Workers Local 2462	All non-uniformed, non-management employees (Clerical and Single Tax Office)	Expiration Date 12/31/2015	Effective January 1, 2016
International Association of Machinists and Aerospace Workers Local 2305*	Departments of Public Works, Parks and Recreation	Expiration Date 12/31/2013	Effective January 1, 2014
Fraternal Order of Police (FOP), Lodge No. 2	All sworn Police Officers including all ranking Police Department officers who are covered by the FOP Collective Bargaining Agreement	Expiration Date 12/31/2017	Effective January 1, 2013
Police Department Management Employees	The Chief of Police		Effective January 1, 2013
International Association of Fire Fighters (IAFF), Local Union No. 669	All Fire Fighters including Fire Department officers who are covered by the IAFF Collective Bargaining Agreement	Expiration Date 12/31/2017	Effective January 1, 2013
Fire Department Management Employees	The Fire Chief		Effective January 1, 2013
Management and Non-Collective Bargaining Positions	Management and Non-Collective Bargaining Positions		Immediately

9. Retirees Healthcare

Any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2012 Revised Recovery Plan shall not provide any retiree health care benefits to any current or future City employee that retires from City employment for the period 2012 - 2015 and indefinitely thereafter unless modified in a subsequent Revised Recovery Plan.

10. Regular Part-time Employees

The City shall have the right to hire regular part-time employees. Regular part-time employees shall 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 shall 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 shall not be scheduled to work more than 35 hours per week (42 hours per week for firefighters), except for court time, training, and in cases of emergency. The City shall have the right, in its sole discretion, to determine the starting wages and job duties of regular part-time employees. Regular part-time employees shall not be eligible for any form of employee benefits or paid leave.

11. 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 2012 Revised Recovery Plan shall 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 2012 - 2015 and indefinitely thereafter unless modified in a subsequent Revised Recovery Plan.

12. "No Layoff" Clauses

Any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2012 Revised Recovery Plan shall not contain a "no layoff" clause. The City shall have the sole right to determine the number of

personnel employed and utilized by the City. Further, the City shall have the right to layoff any employees for economic or any other reasons, without limitation. These provisions shall be applicable for the period 2012 - 2015 and indefinitely thereafter unless modified in a subsequent Revised Recovery Plan.

13. Clothing Allowance

The clothing allowances paid to any City employee shall be limited to employees on active pay status and shall not exceed \$750 per eligible employee. The City shall have the right to determine how best to make the clothing allowance available.

14. Longevity

Any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2012 Revised Recovery Plan shall 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 shall be paid to any management employee.

15. Elimination of Subcontracting Clauses

Any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2012 Revised Recovery Plan shall not contain any provision which prohibits or limits the right of the City to subcontract any service, function, or activity for the period 2012 - 2015 and indefinitely thereafter unless modified in a subsequent Revised Recovery Plan.

16. 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 shall be eliminated. All pension plans shall 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 shall 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 shall be offset by the amount of pension benefits payable to the same employee.

17. 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 shall 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.

18. Family Medical Leave Act

The City shall 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.

19. Short-term Disability Insurance

The City shall 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 shall be changed accordingly.

20. Workers' Compensation and Heart Lung Benefits

An employee who suffers a work related accident, injury, or illness shall follow the procedures developed by the Department of Human Resources, unless governed by the State Workers' Compensation Act or other applicable law. Such procedures shall be revised and promulgated for the City by the Director of Human Resources, in consultation with the City's Risk Manager and other advisors including legal counsel not later than January 1, 2013. The City shall consider the use of a risk manager to administer and coordinate the Workers' Compensation program.

21. Elimination of Past Practices

Any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2012 Revised Recovery Plan shall 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 shall 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 shall be applicable for the period 2012 - 2015 and indefinitely thereafter unless modified in a subsequent Revised Recovery Plan.

22. Drug and Alcohol Testing

The City shall 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 2012 Revised Recovery Plan shall prohibit the City from exercising this right.

23. 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 shall be required to report for "modified duty" based on medical documentation provided by a physician designated by the City. Modified duty hours shall be consistent with regular City Hall hours, Monday through Friday. Modified duty shall be limited to a maximum of twelve months from the date the injury occurred or illness began. The City shall develop a modified duty program which shall be implemented across bargaining unit functions.

CHAPTER 3 Debt Obligations

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.

Long-Term Debt Obligations

As of January 1, 2012, City's General Fund is currently responsible for annual debt service payments on eight series of bonds and notes.

Long-Term Debt Obligations As of January 1, 2012 City of Scranton

Table 3.1

Outstanding Series	Maturity	Estimated Remaining Debt Service as of January 1, 2012
General Obligation		
Notes Series of 2002	08/01/2028	\$7,827,975
Bonds Series A of 2003	09/01/2014	1,619,865
Bonds Series B of 2003	09/01/2031	45,664,993
Bonds Series C of 2003	09/01/2033	27,028,312
Bonds Series D of 2003	09/01/2023	12,928,415
Guarantee Lease Revenue		
Bonds Series of 2004	12/15/2016	2,905,732
Bonds Series of 2006	11/01/2024	15,072,075
Bonds Series of 2008	11/01/2026	9,032,794
Total General Fund Debt Service		\$122,080,101

Annual Long-Term Debt Service (Estimated) As of January 1, 2012 2012 – 2015

Table 3.2

	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Debt Service as of 1/1/2012	\$7,067,781	\$7,154,982	\$7,063,110	\$7,048,427

The City's 2012 Operating Budget utilizes two long-term debt initiatives to balance its budget. They include a \$9.85 million unfunded borrowing initiative to satisfy outstanding 2011 account payables

and the refinancing of approximately \$4,900,000 and \$4,800,000 debt service due, respectively, in 2012 and 2013. The 2012 Revised Recovery Plan includes several additional borrowing mandates that will impact the City's future debt service. These borrowing mandates include:

- \$6,000,000 unfunded debt borrowing
- \$1,000,000 DCED Act 47 borrowing
- \$17,000,000 Sale/Leaseback borrowing
- \$5,000,000 Sale Leaseback borrowing

Table 3-3 below illustrates the estimated impact on the City of Scranton's future debt service obligation assuming implementation of the City's 2012 operating budget borrowing initiatives and the 2012 Revised Recovery Plan's borrowing mandates.

Long-Term Debt Service (Estimated)
Impact of 2012 City Budget Initiatives and Revised Recovery Plan Mandates
City of Scranton
2012 – 2015

Table 3.3

	2013	2014	2015
Existing Debt Service	\$3,656,373	\$10,482,083	\$10,335,284
Repayment of Unfunded Borrowing A	\$1,800,000	\$1,800,000	\$1,800,000
Repayment of Unfunded Borrowing B	\$1,050,000	\$1,050,000	\$1,050,000
Repayment of DCED Loan	\$100,000	\$100,000	\$100,000
Supreme Court Award & Sale/Leaseback	\$1,500,000	\$3,000,000	\$3,000,000
Total Annual Debt Service	\$8,106,373	\$16,432,083	\$16,285,284

Short-Term Debt Obligations

The City's short-term debt includes a 2012 Tax and Revenue Anticipation Note (TRAN) for \$11,500,000, plus interest, due on June 30, 2012. The 2012 TRAN was payable from the revenues generated by the City's 2012 real estate taxes and was paid in full on June 30, 2012.

Guaranteed Authority Debt

In addition to the City's General Obligation debt service, the City guarantees the debt of the Scranton Parking Authority. As a debt guarantor, the City is not directly responsible for budgeting of making annual debt service payments on its guaranteed debt. However, due to the SPA's default on June 1, 2012, the City transferred to the SPA \$1,000,000 to assist the SPA in meeting this debt service payment. It is anticipated that the City will also have to transfer funds to the SPA in September 2012 to assist the SPA with debt service obligation. The City will continue to be obligated to assist the SPA debt service payments if the SPA debt service payments are late or not paid. The 2012 Revised Recovery Plan includes City transfers to the SPA of \$800,000 in 2013, \$500,000 in 2014 and \$200,000 in 2015. The City's future obligations to the SPA can be further assessed upon the completion of DRC Associates comprehensive study of the SPA.

As of January 1, 2012, the total outstanding principal and interest of the Scranton Parking Authority was more than \$95.6 million. In September 2011 the Scranton Parking Authority borrowed \$2.9 million in non-City guaranteed debt; however the City did not provide a guarantee on this debt issue.

Letter of Credit

The City of Scranton currently has an outstanding \$5.9 million PNC Bank Letter of Credit (LOC) related to the 2008 Bond issue that is due to expire in November 2012. The City was able to negotiate a one-year term extension of this LOC in 2011 and is currently negotiating an extension of this LOC.

CHAPTER 4

Plan Implementation and General Plan Mandates

Overview

Successful implementation of this 2012 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 2012 Revised Recovery Plan is 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 the City continue to regularly report its progress in implementing this 2012 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 soon as it is introduced and again upon its adoption. In addition, key management, administrative, and financial decisions made by the City, which may or may not relate directly to the 2012 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 2012 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 2012 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. **It is imperative that the City's elected leaders continue to work on finding common ground upon which they can cooperate on managing the myriad issues that impact the City's financial and administrative operations.**

Once this 2012 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 2012 Revised Recovery Plan. Within these meetings, the participants shall discuss key 2012 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 City finances, human resources, economic development, general 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 2012 Revised Recovery Plan for 2012 - 2015, and indefinitely thereafter unless modified in a subsequent Revised Recovery Plan.

Scranton-Abingtons Planning Association (SAPA) Comprehensive Plan. The City of Scranton is one of eleven municipalities that have been cooperating for several years on the development and completion of a Comprehensive Plan that will coordinate future residential and economic activities among the 11 SAPA members. The SAPA Comprehensive Plan will be utilized as a useful planning tool for future development that provides consistency and at the same time moves the member

communities together in a desirable direction in terms of economic revitalization, open space conservation, historic resource preservation, environmental protection and fiscal balance. The City of Scranton is the last SAPA member to consider adoption of this important long-term development plan. Thus, immediately upon adoption of this 2012 Revised Recovery Plan the Coordinator recommends that the Mayor meet with the other 10 SAPA members to voice the City's concerns and to suggest changes acceptable to all members of SAPA. The Mayor shall take the responsibility for this initiative.

Scranton Housing Authority. Not later than 120 days after the adoption of this 2012 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.

Scranton Sewer Authority. Not later than 120 days after the adoption of this 2012 Revised Recovery Plan, the City shall meet with representatives of the Scranton Sewer Authority to determine what additional financial assistance may be provided to the City including an investigation into the value of the City portion of Authority assets and its operations.

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 and this review should be completed as soon as practical but no later than 180 days after the adoption of this 2012 Revised Recovery Plan. The City shall have sole discretion in conducting the review and in the re-design of the health care options provided for employees.

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 no later than 90 days after the adoption of this 2012 Revised Recovery Plan, 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.

Billing Procedures. The consolidation of the City's refuse fee billings with either sewer billing or property tax billings shall be reviewed with a view to reducing costs.

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 view 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.

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.
- Identify the type of investment instruments that are allowable.
- 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.
- Set forth investment diversification requirements.
- 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—as soon as possible but no later than 180 days after the adoption of this 2012 Revised Recovery Plan—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 2012 Revised Recovery Plan, the City shall review and update its Human Resources Management Plan were 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, 2012. 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.
 - 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.

Service Delivery/ Emergency Management. The City, under the direction of its Emergency Management Coordinator, and in conjunction with the Police Chief and Fire Chief and other applicable staff shall conduct a review of its emergency management practices. Such review shall be completed no later than 90 days after the adoption of this 2012 Revised Recovery Plan. All practices and relevant changes to past practices shall be developed into an updated Emergency Management Plan.

APPENDIX A

Financial Review

Introduction

Since January 10, 1992, the City of Scranton has operated under a Commonwealth of Pennsylvania determination of financial distress pursuant to Act 47 of 1987, the Municipalities Financial Recovery Act (Act 47). See Appendix C. Since the City's adoption of the *2002 Revised and Updated Act 47 Recovery Plan for the City of Scranton* (2002 Revised Recovery Plan), implementation of the 2002 Revised Recovery Plan has occurred within an environment of extensive litigation and delays that has prevented some of the 2002 Revised Recovery Plan's recommendations from being implemented. A recitation of the past problems and conflicts will not provide relief to the immediate fiscal problems that the City of Scranton must address in 2012 and into the future.

The mandates included in this *Revised and Updated Act 47 Recovery Plan for the City of Scranton* (2012 Revised Recovery Plan) will impact all facets of City Government. Each mandate was developed with the express intention of providing the City with an opportunity to effectively provide municipal services to its residents in a financially sustainable and responsible manner, both in the short-term and long-term. Implementation of all of the mandates contained in this 2012 Revised Recovery Plan will require compromise and sacrifice from all of the City's stakeholders — its elected leadership, employees and taxpayers. Time is of the essence and many of the mandates included herein must be implemented expeditiously. We believe that timely implementation of all of the mandates contained in this 2012 Revised Recovery Plan coupled with the commitment, leadership and involvement of all key City stakeholders will eliminate the projected operating budget deficits identified in Appendix B, Baseline General Fund Revenue and Expenditure Projections 2012 – 2015, and will produce a vibrant City of Scranton that will prosper well into the future.

Financial Review

When the Act 47 Coordinator was preparing this 2012 Revised Recovery Plan the most recent completed and final City audit was for FY 2010. Along with the FY 2010 audit and prior year audits, the Act 47 Coordinator used 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 2012 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. Table A.1 and Bar Graph A.1 below both illustrate the City of Scranton's General Fund operating budget performance for the years 2006 - 2010. The City has run a General Fund operating budget deficit in four out of the past five years.

General Fund Surplus/(Deficit)

City of Scranton

2006 - 2010

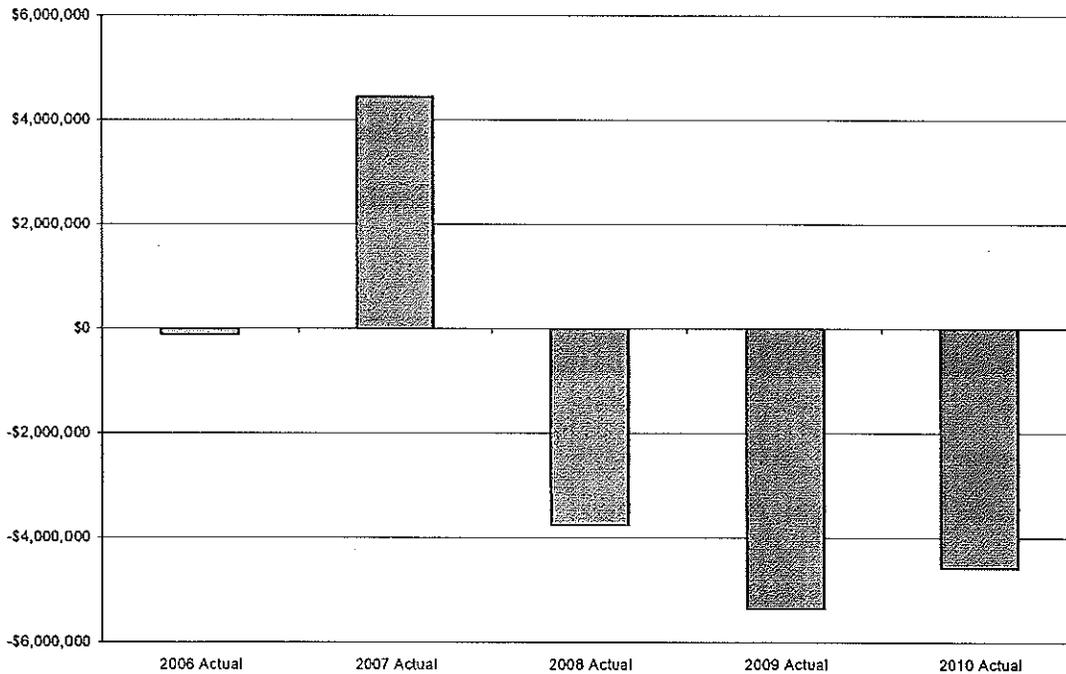
(Excluding Annual Tax and Revenue Anticipation Notes)

Table A.1

Excluding TANS	2006	2007	2008	2009	2010	Change 2006-2010	
	Actual	Actual	Actual	Actual	Actual	\$	%
Revenues	\$58,776,697	\$62,274,983	\$56,726,157	\$58,124,461	\$57,823,942	-\$952,755	-1.6
Expenditures	\$58,897,514	\$57,828,324	\$60,489,197	\$63,476,817	\$62,401,768	3,504,254	5.9
Surplus/(Deficit)	-\$120,817	\$4,446,659	-\$3,763,040	-\$5,352,356	-\$4,577,826	-\$4,457,009	3,689.1

General Fund Surplus/(Deficit)
City of Scranton
2006 - 2010
(Excluding Annual Tax and Revenue Anticipation Notes)

Bar Graph A.1



Revenue Review—2006 - 2010

Table A.2 below illustrates that the City's operating revenues, excluding Tax and Revenue Anticipation Notes, decreased by 1.6% between 2006 and 2010 from \$58.8 million in 2006 to \$57.8 million in 2010.

General Fund Operating Revenues
City of Scranton
2006 - 2010

(Including One-Time Revenue Sources; Excluding Annual TRAN Revenue)

Table A.2

Revenue Category	2006	2007	2008	2009	2010	Change 2006-2010	
	Actual	Actual	Actual	Actual	Actual	\$	%
Real Estate Taxes	12,098,731	15,149,404	14,674,301	14,919,926	14,580,300	2,481,569	20.5
Refuse Revenues	4,728,129	4,465,378	4,449,141	4,308,606	4,118,995	-609,133	-12.9
Utility Taxes	60,853	56,846	58,412	60,913	63,034	2,181	3.6
Earned Income Tax	18,841,215	20,002,560	22,108,375	23,538,769	21,737,008	2,895,793	15.4
Act 511 Taxes	7,481,788	8,591,176	6,508,576	5,760,054	5,699,324	-1,782,465	-23.8
Penalties & Interest	33,170	28,225	35,970	40,962	32,267	-902	-2.7
Licenses & Permits	1,629,011	1,398,871	1,315,133	1,753,926	2,160,675	531,665	32.6
Fines, Forfeits & Violations	800,995	736,849	808,535	743,143	923,789	122,794	15.3
Interest Earnings	567,252	788,128	411,330	73,593	13,978	-553,274	-97.5
Rents & Concessions	0	0	700	700	0	0	0.0

Revenue Category	2006	2007	2008	2009	2010	Change 2006-2010	
	Actual	Actual	Actual	Actual	Actual	\$	%
Intergov. Reimbursements	2,842,641	2,991,125	2,793,864	2,801,326	2,642,097	-200,545	-7.1
In Lieu of Taxes	125,790	117,490	117,000	132,386	203,314	77,524	61.6
Departmental Earnings	1,246,809	1,131,515	1,152,020	1,141,487	1,373,000	126,192	10.1
User Fees	57,550	48,229	52,269	78,057	51,842	-5,708	-9.9
Miscellaneous Revenues	6,830,493	5,094,582	804,976	819,507	2,692,260	-4,138,233	-60.6
Interfund Transfers	1,432,271	1,674,606	1,435,556	1,951,105	1,532,058	99,786	7.0
Total Revenues	58,776,697	62,274,983	56,726,157	58,124,461	57,823,942	-952,755	-1.6

Real Estate and Earned Income Tax Revenue

Table A.3 below provides a comparison of the City of Scranton's earned income tax and real estate tax revenue collection compared to total operating revenue collections for the period 2006 - 2010.

Earned Income and Real Estate Tax Revenue City of Scranton 2006 - 2010

Table A.3

	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	% Change
Real Estate Tax	12,098,731	15,149,404	14,674,301	14,919,926	14,580,300	20.5
% of Total Revenue	20.6%	24.3%	25.9%	25.7%	25.2%	
Earned Income Tax	18,841,215	20,002,560	22,108,375	23,538,769	21,737,008	15.4
% of Total Revenue	32.1%	32.1%	39.0%	40.5%	37.6%	
Combined Proportion	52.6%	56.4%	64.8%	66.2%	62.8%	

Source: Historical Data from City As Provided

Real Estate Tax. During the review period, real estate taxes provided between 20.6% and 25.9% of total operating revenue. The City's 25% increase in real estate millage in 2007 provided nearly all of the increase in City real estate tax revenue collected during the review period. Lackawanna County has not completed a countywide property revaluation since the 1970's. Consequently, the increase in taxable real estate valuation for the City has been limited to just 0.04% since 1994. During the same period, the State Tax Equalization Board reported that the market value of City taxable property rose by more than 35%. Thus, due to the county's lack of a countywide reassessment any growth in the City's real estate tax collections must rely on future new development of available taxable land and improvements thereof or real estate tax millage increases.

Another issue impacting the City's real estate tax revenue collections is the significant amount of assessed property valuation in the City that is tax-exempt property (30.4% of City total assessed value)¹ that cannot provide millage based tax revenue for the City's General Fund operating purposes due to Commonwealth statutory prohibitions.

Earned Income Tax. During the review period, earned income tax revenue provided the City between 32.1% and 40.5% of total operating revenue. In comparison to neighboring municipalities, the City levies a relatively high earned income tax (EIT) rate of 2.4% on resident income. In addition, the Scranton School District levies a 1.0% EIT on City residents for a total 3.4% EIT rate on City residents. The City's EIT revenue has increased during the review period from \$18.8 million in 2006

¹ 2011 property assessment report from Lackawanna County.

to \$21.7 million in 2010. Unlike the City's real estate tax revenue, the City's earned income tax collections have increased over the review period while the rate has remained unchanged.

All Other Revenue Sources

During the review period, City revenue from all other revenue sources for operations declined by \$6.3 million from the 2006 level of \$27,836,751 or a decrease of 22.7%. The City's all other revenue sources includes: the real estate property transfer tax, the local services tax on individuals working within the City's boundaries, the business privilege and mercantile tax, business licenses, building permits, penalties and fines, and a yearly solid waste disposal fee. Table A.4 below provides a summary of operating revenue from all other revenue sources.

All Other General Fund Revenue City of Scranton 2006 - 2010

Table A.4

Revenue Category Including One-Time Revenue	2006	2007	2008	2009	2010	Change 2006-2010	
	Actual	Actual	Actual	Actual	Actual	\$	\$
Refuse Revenues	\$4,728,129	\$4,465,378	\$4,449,141	\$4,308,606	\$4,118,995	-\$609,133	-12.9
Utility Taxes	60,853	56,846	58,412	60,913	63,034	2,181	3.6
Act 511 Taxes	7,481,788	8,591,176	6,508,576	5,760,054	5,699,324	-1,782,465	-23.8
Penalties & Interest	33,170	28,225	35,970	40,962	32,267	-902	-2.7
Licenses & Permits	1,629,011	1,398,871	1,315,133	1,753,926	2,160,675	531,665	32.6
Fines, Forfeits & Violations	800,995	736,849	808,535	743,143	923,789	122,794	15.3
Interest Earnings	567,252	788,128	411,330	73,593	13,978	-553,274	-97.5
Rents & Concessions	0	0	700	700	0	0	0.0
Intergovernmental Reimbursements	2,842,641	2,991,125	2,793,864	2,801,326	2,642,097	-200,545	-7.1
In Lieu of Taxes	125,790	117,490	117,000	132,386	203,314	77,524	61.6
Departmental Earnings	1,246,809	1,131,515	1,152,020	1,141,487	1,373,000	126,192	10.1
User Fees	57,550	48,229	52,269	78,057	51,842	-5,708	-9.9
Misc. Revenues & Debt Proceeds	6,830,493	5,094,582	804,976	819,507	2,692,260	-4,138,233	-60.6
Interfund Transfers	1,432,271	1,674,606	1,435,556	1,951,105	1,532,058	99,786	7.0
Total All Other Revenues	\$27,836,751	\$27,123,019	\$19,943,481	\$19,665,766	\$21,506,633	-\$6,330,118	-22.7

Revenue from annual Tax and Revenue Anticipation Notes was constant at \$14,500,000 each year during the review period. TRAN's are required by Commonwealth law to be repaid within the budget year of receipt.

Tax and Revenue Anticipation Note Revenue City of Scranton 2006 - 2010

Table A.5

	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	% Change
Tax & Revenue Anticipation Notes	14,500,000	14,500,000	14,500,000	14,500,000	14,500,000	--

Source: Historical Data from City As Provided

One-Time Revenue Sources

An additional source of revenue that the City has relied upon during the 2006 – 2010 review period is one-time revenue sources. 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 generated during the fiscal year from an unanticipated occurrence. The City has used various one-time revenue sources between 2006 - 2010 that includes revenue from the sale of City assets, refinancing of prior debt, and revenues that were the result of one time occurrences or events (sale of a large business located in the City). It is important to note that without these one-time revenue sources the City's operating deficits during the review period would have been significantly larger. Reliance on one-time revenues sources to conduct municipal operations is not a best practice for municipal budget operations. Proficient municipal budgeting is best practiced by reliance upon recurring, stable revenue sources.

One-Time (Non-Recurring) General Fund Revenues City of Scranton 2006 - 2010

Table A.6

Year	Amount	Description
2006	\$4,310,666	Bond Issuance (Net Amount)
	2,325,858	Storm Water Maintenance Settlement (Net Amount)
2007	\$1,500,000	Sale of Golf Course Proceeds
	1,104,204	Advance on Delinquent Real Estate Taxes
	900,000	Housing Authority Special Payment in Lieu of Taxes
2008	—	No Debt Service Payment Due to Debt Service Refinancing
2009	\$3,625,737	Delinquent Earned Income Tax
	\$3,707,543	Advance on Delinquent Real Estate Taxes
2010	\$2,000,000	Advance on Delinquent Real Estate Taxes
	\$1,800,000	Sale of Golf Course Proceeds

Revenue Review—2006 - 2010: Summary

The following summary regarding the City's 2006 - 2010 historical General Fund operating revenues and other sources can be made:

- The City's operating revenues decreased by 1.6% between 2006 – 2010.
- 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.
- Earned income tax revenue has steadily increased keeping pace with purchasing power indices.
- Revenue received from other revenue sources—real estate transfer tax, business licenses and permits, and mercantile/business privilege taxes—declined 22.7% between 2006 – 2010.
- The City has chronically balanced its annual operating budgets with one-time revenue sources.

Expenditure Review—2006 - 2010

Table A.7 and Bar Graph A.2 below both illustrate that the City of Scranton's operating expenditures increased from \$58.9 million in 2006 to \$62.4 million in 2010. During 2006 – 2010 total General Fund operating expenditures (excluding TRAN principal repayments) increased by 5.9%.

General Fund Operating Expenditures City of Scranton 2006 - 2010

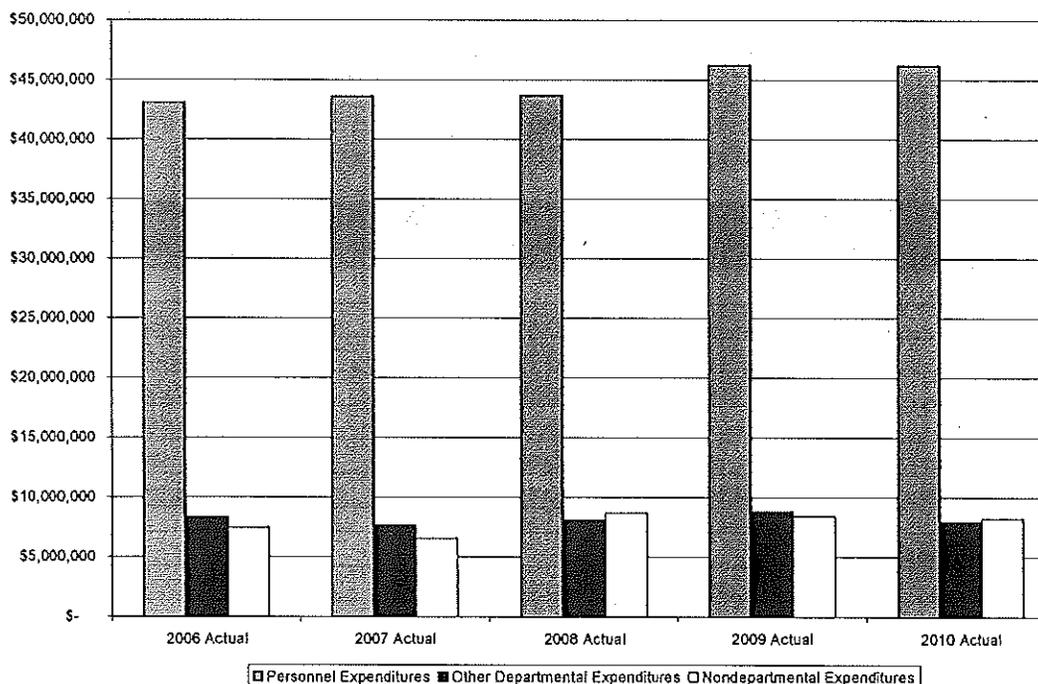
(Excluding Annual TRAN Principal Repayments)

Table A.7

	2006	2007	2008	2009	2010	Change 2006 - 2010	
	Actual	Actual	Actual	Actual	Actual	Change	%
Personnel Expenditures							
Direct Compensation	\$21,848,603	\$21,721,825	\$22,884,627	\$24,230,465	\$23,869,392	\$2,020,789	9.2
Health Insurance	11,616,761	11,826,406	12,361,828	13,135,052	13,413,227	1,796,466	15.5
Workers' Compensation	3,909,230	4,174,799	4,017,725	4,129,073	3,913,030	3,801	0.1
Pension	4,915,942	5,084,376	3,598,470	3,851,760	4,108,937	-807,005	-16.4
Other Employee Expenses	811,012	823,052	843,177	897,107	908,012	97,001	12.0
Total Employee Expenditure	\$43,101,548	\$43,630,458	\$43,705,827	\$46,243,455	\$46,212,598	\$3,111,051	7.2
Other Departmental Expenditures							
Professional Services	\$641,177	\$520,377	\$561,860	\$655,033	\$574,751	-\$66,426	-10.4
Gas, Oil, Lubricants, Vehicle Repair	787,582	887,911	998,166	815,893	805,421	17,839	2.3
Landfill	1,622,876	1,580,741	1,573,346	1,627,050	1,471,131	-151,746	-9.4
Capital Expenditures	1,459,608	417,102	527,896	1,019,393	610,284	-849,324	-58.2
Liability/Casualty Insurance	896,808	835,290	934,430	1,078,945	977,100	80,292	9.0
Utilities	1,381,953	1,507,175	1,570,787	1,519,692	1,806,269	424,316	30.7
All Other Departmental Expenditures	1,540,045	1,890,518	1,932,969	2,081,887	1,727,878	187,832	12.2
Total Other Departmental Expenditures	\$8,330,049	\$7,639,115	\$8,099,454	\$8,797,893	\$7,972,833	-\$357,216	-4.3
Non Departmental Expenditures							
Interest & Debt Exc. TANs	\$5,905,030	\$6,967,493	\$6,755,806	\$6,955,636	\$6,547,156	\$642,127	10.9
TRAN Interest Expense	381,337	437,727	432,308	323,155	460,369	79,032	20.7
SPA Citation Issuers	562,235	562,235	562,235	562,235	562,235	0	0.0
Other Operating Expense	617,316	-1,408,703	933,567	594,443	646,576	29,260	4.7
Non Departmental Expenditure	\$7,465,917	\$6,558,751	\$8,683,916	\$8,435,469	\$8,216,336	\$750,419	10.1
Total Expenditures	\$58,897,514	\$57,828,324	\$60,489,197	\$63,476,817	\$62,401,768	\$3,504,254	5.9

General Fund Operating Expenditures
City of Scranton
2006 - 2010
(Excluding Annual TRAN Principal Repayments)

Bar Graph A.2



The City's **5.9% increase** in operating expenditures during 2006 - 2010 coupled with the City's previously noted **1.6% decrease** in operating revenues are the principal factors for the City's operating budget deficits in four out of the five past years. To gain a further understanding of the City's prior year historical operating expenditure performance the Act 47 Coordinator provides the following analysis of the City's major operating expense categories.

Personnel Expenditures

Similar to most local governments, the services provided by the City of Scranton are labor-intensive. The services provided by the City require people to prevent and investigate crime, respond to fire emergencies, maintain safe and clean streets, collect refuse and the delivery of other important services of municipal government. As a result, in the City of Scranton total personnel expenditures for employee wages and benefits account for approximately \$46.2 million, or 74.1 percent, of the City's \$62.4 million General Fund operating expenditures in FY2010. In addition to the employees paid out of the City's General Fund, the City budgets and pays for Scranton Parking Authority employees for meter collections. Table A.8 below presents the City's historic General Fund personnel expenditures for 2006 through 2010.

**Historic Personnel Expenditures - All City Employees
City of Scranton
2006 - 2010**

Table A.8

	2006	2007	2008	2009	2010	Growth 2006-2010	
	Actual	Actual	Actual	Actual	Actual	\$	%
Standard Salary	\$17,806,043	\$17,633,767	\$18,311,161	\$19,625,492	\$19,536,532	1,730,490	9.7
Other Salary (Misc)	883,983	807,628	1,103,040	811,724	729,836	-154,146	-17.4
Longevity Salary	1,052,814	1,058,140	1,057,117	1,080,835	1,085,495	32,681	3.1
Overtime Salary	1,216,901	1,335,966	1,472,092	1,711,391	1,511,620	294,720	24.2
Court Appearance Salary	129,817	117,359	102,262	116,152	136,520	6,703	5.2
Social Security	759,046	768,965	838,956	884,871	869,388	110,342	14.5
Total Direct Compensation	\$21,848,603	\$21,721,825	\$22,884,627	\$24,230,465	\$23,869,392	2,020,789	9.2
Uniform Allowance	249,713	256,816	273,519	267,798	259,626	9,913	4.0
Health Insurance	11,616,761	11,826,406	12,361,828	13,135,052	13,413,227	1,796,466	15.5
Life/Disability Insurance	266,821	282,199	301,234	305,621	305,253	38,432	14.4
Unemployment Insurance	29,499	35,896	11,481	57,650	75,958	46,459	157.5
Workers' Comp Transfer	3,909,230	4,174,799	4,017,725	4,129,073	3,913,030	3,801	0.1
City 10% Early Retirement	222,772	211,483	217,350	220,465	218,424	-4,348	-2.0
City Pension	4,915,942	5,084,376	3,598,470	3,851,760	4,108,937	-807,005	-16.4
Police Education Allowance	42,206	36,660	39,593	45,573	48,751	6,545	15.5
Total Other Personnel Expenditures	\$21,252,945	\$21,908,633	\$20,821,200	\$22,012,990	\$22,343,207	1,090,262	5.1
TOTAL PERSONNEL EXPENDITURES		\$43,630,458	\$43,705,827	\$46,243,455	\$46,212,598	\$3,111,051	7.2

Source: Historical Data from City As Provided.

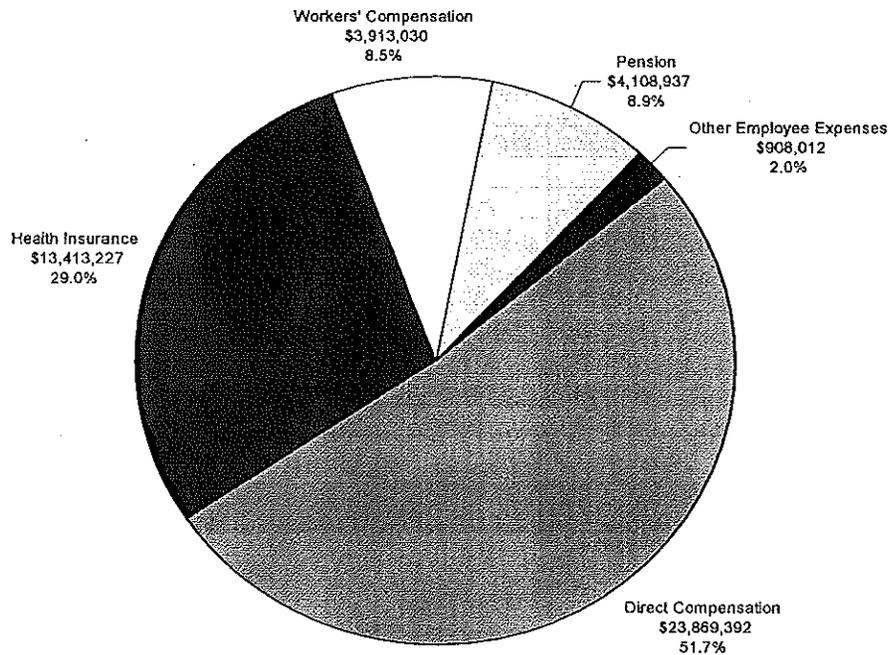
Several items are important to note regarding the City's Personnel Expenditures between 2006 and 2010.

- Total Direct Employee compensation increased by 9.2% between 2006 and 2010.
- City health care expenditures for employee and retiree health care grew by 15.5% from 2006 through 2010, from a total of \$11.6 million in 2006 to \$13.4 million in 2010.
- Pension expenditures fluctuated throughout the period. Pension actuarial valuations are performed every two years and will vary based on the value of assets held on the date of valuation.
- Workers' Compensation related expenditures on an annual basis did not vary substantively during the 2006 - 2010 review period.
- Total Other Personnel Expenditures increased by 5.1% during the 2006 - 2010 review period.

Graph A.1 below illustrates the proportion of City personnel expenditures in 2010.

**Personnel Expenditures General Fund
FY2010 Actual
City of Scranton**

Graph A.1



The City's workforce expenditures are a function of both:

- The total complement of employees on the City's payroll; and
- The cost per employee, as determined by direct cash compensation and benefits.

Given that workforce expenditures represent 74.1% of the City's total 2010 personnel expenditures, the total employee complement and employee compensation and benefits must be carefully managed. Unless employee-related costs are constituted at within the limits of the City's revenue receipts, the City's financial health will continue to decline to the detriment of all City stakeholders, including City employees.

Collective Bargaining Agreements and Headcount as of July 2012

Much of the City's workforce is represented by one of three public employee labor unions – Fraternal Order of Police, E.B. Jermyn Lodge No. 2 (FOP); International Association of Fire Fighters, Local Union No. 669 (IAFF); and the International Association of Machinists and Aerospace Workers representing Local Lodge No. 2462 (Nonprofessional) and Local Lodge 2305 (Departments of Public Works and Parks and Recreation) - that have the right to collectively bargain with the City for their compensation as provided under Commonwealth law. Table A.9 below details employee headcount by collective bargaining unit and the expiration dates of current labor contracts.

**Contract Terms and City Headcount as of July 2012
By Bargaining Unit
City of Scranton**

Table A.9

Employee Group	Description	Headcount	Term of CBA
Fraternal Order of Police (FOP), Lodge No. 2	All sworn Police Officers and ranking Police Department officers with the exception of the Chief of Police	139	Expiration Date 12/31/2017
International Association of Fire Fighters (IAFF), Local Union No. 669	All Fire Fighters and Fire Department officers with the exception of the Fire Chief	131	Expiration Date 12/31/2017
International Association of Machinists and Aerospace Workers Local 2462	All non-uniformed, non-management employees (Clerical and Single Tax Office)	52	Expiration Date 12/31/2015
International Association of Machinists and Aerospace Workers Local 2305	Departments of Public Works, Parks and Recreation	87	Expiration Date 12/31/2013
Non-Represented Employees	Management and elected	19	N/A
Total Employees		428	

Source: City Provided Data as of January 2012

Compensation and Benefits

Employee direct compensation is the City of Scranton's largest personnel expenditure. As with most business organizations and municipal governments, the direct compensation paid to City employees consists of either an annual base salary or a base hourly wage. In addition to direct compensation, Scranton employees may also be eligible to receive additional cash compensation that includes:

- Longevity (yearly percentage increases based on prior years of service)
- Shift differential (except Fire Department employees)
- Holiday and personal leave pay
- Sick leave pay
- Special assignment/premium pay (except Fire Department employees)
- Overtime
- Compensatory Time Off

City of Scranton employees may also be eligible to receive non-compensatory benefits in addition to cash compensation. By far the most important and most significant non-compensatory benefit that City employees receive for their service is the opportunity to participate in the City's self-funded health insurance program. The City's health care expenditure is the City's second largest personnel expenditure after direct compensation. It important to note that the City's annual health care expenditures include the current personnel complement of over 400 active City employees and over 600 retired City employees. Non-compensatory benefits received by City employees include:

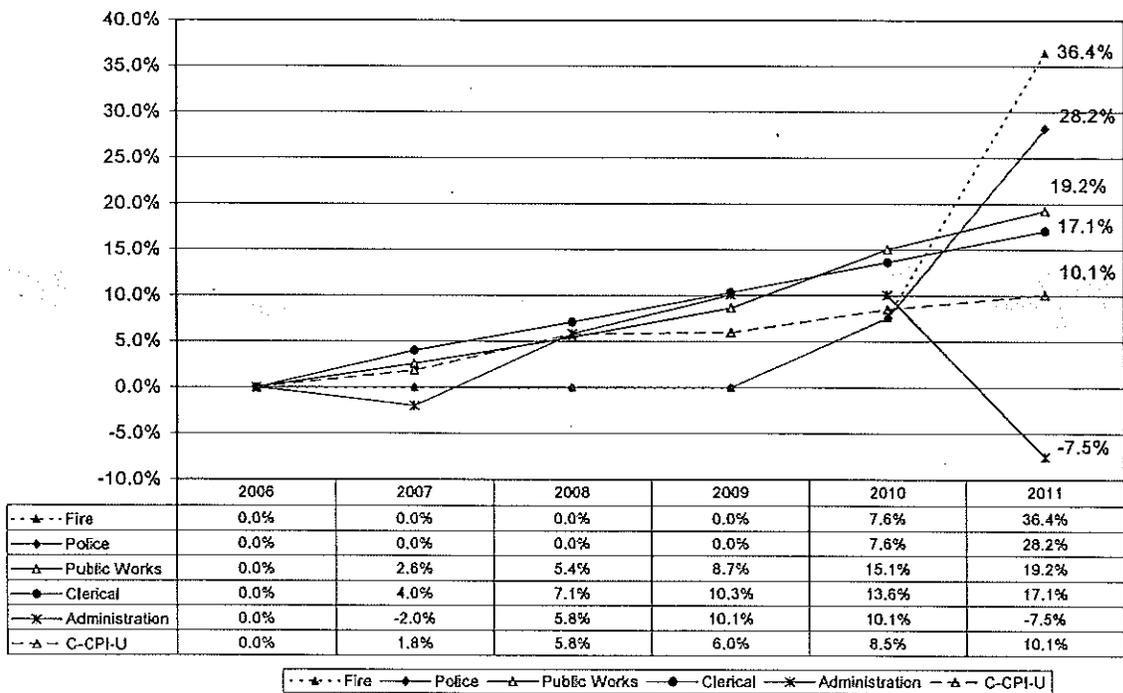
- Health, Dental and Vision Insurance
- Life and Disability Insurance
- Defined Benefit Pension with employee contributions
- Uniform Allowance

Direct Compensation

In FY 2010 direct employee compensation accounted for \$23.9 million or 51.7% of FY2010 personnel expenditures. Chart A.1 below shows the cumulative base salary or base hourly wage increases received by employees in the City's police, fire, and DPW unions and for non-represented, non-uniformed employees from 2006 – 2011. These increases and their cumulative growth over time are compared to growth in the Chained Consumer Price Index for All Urban Consumers (C-CPI-U), considered by the federal government's Bureau of Labor Statistics to be the best approximation for measuring the change in the cost-of-living.

Cumulative Change Hourly Base Wage Increases vs. C-CPI-U Change 2006 – 2011

Chart A.1



Source: City provided budgets and contracts for Police, Fire, Clerical and DPW, and 2009 Commonwealth Court Orders
C-CPI-U, U.S. city average all items, U.S. Bureau of Labor Statistics, Percent Change from August 2006 to August 2011

Using August 2006 as the base month, the C-CPI-U grew by 10.1 percent through August 2011. Meanwhile, base hourly wages for Department of Public Works and Clerical employees grew every year through 2011 for a cumulative increase of 19.2% and 17.1%, respectively, over the 2006 base. The City's police and fire bargaining unit members had no growth in hourly base wages (0%), from 2006 - 2008. However, as a result of Pennsylvania Commonwealth Court decisions in 2009, fire and police employee cumulative base hourly compensation has increased since 2009 by 36.4% for fire and 28.2% for police. Administrative wages fluctuated throughout the period, increasing in 2008 and 2009 before being reduced in 2011.

Overtime

The City's historical overtime expenditures have been a major cost driver for the City of Scranton, particularly for the fire and DPW functions. Leave usage, staffing levels, collective bargaining

restrictions, service needs, public events and emergencies all contribute to the use of overtime. Between 2006 and 2010, overtime payments increased by 45.0% for fire department employees and by 51.5%, 31.3%, and 5.0% for DPW Refuse Collection, Highways, and Garages, respectively. Overtime cost for the police department decreased by 65.5% between 2006 and 2010.

**Historical Overtime Expense
City of Scranton
2006 and 2010**

Table A.10

	2006 Actual	2010 Actual	Change	% Change
Police	\$178,194	\$61,553	-\$116,641	-65.5
Fire	632,439	916,974	284,535	45.0
Refuse	153,366	201,412	48,046	31.3
Bureau Of Highways	144,989	219,658	74,668	51.5
Bureau Of Garages	28,255	29,655	1,400	5.0
Total	\$1,137,243	\$1,429,252	\$292,008	25.7

Source: City Provided Data

The City's 2011 budget reduced overtime in all departments as shown in the chart below. However, except for Fire Department overtime, the 2011 unaudited budget estimate prepared by the Act 47 Coordinator shows overtime significantly above 2011 budget levels.

**Projected Overtime Budget
City of Scranton
2011**

Table A.11

	2011 Estimated	2011 Budget	Variance	% Variance
Police	\$293,355	\$80,000	\$213,355	266.7
Fire	9,744	83,950	-74,206	(88.4)
Refuse	153,625	60,000	93,625	156.0
Bureau Of Highways	165,663	60,000	105,663	176.1
Bureau Of Garages	24,933	5,000	19,933	398.7
Total	\$671,623	\$288,950	\$382,673	132.4

Source: City Provided Data;

Health Benefits

As of 2011, the City of Scranton provided health care benefits to over 400 active employees and over 600 retirees. Table A.12 below illustrates that the City's health care expenses increased by 15.5% during the 2006 - 2010 period.

**Active and Retired Employee Health Care Expenses
City of Scranton
2006 - 2010**

Table A.12

	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2006-2010 Change	% Change
Health Insurance	11,616,761	11,826,406	12,361,828	13,135,052	13,413,227	1,796,466	15.5

Source: City provided data, Historical Benefit costs.

The City provides health care benefits through a self insurance program covering the costs of major medical, health care providers, dental, and vision care. Under the self insurance model, the City

pays the actual employee cost for health care. For example, the City may incur a very minimal cost for one employee throughout a fiscal year while another employee may incur several hundred thousand dollars of medical bills. Thus, direct cost comparison to the cost of a typical private indemnity group health care plan (e.g. Blue Cross/Shield) is not very helpful. Tables A.13 and A.14 below show the portion of health care expenses that is paid by City employees, while also comparing employee contribution rates against private sector norms and state and local governments.

Health Benefits--Employee Cost Sharing
City of Scranton
2012-2013
(Per Month)

Table A.13

	Employee Cost Sharing \$		Employee Cost Sharing %	
	Individual Coverage	Family Coverage	Individual Coverage	Family Coverage
Scranton FOP, Lodge No. 12	N/A	N/A	3.0% of base full patrol salary (in 2013)	3.0% of base patrol salary (in 2013)
Scranton IAFF, Local Union No. 428	N/A	N/A	3.0% of 2 nd yr.FF salary (in 2013)	3.0% of 2 nd yr.FF salary (in 2013)
Scranton Public Works	\$100	\$132	N/A	N/A
Scranton Clerical & Single Tax Office	\$100	\$132	N/A	N/A
Scranton Non-Represented Employees	\$100	\$132	N/A	N/A
Private Sector Average ²	\$75.00	\$333.00	20.0% of premium	30.0% of premium
State and Local Governments ³	\$85.18	\$354.66	11.0% of premium	27.0% of premium

Health Benefits Co-payments
City of Scranton
2012

Table A.14

	Office Visit	Specialist Visit	Rx Co-pay Retail
Scranton FOP, Lodge No. 12	\$10/\$75	\$10	\$6, \$15
Scranton IAFF, Local Union No. 428	\$10/\$75	\$10	\$6, \$15
Scranton Public Works	\$25	\$25	\$8, \$15, \$15
Scranton Clerical & Single Tax Office	\$25	\$25	\$8, \$15, \$15

² Kaiser Family Foundation and Health Research & Educational Trust, Employer Health Benefits: 2010 Annual Survey.

³ U.S. Bureau of Labor Statistics, "National Compensation Survey: Employee Benefits in the United States, March 2010."

	Office Visit	Specialist Visit	Rx Co-pay Retail
Scranton Non-Represented Employees	\$25	\$25	\$8, \$15, \$15
Private Sector Average ⁴	\$22	\$31	\$11, \$28, \$49
State and Local Governments	<i>Data unavailable</i>	<i>Data unavailable</i>	<i>Data unavailable</i>
Commonwealth of PA	\$15	\$25	\$10/\$18/\$36

Both nationally and in Pennsylvania, governments are moving toward implementing cost sharing for medical insurance for employees who do not share in the cost or increasing employees cost sharing for those who do contribute; for example in a June 2011 labor contract agreement, the largest Pennsylvania state employee unions agreed to have their member contributions to health care premiums remain at 3.0% of an employee's salary for three years which increases to 5.0% in 2014.

Workmen's Compensation

In Pennsylvania, there are two approaches a municipality may pursue to satisfy its statutory responsibility to ensure there are sufficient funds available to meet its workmen's compensation liabilities. A municipality may purchase an insurance policy for payment of its claims or the municipality may self-insure the liability by setting aside funds to pay its workmen's compensation claims.

Since November 1978, by City ordinance, the City of Scranton has deemed it in its best interest for the City to provide self-insurance for its workmen's compensation liabilities. The City has established an Irrevocable Trust Agreement (ITA) to provide an adequate source of funds for the payment of its workmen's compensation liabilities. This action requires the City to seek annual certification from the Pennsylvania Department of Labor and Industry for an exemption from the purchase of insurance for payment for workmen's compensation. Pursuant to the terms of the ITA the City of Scranton must maintain funds in the ITA's Reserve Account equal to 75% to its actuarial certified outstanding workmen's compensation claims as of September 1 of the prior year. For 2012 the City must maintain approximately \$15.75 million Reserve Account balance pursuant to the ITA.

Legacy Costs (Other Post Employment Benefits)

In addition to its day-to-day operating expenses, the City of Scranton is also responsible for legacy costs to retired City employees. The City's legacy's costs include the financial expense of supporting retiree benefits including pensions and health care.

Retiree Pension. As of March 2012, Scranton's pension funds are reported by the Pennsylvania Public Employee Retirement Commission (PERC) to have \$64,281,926 of assets against an estimated pension liability of \$138,071,515. These values represent the City's pension funding and asset valuations for 2010 as based upon the asset values held by the funds in 2009. PERC reported in 2010 that the City's funded ratio is 47% which is classified as "severely distressed".

Retiree Health Care. In addition to providing over 400 current City employees and their families with health care coverage the City has also taken on the responsibility of providing health care coverage to over 600 former City employees who have retired. Currently the City includes the cost of its annual retiree health care expense in its annual operating budget along with the cost of its active employees. The City's estimated retiree health care liability for 2010 was \$7.4 million of the City's

⁴ Kaiser Family Foundation and Health Research & Educational Trust, Employer Health Benefits: 2010 Annual Survey.

\$13.4 million health care expenses. The legacy cost for retiree health care benefits (based upon a term extending until April 2043) has been estimated in the City's 2009 audit at \$10.6 million.

**Workmen's Compensation and Legacy Costs
Estimated Liabilities and Assets
City of Scranton
2010**

Table A.15

Description of Benefit	Estimated Accrued Liability	Estimated Net Assets
Retiree Pension	\$138.1 million	\$64.3 million
Termination Benefit Group Health Care	\$10.6 million	Paid annually as incurred
Workers' Compensation	\$21.0 million	\$15.8 million
Total	\$169.7 million	\$80.1 million

Other Departmental Expenditures

Table A.16 below provides summary data on the City's Other Departmental Expenditure categories.

**Other Departmental Expenditures
City of Scranton
2006 - 2010**

Table A.16

Other Departmental	2006	2007	2008	2009	2010	Change 2006 - 2010	
	Actual	Actual	Actual	Actual	Actual	Change	%
Professional Services	\$641,177	\$520,377	\$561,860	\$655,033	\$574,751	-\$66,426	-10.4
Gas, Oil, Lubricants, Vehicle Repair	787,582	887,911	998,166	815,893	805,421	17,839	2.3
Landfill	1,622,876	1,580,741	1,573,346	1,627,050	1,471,131	-151,746	-9.4
Capital Expenditures	1,459,608	417,102	527,896	1,019,393	610,284	-849,324	-58.2
Liability/Casualty Insurance	896,808	835,290	934,430	1,078,945	977,100	80,292	9.0
Utilities	1,381,953	1,507,175	1,570,787	1,519,692	1,806,269	424,316	30.7
All Other Departmental Expenditures	1,540,045	1,890,518	1,932,969	2,081,887	1,727,878	187,832	12.2
Total Other Departmental Expenditures	\$8,330,049	\$7,639,115	\$8,099,454	\$8,797,893	\$7,972,833	-\$357,216	-4.3

Source: Historical Data from City As Provided

Several items are important to note regarding the City's Other Departmental Expenditures:

- Expenditures on General Fund capital projects **decreased** by 58.2% between 2006 and 2010. 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.
- Charges for utilities grew from 2006 through 2010, from \$1.381 million in 2006 to \$1.806 million in 2010, or by 30.7%.
- All other departmental expenditures increased by 12.2% for the review period.
- Landfill expenses fell during the period by 9.4% to \$1.471 million in 2010.

Non-Departmental Expenditures

Table A.17 below provides summary data on the City's Non-Departmental Expenditure categories.

**Non-Departmental Expenditures
City of Scranton
2006 - 2010**

Table A.17

Other Departmental	2006	2007	2008	2009	2010	Change 2006 - 2010	
	Actual	Actual	Actual	Actual	Actual	Change	%
Interest & Debt Excluding TANs	\$5,905,030	\$6,967,493	\$6,755,806	\$6,955,636	\$6,547,156	\$642,127	10.9
TRAN Interest Expense	381,337	437,727	432,308	323,155	460,369	79,032	20.7
SPA Citation Issuers	562,235	562,235	562,235	562,235	562,235	0	0.0
Other Operating Expense	617,316	-1,408,703	933,567	594,443	646,576	29,260	4.7
Non Departmental Expenditure	\$7,465,917	\$6,558,751	\$8,683,916	\$8,435,469	\$8,216,336	\$750,419	10.1

Several items are important to note regarding Non-Departmental Expenditures:

- By far, debt service is the largest component of Non-Departmental Expenditures. Expenditures for debt service increased from \$5.905 million in 2006 to \$6.547 million in 2010.
- Tax and Revenue Anticipation Note interest expense increased during the period from \$381,337 in 2006 to \$460,369 in 2010, or by 20.7% for the period.
- Expenditures for Scranton Parking Authority were constant through 2010 at \$562,235.
- The Other Operating Expense category rose by 4.7% since 2006.

Expenditure Review—2006 - 2010: 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 5.9% over the past 5 years.
- Public services provided by the City are labor-intensive—employee-related expenditures accounted for 74.1% of City's operating expenditures in 2010.
- Health insurance expenditures for both current and retired employees have increased 15.5% between 2006 and 2010.
- The City's annual debt service obligation has increased by 10.9% since 2006.
- Using August 2006 as the base month, the cost of living index grew by 10.1 percent through August 2011. During the 2006 - 2010 period, City paid base wages for Department of Public Works and Clerical employees had a cumulative increase of 19.2% and 17.1%, respectively.
- During 2006 - 2010 period, the City's police and fire bargaining unit members had no growth in base wages from 2006 through 2008, however, as a result of Commonwealth Court decisions in 2009, fire and police employee base compensation increased by 36.4% for fire (including a wage adjustment for a longer work week) and 28.2% for police.
- Administrative wages fluctuated throughout the period, increasing in 2008 and 2009 before being reduced in 2011.
- 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.

2011 Operating Budget Review

In December 2010, Scranton City Council adopted the 2011 Operating Budget, as amended, that projected 2011 revenues at \$60,491,268 and expenditures at \$60,491,267. The Act 47 Coordinator has reviewed the City's 2011 Operating Budget's preliminary, unaudited, operating revenues and expenditures. This review shows that the Act 47 Coordinator estimates that the City ended the 2011 fiscal year with revenues exceeding expenditures (operating surplus) by \$267,406. Revenues received exceeded budget estimates by \$3.9 million; expenditures exceeded budget estimates by \$3.2 million. See Table A.18

2011 Operating Budget City of Scranton

Table A.18

	2011 Act 47 Coordinator Estimates	2011 Adopted Operating Budget	Difference
Revenues (excluding TRANs)	\$64,370,370	\$60,491,268	\$3,879,102
Expenditures (excluding TRANs)	64,102,963	60,491,267	3,611,696

Revenues

While the estimated \$267,406 operating surplus in the 2011 fiscal year is positive, the estimated 2011 operating surplus was the direct result of the City receiving a significant amount of one-time, nonrecurring revenue from several sources during 2011, similar to its historic reliance on one-time revenue illustrated on page 5 of this Chapter. One-time revenues in 2011 include: a \$5.0 million transfer from the overfunded Worker's Compensation Fund in March 2011 to satisfy the City's 2011 TRAN B; a \$2.0 million real estate transfer revenue from the sale of a City hospital in 2011; an unbudgeted \$2.0 million in Commonwealth pension payments related to a 2011 change in Commonwealth law affecting the City's State Aid for Pensions which will not recur in future years; and the receipt of \$527,610 from the Single Tax Office for the remainder of unclaimed non-resident earned income tax revenue. See Table A.19. It important to reiterate that the City's reliance on one-time revenues sources to conduct municipal operations is not a best practice for municipal budget operations. Proficient municipal budgeting is best practiced by reliance upon recurring, stable revenue sources.

2011 One-Time Revenues City of Scranton

Table A.19

2011 One Time Revenues	Amount Received in 2011
Worker's Compensation Fund Transfer (March)	\$5,000,000
Estimated Real Estate Transfer Tax related to Hospital Sale	2,000,000
Additional State Aid Pension	1,996,598
888 Nonresident Tax (EIT)	527,610
Total One Time Revenue	\$9,524,208

The total amount of 2011 one time revenues received was more than \$9.5 million. Absent these unbudgeted, one-time revenues in 2011, the City would have experienced a significant operating deficit for 2011, in excess of \$9.2 million, as shown in Table A.20 below.

**2011 Operating Budget—Without One-Time Revenues
City of Scranton**

Table A.20

	Estimated 2011 Surplus/Deficit Without One-Time Revenue
Revenues (excluding TRAN principal)	\$64,370,370
Less: One Time Revenues	9,524,208
Net Revenues:	54,846,162
Expenditures (excluding TRAN principal repay)	64,102,963
Surplus/(Deficit)	-\$9,256,801

Table A.21 below illustrates that when the 2011 one-time, non-recurring revenues are removed from the Act 47 Coordinator's estimated 2011 operating revenue line items, **all 2011 Operating Budget revenue categories, except Payments in Lieu of Taxes (PILOTs) and Interfund Transfers, were less than the City's adopted 2011 Operating Budget's estimates.**

**One-Time Revenues Impact on 2011 Operating Budget
City of Scranton**

Table A.21

Revenue Category	2011 Estimated Operating Revenues	2011 One-Time Revenues	2011 Operating Budget	Estimated Budget Difference
Real Estate Taxes	\$13,800,688	\$0	\$14,698,293	-\$897,605
Refuse Revenues	3,958,372	0	5,125,943	-1,167,570
Utility Taxes	58,826	0	60,912	-2,086
Earned Income Tax	22,899,489	527,610	22,437,545	-65,667
Act 511 Taxes	7,589,265	2,000,000	5,877,628	-288,363
Penalties & Interest	40,654		366,100	-325,446
Licenses & Permits	1,283,449		2,526,714	-1,243,265
Fines, Forfeits & Violations	738,409		1,467,200	-728,791
Interest Earnings	6,898		20,000	-13,102
Rents & Concessions	0		700	-700
Intergovernmental Reimbursements	4,761,118	1,996,598	2,910,000	-145,480
In Lieu of Taxes	210,427		183,250	27,177
Departmental Earnings	1,242,736		1,798,000	-555,264
User Fees	49,225		60,564	-11,339
Miscellaneous Revenues	848,598		1,080,500	-231,902
Interfund Transfers	1,882,216		1,877,919	4,297
Workers' Compensation Transfer	5,000,000	5,000,000	0	0
Revenue Excluding TRAN Principal	\$64,370,370	\$9,524,209	\$60,491,268	
Tax and Revenue Anticipation Notes	\$14,500,000	\$0	\$14,500,000	
Total Revenues	\$78,870,370	\$9,524,209	\$74,991,268	

It is also important to note that while the City's historic operating budgets have been dependent upon one-time, nonrecurring revenue, the City's 2011 Operating Budget reduced City real estate tax millage rates by 10.55% and Business Privilege and Mercantile tax rates by 25%, two stable, recurring revenue sources. See Table A.22.

**2011 Operating Budget Tax Decreases
City of Scranton**

Table A.22

Tax	2010	2011	Change	
			#	%
Land Millage	103.145	92.263	-10.882	-10.55
Improvement Millage	22.432	20.065	-2.367	-10.55
Business Privilege Tax Rate (%)	1.00	0.75	-0.25	-25.00
Mercantile Tax Rate (%)	1.00	0.75	-0.25	-25.00

Expenditures

The City's 2011 Operating Budget estimated total City operating expenditures to be \$60,491,267. The Act 47 Coordinator is estimating that the City's actual 2011 operating budget expenditures will be approximately \$64,102,963, or \$3,611,696 above 2011 Operating Budget projections. Total Employee Expenditures are estimated to be \$3.89 million above the 2011 Operating Budget projections. See Table A.23. The major cost driver for Total Employee Expenditures in 2011 was City provided health care for its active and retired employees which was \$3.22 million over budget in 2011. Total Employee Expenditures exceeded the 2011 Operating Budget projections despite the fact that the city laid off 13 police officers and eight firefighters in August 2011. The City's 2011 Operating Budget is also estimated to be over budget in Total Other Departmental Expenditures by \$530,112. The City's Non-Departmental Expenditures are estimated to be \$814,770 under 2011 Operating Budget projections.

**2011 Operating Budget--Expenditures
City of Scranton**

Table A.23

Expenditure Category	2011 Estimated	2011 Budget	Estimated vs. Budget
Employee Expenditures			
Direct Compensation	\$25,838,254	\$25,163,122	\$675,132
Health Insurance	14,928,164	11,707,398	3,220,767
Workers' Compensation	1,629,790	1,951,925	-322,135
Pension	4,295,422	4,257,215	38,207
Other Employee Expenses	1,446,735	1,162,351	284,384
Total Employee Expenditures	\$48,138,366	\$44,242,011	\$3,896,354
Other Departmental Expenditures			
Professional Services	\$757,920	\$616,209	\$141,710
Gas, Oil, Lubricants, Vehicle Repair	806,954	484,393	322,561
Landfill	1,476,682	1,502,450	-25,768
Capital Expenditures	184,417	371,698	-187,281
Liability/Casualty Insurance	891,117	1,003,379	-112,263
Utilities	1,940,887	1,644,863	296,023
All Other Departmental Expenditures	1,712,744	1,617,615	95,129
Total Other Departmental Expenditures	\$7,770,720	\$7,240,608	\$530,112

Expenditure Category	2011	2011	Estimated
	Estimated	Budget	vs. Budget
Non-departmental Expenses			
Interest & Debt Excluding TRANs	\$6,769,962	\$7,106,000	-\$336,038
TRAN Interest Expense	507,168	690,000	-182,832
Spa Citation Issuers	521,021	562,235	-41,214
Other Operating Expense	395,727	650,413	-254,686
Non Departmental Expenditure	\$8,193,878	\$9,008,648	-\$814,770
Total Expenditures	\$64,102,963	\$60,491,267	\$3,611,696
TRAN Principal Payment	\$14,500,000	\$14,500,000	\$0
Total Expenditures	\$78,602,963	\$74,991,267	\$3,611,696

2010 Year End Carryover

Although Scranton's 2011 operating revenues exceeded the operating expenditures for the fiscal year, the City had entered 2011 with a deficit from its adopted 2010 operating budget.

2010 Year End Outstanding Payables City of Scranton

Table A.24

2010 Year End Balances	
Cash	\$4,856,944
Accounts Payable	-2,705,294
TRAN Payable	-9,500,000
2010 Outstanding Balance	-\$7,348,350

This outstanding 2010 operating budget deficit caused continuing cash shortages throughout fiscal year 2011 which became acute in December 2011 when the City did not have enough cash on hand to satisfy the remaining balance of its 2011 TRAN due on December 31, 2011. In order to timely pay the 2011 TRAN the City was required to request Commonwealth approval for a short term transfer of \$5.0 million from the Worker's Compensation Trust Fund into the General Fund. The City repaid the short-term fund transfer from the Worker's Compensation Trust Fund on January 31, 2012, with the proceeds of the City's 2012 Tax and Revenue Anticipation Note.

Financial Review—Conclusion

During the 2006 – 2010 financial review period the City's operating **revenues decreased by 1.6%**. The decline in operating revenues is attributed to the City's stagnant real estate tax revenue growth absent tax increases and the City's decrease in Act 511 tax receipts (other than earned income tax). While the City's operating revenues have declined during the 2006 – 2010 financial review period the City's operating **expenditures increased by 5.9%**. The City's expenditure increases are primarily attributed to personnel related expenditures and non-departmental expenditures. The City has relied on one-time revenues sources during the 2006 – 2010 financial review period in an attempt to produce revenue to satisfy operating budget deficits and to maintain day-to-day operating cash flow.

During the 2011 budget year, the City made certain expenditure reductions in its 2011 Operating Budget in an attempt to address the long standing structural deficit. However, the City also reduced certain tax rates in its 2011 Operating Budget. The 2011 Operating Budget estimates for revenues were in excess of the actual revenues received based upon the Act 47 Coordinator's review of the preliminary 2011 receipts. The City's pattern of reliance on one time revenue to support operations was continued into 2011 with the receipt of more than \$9.5 million in non-recurring revenues. The Act 47 Coordinator's preliminary 2011 actual City expenditures were similarly in excess of the budget estimates by more than \$3.6 million. The City's on-going structural operating budget deficit and consequential cash flow deficit was manifested throughout 2011 by a critical cash shortage in December 2011, that resulted in the City requiring a short-term transfer of Worker's Compensation Trust Funds to meet the December 31, 2011, payment date for its 2011 Tax and Revenue Anticipation Note, the second continuous year that the City has had to draw upon its Worker's Compensation Trust Fund to satisfy year-end account payables.

APPENDIX B

Baseline General Fund Revenue and Expenditure Projections 2012 - 2015

In order to provide financial projections for the City of Scranton for the remainder of 2012 through 2015, the Financial Review of the City's historical financial data in Appendix A was necessary to determine the City's revenue and expenditure baseline. The historical data used by the Act 47 Coordinator for reviewing the City's financial history included financial data independently maintained by the Act 47 Coordinator, the City's annual Audits through 2010 and City supplied data for 2011 (subjected to monthly review and analysis by the Act 47 Coordinator). Projections for the future rates of increase or decrease in individual operating revenue and expenditure line items that follow are based upon the Act 47 Coordinator's analysis of the City's historical financial data, and where appropriate, independent trend analysis was utilized. Finally, the Act 47 Coordinator used the City's adopted 2012 Operating Budget, as amended, (2012 Operating Budget) and modified by the Act 47 Coordinator's independent estimate of the City's 2012 year end operating surplus or deficit.

Baseline Projections 2012 - 2015

For the purposes of this Chapter of the 2012 Revised Recovery Plan, the assumptions below were used by the Act 47 Coordinator in developing the 2012 – 2015 baseline projections for the City's General Fund operating budget.

The revenue assumptions used in the 2012 – 2015 baseline projections are as follows:

- All 2012 rates for taxes and fees were held constant through 2015.
- Revenue from real estate taxes has been increased slightly over the period to reflect the 2011 sale of a City hospital, expected improvements to the hospitals facilities, and the subsequent change of the hospital's tax exempt status to taxable property. Overall City property assessed valuation growth is assumed to be minimal due to the combination of an outdated countywide assessment base and the offset of successful assessment appeals against any new construction or increase in assessed property values.
- The following revenue items were reviewed on a line-by-line basis. Revenue from the Earned Income Tax was increased by 1.5% per year, the Business Privilege & Mercantile Tax revenue was increased by 0.2% per year, and real estate transfer tax revenue was increased by 0.2% per year over the 2012 estimated base (the 2012 base was adjusted to remove the one-time transfer tax revenue from the 2012 hospital sale). Revenues from the anticipated 2012 Parking Tax 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.
- \$9.85 million in proceeds from the City's 2012 Operating Budget's unfunded borrowing initiative is assumed to be received by the City in 2012.
- Real Estate Taxes are increased approximately 12.0% in 2013 for Debt Service related to the \$9.85 million unfunded borrowing in 2012.

- State aid for pension expenses was adjusted for the 2011 reduction in employee complement beginning in 2012. The reduction in state aid was then held constant over the remainder of the period. The one time increase of \$1.7 million in State pension aid in 2011 as a result of a change in legislation is not assumed to occur again during the projection period.
- Other revenues are held constant over the period based upon the Act 47 Coordinator's historical data and trend analysis.

The expenditure assumptions used in the 2012 – 2015 baseline projections are as follows:

- The number of personnel has been held constant at the July 2012 workforce level.
- Current wages have been increased as specified in collective bargaining agreements, interest arbitration awards, or court orders. No wage increases are assumed at the conclusion of the current collective bargaining agreements or arbitration awards. Salaries for non represented City employees are projected at 0% growth through 2015.
- Employee/Retiree medical insurance expenditures were increased by 9% over the 2011 experience for 2012, 7% for 2013, and 4% for both 2014 and 2015 in conformance with recently observed City experience and similar increases projected for other local government entities.
- Other major insurance costs have been projected on a line by line basis.
- Debt service refinancing is anticipated to reduce City expenditures by \$4.9 million in 2012 and \$4.8 million in 2013. This 2012 Operating Budget initiative will increase the City's debt service payments by approximately \$2.0 million in both 2014 and 2015.
- Debt service related to the 2012 Operating Budget unfunded borrowing of \$9.85 million begins in 2013 and is estimated at \$1.8 million per year.
- Payments included in the 2012 Operating Budget are \$1.6 million for the Redevelopment Authority and \$1.4 million for the Scranton Parking Authority.
- No new capital expenditures are included.
- Municipal pension obligations are adjusted based on increased employee costs.
- Other expenditures were increased at various levels based on the Act 47 Coordinator's historical data and trend analysis.

Based on the above assumptions, Table B.1 and Bar Graph B.1 below illustrates the projected General Fund operating budget surplus/deficit for the City of Scranton for 2012 - 2015 **without** implementation of the 2012 Revised Recovery Plan mandates contained herein. The annual General Fund operating budget deficit is projected to increase from \$4.2 million in 2012 to \$10.9 million in 2015, an increase of \$6.1 million during the projection period. The cumulative General Fund deficit for the period 2012 - 2015 is projected to be **\$27.9 million**.

**General Fund Projections
City of Scranton
2012 - 2015**

(Without Implementation of 2012 Revised Recovery Plan Mandates)

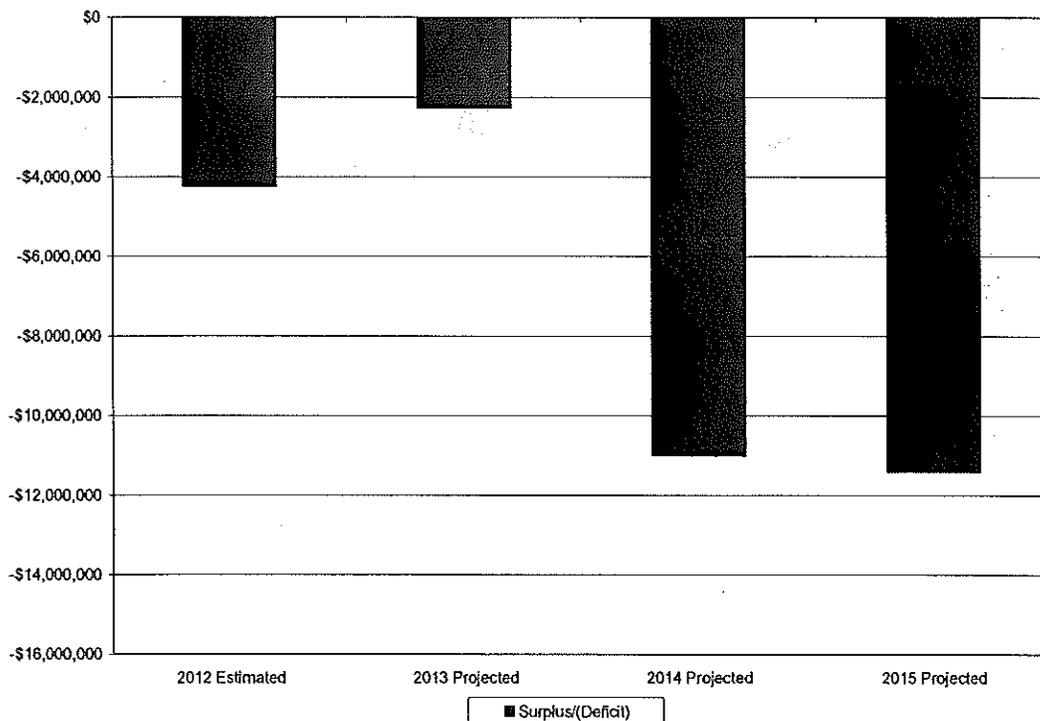
Table B.1

	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Revenues as of March 2012 RRP	\$60,761,018	\$59,184,199	\$59,231,975	\$59,281,850
Revenue Variances As Projected	\$0	\$2,552,258	\$2,004,482	\$2,291,408
Expenditures	\$65,586,955	\$63,746,788	\$71,983,614	\$72,532,596
Surplus/(Deficit)	-\$4,825,937	-\$2,010,331	-\$10,747,157	-\$10,959,338
Unfunded Borrowing Proceeds	9,850,000	0	0	0
2011 Carry Over	-9,256,338	0	0	0
Net Surplus/(Deficit)	-\$4,232,275	-\$2,010,331	-\$10,747,157	-\$10,959,338
Cumulative Deficit	-\$4,232,275	-\$6,242,606	-\$16,989,763	-\$27,949,101

**General Fund Projections
City of Scranton
2012 - 2015**

(Without Implementation of 2012 Revised Recovery Plan Mandates)

Bar Graph B.1



Revenue Projections—2012 - 2015

The City's General Fund operating revenues are projected to decrease from \$60.8 million in 2012 to \$59.2 million in 2015 or by 2.4%.

General Fund Revenue Projections City of Scranton 2012 - 2015

(Without Implementation of 2012 Revised Recovery Plan Mandates)

Table B.2

Revenue Category	2012	2013	2014	2015	Change 2012 -2015	
	Projected	Projected	Projected	Projected	\$	%
Real Estate Taxes	\$14,458,872	\$15,926,872	\$15,926,872	\$15,926,872	\$1,468,000	10.2
Refuse Revenues	4,174,177	4,094,194	4,015,757	3,938,838	-235,339	-5.6
Utility Taxes	58,826	58,826	58,826	58,826	0	0.0
Earned Income Tax	22,700,000	22,309,500	22,419,548	22,530,145	-169,855	-0.7
Act 511 Taxes	8,525,107	6,847,470	6,859,485	6,871,523	-1,653,583	-19.4
Penalties & Interest	54,500	54,609	54,718	54,827	327	0.6
Licenses & Permits	2,571,230	1,949,280	1,953,179	1,957,085	-614,145	-23.9
Fines, Forfeits & Violations	846,060	846,060	846,060	846,060	0	0.0
Interest Earnings	10,000	10,020	10,040	10,060	60	0.6
Rents & Concessions	28,000	28,000	28,000	28,000	0	0.0
Intergovernmental Reimbursements	2,810,000	2,810,000	2,810,000	2,810,000	0	0.0
In Lieu of Taxes	183,250	183,250	183,250	183,250	0	0.0
Departmental Earnings	1,341,000	1,341,000	1,341,000	1,341,000	0	0.0
User Fees	61,000	61,122	61,244	61,367	367	0.6
Miscellaneous Revenues	1,031,524	1,031,524	1,031,524	1,031,524	0	0.0
Interfund Transfers	1,907,472	1,632,472	1,632,472	1,632,472	-275,000	-14.4
Total Revenues	\$60,761,018	\$59,184,199	\$59,231,975	\$59,281,850	-\$1,479,168	-2.4
Coordinator and City Estimated						
Variance in Plan Revenues	\$0	(\$2,302,258)	(\$1,754,482)	(\$1,850,974)	\$371,806	0.6%

During the preparation of the 2013 – 2015 Mandates to eliminate deficits, the Coordinator and City officials engaged in a process designed to forecast revenue based upon the most currently available information. This process was designed to consider the City's best estimates of the projected revenues tempered by the Coordinator's use of City historical revenue trends.

The City's projected operating revenues for the years 2013-2015 included in the City Mandates are currently higher than the revenues projected by the Coordinator as used in the March 2012 Revised Recovery Plan (March 2012 RRP). Significant variations between the March 2012 RRP and the Mandate estimates include the following:

- The City's estimated current Earned Income Tax (EIT) revenue is higher than the March 2012 RRP by \$500,000. However, 2012 year to date EIT revenue is trending higher than the March 2012 RRP estimates and therefore the higher EIT estimate is acceptable.
- Revenues from License & Permit revenues are projected to be higher for the period 2013 through 2014 than the Coordinator's March 2012 projections by \$1,420,434. The City has confirmed to the Coordinator that the increase is due to a planned hospital expansion and other exclusive third party contracts.
- Refuse fee revenues are projected in the City baseline to be \$5,000,000, or more than \$1,000,000 higher more than the Coordinator's March 2012 RRP baseline estimate. Putting the

estimates for refuse fee revenue into context, the City has recorded refuse revenue as trending downward from \$4.7 million in 2006 to \$4.1 million in 2010 to \$3.9 million in 2011. By December 1, 2012, as part of the 2013 operating budget process, the City shall provide the Coordinator with support for the variance in refuse fee revenue or provide equivalent revenue increases or expenditure reductions.

- Real Estate tax revenues under the proposed City Mandates baseline projections are \$691,128 higher than in the March 2012 RRP. If by December 1, 2012, the City cannot provide the Coordinator with support for the projected Real Estate tax revenues increase, as proposed by the City, the City must provide equivalent sources of revenues and/or expenditure reductions in its adopted 2013 operating budget to compensate for the proposed baseline real estate revenues anticipated to have been received in the March 2012 RRP.

Expenditure Projections—2012 - 2015

As illustrated in Table B.3 below, the City's operating expenditures are projected to increase from \$65.6 million in 2012 to \$74.0 million in 2015. This 12.8% increase in projected operating expenditures from 2012 - 2015 is a continuation of the 5.9% increase in operating expenditures identified in the City's 2006 - 2010 financial review period. The principal factor for the increase in City expenditures is personnel expenditures, primarily employee direct compensation and employee and retiree health care insurance. Projections for employee direct compensation increase from \$25.1 million in 2012 to \$26.6 million in 2015, an increase of 6.0% from 2012 - 2015. Employee and retiree medical insurance is projected to increase from \$15.2 million in 2012 to \$17.6 million in 2015, an increase of 15.7%.

Other Departmental Expenditures are projected to decrease slightly from \$8.6 million in 2012 to \$8.5 in 2015 or 1.0%. Projected increases in insurance (9.3%), gas, oil and lubricants (6.8%) and utilities (4.9%) are offset by a projected decrease in landfill fees of (6.0%) and professional services of (14.7%).

Non-Departmental Expenditures are projected to increase from \$3.8 million to \$11.7, million, an increase of over 200% due to the use of the City's 2012 Operating Budget's debt service refinancing that temporarily reduces the City's debt service due in 2012 and 2013, before increasing in 2014.

General Fund Expenditure Projections City of Scranton 2012 - 2015

(Without Implementation of 2012 Revised Recovery Plan Mandates)

Table B.3

Expenditure Category	2012	2013	2014	2015	Change 2012-2015	
	Projected	Projected	Projected	Projected	\$	%
Employee Expenses						
Direct Compensation	\$25,066,826	\$25,666,719	\$26,488,315	\$26,561,850	\$1,495,023	6.0%
Health Insurance	15,237,940	16,304,596	16,956,780	17,635,051	2,397,111	15.7%
Workers' Compensation	3,500,000	3,500,000	3,500,000	3,500,000	0	0.0%
Pension	4,500,895	4,698,341	4,765,083	4,766,045	265,150	5.9%
Other Employee Expenses	1,871,513	1,585,856	1,401,077	1,286,155	-585,358	-31.3%
Total Employee Expenditure	\$50,177,174	\$51,755,513	\$53,111,255	\$53,749,101	\$3,571,927	7.1%
Other Departmental Expenditures						

Expenditure Category	2012	2013	2014	2015	Change 2012-2015	
	Projected	Projected	Projected	Projected	\$	%
Professional Services	\$900,379	\$767,964	\$767,964	\$767,964	(\$132,415)	-14.7%
Gas, Oil, Lubricants, Vehicle Repair	935,251	955,787	976,938	998,725	\$63,474	6.8%
Landfill	1,502,450	1,472,450	1,442,450	1,412,450	(\$90,000)	-6.0%
Capital Expenditures	337,024	337,024	337,024	337,024	\$0	0.0%
Liability/Casualty Insurance	1,003,379	1,033,481	1,064,485	1,096,420	\$93,041	9.3%
Utilities	2,015,945	2,048,195	2,081,413	2,115,627	\$99,682	4.9%
All Other Departmental Expenditures	1,919,045	1,803,006	1,803,006	1,803,006	(\$116,039)	-6.0%
Total Other Departmental Expenditures	\$8,613,473	\$8,417,907	\$8,473,280	\$8,531,215	(\$82,258)	-1.0%
Nondepartmental Expenses						
Interest & Debt Exc Tans	\$2,402,312	\$2,188,373	\$9,014,083	\$8,867,284	\$6,464,972	269.1%
Tan Interest Expense	263,542	263,542	263,542	263,542	0	0
Spa Citation Issuers	562,235	562,235	562,235	562,235	0	0
Other Operating Expense	588,219	559,219	559,219	559,219	-9,000	-1.6
Non Departmental Expenditure	\$3,796,308	\$3,573,369	\$10,399,079	\$10,252,280	\$6,455,972	170.1%
Total Expenditures	\$62,586,955	\$65,214,788	\$73,451,614	\$74,000,596	\$11,413,641	18.2%
Redevelopment Authority	1,600,000	0			-1,600,000	-100
Parking Authority	1,400,000	0			-1,400,000	-100
Total Expenditures	\$65,586,955	\$63,746,788	\$71,983,614	\$72,532,596	6,945,641	10.6%

City of Scranton Debt Obligations—2012 - 2015

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 pensions and health care, the City's long-term debt obligations will impact the City's finances for decades into the future.

Long-Term Debt Obligations

As of January 1, 2012, the City's General Fund was responsible for annual debt service payments on eight series of bonds and notes.

**Long-Term Debt Obligations
As of January 1, 2012
City of Scranton**

Table B.4

Outstanding Series	Maturity	Estimated Remaining Debt Service as of January 1, 2012
General Obligation		
Notes Series of 2002	08/01/2028	\$7,827,975
Bonds Series A of 2003	09/01/2014	1,619,865
Bonds Series B of 2003	09/01/2031	45,664,993
Bonds Series C of 2003	09/01/2033	27,028,312
Bonds Series D of 2003	09/01/2023	12,928,415
Guarantee Lease Revenue		
Bonds Series of 2004	12/15/2016	2,905,732
Bonds Series of 2006	11/01/2024	15,072,075
Bonds Series of 2008	11/01/2026	9,032,794
Total General Fund Debt Service		\$122,080,101

The City's debt service on all series is projected to total \$122.1 million over the period through fiscal year 2033. For most of this period the City is projected to pay approximately \$7.0 million in annual debt service from the General Fund. After the year 2025, at the current repayment schedule, the City's debt service obligations steadily decline and will be paid off in 2033.

**Annual Long-Term Debt Service Obligations
As of January 1, 2012
2012 – 2015**

Table B.5

	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Debt Service as of 1/1/2012	\$7,067,781	\$7,154,982	\$7,063,110	\$7,048,427

The City's 2012 Operating Budget utilizes two long-term debt initiatives to balance its budget. The City included a \$9.85 million unfunded borrowing initiative to satisfy outstanding 2011 account payables and the refinancing of approximately \$4,900,000 and \$4,800,000 debt service due, respectively, in 2012 and 2013. The City's projected long-term debt service for 2012 – 2015, including the City's 2012 Operating Budget initiatives, is provided in Table B.6.

**Annual Long-Term Debt Service Obligations
2012 City Operating Budget Debt Initiatives
City of Scranton
2012 – 2015**

Table B.6

	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Projected Debt Service (Including <i>Estimated</i> Impact of 2012 Operating Budget Debt Initiatives)	\$2,402,312	\$3,656,373	\$10,482,083	\$10,335,284

Short-Term Debt Obligations

The City's short-term debt includes a 2012 Tax and Revenue Anticipation Note (TRAN) for \$11,500,000, plus interest, due on June 30, 2012. The 2012 TRAN was payable from the revenues generated by the City's 2012 real estate taxes. The City's 2012 TRAN was paid in full on June 30, 2012.

Guaranteed Authority Debt

In addition to the City's General Obligation debt service, the City guarantees the debt of the Scranton Parking Authority. As a debt guarantor, the City is not directly responsible for budgeting or making annual debt service payments on its guaranteed debt. The City will only be obligated to make these debt service payments if the SPA debt service payments are late or not paid. As of January 1, 2012, the total outstanding principal and interest of the Scranton Parking Authority was more than \$95.6 million. In September 2011 the Scranton Parking Authority borrowed \$2.9 million in non-City guaranteed debt; however, the City did not provide a guarantee on this debt issue. In June 2012, the City transferred approximately \$1,000,000 to the SPA to assist the SPA in making a debt service payment.

Conclusion

Baseline revenue and expenditure projections for the City's General Fund **without** implementation of any of the mandates provided herein by this 2012 Revised Recovery Plan indicate that the City will encounter substantial General Fund operating budget deficits from 2012 - 2015 with a cumulative deficit of over \$33.8 million. Total General Fund expenditures are projected to increase by \$6,945,641 or 10.6% through 2015 while the City's revenues are projected to remain unchanged, at best, during the same period. **Clearly, the City of Scranton will not be able to maintain the current level of service to its residents in future years if this revenue and expenditure mismatch is not addressed by the City's elected leadership.**

In addition to its annual operating budget expenses, the City of Scranton's taxpayers are also responsible for long-term financial liabilities that include retiree pension, retiree health care, workers' compensation and long-term debt service. One-time revenue sources have previously enabled the City to defer adoption of difficult but necessary revenue and expenditure policies that would address the expenditure and revenue mismatch identified in this Revised Recovery Plan. Reliance on one-time revenues sources is not a best practice for managing municipal budgets. The projected 10.6% increase in City operating expenditures relative to stagnation of City operating revenues for the 2012 - 2015 period will make bridging the City's operating expenditure/revenue deficits with one-time revenue sources much more challenging in the future.

APPENDIX C

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF COMMUNITY AFFAIRS

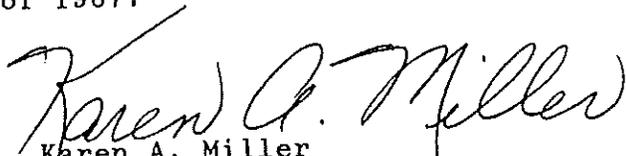
IN RE: . PETITION UNDER SECTION 201
CITY OF SCRANTON . AND 203 OF THE FINANCIALLY
DISTRESSED MUNICIPALITIES ACT

CITY OF SCRANTON .
DOCKET NO. FDMA - 12

DEPARTMENTAL ORDER

AND NOW, this 10th day of January 1992, the above-captioned petition is granted.

IT IS ORDERED that the City of Scranton shall be deemed to be a distressed municipality under the Financially Distressed Municipalities Act, Act 47 of 1987.


Karen A. Miller
Secretary
Department of Community Affairs