COMMONWEALTH OF PENSYLVANIA

DEPARTMENT OF COMMUNITY & ECONOMIC DEVELOPMENT

IN RE:	:	TERMINATION OF DISTRESSED
	:	STATUS UNDER SECTION 255.1
CITY OF SCRANTON	:	OF THE MUNICIPALITIES
LACKAWANNA COUNTY	:	FINANCIAL RECOVERY ACT

DEPARTMENTAL DETERMINATION AND ORDER

1. On January 10, 1992, the City of Scranton (the "City") was designated a financially distressed municipality pursuant to the Municipalities Financial Recovery Act ("Act 47"), codified at 53 P.S. § 11701.101 *et seq.*
2. On October 20, 2021, the Pennsylvania Economy League, the Act 47 Coordinator for the City, filed a final report which recommended termination of the City's distressed status.
3. In accordance with Section 255.l(a) of Act 47, on November 16, 2021, a public hearing was held at which a designated hearing officer received evidence regarding the potential termination of the City's distressed status.
4. In determining whether the City's distressed status shall be terminated, Section 255.1 of Act 47 requires a consideration of whether:

a) Operational deficits of the municipality have been eliminated and the financial condition of the municipality, as evidenced by audited financial statements prepared in accordance with generally accepted accounting principles and projections of future revenues and expenditures, demonstrates a reasonable probability of future balanced budgets absent participation in this act.

b) Obligations issued to finance the municipality's debt have been retired, reduced, or reissued in a manner that has adequately refinanced outstanding principal and interest and has permitted timely debt service and reasonable probability of continued timely debt service absent participation in this act.

c) The municipality has negotiated and resolved all claims or judgments that would have placed the municipality in imminent jeopardy of default.

d) The reasonably projected revenues of the municipality are sufficient to fund ongoing necessary expenditures, including pension and debt obligations, and the continuation or negotiation of collective bargaining agreements and the provision of municipal services. Projections of revenues shall include any anticipated tax or fee increases to fund ongoing expenditures for the first five years after termination of distressed status.

53 P.S. § 11701.255.1(c)(1)-(4).

5. With regard to the first factor, the City has experienced a mix of operating budget surpluses and deficits over the past four years. In 2018, the City had an audited $1.2 million, or 1%, operating deficit and, in 2020, the unaudited financial statements show a surplus of $3.8 million or approximately 4% of the operating budget. Based on a review of the City's 2021 budget and operating position through 3 quarters, it is estimated that the City will end fiscal year 2021 with a surplus of approximately $800,000.
6. With regard to the second factor, in 2016, the City efficiently utilized a significant portion of the Sewer Sale Proceeds to defease over $42 million in high yield, long-term general obligation bonds and notes. The City's total outstanding debt decreased from $113 million in 2017 to $80 million in 2021. Since 2016, the City's overall debt decreased by $78 million or 49%, a significant reduction. During the period from 2016 through 2020, the City made all of its debt service payments. It should also be noted that the City will retire its 2012 Act 47 loan of $1,000,000 from the Department in fiscal year 2022.

7. With regard to the third factor, during the Amended Exit Plan period, the City settled or fully adjudicated several outstanding lawsuits. However, there remain several outstanding lawsuits that the City is defending, but the full extent of any liability is not possible to know until the litigation has been resolved.
8. With regard to the fourth factor, future projections in the Coordinator's written recommendation show that the City has sustainable revenue sources that are adequate to fund ongoing necessary expenditures, including pension and debt obligations, and the continuation or negotiation of collective bargaining agreements and the provision of municipal services.

AND NOW, this the 25th day of January 2022, upon review of the written recommendation of the Act 47 Coordinator, the recommendations of departmental staff and the Act 47 Coordinator, and the evidence received at the public hearing, along with other considerations, the above-captioned request is granted.

IT IS ORDERED that the status of the City of Scranton, Lackawanna County, as a financially distressed municipality under the Municipalities Financial Recovery Act, Act 47 of 1987, as amended, is terminated.

By: ______________________

Dennis M. Davin
DCED Secretary

CITY OF SCRANTON
LACKAWANNA COUNTY

EVALUATION OF THE ACT 47 COORDINATOR’S RECOMMENDATION TO TERMINATE FINANCIALLY DISTRESSED STATUS UNDER ACT 47, THE MUNICIPALITIES FINANCIAL RECOERY ACT

HEARING HELD: November 16, 2021

TABLE OF CONTENTS

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT
GOVERNOR'S CENTER FOR LOCAL GOVERNMENT SERVICES

HEARING REGARDING RECISSION OF DISTRESSED STATUS OF THE CITY OF SCRANTON

FINDING OF FACTS

A public hearing was held in the City of Scranton, Lackawanna County, on November 16, 2021, to receive testimony regarding the *Act 47 Coordinator's Recommendation to the Secretary of the Department of Community and Economic Development* ("DCED") *for the City of Scranton* (the "Recommendation" or "Recommendation and Report") to terminate the designation of distress made on January 10, 1992, under Act 47 of 1987, as amended, the Municipalities Financial Recovery Act. Notice of the public hearing was advertised in accordance with Section 203 of Act 47 and the Sunshine Act. The purpose of the hearing was to gather information on the City's financial condition to assist the Secretary of DCED in determining whether the City's financial condition satisfied the necessary conditions to terminate its distressed status and to inform the officials, employees and citizens of the City of Scranton of the Act 47 termination process.

Prior to the hearing, the Act 47 Coordinator for the City (the "Coordinator" or "Recovery Coordinator"), the Pennsylvania Economy League ("PEL"), submitted the Recommendation to DCED that reviewed the statutory factors necessary to request a termination of the City's distressed status, and the statutory criteria regarding whether to issue a determination of fiscal emergency in the City. Based upon a review of the totality of the factors included in Section 11701.255.1(c) of Act 47. At that time, the Act 47 Coordinator concluded that substantial evidence supported a determination to terminate the City's distressed status.

The Coordinator's Recommendation documented the City of Scranton's revenue and expenditure history, general fund cash balance history and revenue and expenditure projections. The Coordinator projected that the City would experience operating deficits in the future as the rate of the City's expenditure growth outpaces the rate of the City's revenue growth. The main driver for the projected operating deficits is the lack of growth in the City's real property assessed valuations. The real property assessed value decline in the City appears to be part of the systemic application of the state law governing assessment of real property for purposes of taxation. The City's continued participation in the Act 47 program cannot directly reverse this trend. In order to counter this lack of growth in real property assessed values, the City will have to generate new revenue through tax increases, institute expenditure reductions, and/or increase employee productivity.

The Coordinator has apprised the City of managing this issue through small annual tax increases for the past fifteen years. This advice has not always been heeded by the City's elected representatives, which in turn left the City with insufficient cash available in a fiscal year to satisfy their financial obligations when they were due and ultimately resulted in unavoidable, punitive, double-digit tax rate increases on City residents. However, it was the Coordinator's opinion that the City can manage the projected operating budget deficits and sustain a sufficient cash flow throughout future fiscal years by incrementally increasing City's property tax rates as set forth in the Act 47 Coordinator's Recommendation. Further, the City presently has a steady series of revenue streams to provide realistic and affordable service levels going forward. It is now incumbent upon the City to remain vigilant and to proactively manage the provision of City services within the context of the fiscal and management resources available to the City.

Act 47 provides specific guidance for the Coordinator to evaluate when making its recommendation to the Secretary of DCED. It does not require the Coordinator to entertain the evaluation of all potential scenarios the City may encounter in the near or distant future. At the time of the Recommendation, the Coordinator concluded that the City of Scranton was able to meet all of its financial obligations as they become due. The Coordinator also found that the City was able to provide vital and necessary services to its residents. Therefore, for the reasons stated above, the Coordinator recommended that the Secretary of DCED issue a determination to the City of Scranton's status as a financially distressed municipality as defined by Act 47 of 1987, as amended.

The Hearing Officer, Fred Chapman, Local Government Policy Specialist with the Governor's Center for Local Government Services, made opening remarks welcoming everyone to the public hearing and stated that the public hearing is being held in accordance with Act 47 of 1987, as amended. Mr. Chapman stated the purpose of the proceeding was to receive testimony on whether the City of Scranton's Act 47 distress designation should be terminated under the Municipalities Financial Recovery Act, Act 47 of 1987, as amended based upon the Act 47 Coordinator's Recommendation dated October 20, 2021.

Mayor Paige Cognetti, Senior Fellow with the Recovery Coordinator Gerald Cross, City Council President Bill Gaughan, DCED Regional Local Government Policy Specialist James Rose, City Business Administrator Lawrence D. West, and City Resident Joan Hodewanitz provided testimony in support of the termination of the distress designation.

Mayor Paige Cognetti testified that the City's revenues during the COVID-19 pandemic were higher than expected. Act 511 litigation that potentially would have resulted in a $50 million judgement against the City and drastically affected future tax revenues was concluded in the City's favor. Further, the Mayor formed a tax policy working group to evaluate the tax structure and make recommendations for possible changes and is reviewing plans to change from business privilege and mercantile taxes to a payroll preparation tax.

In addition, Mayor Cognetti described changes implemented since her election to office in 2020, including a refuse fee on the tax bill which has increased collections. Efforts to implement a hotel tax as soon as permitted, encouraging Lackawanna County to complete a property reassessment, and securing an investment grade rating from Standard and Poor's will continue.

Gerald Cross, Senior Fellow with the Pennsylvania Economy League, offered testimony in favor of recission of distressed status. Mr. Cross referenced his organization's Recommendation and asked that the written report be incorporated into his testimony.

As background, on October 20, 2021, the Coordinator submitted its Recommendation to DCED which included an evaluation of the enumerated four factors in Section 255.1(c)(1)-(4) of Act 47 to aid in the Secretary's determination on whether to terminate the distressed status of a municipality. The four factors are as follows:

> (1) Operational deficits of the municipality have been eliminated and the financial condition of the municipality, as evidenced by audited financial statements prepared in accordance with generally accepted accounting principles and projections of future revenues and expenditures, demonstrates a reasonable probability of future balanced budgets absent participation in this act.
>
> (2) Obligations issued to finance the municipality's debt have been retired, reduced or reissued in a manner that has adequately refinanced outstanding principal and interest and has permitted timely debt service and reasonable probability of continued timely debt service absent participation in this act.
>
> (3) The municipality has negotiated and resolved all claims or judgments that would have placed the municipality in imminent jeopardy of financial default.
>
> (4) The reasonably projected revenues of the municipality are sufficient to fund ongoing necessary expenditures, including pension and debt obligations and the continuation or negotiation of collective bargaining agreements and the provision of municipal services. Projections of revenues shall include any anticipated tax or fee increases to fund ongoing expenditures for the first five years after a termination of distressed status.

53 P.S. § 11701.255.1(c)(1)-(4).

The Coordinator's Recommendation to the Secretary outlined the City's progress and circumstances under each of these statutory factors. For factor 1, PEL found that the City has experienced a mix of operating budget surpluses and deficits over the past four years. For example, in 2018, the City had an audited $1.2 million, or 1%, operating deficit and in 2020 the unaudited financial statements show a surplus of $3.8 million or approximately 4%. Based on PEL's review of the City's 2021 budget and operating position through 3 quarters, PEL estimated the City would end fiscal year 2021 with a slight surplus of approximately $800,000.

Under factor 2, PEL determined that the City efficiently utilized a significant portion of the $66.9 million of the 2016 Sewer Sale Proceeds over the term of the Exit Plan to defease over $42.0 million in high yield, long-term general obligation bonds and notes. The City's total outstanding debt decreased from $113 million in 2017 to $80 million in 2021. More notably, since 2016, the City's overall debt decreased by $78 million or 49% - a significant reduction. During the period from 2016 through 2020, the City timely made all of its debt service payments. It should also be noted that the City will retire its 2012 Act 47 loan of $1,000,000 from DCED in 2022.

For factor 3, PEL found that during the Amended Exit Plan period, the City settled or fully adjudicated several outstanding lawsuits. However, it also noted that there remain several outstanding lawsuits that the City is defending. One lawsuit in particular would retroactively reinstate the Cost of Living increases for retirees of the Police Department. This lawsuit involves a significant sum of money and poses some potential future liability for the City. PEL concluded that the extent of any liability from this litigation is not possible to know until the litigation has been completed which will most likely occur after the January 27, 2022 statutory deadline for terminating the City's distressed status.

For factor 4, the Coordinator projects that the City will incur operating deficits throughout the 2022-2026 projection period. The lack of inherent growth in the City's real property tax revenue and only slight growth in the City's earned income tax revenue coupled with annual projected expenditure growth of 2.0% will cause the City to realize operating budget deficits throughout the projection period.

Offsetting these projected deficits, however, are the City's cash fund balance as well as the 2021 American Rescue Plan ("ARP") intergovernmental transfer replacing lost revenue from the 2020-21 COVID pandemic restrictions. For the City to mitigate the effects of its annual flat or decreasing real property assessed values, the City will have to make incremental property tax rate increases and/or reduce expenditures over the next five years to avoid the projected operating budget deficits. For years 2022 – 2023, the City will have ARP money available to cover the projected deficits. The City can also account for the small deficit for 2023 ($129,584) thru expenditure reductions and/or the use of its fund balance.

As required by Act 199, the Coordinator recommends that the City increase its property tax millage rate by 5.1%, 14.8%, and 0.7% in the years 2024 – 2026, respectively, to eliminate the projected operating deficits in those years. The total property tax rate percentage increase over the five-year period of 2022 – 2026 is 20.6%. Any expenditure reductions implemented by the City during this period may reduce the recommended percentage property tax millage rates.

Additionally, PEL also examined the Act 199 factors to determine whether the conditions of a fiscal emergency are present in the City. A fiscal emergency exists if a distressed municipality is: (i) insolvent or is projected to be insolvent within 180 days or less; or (ii) is unable to ensure the continued provision of vital and necessary services—police, fire, ambulance, refuse collection and meet payroll and debt service obligations.

PEL noted in their report that the City's adopted 2021 operating budget appropriated funds to provide many of the vital and necessary services such as police and fire services, refuse collection and disposal, snow removal, payroll and pension obligations and the fulfillment of debt and other financial obligations. PEL's analysis also determined that the City was projected to be able to meet all of its financial obligations, including debt service and payroll. At the time of the writing of the Recommendation to the Secretary, there was no evidence from the City or otherwise that the City was insolvent or would be within 180 days or that the City would be unable to ensure the continued provision of vital and necessary services. Accordingly, it was and remains the recommendation of the Coordinator that, based upon a review of the totality of the factors, substantial evidence supports a decision by the Secretary to issue a determination terminating the City of Scranton's status as a financially distressed municipality.

Bill Gaughan, Scranton City Council President, testified that he has served on city council for eight years, and believes that the distressed status should be terminated. Council President Gaughan testified that the City has made tremendous progress over the last eight years in terms of its finances. In 2014, when he took office, the City had a poor credit rating and had difficulty securing any funds, including Tax Anticipation Notes. Financial institutions were reluctant to work with the City and officials frequently worried that they would be unable to meet payroll obligations. Progress includes a current surplus of almost $1 million. He attributed the improvements to the hard work of elected and appointed officials, including former Council President Bob McGoff and former Business Administrator David Bulzoni. Mr. Gaughan also cited decreased debt liabilities dropping from $113 million to $80 million currently and the increase in funding to the pension funds. Mr. Gaughan is confident that the City will survive and also recommended recission of distressed determination.

James Rose, Local Government Policy Specialist with the Governor's Center for Local Government Services then offered testimony. He believes that the City has made great improvements since 2013 when he began working with it. Cash was always insufficient to meet expenses and bills were typically held for long periods of time before payment. Beginning in June each year, concerns about meeting payroll obligations began.

Finances in the City have greatly improved and are currently stable. Should elected officials continue to pursue the policies currently in place, he believes that the City is in a strong position to continue to move forward. He strongly recommends that the City's distressed status should be terminated.

City Business Administrator Lawrence D. West next offered testimony. He noted the many difficulties and improvements he has witnessed since the distress determination in 1992. He thanked the Recovery Coordinator, the former Business Administrator, and City residents for working together to enact many improvements. Mr. West recommended that the distressed status should be terminated.

Ms. Joan Hodewanitz, City resident, next offered testimony. Ms. Hodewanitz complimented the Recovery Coordinator for his efforts and noted that the city will continue to face obstacles.

Citizens must maintain oversight of elected officials to prevent any illegal actions as have previously taken place. Ms. Hodewanitz is in favor of recission of the distressed status.

Mr. Chapman thanked those in attendance and who testified. He also commended the Mayor and City Council for their commitment and due diligence to get the City to its current financial condition. Mr. Chapman recognized the commitment and hard work of the Act 47 Coordinator and collaboration with management, Mayor and City Council, and acknowledged the Coordinator's diligence and perseverance working with the City through its time in the Act 47 program. Mr. Chapman advised that the Department will respond to the request for the termination of the distress designation and will provide these findings and a recommendation to DCED Secretary Dennis Davin.

CONCLUSION

The City of Scranton's financial condition and position has significantly improved during the thirty-year recovery period. The commitment of the Mayor, City Council, City Administration and staff over the last five years in the Act 47 program working with the Act 47 Coordinator and DCED is admirable. The Coordinator's Recommendation and Report reflects the improved financial condition and outlook that should allow the City to function with more independence. In conclusion, it is recommended that the City of Scranton should have its status as a financially distressed municipality terminated at this time.

EXHIBIT A

ACT 47 COORDINATOR'S RECOMMENDATION TO THE SECRETARY OF THE DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT FOR THE CITY OF SCRANTON

Prepared By:

Pennsylvania Economy League, Central PA Division, LLC
88 North Franklin Street, Suite 200
Wilkes-Barre, PA 18701

October 2021

BACKGROUND

Scranton was incorporated as a city on April 23, 1866 with a population of 35,000. The City of Scranton (City) is located in Lackawanna County and is the largest municipality in northeastern Pennsylvania. Scranton also serves as the County seat for Lackawanna County. It became a major commercial city—a center of mining, railroads and industry—and attracted thousands of new immigrants. By the mid-1930s, Scranton's population had swelled beyond 140,000 due to growth in the mining and railroad industries. After World War II coal lost favor to oil and gas as heating fuel and manufacturing moved to lower labor cost areas of the United States and overseas. The City's population began a downward trend to an estimated 2019 population of 76,653.

The City is currently governed by a home rule charter adopted by the City's voters in a referendum on May 21, 1974. The Home Rule Charter of Scranton (Home Rule Charter) became effective on January 5, 1976. Under the Home Rule Charter, the Mayor and Council, jointly, are the governing body of the City. The governing powers are divided between executive and legislative branches. The executive branch is headed by a Mayor elected at large for a four-year term. The Mayor has, among other powers, the power to veto ordinances and resolutions passed by Council, negotiate contracts, and draft and propose to Council an annual operating budget and an annual capital budget. The Mayor appoints a Business Administrator with the advice and consent of Council. The Business Administrator is responsible for supervising the administration of the City's adopted operating budget All operating department supervisors report to the Business Administrator who also serves as the Director of the Department of Administration.

The legislative branch is a Council that consists of five members elected at large for four-year terms. City Council appoints a City Clerk who is responsible for giving notice of Council meetings and keeping a journal of its proceedings. Council is required to meet once a week in regular session. All official and final action is taken by a majority vote. Ordinances or resolutions only become effective upon being signed by the Mayor or when passed by an extraordinary majority over the Mayor's veto. Council may adopt the Mayor's proposed budgets with or without amendments. If Council does not adopt a budget by December 15th the

Mayor's proposed budget becomes the City's official budget for the ensuing year. The City's fiscal year commences on January 1 and ends on December 31.

The voters of the City also elect a City Controller for a four-year term. The City Controller is responsible for maintaining accounting systems for the City government and for examining and approving all contracts, purchase orders and other financial obligations for the City.

Pursuant to the Commonwealth of Pennsylvania's Municipalities Financial Recovery Act, Act 47 of 1987, as amended, (Act 47) the City was declared a financially distressed municipality by a Departmental Order of the Secretary of the then Department of Community Affairs (now Department of Community and Economic Development) (DCED) on January 10, 1992. See Appendix A. The Pennsylvania Economy League, Central PA Division, Wilkes-Barre, Pennsylvania was subsequently appointed the Act 47 Coordinator (Coordinator) for the City. The Coordinator prepared and the City adopted its original Act 47 Recovery Plan in 1992 and adopted subsequent Recovery Plan amendments prepared by the Coordinator in 1995, 2002, 2012 and 2015. The City has been in the Commonwealth's Act 47 program for over twenty-nine years.

Act 199 of 2014 (Act 199) amended Act 47 to provide a timeline and process for municipalities to exit from their distressed status. For the City, the *Revised and Updated Act 47 Recovery Plan For the City of Scranton*, adopted by Scranton City Council on August 23, 2012, started the Act 199 timeline for the City to exit from the Act 47 program. As part of the Act 199 exit process, the Coordinator was required to prepare and file a report stating the financial condition of the City. On February 17, 2017, the Coordinator filed with the City a *Report Stating the Financial Condition of the City of Scranton* (Financial Condition Report). The Coordinator's finding in the Financial Condition Report noted that although the City had made "noteworthy progress" on a number of fronts, the Coordinator recommended that a three-year exit plan be prepared for the City.

The Coordinator, in conjunction with City officials, prepared a three-year exit plan for the City. On July 27, 2017 the City adopted the *Act 47 Exit Plan for the City of Scranton* (2017 Exit Plan). City officials have cooperated with the Coordinator in implementing many of the initiatives included in the City's 2017 Exit Plan.

Act 199 provides that after a municipality adopts a three-year exit plan the Secretary of DCED may, upon written recommendation from the coordinator, issue an administrative determination to rescind the order declaring the municipality distressed, thereby terminating the distressed status of the municipality, or in the alternative, request the Governor to make a determination of a fiscal emergency in the municipality. If the coordinator does not provide a written recommendation to the Secretary of DCED and three years elapse since the adoption of an exit plan, the Secretary of DCED is then required to terminate the distressed status of the municipality. See 53 P.S. §11701.257(b) and (c). The City adopted its Exit Plan on July 27, 2017.

DCED and the Coordinator have concluded that the Coordinator shall issue a written recommendation to the Secretary of DCED of whether to issue a determination to rescind the order declaring the City a distressed municipality or whether to request the Governor to make a determination of fiscal emergency in the City. The remainder of this Act 47 Coordinator's Recommendation will analyze the relevant facts of the City upon which the Coordinator's recommendation will be established.

FACTORS TO CONSIDER TO RESCIND A DISTRESS DETERMINATION

Section 11701.255.1(c) of Act 47 enumerates four factors for the Secretary of DCED to consider in making a determination on whether to rescind the distressed status of a municipality. The full language of §255.1(c) is as follows:

> (c) **Factors to Consider**. — If the secretary concludes that *substantial evidence* supports an affirmative determination for each of the following factors, the determination shall be that the distressed status will be rescinded. The secretary shall consider whether:
>
> (1) Operational deficits of the municipality have been eliminated and the financial condition of the municipality, as evidenced by audited financial statements prepared in accordance with generally accepted accounting principles and projections of future revenues and expenditures demonstrates a reasonable probability of future balanced budgets absent participation in this act.
>
> (2) Obligations issued to finance the municipality's debt have been retired, reduced or reissued in a manner that has adequately refinanced outstanding principle [*sic*] and interest and has permitted

timely debt service and reasonable probability of continued timely debt service absent participation in this act.

(3) The municipality has negotiated and resolved all claims or judgments that would have placed the municipality in imminent jeopardy of financial default.

(4) The reasonably projected revenues of the municipality are sufficient to fund ongoing necessary expenditures, including pension and debt obligations and the continuation or negotiation of collective bargaining agreements and the provision of municipal services. Projections of revenues shall include any anticipated tax or fee increases to fund ongoing expenditures for the first five years after a termination of distressed status.

53 P.S. §11701.255.1(c). (Emphasis added.)

"Substantial evidence" is such relevant evidence as a reasonable mind might accept as adequate to support a conclusion. See *Republic Steel Corporation v. Workmen's Compensation Appeal Board*, 492 Pa. 1 (Pa. 1980), 421 A.2d. 1060, at 1062. Appellate review is focused on whether there is rational support in the record, when reviewed as a whole, for an agency's action. *Id*. at 1063. Findings of fact will be overturned only if they are arbitrary and capricious. *Id*. Using the statutory language above as guidance, the Coordinator will examine the relevant facts as they exist in the City for each factor enumerated in §11701.255.1(c).

<u>Factor (1)</u>

> Operational deficits of the municipality have been eliminated and the financial condition of the municipality, as evidenced by audited financial statements prepared in accordance with generally accepted accounting principles and projections of future revenues and expenditures demonstrates a reasonable probability of future balanced budgets absent participation in this act.

The City provided the Coordinator with completed annual audits for the years 2016-2019. For 2020, the Coordinator utilized restated financial statements provided by the City. For 2021, the Coordinator analyzed the City's adopted 2021 operating budget and the Coordinator's database of City financials to create 2021 estimates.

During the period 2016 – 2020 the City experienced a mix of surpluses and deficits. The City's audited financial statements show that the City experienced an excess of revenues over expenditures of $3,972,101 in 2016. In 2016, the City received over $70,000,000 in proceeds from bonds. The principal 2016 bond financings consisted of $29,810,000 in bond financing to pay the police and fire judgment resulting from a 2011 Pennsylvania Supreme Court ruling; $7,720,000 refinancing a letter of credit that backed a 2008 taxable variable rate demand note; and $32,850,000 in bonds to generate the funds needed to defease the remaining outstanding debt of the Scranton Parking Authority (SPA) as part of the 2016 monetization of the SPA. The City also received $66,519,986 in proceeds from the sale of the Scranton Sewer Authority to a third party in December 2016 (2016 Sewer Sale Proceeds). This sale transaction significantly increased the City's fund balance from $5,050,411 to $75,542,498.

The City's 2017 audited financial statements evidence that the City experienced an excess of expenditures over revenues resulting in a deficit of ($42,262,695). However, this deficit occurred during 2017 due to the City's utilization of a portion of the 2016 Sewer Sale Proceeds in the fund balance to defease seven outstanding general obligation bonds and notes. The total long-term debt defeased by the City in 2017 was approximately $42,411,312. (See **Factor 2** for defeased 2017 debt details). The defeasance of the general obligation bonds and notes reduced the City's long-term debt of general obligation bonds and notes from $148,409,808 in 2016 to $113,463,684 in 2017. After accounting for the unbudgeted defeasance expenditure, the City's deficit in 2017 was ($148,617). The defeasance of these general obligation bonds and notes decreased the City's fund balance from $75,542,498 to $33,279,803.

The City's 2018 audited financial statements evidence that the City experienced an excess of expenditures over revenues resulting in a deficit of ($1,241,138). In 2018, the City issued a five-year Series of 2018 general obligation note of $22,990,000. The note was secured by $22,990,000 of 2016 Sewer Sale Proceeds which were deposited in an account with Webster Bank of Waterbury, Connecticut. The $22,990,000 general obligation note proceeds received by the City were distributed to partially fund the City's pensions—10% was distributed to the City's non-uniformed pension plans and 45% was distributed to the police pension plan and fire pension plan, respectively. The City's fund balance decreased in 2018 from $33,279,803 to $32,038,665.

The City's 2019 audited financial statements showed that the City experienced an excess of expenditures over revenues resulting in an operating deficit of $358,623. The City transferred $24,221,308 to the Special Cities fund including the $22,990,000 from the 2016 Sewer Sale. The City plans to pay in full the Webster note in October 2021. Other Financing Sources including transfers, capital leases, TRAN interest and court awards netted $3,658,278. The operating surplus, transfer to Special Cities and other financing sources combined reduced the City's General fund balance by $22,095,653 in 2019 from the 2018 amount of $32,038,665 to $11,565,409.

For 2020, the City's 2020 unaudited financial statements were examined for this analysis. In 2020, the City experienced an operating deficit of $3,450,288 prior to the inclusion of other financing sources (transfers in) and other financing uses (TRAN interest and court award payment) that totaled $7,207,831. After including the other financing sources and uses, the unaudited 2020 excess of revenues over expenditures was $3,757,543. As was the case in 2019, the City did not undertake any long-term debt obligations nor defease any long-term debt in 2020. The City made its first principal payment of $6,000,000 in 2020 on the Series of 2018 general obligation note thereby increasing the City's 2020 debt service payments. The City transferred $6.0 million from the Webster Bank account to make this payment in 2020. The City's fund balance increased from the 2019 amount of $11,565,409 to $15,322,952.

Based upon the City's adopted 2021 budget and the Coordinator's financial database, the City is estimated to incur a slight surplus of $794,325 in 2021. The City received bond proceeds of $3,210,000 in 2021 that were used to refund the Emmaus General Authority Series 2002 bond. (See Table 1.)

Table 1
CITY OF SCRANTON
General Fund Revenues and Expenditures
2016 to 2021

	2016	**2017**	**2018**	**2019**	**2020**	**2021**
	Audit	**Audit**	**Audit**	**Audit**	**Reported**	**Estimated**
Taxes	70,548,681	72,648,050	72,925,885	74,058,225	72,880,954	77,423,821
Intergovernmental	3,768,628	4,963,928	4,761,305	622,681	5,617,973	4,013,503
Departmental Earnings	1,410,012	281,014	554,483	378,649	482,683	389,392
Refuse Disposal Fee	7,440,667	6,637,754	6,970,633	7,052,487	6,624,130	7,959,520
Licenses & Permits	1,332,642	2,295,187	2,396,375	2,452,580	2,019,776	2,268,063
Cable Television Franchise Revenue	1,016,420	1,071,698	1,022,958	1,024,729	1,035,666	762,348
Payments In Lieu of Taxes	60,791	271,559	71,456	245,338	276,662	336,355
Investment Income	0	0	0	0	0	0
Other Revenues	904,101	3,073,037	881,339	547,461	542,751	539,885
Rents & Concessions	6,500	5,500	5,500	5,500	500	190
Program Income	0	0	432,088	442,106	0	0
Total Revenues	**86,488,442**	**91,247,727**	**90,022,022**	**86,829,756**	**89,481,094**	**93,693,076**
General Government	13,045,312	14,539,547	17,687,403	13,987,197	14,198,999	16,123,627
Public Safety	48,284,517	53,625,673	67,310,714	44,399,646	48,835,387	50,343,490

	2016	2017	2018	2019	2020	2021
	Audit	**Audit**	**Audit**	**Audit**	**Reported**	**Estimated**
Public Works	10,889,714	12,384,073	13,074,685	12,622,744	10,735,173	13,478,357
Community Development	0	0	0	0	0	0
Culture & Recreation	649,603	685,201	725,924	957,249	548,175	754,298
Debt Service	12,420,110	8,943,290	10,688,041	11,727,887	17,459,624	11,769,831
Capital Outlay	0	1,975,936	3,912,713	3,517,656	1,154,025	429,147
Total Expenditures	**85,289,256**	**92,153,720**	**113,399,480**	**87,212,379**	**92,931,382**	**92,898,751**
Excess (Deficiency) Revenues over Expenditures	**1,199,186**	**-905,993**	**-23,377,458**	**-382,623**	**-3,450,288**	**794,325**
Transfers	1,016,976	2,930,526	1,791,789	3,248,385	7,662,212	2,135,627
Sale of Assets	0	2,570,139	0	0	0	60,667
Proceeds from Leases	0	0	1,944,539	416,112	0	100
Proceeds from Bonds	74,018,961	24,620,000	22,990,000	0	0	3,210,000
Premium of Issuance of Bonds	0	1,539,054	0	0	0	0
TRAN	12,750,000	12,750,000	12,750,000	12,750,000	12,750,000	12,200,000
Transfers Out	-8,823,003	-175,000	-2,132,397	-24,796,308	0	0
TRAN	-13,014,162	-12,964,896	-13,101,263	-12,946,598	-12,891,902	-12,380,522
Payment to escrow Agent for Refunding/Retirements	0	-72,437,410	0	0	0	0
Parking Authority Debt	-31,864,978	0	0	0	0	
Court Award Payment	-31,310,879	-189,115	-483,951	-384,621	-312,479	-332,544
Total Other Financing Sources	**2,772,915**	**-41,356,702**	**23,758,717**	**-21,713,030**	**7,207,831**	**4,893,327**
Excess of Revenues & Other Financing Sources over Expenditures and Other Financing Uses	**3,972,101**	**-42,262,695**	**381,259**	**-22,095,653**	**3,757,543**	**5,687,652**
Sale of Sewer Authority	66,519,986					
Fund Balance Beginning of Year	5,050,411	75,542,498	33,279,803	33,661,062	11,565,409	15,322,952
Fund Balance End of Year	**75,542,498**	**33,279,803**	**33,661,062**	**11,565,409**	**15,322,952**	**21,010,604**

Note that the Coordinator will analyze the probability of future City revenues and expenditures producing future balanced budgets absent participation in this act in the **Factor 4** projections of City revenues and expenditures.

Factor (2)

> Obligations issued to finance the municipality's debt have been retired, reduced or reissued in a manner that has adequately refinanced outstanding principle [*sic*] and interest and has permitted timely debt service and reasonable probability of continued timely debt service absent participation in this act.

As mentioned in **Factor (1)** above, the City used a large portion of the 2016 Sewer Sale Proceeds to defease a significant amount of long-term, high-interest debt in 2017. As a result, from 2016 to 2017 the City's outstanding long-term debt decreased from $148,409,808 to $113,463,684.

In 2018, the City issued a $22.9 million general obligation note to fund the City's three defined benefit pension plans. As previously mentioned, this note was secured by $22,990,000 of 2016 Sewer Sale Proceeds which are currently deposited in an account with Webster Bank. The City intends to satisfy this obligation, using funds on deposit, in October 2021.

In 2021, the City borrowed $3,200,000 to refinance the Emmaus Refinance General Obligation Notes, Series Of 2021 to take advantage of favorable interest rates.

It should also be noted that the City will retire its 2012 Act 47 loan of $1,000,000 in 2022.

During the period 2017 – 2021 the City timely made all of its debt service payments. The City's total outstanding debt decreased from $113,463,684 in 2017 to $80,643,696 in 2021. Since 2016 the City's overall debt decreased by $78,249,844 or 49%, a significant reduction. (See Table 2.)

Table 2
CITY OF SCRANTON
Outstanding Debt Principal
2016 to 2021
(Outstanding as of December 31st each year)

	2016 Audit	2017 Audit	2018 Audit	2019 Audit	2020 Reported	2021 Estimated	Maturity Date
General Obligation Bonds							
Emmaus General Authority Series 2002	4,405,000	4,105,000	3,795,000	3,470,000	3,210,000	2,881,000	2028
Series B of 2003	25,195,000						
Series C of 2003	13,270,000						
Series D of 2003	6,075,000						
Series A of 2012	6,655,000						
Series A of 2016	29,810,000	29,810,000	28,880,000	26,710,000	24,425,000	22,005,000	2028
Series AA of 2016	7,870,000	7,365,000	5,690,000	5,105,000	4,485,000	3,830,000	2026
Series of 2017	0	24,620,000	22,620,000	20,520,000	18,315,000	16,000,000	2029
Total GO Bonds	**93,280,000**	**65,900,000**	**60,985,000**	**55,805,000**	**50,435,000**	**44,716,000**	
General Obligation Notes							
Series B of 2012	800,000						
Series A of 2013	3,774,025						
Series of 2016	32,850,000	32,840,000	32,605,000	32,360,000	32,100,000	31,830,000	2032
Series of 2018	0	0	22,620,000	22,990,000	17,695,000	0	2023
Total GO Notes	**37,424,025**	**32,840,000**	**55,225,000**	**55,350,000**	**49,795,000**	**31,830,000**	
Lease Obligations Payable							
2006 Capitalized Lease Equip Energy System	700,428						
2006 Capitalized Lease Buildings	8,820,000	7,705,000	0	0	0	0	
2016 Capitalized Lease Equipment	1,587,346	1,017,687	0	0	0	0	
2016 Street Light Lease	4,000,000	3,678,203	3,395,681	3,094,979	2,755,470	2,395,724	2027
Capitalized Lease Equipment	0	0	2,310,712	2,050,508	1,584,199	560,404	2023
Total Lease Obligations	**15,107,774**	**12,400,890**	**5,706,393**	**5,145,487**	**4,339,669**	**2,956,128**	
Notes Payable							
DCED Act 47 Loan	600,000	500,000	400,000	300,000	200,000	100,000	2022
PIB Loan	1,998,009	1,822,794	1,607,352	1,688,660	1,366,433	1,041,568	2025
Total Notes Payable	**2,598,009**	**2,322,794**	**2,007,352**	**1,988,660**	**1,566,433**	**1,141,568**	
Total Outstanding Debt	**148,409,808**	**113,463,684**	**123,923,745**	**118,289,147**	**106,136,102**	**80,643,696**	

The City's 2022 debt service is projected to be $11,660,400. Notwithstanding any borrowing which may be incurred in the remainder of fiscal year 2021, the Coordinator projects the City's debt service obligations for the years 2022-2026 as stated in Table 3.

Table 3
CITY OF SCRANTON
Debt Service
2022 to 2026

	2022 Debt Service	2023 Debt Service	2024 Debt Service	2025 Debt Service	2026 Debt Service
General Obligation Bonds					
Emmaus General Authority Series 2002	440,265	440,579	440,773	440,848	439,803
Series A of 2016					
Series AA of 2016	4,686,325	4,795,350	5,170,288	5,267,125	5,268,363
Series of 2017	3,225,000	3,233,750	2,296,000	868,750	863,500
Total GO Bonds	**8,351,590**	**8,469,679**	**7,907,061**	**6,576,723**	**6,571,665**
General Obligation Notes					
Series of 2016	1,876,500	1,872,250	2,442,500	3,783,500	4,035,250
Series of 2018	0	0	0	0	0
Total GO Notes	**1,876,500**	**1,872,250**	**2,442,500**	**3,783,500**	**4,035,250**
2016 Street Light Lease	446,379	455,150	464,090	473,206	473,206
Capitalized Lease Equipment	540,962	553,575	102,166	102,157	0
Total Lease Obligations	**987,341**	**1,008,725**	**566,256**	**575,363**	**473,206**
Notes Payable					
DCED Act 47 Loan	100,000				
PIB Loan	344,969	244,822	244,810	245,124	0
Total Notes Payable	**444,969**	**244,822**	**244,810**	**245,124**	**0**
Total Debt Service	**11,660,400**	**11,595,476**	**11,160,627**	**11,180,710**	**11,080,121**

The Coordinator deems it worthy to note that in 2015 the City appointed a local bank as the City's paying agent for the City's debt service. The paying agent serves as a single point for paying the City's debt service obligations and is required by two City bond issues. The City designates 33% of annually collected real estate taxes to go directly to the paying agent. The paying agent structure created by the City has served the City well in meeting its annual debt service obligations over the past five-years. The Coordinator anticipates that the City will continue this process into the future.

Factor (3)

> The municipality has negotiated and resolved all claims or judgments that would have placed the municipality in imminent jeopardy of financial default.

Over the past 28 years the City, with a population of over 76,000 people, has had its fair share of litigation. During the 2017 Exit Plan period, the City settled or fully adjudicated several outstanding lawsuits. However, as of the writing of this Act 47 Coordinator's Recommendation there remains several outstanding lawsuits that the City is defending, with one lawsuit in particular that could impact the City's future expenditures beyond the immediate period. The following is a review of the settled and active lawsuits involving the City since the 2017 Exit Plan.

Resolved lawsuits:

1) In October of 2020, the Commonwealth Court, sitting en banc, ruled in favor of the City in the 2017 mandamus action regarding the collection of Act 511 tax revenue. The Commonwealth Court ruled that the City is authorized to collect Act 511 taxes in amounts exceeding the aggregate tax limitation set forth in Act 511.
2) In January of 2021, an action challenging the conveyance of proceeds from the sale of assets of the Scranton Sewer Authority to Pennsylvania American Water Company to the City of Scranton was resolved. Parties to that action executed a Motion to Dismiss the suit.

Outstanding lawsuits:

1) A class action lawsuit filed in December 2016 challenges the City's annual $300 trash fee as excessive. About 6,000 City property owners signed on as co-plaintiffs in June 2019. Litigation is ongoing. A Motion to Enforce the Class Certification Order, Motion for Leave to File an Amended Answer with New Matter, Motion to Decertify the Class Action, and Cross Motions for Summary Judgment remain pending before the County Court of Common Pleas. There is no estimated financial impact available at the time of writing.

2) A potential class-action lawsuit filed in September 2018 alleges that Northeast Revenue Services, the City appointed collector of delinquent trash fees, has charged and collected interest on both delinquent garbage fees and on penalties that were not authorized by City ordinance. The City was ordered to be included as a defendant in the lawsuit. Litigation is ongoing before the County Court of Common Pleas. There is no estimated financial impact available at the time of writing.

3) In October of 2021, an action was commenced against the City of Scranton and the Police Pension Fund of the City of Scranton seeking Declaratory Relief in asserting that the Police Pension Fund is actuarially sound, as well as Equitable Relief to retroactively reinstate the Cost of Living increases for retirees of the Police Department to the date that sewer proceeds were deposited into the pension fund and to fully fund said pension fund. The matter remains pending before the Court. Should Plaintiffs prevail, the Cost of Living Adjustments for retirees would be reinstated. Litigation is ongoing before the County Court of Common Pleas. There is no estimated financial impact available at the time of writing; however, this lawsuit in particular, if found in the Plaintiff's favor could have a significant deleterious financial impact on the City and its police pension funding.

Factor (4)

> The reasonably projected revenues of the municipality are sufficient to fund ongoing necessary expenditures, including pension and debt obligations and the continuation or negotiation of collective bargaining agreements and the provision of municipal services. Projections of revenues shall include any anticipated tax or fee increases to fund ongoing expenditures for the first five years after a termination of distressed status.

The Coordinator projects that the City will incur operating deficits throughout the 2022-2026 projection period. The lack of inherent growth in the City's real property tax revenue and only slight growth in the City's earned income tax revenue coupled with annual projected expenditure growth of 2.0% will cause the City to realize operating budget deficits throughout the projection period.

Offsetting these projected deficits are the City's cash fund balance as well as the 2021 American Rescue Plan (ARP) intergovernmental transfer replacing lost revenue from the 2020-21 COVID pandemic restrictions. (See Table 4.)

Table 4
CITY OF SCRANTON
General Fund Revenue and Expenditure
Baseline Projections
2022 to 2026

Revenue	**2022 Projected**	**2023 Projected**	**2024 Projected**	**2025 Projected**	**2026 Projected**
Real Estate Taxes	$34,575,026	$34,540,451	$34,505,911	$34,471,405	$34,436,933
EIT	28,487,092	28,843,181	29,203,721	29,568,767	29,938,377
LST	4,904,900	4,909,805	4,914,715	4,919,629	4,924,549
Merc/BPT/Payroll Prep	2,484,016	2,515,066	2,546,504	2,578,335	2,610,565
RE Transfer Tax	4,199,340	4,199,340	4,199,340	4,199,340	4,199,340
Other Taxes	49,446	49,446	49,446	49,446	49,446
Refuse Revenue	7,959,520	7,959,520	7,959,520	7,959,520	7,959,520
Licenses & Permits	2,202,788	2,202,788	2,202,788	2,202,788	2,202,788
Intergovernmental Revenues	4,074,730	4,154,212	4,235,278	4,317,962	4,402,294
Transfers	2,135,627	1,893,389	1,893,389	1,893,389	1,893,389
Other Non tax revenue	2,335,676	2,345,735	2,355,857	2,366,041	2,376,290
Operating Revenue	**$93,408,163**	**$93,612,934**	**$94,066,469**	**$94,526,624**	**$94,993,492**
Expenditures					
Direct Compensation	$36,526,686	$37,162,239	$37,810,577	$38,471,955	$37,918,799
Benefits	18,951,344	19,937,132	20,977,138	22,074,345	23,231,898
Pension	13,269,225	13,534,610	13,805,302	14,081,408	14,081,408
Workers Comp	2,631,916	2,631,916	2,631,916	2,631,916	2,631,916
Capital Expenditures	2,099,490	2,099,490	2,099,490	2,099,490	2,099,490
Departmental Expenditures	9,046,170	8,730,854	8,908,492	9,088,754	9,272,790
Non-depart Expenditures	1,386,968	1,390,800	1,394,753	1,398,765	1,402,861
Debt Service exc. TRAN	11,660,400	11,595,476	11,160,627	11,180,710	11,080,121
TRAN Interest	150,000	150,000	150,000	150,000	150,000
Court Awards	332,544	200,000	200,000	200,000	200,000
Total Operating Expenditures	**$96,054,744**	**$97,432,517**	**$99,138,295**	**$101,377,342**	**$102,069,283**
Operating Surplus/(Deficit)	**-$2,646,582**	**-$3,819,584**	**-$5,071,826**	**-$6,850,718**	**-$7,075,790**
Est. ARP Lost Revenue Transfer	**$4,100,000**	**$3,690,000**	**$3,321,000**	**0**	**0**
Net Surplus/(Deficit)	**$1,453,418**	**($129,584)**	**($1,750,826)**	**($6,850,718)**	**($7,075,790)**

The use of the City's cash fund balance will be subject to the terms of the City's Fund Balance policy that is to be adopted in late 2021. The ARP lost revenue is calculated based on

United States Treasury regulations; the Coordinator estimates the lost revenue transfer at approximately $4.1 million for 2021 with slightly decreasing annual amounts available through 2024.

As mentioned, the lack of inherent growth in the City's real property tax revenue is the main driver for the projected operating deficits. This lack of inherent grow is the result of annual flat or decreasing City real property assessed values. In twenty years, the City's real property assessed values increased from $375,820,656 in 2000 to $386,022,528 in 2020 or by 2.7%. By contrast, the City's real property market values increased from $1,370,292,100 in 2000 to $2,481,348,019 in 2020 or by 81.1%. The result of flat or decreasing real property assessed values is that the City receives the same or less real property tax revenue year after year even though the City's real property tax rates remain constant. As the largest revenue source for City operations, this lack of inherent growth in the City's real property assessed values will force the City's elected officials to seek additional revenues to maintain pace with the City's expenditure growth. (See Table 5.) It should be noted that a contributing factor to the limited growth in assessed value is the status of reassessment of real estate in the County. The last reassessment occurred in 1968 over 50 years ago. Lackawanna County's Common Level Ratio as certified by the State Tax Equalization Board for 2021 is 9.2% and is the third lowest rate in the state. In September 2021, the Lackawanna County Commissioners issued a request for proposals from property valuation firms to determine the possible costs of a reassessment. Any county-wide reassessment would likely take effect beyond the fiscal projections of this report.

For the City to mitigate the effects of its annual flat or decreasing real property assessed values, the City will have to make incremental property tax rate increases and/or reduce expenditures over the next five years to avoid the projected operating budget deficits. For years 2022 – 2023 the City will have ARP money available to cover the projected deficits. The City can account for the small deficit for 2023 ($129,584) thru expenditure reductions and/or the use of its fund balance. The Coordinator recommends that the City increase its property tax millage rate by 5.1%, 14.8%, and 0.7% in the years 2024 – 2026, respectively, to eliminate the projected operating deficits in those years. The total property tax rate percentage increase over the five-year period of 2022 – 2026 is 20.6%. Any expenditure reductions implemented by the City during this period may reduce the percentage property tax millage rates recommended by the Coordinator in this Act 47 Coordinator's Recommendation. (See Table 6.)

Table 5
CITY OF SCRANTON
Real Property Market Value and Assessed Value
2000 to 2020

Year	Market Value	MV Change	MV % Change	Assessed Value	AV Change	AV % Change	Ratio of Assessed to Market Value
2000	1,370,292,100	79,514,000	6.2	375,820,656	3,968,214	1.1	27.4%
2001	1,369,567,700	-724,400	-0.1	375,864,398	43,742	0.0	27.4%
2002	1,465,214,700	95,647,000	7.0	383,853,757	7,989,359	2.1	26.2%
2003	1,452,676,700	-12,538,000	-0.9	380,284,275	-3,569,482	-0.9	26.2%
2004	1,553,485,600	100,808,900	6.9	384,921,429	4,637,154	1.2	24.8%
2005	1,559,719,200	6,233,600	0.4	385,911,174	989,745	0.3	24.7%
2006	1,779,411,700	219,692,500	14.1	389,095,126	3,183,952	0.8	21.9%
2007	1,777,575,800	-1,835,900	-0.1	388,605,450	-489,676	-0.1	21.9%
2008	1,991,479,725	213,903,925	12.0	384,341,025	-4,264,425	-1.1	19.3%
2009	2,047,335,159	55,855,433	2.8	390,510,794	6,169,769	1.6	19.1%
2010	2,211,703,424	164,368,265	8.0	382,752,940	-7,757,854	-2.0	17.3%
2011	2,197,521,550	-14,181,874	-0.6	380,485,130	-2,267,810	-0.6	17.3%
2012	2,263,828,875	66,307,325	3.0	390,752,934	10,267,804	2.7	17.3%
2013	2,265,824,782	1,995,907	0.1	390,860,289	107,355	0.0	17.3%
2014	2,282,430,414	16,605,632	0.7	397,321,682	6,461,393	1.7	17.4%
2015	2,273,875,550	-8,554,864	-0.4	395,717,763	-1,603,919	-0.4	17.4%
2016	2,304,080,217	30,204,667	1.3	392,363,291	-3,354,472	-0.8	17.0%
2017	2,286,978,457	-17,101,760	-0.7	388,299,190	-4,064,101	-1.0	17.0%
2018	2,378,758,636	91,780,179	3.9	388,299,190	0	0.0	16.3%
2019	2,365,107,735	-13,650,901	-0.6	387,265,051	-1,034,139	-0.3	16.4%
2020	2,481,348,019	116,240,284	4.7	386,022,528	-1,242,523	-0.3	15.6%

Table 6
CITY OF SCRANTON
General Fund Revenue and Expenditure
Recommended Property Tax Increases
2022 to 2026

	2022	2023	2024	2025	2026
	Projected	Projected	Projected	Projected	Projected
Revenues	$93,408,163	$93,612,934	$94,066,469	$94,526,624	$94,993,492
Expenditures	$96,054,744	$97,432,517	$99,138,295	$101,377,342	$102,069,283
Operating Surplus/(Deficit)	**($2,646,582)**	**($3,819,584)**	**($5,071,826)**	**($6,850,718)**	**($7,075,790)**
Est. ARP Lost Revenue Transfer	**$4,100,000**	**$3,690,000**	**$3,321,000**	**0**	**0**
Net Surplus/(Deficit)	**$1,453,418**	**($129,584)**	**($1,750,826)**	**($6,850,718)**	**($7,075,790)**
RE Tax Revenue Projection	$34,575,026	$34,540,451	$34,505,911	$34,471,405	$34,436,933
Annual RE Tax % Increase			5.1%	14.8%	0.7%
Additional RE Tax Revenue			$1,759,801	$5,101,768	$241,058
Accruement of RE Tax Revenue			$0	$1,759,801	$6,850,719
Operating Surplus/(Deficit)			**$8,975**	**$10,851**	**$15,987**
Accruement of RE Tax % Increase			5.1%	19.9%	20.6%

While real property tax rate increases and expenditure reductions are unpalatable political options, the incremental real property tax increases recommended by the Coordinator will ensure that the City has sufficient cash available throughout a fiscal year to meet its debt obligations and its financial obligations to its employees, vendors and suppliers as they come due, thus fulfilling its obligation to continue to provide for vital and necessary services for City residents.

At the time of the writing of this Act 47 Coordinator's Recommendation, the City, along with the nation, continues to experience the impacts of the Coronavirus (COVID-19) pandemic. The continuing future impact of the COVID-19 pandemic on the City's financial projections of revenue and expenditures as presented by the Coordinator in this Act 47 Coordinator's Recommendation is unknown at this time. Accordingly, the rate of growth or decline in the City's future revenues and expenditures may vary from the Coordinator's estimates due to unforeseen impacts resulting from the pandemic.

FISCAL EMERGENCY

As previously mentioned, DCED has charged the Coordinator with examining the conditions of the City to determine whether a fiscal emergency exists in the City. According to the relevant section of Act 47, the Governor determines a fiscal emergency exists if the distressed municipality:

> (a) **FISCAL EMERGENCY**.—The Governor determines a fiscal emergency exists if the distressed municipality:
>
> (1) (i) is insolvent or is projected to be insolvent within 180 days or less; or
>
> (ii) is unable to ensure the continued provision of vital and necessary services.
>
> 53 P.S. §11701.602(a)(1).

A distressed municipality is "insolvent" if it is unable to meet all financial obligations as they become due, including payment of debt obligations. 53 P.S. §11701.601. "Vital and necessary services" is defined as "basic and fundamental municipal services, including any of the following: (1) Police and fire services (2) Ambulance and rescue services (3) Water supply and distribution (4) Wastewater services (5) Refuse collection and disposal (6) Snow removal (7) Payroll and pension obligations (8) Fulfillment of payment of debt obligations or any other financial obligations." *Id*.

The Coordinator's analysis of the Factors to Consider to Rescind a Distress Determination of this Act 47 Coordinator's Recommendation has determined that the City has been able to meet all of its financial obligations, including debt service, since the City's adoption of the 2017 Exit Plan. In addition, the Coordinator's cash flow projections project that the City will remain solvent throughout 2021, enabling the City to meet its financial obligations as they come due, including its 2021 debt service and pension payments. (See Table 7.)

Table 7
CITY OF SCRANTON
Cash Flow Projections—Quarterly
2021

	1st Qtr Actual	2nd Qtr Actual	3rd Qtr Estimated	4th Qtr Estimated	2021 Total
Cash Beginning of Quarter	**3,539,336**	**20,831,681**	**18,212,120**	**16,817,348**	
Surplus Deficit	14,908,689	4,286,340	-4,684,373	-16,934,994	
Other Financing Sources/(Uses)	12,166,000	-6,406,868	1,417,384	-3,966,516	
Increase/(Decrease) in Payables	-757,193	-125,845	-326,252	0	
(Increase)/Decrease in DS Acct	-8,415,942	-2,397,056	1,685,795	4,647,377	
Other Balance Sheet Items Affecting Cash	-609,210	2,023,868	512,674	2,140,818	
Cash End of Quarter	**20,831,681**	**18,212,120**	**16,817,348**	**2,704,033**	
Revenues	31,756,043	24,783,728	19,660,621	17,818,048	94,018,440
Total Revenues	**31,756,043**	**24,783,728**	**19,660,621**	**17,818,048**	**94,018,440**
Expenditures	16,757,178	17,473,837	17,874,597	29,485,852	81,591,464
Debt Service	90,175	3,023,551	6,470,398	5,267,190	14,851,314
Total Expenditures	**16,847,354**	**20,497,388**	**24,344,994**	**34,753,042**	**96,442,778**
Surplus/(Deficit)	**14,908,689**	**4,286,340**	**-4,684,373**	**-16,934,994**	**-2,424,339**
Other Financing Sources/(Uses)					
TRAN	12,166,000	-6,406,868	-1,792,616	-3,966,516	0
Debt Proceeds	0	0	3,210,000	0	3,210,000
Debt Defeasance	0	0	0	0	0
Net Other Financing Sources/(Uses)	**12,166,000**	**-6,406,868**	**1,417,384**	**-3,966,516**	**3,210,000**
AP Current Year at Beg of Qtr	-1,285,793	-528,600	-402,754	-76,502	
AP Current Year at End of Qtr	**-528,600**	**-402,754**	**-76,502**	**-76,502**	
Change in AP Balance	-757,193	-125,845	-326,252	0	
CASH Debt Service Acct Beg of Qtr	5,053,059	13,469,000	15,866,056	14,180,261	
CASH Debt Service Acct End of Qtr	**13,469,000**	**15,866,056**	**14,180,261**	**9,532,884**	
Change in DS Balance	8,415,942	2,397,056	-1,685,795	-4,647,377	

In its adopted 2021 operating budget, the City has appropriated funds to provide many of the vital and necessary services enumerated in §11701.601 such as police and fire services, refuse collection and disposal, snow removal, payroll and pension obligations and the fulfillment of debt and other financial obligations. There is no evidence from the City or otherwise available to the Coordinator that as of the writing of this Act 47 Coordinator's Recommendation that the City is unable to ensure the continued provision of vital and necessary services. Thus, in the opinion of the Coordinator, the City does not meet the criteria for the Governor to declare a fiscal emergency.

RECOMMENDATION

The Coordinator has reviewed the statutory factors necessary to make a determination of whether to request a rescission of the order declaring the City a distressed municipality and also the statutory criteria of whether to issue a determination of fiscal emergency in the City. It is the recommendation of the Coordinator that based upon a review of the totality of the factors included in §11701.255.1(c), substantial evidence supports an affirmative determination by the Secretary to issue a determination to rescind the order declaring the City of Scranton a distressed municipality.

Although the City has experienced a mix of operating budget surpluses and deficits over the past four years, the City has achieved many successes that will assist in sustaining the City's financial condition into the future. The City efficiently utilized the $66.9 million of the 2016 Sewer Sale Proceeds to alleviate two outstanding issues. First, the City defeased over $42.0 million in high yield, long-term general obligation bonds and notes. By defeasing these long-term debt obligations, the City has reduced the cost of its future debt service. In addition, the City has established a practice of utilizing a paying agent to aid the City in meeting its annual debt service obligations. Under this arrangement, the City escrows approximately 33% of its annual collected real property taxes for debt service obligations. It is the Coordinator's opinion that this arrangement has ensured that the City has sufficient cash available to make its debt obligation payments when due and recommends that the City maintain this arrangement in the future.

Second, the City deposited $22.9 million of the 2016 Sewer Sale Proceeds into the City's aggregate pension fund. This infusion of cash into the City's pension funds, along with past market performance, has increased the funding ratio of all three City defined benefit pension funds. The aggregate pension fund reached a market value of over $110 million in 2021 from a market value of $43.7 million in 2013.

The Coordinator projects that the City will experience operating deficits in the future as the rate of the City's expenditure growth outpaces the rate of the City's revenue growth. As previously mentioned, the main driver for the projected operating deficits is the lack of growth in the City's real property assessed valuations. The real property assessed value decline in the City appears to be part of the systemic application of the state law governing assessment of real property for purposes of taxation. The City's continued participation in the Act 47 program cannot directly reverse this trend. In order to counter this lack of growth in real property assessed values, the City will have to generate new revenue through tax increases, institute expenditure reductions and/or increased employee productivity. The Coordinator has continuously apprised the City of managing this issue through small annual tax increases for the past fifteen years. This advice has not always been heeded by the City's elected representatives, which in turn left the City with insufficient cash available in a fiscal year to satisfy their financial obligations when they were due and ultimately resulted in unavoidable, punitive, double-digit tax rate increases on City residents. It remains the Coordinator's opinion that the City can manage the projected operating budget deficits and sustain a sufficient cash flow throughout future fiscal years by incrementally increasing City property tax rates as recommended by the Coordinator in this Act 47 Coordinator's Recommendation.

Act 47 provides specific guidance for the Coordinator to evaluate when making its recommendation to the Secretary of DCED. It does not permit the Coordinator to entertain the evaluation of all potential scenarios the City may encounter in the near or distant future. At this time, it is the Coordinator's opinion that the City of Scranton is able to meet all of its financial obligations as they come due. It is also the Coordinator's opinion that the City is presently able to provide vital and necessary services to its residents. Therefore, for the reasons stated above, it is the recommendation of the Coordinator that the Secretary of DCED issue a determination to rescind the order declaring the City of Scranton a distressed municipality as defined by Act 47 of 1987, as amended.

APPENDIX A

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

Karen A. Miller
Secretary
Department of Community Affairs

EXHIBIT B

NOTICE

NOTICE IS HEREBY GIVEN that the Commonwealth of Pennsylvania, Department of Community and Economic Development has scheduled a public hearing to receive testimony presented on behalf of the City of Scranton, Lackawanna County, Pennsylvania with respect to the recommendation from the Act 47 Coordinator to consider a recission of the City's Act 47 determination pursuant to the Municipalities Financial Recovery Act, Act 47 of 1987 as amended.

The hearing on the request will be held on November 16, 2021 at 3:00 p.m., in Council Chambers of City Hall, 340 N Washington Avenue, Scranton, PA 18530, before a hearing officer duly appointed by the Department. The public is invited to attend. Those individuals requiring special accommodations to attend the hearing should contact the Department. For further information contact Jim Rose, Local Government Policy Specialist, at 570 – 963 – 4166.

EXHIBIT C

COMMONWEALTH OF PENNSYLVANIA

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

GOVERNORS CENTER FOR LOCAL GOVERNMENT SERVICES

* * * * * * * * *

IN RE: City of Scranton

Rescission of Act 47

ADMINISTRATIVE HEARING

* * * * * * * * *

BEFORE: FREDERICK L. CHAPMAN, Hearing Officer

HEARING: Tuesday, November 16, 2021 3:00 p.m.

LOCATION: Scranton City Hall
340 North Washington Avenue
Scranton, PA 18503

WITNESSES: Mayor Paige Cognetti, Gerald Cross, Bill Gaughan, James Rose, Lawrence D. West, Joan Hodewanitz

Reporter: Cory Ruda

A P P E A R A N C E S

ALSO PRESENT:
Sean Campbell
Andrew Sheaf

I N D E X

E X H I B I T S

Number	Description	Page Offered
	NONE OFFERED	

P R O C E E D I N G S

HEARING OFFICER:

Good afternoon, everyone. Welcome to the Administrative Public Hearing for the City of Scranton. Since this is an Administrative Hearing where we can only accept testimony. We cannot respond to any questions concerning challenges at this hearing.

I would like to commence this Act 47 Public Hearing to receive testimony of the Rescission of Distressed Status of the City of Scranton under Act 47 as Amended, the Municipalities Financial Recovery Program.

At this time, please join me in the Pledge of Allegiance.

(PLEDGE OF ALLEGIANCE RECITED.)

HEARING OFFICER

Thank you. I would like

to call the Administrative Public Hearing to order at this time. My name is Fred Chapman. I’m a Local Government Policy Specialist for the Department of Community and Economic Development and I am happy to serve as your Hearing Officer on this afternoon.

This public hearing is being held in accordance with Act 47 as amended. The hearing today will be to present testimony relating to the recommendation for the Rescission of the Financial Distress Designation under provision of Act 47, Municipalities Financial Recovery Act.

Individuals representing the City of Scranton, City of Scranton's Act 47 Coordinator, member of the Governor's Center for Local Government Services and any interested party is invited to provide testimony after we provide our full testimony as the purpose of this Rescission.

Today's hearing is to be

held to receive testimony related to whether the distressed designation of the City of Scranton under Act 47, the Municipalities Financial Recovery Act should be rescinded.

There's a sign-in sheet circulating to verify attendance of today's hearing. I will ask that all in attending, please sign the sheet. Even if you're not providing testimony, we ask that you please sign the sheet.

Notice of today's public hearing has been published in accordance with the Sunshine Law and written notice had been provided to members of Council, Mayor and the City of Scranton's Solicitor prior to this meeting.

Now, we would like the testimony to be presented at this time. I would ask the stenographer to please swear in those who wish to present testimony. If you change your mind at some point during this session, and you end up on this and you would to provide testimony, that will be fine, but you will have to be sworn in before proceeding. Those who are sure they are providing testimony, if you could please stand at this time, and we will ask the stenographer to swear you in.

COURT REPORTER:

If you'll raise your right hand, please.

WITNESSES SWORN EN MASSE

HEARING OFFICER:

Thank you.

When you present your testimony, we ask that you step to the podium and please announce your name loud and clear so the stenographer can record.

Okay.

The first testimony we will have will be Mayor Paige Cognetti.

MAYOR PAIGE COGNETTI,
CALLED AS A WITNESS IN THE FOLLOWING PROCEEDING AND HAVING PREVIOUSLY BEEN SWORN, TESTIFIED AND SAID AS FOLLOWS:

MAYOR COGNETTI:

Thank you. Good afternoon. Thank you for making the trip here. It's nice to see you in person, as opposed to virtually, like last time.

My name is Paige Cognetti. I'm the Mayor of the City of Scranton. I appreciate very much the support and guidance from the Commonwealth from the Department of Community and Economic Development through the years. Especially to our recovery coordinators of Pennsylvania, Economy, Jim and Jerry here. We're deeply grateful for everything you've done for the City for all of these years.

We last convened in 2020

with respect to the economic catastrophe from the impact of the global pandemic, and while, last week I'm reading through my testimony and our testimony, we've met through some very, very scary time and we are lucky that the worst case did not bear out and that our revenues came in higher than anticipated in those months.

And I appreciate last year, the flexibility of the DCED for listening to us and not having us exit during that uncertainty. It's been very, very helpful for us to see those revenues come in, get our feet under us and get through while still wearing our masks, get to a point where our economy is up and running.

So since we did last convened, I'd like to mention a few highlights. Our revenues did come in higher than anticipated in those early months, especially and throughout 2020. So that was a huge help.

The Act 511 litigation

that was before us at the same time 18 months ago when we last convened, concluded in our favor. So that $50 million judgement is not on our shoulders and that was still pending at that time.

Our Tax Policy Working Group has continued to meet and trying to focusing on the whole picture of what is possible, that includes them first looking at the payroll preparation tax, which is, you know, in the exit plan, but I wanted to go year-by-year and highlight.

In 2021, with the help of City Council and the prior administration, we put the refuse fee onto the real estate tax bill, it has improved collections. I think it's a great example of the collaboration altogether and between administration and between councils.

This year we are hopeful. There's a lot going on for the school district right now, but we are hopeful that we will pass a corperation tax, and not just in the city, but with the school district and be able to make that conversion next year, which we think will improve our long-term and revenue prospects in terms of a business tax. We're hoping that in 2022 we can petition for a hotel tax. We're trying to be creative with revenue streams and see if there are ways that we can pull it. And we know it's not a vast amount of money, but every bit helps. And we saw last year in diversifying our portfolio revenues is going to be very important as we go to the future.

We'll continue to push for our real estate property tax and reassessment. A lot of us have been advocating for that a long time, but we're seeing some movement and we are hopeful there. And what we're hoping is that we continue to manage things well and continue to the stream of revenues in for the tax base and over time, we might be able to reduce our wage tax little by little. We know that the wage tax is an impediment to our growth. We're hoping to work together over the coming years to decrease that and we could just attempt a percentage point of every year if possible. And it's a big if, but that certainly the goal of ours as we look to, again, improve our economic growth process and take advantage of improvements that we do have.

And then we have the S&P improved our ratings from negative to stable, which I think everyone in this room knows it’s a big deal, and it doesn't seem like much, but it is a very good thing and our general obligation that has a double year plus long term rating. So we're still just working, but it's certainly an improvement.

So some highlights about the current condition of the City.

Our current operational deficits have been eliminated and our financial position has improved. Part of this optimism lies in the payroll tax conversion and I think us taking a really good look at the tax makeup and us working across our partners throughout the county, city and school district and every single tax office and also working with the business community to manage these things.

We also have looked at how we collect our taxes. We have a new tax collector. We've really been looking at the collections as a piece too that has not be efficient in the past. And while it's not an overnight solution by any means, as you know, all of these contracts and the elements can take a while to change. We're taking a good look at that to be able to improve in the future.

We're also trying to really cut out the unnecessary spending and be more diligent in our monitoring. As you all know, it is a city, not a business, we can't just decide not to sell a certain type of equipment one year. That does prevent us from us making drastic cuts, as I said, we are try to be as lean as possible in the operational side and that the same goes for our trying to manage the personnel side as well.

So obligations and issues with finance, to extent that the retired, reduced rates are issued in a manner that's adequately refinanced over time outside of principle and interest and as permitted, timely service and reasonable probability of continuing that service.

We've refunded all the City's variable or high-interest rates over the last few years. Most recently, the advance refunded, which was the last piece of the pie and there are various debts on the City's books. This is called the Webster note, which brought our profile down to a $77-plus million from over $100 million.

The continued reduction of tax anticipation note, it was previously at some point $12.75 million last year. We brought it down to $12.2. Our current budget now is $10 million dollars. We think that's --- we think that's progress and we're looking forward to it to whittle that down if possible.

I mentioned our current rate of the Workers' Compensation Fund, we would like to recognize our progress and the management sites and promoting safety and we'll need $6 million from the reserve account. We are working on the RFP for banking for an open account so that we can begin to put back what's dedicated to account. And I mentioned that our --- the way that we have been viewing requests or proposals in banking for the ARP money, for example, we're doing proposals for all new things.

We're trying to be as transparent with contracting as we possibly can.

We represent the highest bar in our region for our city for accounting. Other will look at us at sometimes, like how do you plan to pay for that, but we always do that and it's the right thing to do. Scranton has negotiated our unresolved claims for judgement out of place in order to help municipalities in jeopardy of financial distress with the city and to resolve several lawsuits as mentioned, an Act 511 litigation. There's also --- there was a challenge regarding the receipt from the proceeds from the sewer sale. That was able to resolve. And the City has resolved a number of federal suit a well.

So we have taken an aggressive attack on that in these years to try to make sure that we don't these handing over out head in the first do what we can to make sure we're not setting ourselves up for future disputes.

The recently projection by City are sufficient to prevent and ongoing unnecessary expenditures. We will continue to build oversight of the expenditures. Regarding pension funding, those levels have significantly improved by making MMR affordable and we have consistently paid them out by the June date. We actually just signed today, the introduction of the recently published mortality table for public safety employees, as suggested by an actuary.

There's a long, long way to go as you all know on these pension pieces and what we --- and what the actuary says is we could also reduce the --- the projected --- in terms of 7.25 to 7 percent, in terms of return. It was too far for us to go to more in depth with the mortality table and then reduce that return projection from 7.25 to 7, but we'll do our best to reduce it to seven next year. So we're taking another two-year approach on that, just setting aside our reduction in that new table next year. Hopefully we'll be able to reduce that down to seven.

And lastly, the 2020 budget appears the same for 2021. Our 2022 proposed budget does not include a tax increase. As you may know here in Scranton, we have a school district that is in recovery status from PEE and they are --- they have kind of mandated this tax raise on real estate quite significantly each year. So we are trying and we appreciate Jerry and Jim for understanding the intricate play between the two over time. We know this has the same precedence and if they are going to be increases those taxes by a significant amount, we want to be able to manage the budget ourselves.

So the budget, it does include the increase in administrative staff and the administration influx of collective bargaining positions in order to better serve the residents. The cost has been allocated for folks who are currently in any of the positions and they have to be managed over time. In order to serve residents, we do need some more management, but we also need to make sure we're paying for that.

So I think we'll see us pursuing increased employee contributions into healthcare and we will continue to look --- look at financing private medical plans if they are sustainable. That that's money we should paying. I know that is not easily done, but I think over time, it's just there's some hard things that we have to do to.

As we continue on into January, we're still working on security for 2022. Beyond the management policies for investment debt and fund amounts that are currently being reviewed by some folks at the tax free consulting services to help us make sure those are what we need. We will be doing the trust, like I said, seeking a lot of tests for their next year and the following year. It's a pretty intensive thing, but it's so important that we do that. It would be similar to a reassessment. We don't want to have someone no longer qualify for tax exemptions --- getting those tax exemptions. So that is something we very much want to do.

We'll continue to have ask about contributions. Last year we got, I think, $63,000 more than the previous year, which again, just small dollars, but the impacts sending those letters out and those phone calls out and having conversations. We think that's something that can improve the reestablishing active redevelopment authority or the actual funds and helping them to fund themselves over time so we can take advantage. We're also looking to establish a comprehensive plan so we can do these things --- multiple things and cover all the bases.

So on record today, I'm advocating for the City of Scranton to be released from this stressed status and I believe that the items put before us show our dedication. But I don't want to make the impression that we believe that in the future months, years, that things are going to be easy. Like some of these cities and other government entities, the City of Scranton has long term obligation will forever be.

We go on with our days and our plan remains this. We ask that we stay focused on prosperity whenever possible and growing the city's revenue and tax bases. Running a city is not possible without economic growth. Our promise to the city, regional and nationally, well, help to navigate these waters within the coming years. We'll do our best to be successful and appreciate the past technical support and the general support and guidance of the Commonwealth DCED. Thank you.

HEARING OFFICER:

Thank you, Mayor, for providing your testimony. We shall now hear testimony from Acting 47 Coordinator, Mr. Jerry Cross.

GERALD CROSS,

CALLED AS A WITNESS IN THE FOLLOWING PROCEEDING AND HAVING PREVIOUSLY BEEN SWORN, TESTIFIED AND SAID AS FOLLOWS:

MR. CROSS:

Than you, Mr. Chapman. My name is Gerald Cross of the Pennsylvania Economy League, Central Pennsylvania Division. Our principle office is located in Wilkes-Barre, Pennsylvania. PEL is the DCED-Appointed Act 47 Coordinator for the City of Scranton. I thank you for the opportunity to present our testimony today regarding our written Act 47 Coordinator's recommendation to the Secretary of the Department of Community and Economic Development for the City of Scranton, which was dated October 20th, 2021. I request today that this recommendation to the Secretary be included with my reference to this testimony and made part of the official written record.

As you are aware, Act 199 of 2014 amended Act 47 to provide a timeline in the process for municipalities that exit from the Act 47 program. For this City, the revised and updated Act 47 plan was adopted by City Council on August 23rd, 2012. That started the Act 199 five-year timeline for the City to exit from the Act 47 program.

As part of the Act 199 and it's process, the PEL as the coordinator was required to prepare and file a report stating the financial condition of the city. On February 17th, 2017, we filed with the City, the report stating the financial condition of the City of Scranton. Our findings in that report noted that no other city has made noteworthy progress on a number of problems. A three-year exit plan was recommended for the City.

PEL subsequently, in conjunction with city officials prepared that three-year exit plan for the City. On July 27, 2012, the City adopted the Act 47 Exit Plan for the City. The three-year limit for the city to adopt the 2017 exit plan would have expired July 2020. The Coordinator provided testimony supporting such a position in March of 2020. However, on May 29th, 2020, the Governor of Pennsylvania signed into law, an amendment to the Fiscal Code. <u>Section 1604-D.1</u> of that Code provides for the following.

A municipality operating

pursuant to a recovery plan under the act of July 10, 1987, known as the Municipalities Financial Recovery Act, shall be eligible for an 18-month extension beyond the time limit imposed under Section 254 of the Municipalities Financial Recovery Act.

The coordinator, in consultation with the Pennsylvania Department of Community and Economic Development did prepare an Amended Act 47 Exit Plan providing for this 18-month extension, which was adopted by the City in July of 2020. The 18-month extension expires January 2022.

On October 20th, 2021, PEL as the Coordinator submitted to DCED, the recommendations of the secretary, which included an evaluation of the Act 199 enumerated four factors, with the Secretary of DCED to consider when making a determination on whether to rescind the distress status of the municipality.

The four factors are as follows. Number one, operational deficits of the municipality have been eliminated and the financial condition of the municipality is evidenced by positive financial statements prepared in accordance with generally-accepted accounting principles and projection of future revenues and expenditures demonstrate through a reasonable probability of financial --- future financial balanced budgets, absent participation in the Act.

Factor two is obligations issued to finance the municipalities debt, have been retired, reduced or reissued in a manner that has adequately refinanced refinanced outstanding principle and interest and has permitted timely debt service and reasonable probability of continued timely debt service absent participation in this act.

Factor three is the municipality has negotiated and resolved all claims or judgments that would have placed the municipality in imminent jeopardy of financial default.

Factor four is The reasonably projected revenues of the municipality are sufficient to fund ongoing necessary expenditures, including pension and debt obligations and the continuation or negotiation of collective bargaining agreements and the provision of municipal services. Projections of revenues shall include any anticipated tax or fee increases to fund the ongoing expenditures for the first five years after a termination of distressed status.

Our recommendation to the Secretary outlining the City's progress and circumstances under each of those statutory factors.

For factor one, we found that the City has experienced a mix of operating budget surpluses and deficits over the past four years.

For example, in 2018, the City had an audit at 1.2 million for a one-percent operating deficit. But in 2020, the unaudited financial statements shows a service of 3.8, or approximately, four percent.

Based on our review of the City's 2021 budget and operating positions through the first three quarters of this year, we estimate the city will have a slight 2021 surplus of approximately $800,000.

Under factor two, we determined that the city efficiently utilized a significant portion of the $66.9 million dollars from the --- utilized from the 2016 Sewer Sale proceeds over the term of the 2017 Exit Plan to defeasance over $42 million in high-bill long-term general obligation notes and bonds. The City's total outstanding debt has decreased from $113 million in 2017 to $180 million in 2021. More importantly, since 2016, the city's overall debt has decreased by $78 million or 49 percent, which is a significant reduction.

During the period of 2016 to 2021, the city has paid timely all of its debt service payments. It should also be noted that the city will retire its 2012 Act 47 loan of $1 million from the Commonwealth in the year 2022.

For factor three, we found that during the mentioned exit-plan period, the city has settled or fully adjudicated several outstanding lawsuits. However, we also noted that through the several outstanding lawsuits that the city is defending against, one lawsuit in particular would retroactively reinstate the cost of living increases for retirees of the police department. This lawsuit involves a significant sum of money and does hold some potential future liability for the city.

As Coordinator, we

concluded that the extent of any liability from this litigation is not possible to know until the litigation has been completed, which will most likely occur after the January 27, 2022 statutory deadline for determining the City's distressed status.

Under factor four, the Coordinator projects that the City will incur operating deficits throughout the 2022 to 2026 projection period on the baseline examination basis.

The lack of inherent growth in the city's real property tax revenues and only slight growth in the City's earned income tax revenue when coupled with the annual projected expenditure growth of over two percent per year, will cause the City to realize operating budgeting deficits throughout the projection period.

However, absent of these projected deficits we believe are the city's cash flow numbers, as well as the 2021 American Rescue Plan intergovernmental transfer, which will replace lost revenue, resulting from the 2021 COVID pandemic restrictions.

Therefore for the city to mitigate the effects of its annual --- the projected annual flat or the decreasing real property assessed valuations, the city will have to make incremental property tax rate increases and/or reduce expenditures over the next five years to avoid the projected operating budget deficits.

For the years 2022 to 2023, we believe the city will have sufficient ARP money available to cover the projected deficits. For 2023, the city can account for the small projected deficit of $129,000 through expenditure reductions for the use of his fund balance.

However, as required by Act 199, the Coordinator must recommend that the City increase its property tax rates by varying percentages through the projection period. That is 5.1 percent, 14.8 percent and .07 percent or a mixture of those rates in the years 2024, 2026 to increase the municipal revenue, which will eliminate the projected operating deficits for those years.

The total property tax percentage increase over the five-year period of 2022 to 2026 is 20.6 percent and is recommended by the Coordinator under Act 199. Any expenditure reductions implemented by the city during this period will reduce the recommended percentage of property tax and revenue rates.

Additionally, outside of the four factors, we examined the Act 199 requirement to determine whether the condition of a fiscal emergency is present in the city. A fiscal emergency exists in the distressed municipality is insolvent or is projected to be insolvent within 180 days or less, or is unable to ensure the continued provision of vital and necessary services; police, fire, refuse collection or meeting of payroll and debt service obligations.

We have noted in our report that the city's adopted 2021 Operating Budget appropriated sufficient funds to provide many of the vital and necessary services, such as police and fire services, refuse collection and disposal, snow removal, payroll and pension obligations and the required fulfillment of debt or other financial obligations. Our analysis also determined the city was projected to be able to meet all of its financial obligations, including debt service and payroll.

At the time of the writing of that recommendation to the Secretary in October, there was no evidence from the city or otherwise that the city was insolvent or would be insolvent within 180 days, or that the city would be unable to ensure the continued provision of vital and necessary services.

Accordingly, it is the recommendation of the Coordinator, that based upon the review of the totality of the factors, substantial evidence supports the decision by the Secretary of DCED to issue a determination Rescinding the Order declaring the current City of Scranton to be a distressed municipality.

Thank you for your time.

HEARING OFFICER:

Mr. Jerry Cross, thank you for your testimony.

MR. CROSS:

Thank you, Mr. Chapman.

HEARING OFFICER:

We will now hear testimony from Council Chairman Bill Gaughan.

BILL GAUGHAN,

CALLED AS A WITNESS IN THE FOLLOWING

PROCEEDING, AND HAVING PREVIOUSLY BEEN SWORN, TESITIFIED AND SAID AS FOLLOWS:

MR. GAUGHAN:

Good afternoon. My name is Bill Gaughan and I am the President of Scranton City Council. Thank you for providing me with the opportunity to submit a statement regarding the recommendation of the City's Act 47 Coordinator to rescind the city's distressed determination pursuant to the Municipalities Recovery Act, Act 47 of 1987, as amended.

This is my eighth and final year serving on Scranton City Council. On January 10th, 1992, when the city was declared financially distressed by a departmental Order of Secretary of the then Department of Community Affairs, I was four-years old. Through the majority of my life, and as a proud Scrantonian, the city has been deemed distressed.

After many trials and

tribulations over the last 29 years, I believe it is appropriate at this time for you to finally rescind the city's distressed status for several reasons.

First, the city has made tremendous progress over the last eight years in terms of our finances. In my first year as a city councilman back in 2014, the city's credit rating material was almost non-existent. Financial institutions would barely give us the time of day and city officials were constantly holding their brief at the end of the year to make sure we were able to meet our payroll.

Today, the city's estimated to incur a surplus of nearly a million dollars at the end of this year. For the first time in recent memory, then city has a fund balance. This improvement in the overall financial position of the city has come as a result of the hard work of the current and previous administration and city council. I also would be remiss if I did not acknowledge former president of the city council, Bob McGoff, who I served with and he passed away from his battle with cancer and he really started the ball rolling back in 2014 with some of the decisions he made. And also the former business administrator, Dave Bulzoni, who I worked closely with as well.

Many difficult and sometimes painful decisions had to be made in order to correct the fiscal mismanagement of the past. Since City Council adopted the three-year Exit Plan in 2017, all debt service payments have been made on time. The city's total outstanding debt decreased from about $113.5 million to roughly $80.5 million today. Since 2016, the city's overall debt had decreased by nearly $80 million or about 50 percent. This is tremendous progress for a city that only a few years ago was on the verge of bankruptcy.

Secondly, the city had seen significant progress with regard to the enactment of its pension fund. In 2013, the market value of the city's aggregate pension was $43.7 million. In August of 2014, I listened to then Auditor General E. DePasquale's forecast that within three to five years, our pension fund could run out of money, forcing us into bankruptcy. The city's financial stability looked weak.

Since that time, several difficult steps have been taken and today, the aggregate pension fund reached a market value of over $110 million. Pension funds today are no longer on the verge of collapse, although they're still distressed, the future looks very promising.

Third, our Act 47 Recovery Coordinator of the Pennsylvania Economy League noted in their recommendation to you that one major issue in the City of Scranton is the lack of inherent growth in the city's real property tax revenue. According to their recommendation, in 20 years, the city's real property assessed value will increase by only 2.7 percent, while the city's real property market values increase by 81.1 percent.

This is due in large part to the fact that reassessment had not being conducted in Lackawanna County since 1968. Thankfully, all indications are that a county-wide reassessment will be conducted within the next few years, which will help reverse this troubling trend and improving growth of the city's revenues from property taxes.

Finally, after eight years on this council I have never been more confident in the City of Scranton. Yes, we have challenges just like every other municipality in

Pennsylvania, but where there are challenges, there are also opportunities. We have proven that we can work together and make difficult decisions necessary to keep our city financially stable and prosperous.

Scranton's future looks extremely bright. Just yesterday, President Biden signed a $1 trillion infrastructure bill that will have an enormous impact on our City. As part of that historic legislation, $66 billion has been earmarked for the revitalization of passenger and freight rail, including a route between Scranton and New York City, which would potentially generate $86 million in annual economic activity.

This city led the country in the development of the iron rail and coal industries in the late 1800's and early 1900's. Today, we are on the brink of starting a new course for the City of Scranton, where once again, we can be an important contributor to the success, not just to the northeast, not just to the State of Pennsylvania, but of the United States of America.

Today, I ask you to rescind the Distressed Status so that we can continue to capitalize on the progress made over the last eight years and make our city a place that our hard-working residents can be proud to live, work and raise their families. Thank you.

HEARING OFFICER:

Thank you, Councilman Chairman for providing your testimony. At this time, we will hear from the Department of Community and Ecomonic Development, Local Government Policy Specialist, Mr. James Rose.

JAMES ROSE,

CALLED AS A WITNESS IN THE FOLLOWING PROCEEDING, AND HAVING PREVIOUSLY BEEN SWORN, TESTIFIED AND SAID AS FOLLOWS:

MR. ROSE:

Thank you, Mr. Chapman. I'm Jim Rose of the --- I am the Local Government Policy Specialist for the Northeastern Region of DCED. I've been working for the city since I started working for DCED in 2013. At that time, the finances were in terrible condition.

We would have meetings --- we would have regularly-scheduled weekly meetings with the Economy League and the leaders of the city and we would start to discuss how much money we had and would be able to make payroll. This would start in the middle of the years, as opposed to the end of the year. At that point in time, the vendors were being unpaid for several months because the city just didn't enough money to pay them, other than to pay their payrolls. There was a great deal of animosity between city council, and the mayor and certainly the unions. That kind of led to many, many problems because they weren't able to work on any of the issues that were identified by the Economy League Recovery Plan and the city was not able to progress.

I have to say that times have changed. During the course of the current administration and council, and the previous too, all parties have worked together to move the city in the right direction and tackle the goals of the recovery plan. Visible animosity has not been seen for a long time.

The results of these greatly improved relationships has enabled the city to develop reasonable and workable goals post Act 47. Scranton at this point, and I really can't believe I'm able to say this, but I can, Scranton at this point is financially stable.

Should the elected officials continue to pursue the policies currently in place, I believe that the city is in a strong position to continue to leap forward. And I strongly recommend that the Scranton status as a financially-distressed municipality be terminated by Secretary Davin. Thank you.

HEARING OFFICER:

Thank you, Mr. Rose for providing testimony.

Are there any other interested parties at this time who would like to provide testimony? You can come up.

\---

LAWRENCE D. WEST,

CALLED AS A WITNESS IN THE FOLLOWING PROCEEDING, AND HAVING PREVIOUSLY BEEN SWORN, TESTIFIED AND SAID AS FOLLOWS:

\---

MR. WEST:

Good afternoon, and welcome to Scranton. Mr. Chapman, my name is Larry West. I'm the Business Administrator for the City of Scranton. I appreciate you affording me the opportunity to convey some thoughts in regards to Scranton's long tenure with the Act 47 program.

On January 10th, 1992, the Department of Community Affairs, now the Department of Community and Economic Development, then Secretary Kearney signed an Order granting a petition of the City of Scranton to be deemed a distressed municipality under the Commonwealth's of Pennsylvania's Financially Distressed Municipalities Act, Act 47 of 1987.

In January of 1992, I was a young emergency medical technician providing free hospital care on the streets of Scranton. I could not imagine nearly 30 years later I would be sitting in court providing sworn testimony regarding the city's exit of that Distressed Municipalities designation.

The statute by which a distressed municipalities must adhere to is not forthcoming. Prior to my employment as the city's business administrator, I had the privilege to serve as regional director for the former State Senator John P. Blake who represents the 22nd District and the City of Scranton in the Pennsylvania Legislature from 2011 until April of 2021.

Former Senator Blake served with the minority chair for the Pennsylvania Senate Local Government Committee, as well as a member of the Local Government Commission, chairing subcommittees on taxation. The time of my employment with the senate allowed me a front-row seat to what would become Act 199 of 2014, the legislation, which in part is the reason for this hearing today.

In 1992, the year was designated distressed, the operating budget was reported at $42.2 million dollars. Ten years later, the 2012 operating budget saw a 34 percent spending increase to $58.2 million.

The 2012 budget saw a 27.5 percent jump bringing the spending plan to $85.3 million. In its third decade, the city's proposed 2022 budget has been submitted at $116.9 million, which is the second year --- which is the second year in a row without a tax increase.

The city hasn't been --- I'm sorry, the city has seen a 37 percent increase in spending over the last ten years, which on average is a 33 percent increase in spending every ten years.

The Act 47 program allowed for local government to assist municipalities in a distressed status. The Commonwealth appointed the Pennsylvania Economy League as Scranton's Act 47 Coordinator. While under our Act 47 designation, the City was required to adopt a recovery plan to give city leaders a blueprint for which they would develop strategies to help financially recover and eventually come out of distressed status.

Over the course of 30 years, and several administrators and councils in consultation from the Pennsylvania Economy League and other consultants, who adopted recovery plans, for one reason or another found it difficult to follow through.

With the adoption of Act 199 of 2014 municipalities were required for the --- when they're part of the Act 47 program, under the provisions, the City of Scranton was supposed to exit in 2020, but due to the COVID pandemic we requested an extension --- requested an extension from DCED after years of attempts to gain ground against the financial hardships, the city began gaining ground in 2016 with the sale of the Sewer Authority and monetization of the parking system, difficult decisions are commonplace of government and particularly in the units of local government, but the city eventually committed to prioritizing its financial help and it's been in a clearer and more sustainable path.

While those solutions are without trade-off, the City's pension levels have increased and we've been able to manage the budget and surplus. In 2020, it would project well. In my time as Business Administrator, the administration has made additional strides to financial stability. The city's enjoying its S&P rating upgrade to BB-plus and has paid off a $23 million loan early and for the second year in a row, has reduced its requested amount of spending.

The Mayor of the administration has also been working on finances and tax policies, continues to show fiscal restraint working to implement new policies regarding investments and spending boundaries, all to ensure stabilizing the fiscal future of the city.

Recognizing the continued improvements that we have realized --- that have been realized by the city, it's my opinion to support the recommendation of the Pennsylvania Economy League to rescind the Distressed Status designated to the City of Scranton and to Exit Act 47 of 1987 at this time.

Make no mistake, continued vigilance is a necessity and the fiscal health should remain priority. I would be remiss if I didn't mention a couple of the points for the contributions for the city's recovery. First, the Pennsylvania Economy League, Jerry Cross and his staff particularly. You have remained dedicated to supporting Scranton for over 20 years. His guidance, steady leadership and knowledge of all government was essential to the eventual stability that we are enjoying today.

And Dave Bulzoni, the former business administrator of the City of Scranton, without doubt, saved the city from financial devastation. His financial progress and understanding in financing and his ability to navigate the City's financial future during extremely difficult times, proved his word, not once, but twice.

And lastly, I would thank the residents, the landowners, tax payers, city employees and the business community for standing by your city. Without their patience and persistence, the city would not be where it is today, recovering. Thank you again for your time.

HEARING OFFICER:

Mr. West, thank you very much for providing testimony. Is there anyone else at this time?

\---

JOAN HODEWANITZ,

CALLED AS A WITNESS IN TH FOLLOWING PROCEEDING, AND HAVING PREVIOUSLY BEEN SWORN, TESTIFIED AND SAID AS FOLLOWS:

MS. HODEWANITZ:

My name is Joan Hodewanitz and I'm a resident of the City of Scranton. I retired in 1998 and came back to the city of my birth. So I've been here approximately 22 years and I've been watching the city's efforts to come out the distressed status for almost 22 years. I must complement Mr. Cross. The leadership and guidance he's provided to the city and his efforts, his assessments of the financial status of the city and recommendations for the city to take, have been essentially right on target.

It would be nice if every citizen, especially those who pay property taxes would sit down and read this 22-page document that Mr. Cross wrote recommending we come out of the distressed status. I'm very happy to see that's happened. But that's not going to be realistic. They're not going to read it.

So a lot is going to depend on the way you look at it and the press. And many people are going to feel, I think, a false sense of security that we're coming out of a distressed status and all our problems are behind us. This could happen again if we lose track of what we're doing.

Citizens are responsible for the oversight of their elected officials, whether it's through reading the newspaper, listening to the radio, listening to the TV news, however they want to do it, you may not know this if you are not a city resident, but Scranton has a long legacy of corruption. One of our prior mayors is currently in prison. And I think a lot of that history of corruption has created a lack of confidence in the integrity of the city. Fortunately, Mayor Evans and Mayor Cognetti, our current Mayor and our future Mayor, have done an amazing job to restore that confidence in our government officials.

But we need to maintain oversight of the way we spend our tax dollars, from the citizens, the controller's office, our independent auditor and even the state auditor general. This could happen to us again. How many citizens are going to be told or even realize that there's a potential for major real estate increases in their tax bills?

Right now, they're trying to cope with inflation. So experts tells them that there could be, over the next five years, a 20.6 percent increase in their property taxes and that's not going to go down well. That's why I'm saying that it becomes important, while we should celebrate the fact that we're coming out of a distressed status, you should also be realistic and explain to the citizens of the city and the tax payers, the status of finances as we project into the next five years.

Mr. Cross is right. There's a two-plus percent increase every year in expenditures. The only way to have a balanced budget is to increase revenues by the same amount, or to find ways to cut those expenditures.

I don't think that's going to happen. I think you're going to need to find a tax revenue, otherwise, you're going to be looking at double digit property tax increases and we've been through that before.

So while I wanted to thank Mayor Cognetti and her staff, and the prior staff, especially Mr. Bulzoni, I want to thank Mr. Cross for his leadership and guidance to the city to get us out of this 29-year nightmare.

I want people to sit back and think, why did this happen, how did this happen, how do we make sure it doesn't happen again, because this city cannot afford another financial disaster. The Titanic has got to make it into the port of New York. Thank you.

HEARING OFFICER:

Thank you, ma'am, for your testimony. Are there any other testimonies at this time?

I would like to thank those in attendance and those who provided testimony at today's Administrative Public Hearing. The Department of Community and Economic Development will respond to your request for a rescission and we will proceed with the Act 47 Exit process.

All findings will be presented to Secretary Dennis Davin for his consideration and official determination of rescission. Thank you once again and I will now close this Act 47 Administrative Hearing.

* * * * * * * *

HEARING CONCLUDED AT 3:53 P.M.

* * * * * * * *

CERTIFICATE

I hereby certify that the foregoing proceedings, hearing held before Hearing Officer Chapman was reported by me on 11/16/2021 and that I, Cory Ruda, read this transcript and that I attest that this transcript is a true and accurate record of the proceeding.

Dated the 7 day of December, 2021

Court Reporter

Cory Ruda

EXHIBIT D

OFFICE OF THE MAYOR
City Hall | 340 North Washington Avenue | Scranton, PA 18503 | 570.348.4101

TESTIMONY OF THE MAYOR OF THE CITY OF SCRANTON TO THE SECRETARY OF THE DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

November 16, 2021

Introduction

Good afternoon. I am Paige Gebhardt Cognetti, Mayor of the City of Scranton. Nice to see you in person instead of virtually this year.

I appreciate the support and guidance the Department of Community and Economic Development (DCED) and its recovery coordinator, the Pennsylvania Economy League, has provided to the City. I must thank in particular Gerry Cross, who has worked tirelessly with the City for decades and deeply cares about the future of Scranton.

Since we last convened in April 2020 under the specter of economic catastrophe and uncertainty from the impact of the global pandemic, the following positive events have occurred:

- **Revenues have come in higher than anticipated** in the early months of the COVID-19 pandemic;
- The **Act 511 litigation concluded in City's favor** – no $50 million judgment, adverse impact on taxing authority;
- **Tax Policy Working Group** has convened regularly and has a plan for positive changes each year moving forward, including:
  - 2021: Refuse fee added to real estate tax bill improved collections
  - 2022: Payroll Preparation Tax enactment in process with buy-in from the School District
  - 2022: petition state for Hotel Tax
  - 2022: continued push for real estate property reassessment
  - 2023-2026: reduce wage tax by 0.1% annually if possible
- **S&P rating improved from negative to stable**
  - City's general obligation debt has a BB+ long-term rating, or just below investment grade

City's Current Condition

First, the current operational deficits of the municipality have been eliminated and the financial condition of the municipality has improved.

- **Payroll Conversion:** The City is converting Business Privilege and Mercantile Taxes to the more efficient Payroll Preparation Tax. The City is working in partnership with the Scranton School District in a concerted effort to simplify and make more efficient business taxes. This tax, while revenue neutral, is anticipated to further promote equity and fairness in the taxation of businesses, and to improve business identification and collection in the long term.

- **Inclusion of Refuse Fees in Tax Bill:** Improved Collection Rate
- **New Delinquent Refuse Collector:** Improved diligence in collection efforts – not only for refuse, but across all collection efforts
- **Working through Delinquent Real Estate Collections:** continuing our efforts to work with the Tax Claim Bureau to improve delinquent collections
- **On the Expenditures Side, Fiscal Restraint:** We've made great strides in improving the efficiency of our operations – cut out unnecessary spending, more diligent monitoring

All of this promotes budgetary stability and consistency in cash flows for smooth operations.

Second, obligations issued to finance the municipality's debt have been retired, reduced or reissued in a manner that has adequately refinanced outstanding principle and interest and has permitted timely debt service and reasonable probability of continued timely debt service.

- **Refunded All of the City's Variable or High Interest Rate Debt over the last few years:** most recent was the Emmaus Refunding, this was the last piece of high/variable debt on the City's books
- **Called the Webster Note:** bringing City's debt profile down to $77+ million from over $100 million
- **Continual Reduction of the Tax Anticipation Note due to sustained budget surpluses:** Previously held steady at $12.75 million, last year down to $12.2 million. This year we made significant progress
- **Improved Credit Rating:** S&P upgraded City to BB+ stable
- **Workers Compensation Funding:** Labor and Industry recognized our progress in managing claims and promoting safety – released $6 million from Reserve Account

Third, Scranton has negotiated and resolved all claims or judgments that would have placed the municipality in imminent jeopardy of financial default.

- The City has resolved several lawsuits. Most notable, the Commonwealth Court ruled in the City's favor in the Act 511 litigation, which challenged the City's taxing abilities.
- The suit challenging the City's receipt of proceeds from the Sewer Sale has also been favorably resolved.
- The City has also resolved a number of federal suits favorably, which ensures ongoing budgetary stability.

Fourth, the reasonably projected revenues of the City are sufficient to fund ongoing necessary expenditures.

- **Continued diligent oversight of expenditures**
- **Pension Funding:** levels significantly improved, making MMO more affordable, consistent payment of MMO by due date
    - Adoption of the recently published mortality table for public sector employees as suggested by the Society of Actuaries
    - Plan to adjust the rate of return from 7.25% to 7.00% in 2023

Lastly, we managed the 2020 Budget to a surplus and project the same for 2021.

- Our 2022 Proposed Budget does not include a tax increase
- We are not making decisions in a vacuum, we are balancing the realities of other taxing bodies like the Scranton School District and the near-term burdens our taxpayers will have due to their Recovery Plan
- Our 2022 Budget does include an increase in administrative and collectively bargained positions in order to better serve city residents
- The costs of salaries and benefits – for current employees and any new positions - are real and must be managed over time, including continuing to increase employee contribution to healthcare and phasing out defined benefit plans in favor of more sustainable defined contribution plans; this is not easy but we are willing to do the hard work

- It is a careful balance to reign in unchecked long-term obligations while maintaining – and growing – the city's capacity to keep the city safe and take advantage of economic development opportunities

Ongoing Act 47 Checklist

As we seek to exit in January, we are working on a list of items to carry into 2022 and beyond. These include:

- Financial policies for investment, debt, and fund balance
- Opening an OPEB Trust
- Seeking a HUP test next year or in 2023
- Continuing to ask for PILOT contributions
- Reestablishing the Scranton Redevelopment Authority
- Establishing a Director of Finance position to replace the work that PEL has conducted for the city for three decades

We are here today to advocate for the City to be released from "distressed" status, and I believe the items put forth today show our readiness. However, I do not want to give the impression that we believe the future months, years, or decades will be easy.

Like so many cities and other government entities, the City of Scranton has long-term obligations it will struggle to meet. We go into our days and planning with eyes wide open to this – the way out is to manage to austerity where possible and grow the city's revenue base.

Growing the City is not possible without investing now, at reasonable levels, to spur economic growth. Our partnerships across the city, region, and nationally will help us as we navigate these waters in the coming years. We will do our best to be successful and appreciate the past technical support – and we hope future general support and guidance – of the Commonwealth, DCED & PEL.

Thank you.

EXHIBIT E

ACT 47 COORDINATOR'S TESTIMONY REGARDING THE RECOMMENDATION TO THE SECRETARY OF THE DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT FOR THE CITY OF SCRANTON

Prepared By:

Pennsylvania Economy League, Central PA Division, LLC
88 North Franklin Street, Suite 200
Wilkes-Barre, PA 18701

November 2021

I am Gerald Cross of the Pennsylvania Economy League, Central PA. Our principal office is located in Wilkes-Barre, PA. PEL is the DCED-appointed Act 47 Coordinator for the City of Scranton. Thank you for the opportunity to present our testimony regarding our written *Act 47 Coordinator's Recommendation to the Secretary of the Department of Community and Economic Development for the City of Scranton* (Recommendation to the Secretary), dated October 20, 2021. I request that the Recommendation to the Secretary be included by reference to this testimony and made a part of this hearing record.

As you are aware, Act 199 of 2014 (Act 199) amended Act 47 to provide a timeline and process for municipalities to exit from the Act 47 program. For the City, the *Revised and Updated Act 47 Recovery Plan For the City of Scranton*, adopted by Scranton City Council on August 23, 2012 started the Act 199 five-year timeline for the City to exit from the Act 47 program. As part of the Act 199 exit process, PEL, as the Coordinator, was required to prepare and file a report stating the financial condition of the City. On February 17, 2017, we filed with the City a *Report Stating the Financial Condition of the City of Scranton* (Financial Condition Report). Our findings in the Financial Condition Report noted that although the City had made "noteworthy progress" on a number of fronts, a three-year exit plan was recommended.

PEL, in conjunction with City officials, prepared a three-year exit plan for the City. On July 27, 2017 the City adopted the *Act 47 Exit Plan for the City of Scranton* (Exit Plan). The three-year time limit of the City's adopted 2017 Exit Plan would have expired in July 2020. The Coordinator provided testimony in support of a recission in March 2020.

However, on May 29, 2020, the Governor of Pennsylvania signed into law an amendment to the Fiscal Code (Omnibus Amendments, P.L. 158, No. 23 "Act 23 of 2020"). Section §1604-D.1 provides as follows:

"A municipality operating pursuant to a recovery plan under the act of July 10, 1987 (P.L.246, No.47), known as the Municipalities Financial Recovery Act, shall be eligible for an 18-month extension beyond the time limit imposed under section 254 of the Municipalities Financial Recovery Act." The Coordinator, in consultation with the PA Department of Community and Economic Development ("DCED"), prepared an amended Act 47 Exit Plan providing for an 18 month extension which was adopted by the City in July 2020. That 18 month extension will expire in January 2022.

On October 20, 2021, PEL as the Coordinator submitted to DCED the Recommendation to the Secretary which included an evaluation of the Act 199 enumerated four factors for the Secretary of DCED to consider in making a determination on whether to rescind the distressed status of a municipality. The four factors are as follows:

> (1) Operational deficits of the municipality have been eliminated and the financial condition of the municipality, as evidenced by audited financial statements prepared in accordance with generally accepted accounting principles and projections of future revenues and expenditures demonstrates a reasonable probability of future balanced budgets absent participation in this act.
>
> (2) Obligations issued to finance the municipality's debt have been retired, reduced or reissued in a manner that has adequately refinanced outstanding principle [*sic*] and interest and has permitted timely debt service and reasonable probability of continued timely debt service absent participation in this act.

(3) The municipality has negotiated and resolved all claims or judgments that would have placed the municipality in imminent jeopardy of financial default.

(4) The reasonably projected revenues of the municipality are sufficient to fund ongoing necessary expenditures, including pension and debt obligations and the continuation or negotiation of collective bargaining agreements and the provision of municipal services. Projections of revenues shall include any anticipated tax or fee increases to fund ongoing expenditures for the first five years after a termination of distressed status.

Our Recommendation to the Secretary outlined the City's progress and circumstances under each of these statutory factors. For factor 1, we found that the City has experienced a mix of operating budget surpluses and deficits over the past four years. For example, in 2018 the City had an audited $1.2 million or 1% operating deficit and in 2020 the unaudited financial statement shows a surplus of $3.8 million or approximately 4%. Based on our review of the City's 2021 budget and operating position thru 3 quarters, we estimate the City will have a slight surplus of approximately $800,000.

Under factor 2, we determined that the City efficiently utilized a significant portion of the $66.9 million of the 2016 Sewer Sale Proceeds over the term of the Exit Plan to defease over $42.0 million in high yield, long-term general obligation bonds and notes. The City's total outstanding debt decreased from $113 million in 2017 to $80 million in 2021. More notable, since 2016 the City's overall debt decreased by $78 million or 49%, a significant reduction. During the period 2016 – 2020 the City timely made all of its debt service payments. It should also be noted that the City will retire its 2012 Act 47 loan of $1,000,000 in 2022.

For factor 3, we found that during the Amended Exit Plan period, the City settled or fully adjudicated several outstanding lawsuits. However, we also noted that there remain several outstanding lawsuits that the City is defending. One lawsuit in particular would retroactively reinstate the Cost of Living increases for retirees of the Police Department. This lawsuit involves a significant sum of money and poses some potential future liability for the City. As Coordinator, we concluded that the extent of any liability from this litigation is not possible to know until the litigation has been completed which will most likely occur after the January 27, 2022 statutory deadline for terminating the City's distressed status.

For factor 4, the Coordinator projects that the City will incur operating deficits throughout the 2022-2026 projection period. The lack of inherent growth in the City's real property tax revenue and only slight growth in the City's earned income tax revenue coupled with annual projected expenditure growth of 2.0% will cause the City to realize operating budget deficits throughout the projection period.

Offsetting these projected deficits are the City's cash fund balance as well as the 2021 American Rescue Plan (ARP) intergovernmental transfer replacing lost revenue from the 2020-21 COVID pandemic restrictions.

For the City to mitigate the effects of its annual flat or decreasing real property assessed values, the City will have to make incremental property tax rate increases and/or reduce expenditures over the next five years to avoid the projected operating budget deficits. For years 2022 – 2023 the City will have ARP money available to cover the projected deficits. The City can account for the small deficit for 2023 ($129,584) thru expenditure reductions and/or the use of its fund balance. As required by Act 199, the Coordinator recommends that the City increase its property tax millage rate by 5.1%, 14.8%, and 0.7% in the years 2024 – 2026, respectively, to eliminate the projected operating deficits in those years. The total property tax rate percentage increase over the five-year period of 2022 – 2026 is 20.6%. Any expenditure reductions implemented by the City during this period may reduce the recommended percentage property tax millage rates.

Additionally, we also examined the Act 199 factors to determine whether the conditions of a fiscal emergency are present in the City. A fiscal emergency exists if a distressed municipality is: (i) insolvent or is projected to be insolvent within 180 days or less; or (ii) is unable to ensure the continued provision of vital and necessary services—police, fire, ambulance, refuse collection and meet payroll and debt service obligations.

We noted in our report that the City's <u>adopted 2021</u> operating budget appropriated funds to provide many of the vital and necessary services such as police and fire services, refuse collection and disposal, snow removal, payroll and pension obligations and the fulfillment of debt and other financial obligations. Our analysis also determined that the City was projected to be able to meet all of its financial obligations, including debt service and payroll. At the time of the writing of that Recommendation to the Secretary there was no evidence from the City or otherwise that the City was insolvent or would be within 180 days or that the City would be unable to ensure the continued provision of vital and necessary services.

It is the recommendation of the Coordinator that based upon a review of the totality of the factors, substantial evidence supports a decision by the Secretary to issue a determination rescinding the order declaring the City of Scranton a distressed municipality.