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February 27, 2015

Hon. William L. Courtright	Mr. Robert McGoff
Mayor	President of Council
City of Scranton	City of Scranton
340 North Washington Avenue	340 North Washington Avenue
Scranton, PA 18503	Scranton, PA 18503

Dear Mayor Courtright and Council President McGoff:

The Pennsylvania Economy League, as Recovery Plan Coordinator for the City of Scranton, believes that based on the general pattern of projected revenues and expenditures the City will face sizeable and growing deficits in the years ahead. During the period 2015-2020, the estimated General Fund operating deficit increases from $8.5 million in 2016 to $19.5 million in 2020, an increase in the City's annual operating budget deficit of $11.0 million during the projection period. The cumulative General Fund deficit for the period 2016 through 2020 is projected to be nearly $78.0 million.

These deficits can be avoided and future operations can be balanced if the City promptly adopts and implements a revised and updated Recovery Plan. To that end, attached is the City's proposed revised and updated Recovery Plan covering the remainder of 2015 and the period 2016-2020. The policies and principles reflected in the Plan were developed primarily through a series of meetings involving the City Administration, representatives of City Council, the City's Recovery Plan Coordinator, HJA Strategies, and representatives of the Pennsylvania Department of Community and Economic Development.

The Recovery Plan Coordinator's role was to determine, in concert with the City Administration and City Council, the magnitude of the future mismatch between the City's ongoing revenues and expenditures and then prepare a Revised Recovery Plan that will determine the policies and principles to eliminate the future deficits and continue vital and necessary City services.

We recommend that the proposed revised Recovery Plan be adopted as an Ordinance of the City at the earliest possible time.

Sincerely,

Gerald E. Cross
Executive Director

Enclosure

Revised and Updated Act 47 Recovery Plan

City of Scranton

Effective Upon Adoption

Prepared by:

Pennsylvania Economy League, Central PA LLC

February 2015

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CHAPTER 1

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

Revision to the 2012 Revised Recovery Plan

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

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

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

Baseline Projections and Elimination of Operating Budget Deficits

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

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

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

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

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

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

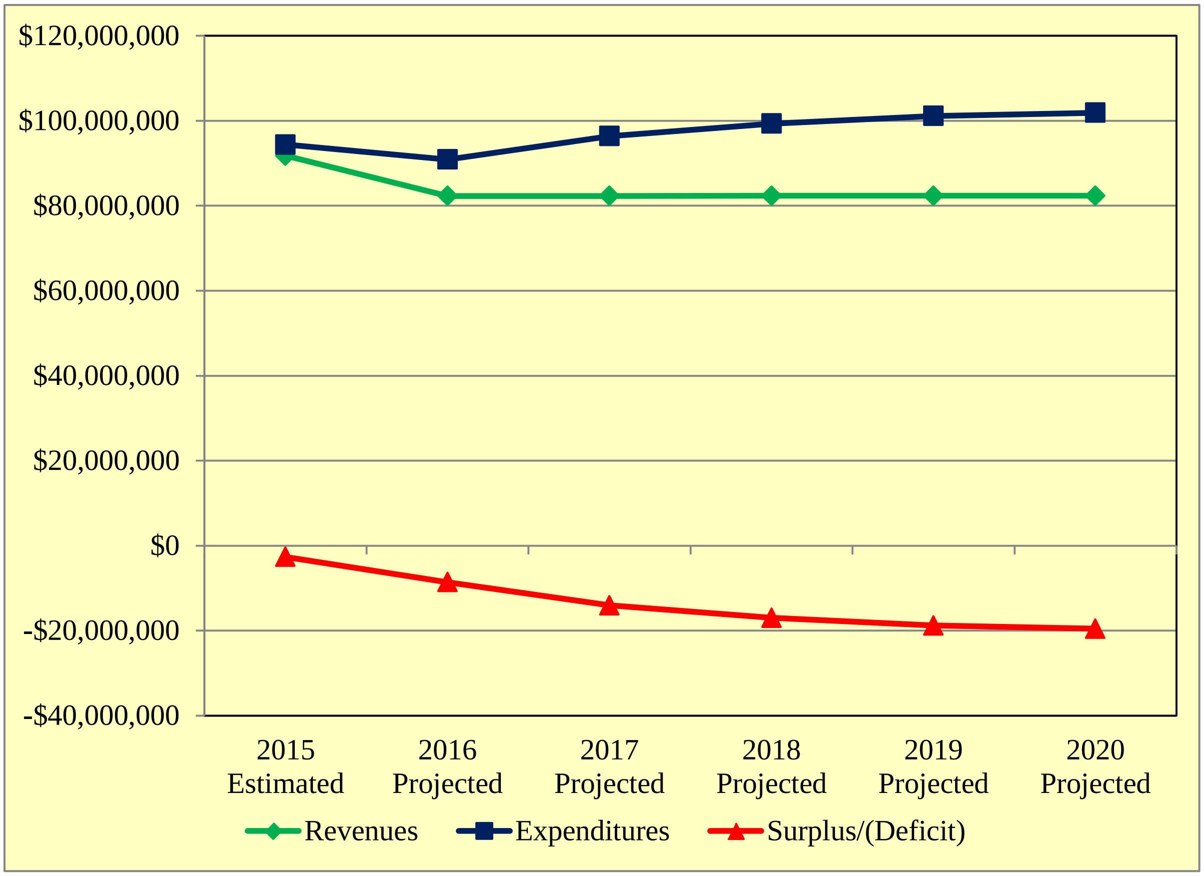
General Fund Operating Surplus/(Deficit)
City of Scranton
2015 - 2020
(**Without** Implementation of 2015 Revised Recovery Plan Mandates)

Table 1.1

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

General Fund Operating Surplus/(Deficit)
City of Scranton
2015 - 2020
(**Without** Implementation of 2015 Revised Recovery Plan Mandates)

Graph 1.1



Mandates to Eliminate Projected Operating Budget Deficits

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

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

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

2015 Revised Recovery Plan Duration and Termination of Act 47 Status

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

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

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

Failure to Implement Plan Mandates

The successful implementation of the 2015 Revised Recovery Plan mandates during fiscal years 2015 and 2016 is crucial for the City to maintain solvency and provide vital and necessary services (Section 102 (b) (3) Act 199 of 2014) such as public safety, refuse collection and disposal, and snow removal. The costs projected in Chapter 3 of this Plan indicate that an increasingly larger share of tax revenue must be dedicated to the payment of past contractual employee benefits (legacy costs) rather than to current financial obligations or to direct, immediate, and beneficial public services and infrastructure improvements. The cascading impact of these confiscatory and corrosive taxes will ultimately erode the value of City homes and businesses without providing the citizens with basic and fundamental services required to secure their health, safety and welfare. As the erosion of the wealth housed in their estates continues, citizens and their posterity will suffer severe damage, as they depend on these resources for their long-term personal economic health and welfare. Ultimately, undermining the value of City property through unchecked tax increases will lead to an increasing flight of residents and businesses from the City, resulting in blight and further reduction of the tax base that will only exacerbate the City's financial distress.

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

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

As stated in the HJA report:

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

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

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

Mandates For Implementation During 2015

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

Immediately Upon Adoption Of The 2015 Revised Recovery Plan.

1. **Implement an Increase in the City's Local Services Tax.**
   The City shall petition the Lackawanna County Court of Common Pleas for an increase in the City's Local Services Tax from $52 per year to $156 per year. This increase is included in the City's adopted 2015 budget and any delay in seeking approval will jeopardize the City's ability to pay its 2015 obligations in a timely manner.

2. **Consider Application for Act 47 Grant Assistance.**

   (1) The City may apply for an Act 47 grant in the amount of approximately $35,000 to review the feasibility of, and to provide options for, the creation of a Municipal Solid Waste Collection Authority or a combined purpose authority. The feasibility study will provide recommendations and procedures for the retention of existing employees of the City's Refuse Bureau into the Authority, review the appropriate level of solid waste disposal under the current fee structure, review the revenue potential of the recyclable stream, and examine the possibility of sub-contracting the collection of refuse.

   (2) The City may apply for an Act 47 grant in the amount of approximately $35,000 to review the feasibility of the creation of a Storm Water Management Authority either in connection with the actions relative to the Scranton Sewer Authority or separately as an independent authority. The authority will have the ability to levy storm water assessment fees under applicable law. These revenues may be used to further reduce the City's public works financial responsibility as well as the cost of storm water management, especially as the separation of combined sanitary/storm water sewer lines continues through the next decade. The review shall consider the expansion of public works service to the most practical extent and the transfer of existing employees of the City's Public Works Department to the greatest extent possible.

Mandates to be Completed by Date Indicated.

Conversion of Assets.

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

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

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

Mandates To Be Completed During 2015 – 2016.

Conversion of Assets.

1. **Scranton Sewer Authority.** The City shall continue discussions with the Scranton Sewer Authority board to determine a meaningful and substantive process that will provide the City with a significant source of funds or a continuing revenue stream that shall be used to reduce the unfunded liability of City pension funds.

2. **Review of Other City Assets.** In concert with the mandates regarding the parking and sewer authorities, the City shall assess the feasibility of divesting any City asset that is not directly related to the provision of vital and necessary services. These assets may include real property, apartments or other rental properties, unused buildings, recreational assets, and rolling stock. Funds from the sale of assets, after satisfaction of any associated debt, shall be used to reduce the City's unfunded liability for its pension funds.

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

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

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

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

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

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

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

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

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

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

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

Mandates Available to the City Throughout the Recovery Plan Period.

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

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

Land Banks (Act 153 of 2012).
Vacant, abandoned and tax-delinquent properties impose significant costs on the City by lowering property values, increasing fire and police protection costs, decreasing tax revenues and undermining community cohesion. The City's Office of Community and Economic Development should work with community leaders, City officials, Redevelopment and Housing Authority Officials, community development corporations, and the Tax Claim Bureau to study creation of a land bank within the City, as authorized by Act 153.

CHAPTER 2

Workforce and Collective Bargaining

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

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

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

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

Mandated Expenditure Limits:

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

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

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

Maximum Allocations by Employee Unit

International Association of Machinists and Aerospace Workers Local 2305	2015	2016	2017	2018
Public Works	Estimated	Projected	Projected	Projected
Standard Salary	$3,657,889	$3,739,835	$3,822,258	$3,904,315
Other Salary (Misc)	2,975	2,975	2,975	2,975
Longevity Salary	209,475	214,223	219,015	223,795
Overtime Salary	340,500	340,500	340,500	340,500
Uniform Allowance	36,148	36,148	36,148	36,148
Health Insurance - DPW Union Active	1,009,224	1,069,636	1,133,815	1,201,843
Health Insurance - DPW Union Active Contribution	-125,375	-132,898	-140,871	-149,324
Health Insurance - DPW Union Retiree	1,024,052	1,085,379	1,150,502	1,219,532
Life/Disability Insurance	47,283	48,736	50,199	51,704
IAM Pension	300,344	345,064	389,784	389,784
Social Security	322,129	328,761	335,433	342,076
Total Bargaining Unit Expenditures	**$6,824,644**	**$7,078,361**	**$7,339,758**	**$7,563,350**

International Association of Machinists and Aerospace Workers Local 2462	2015	2016	2017	2018
Clerical	Estimated	Projected	Projected	Projected
Standard Salary	$2,075,822	$2,146,079	$2,222,313	$2,292,337
Other Salary (Misc)	5,916	5,916	5,916	5,916
Longevity Salary	54,792	58,016	59,865	61,641
Overtime Salary	8,000	8,000	8,000	8,000
Uniform Allowance	16,260	16,260	16,260	16,260
Health Insurance - Clerical Union Active	624,945	662,372	702,115	744,242
Health Insurance - Clerical Union Active Contribution	-53,846	-72,459	-72,459	-72,459
Health Insurance - Clerical Union Retiree	741,555	785,964	833,122	883,109
Life/Disability Insurance	24,025	24,764	25,506	26,272
Social Security	164,056	169,678	175,651	181,144
Total Bargaining Unit Expenditures	**$3,661,525**	**$3,804,590**	**$3,976,289**	**$4,146,460**

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

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

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

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

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

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

Mandated

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

Recommended

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

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

2. <u>Recommendations on Base Salary and Base Hourly Wages</u>

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

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

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

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

6. <u>Recommendations on Compensatory Time</u>

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

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

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

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

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

10. <u>Recommendations on Elimination of Minimum Manning</u>

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

11. Recommendations on "No Layoff" Clauses

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

12. Recommendations on Longevity

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

13. Recommendations on Elimination of Subcontracting Clauses

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

14. Recommendations on Duplication of Benefits

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

15. Recommendations on Sick Leave/Doctors Evaluation

Any employee who is off work as a result of any illness or injury for more than three consecutive work days or who exhibits a pattern of possible sick leave abuse will be required to furnish, at the employee's expense, a doctor's certification concerning the nature of the illness or injury. In addition, the City may, at its discretion, order an evaluation of the employee's condition by medical personnel of the City's choosing at the City's expense.

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

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

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

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

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

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

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

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

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

CHAPTER 3

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

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

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

Baseline Projections 2015 – 2020

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

Revenue Assumptions:

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

Expenditure Assumptions:

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

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

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

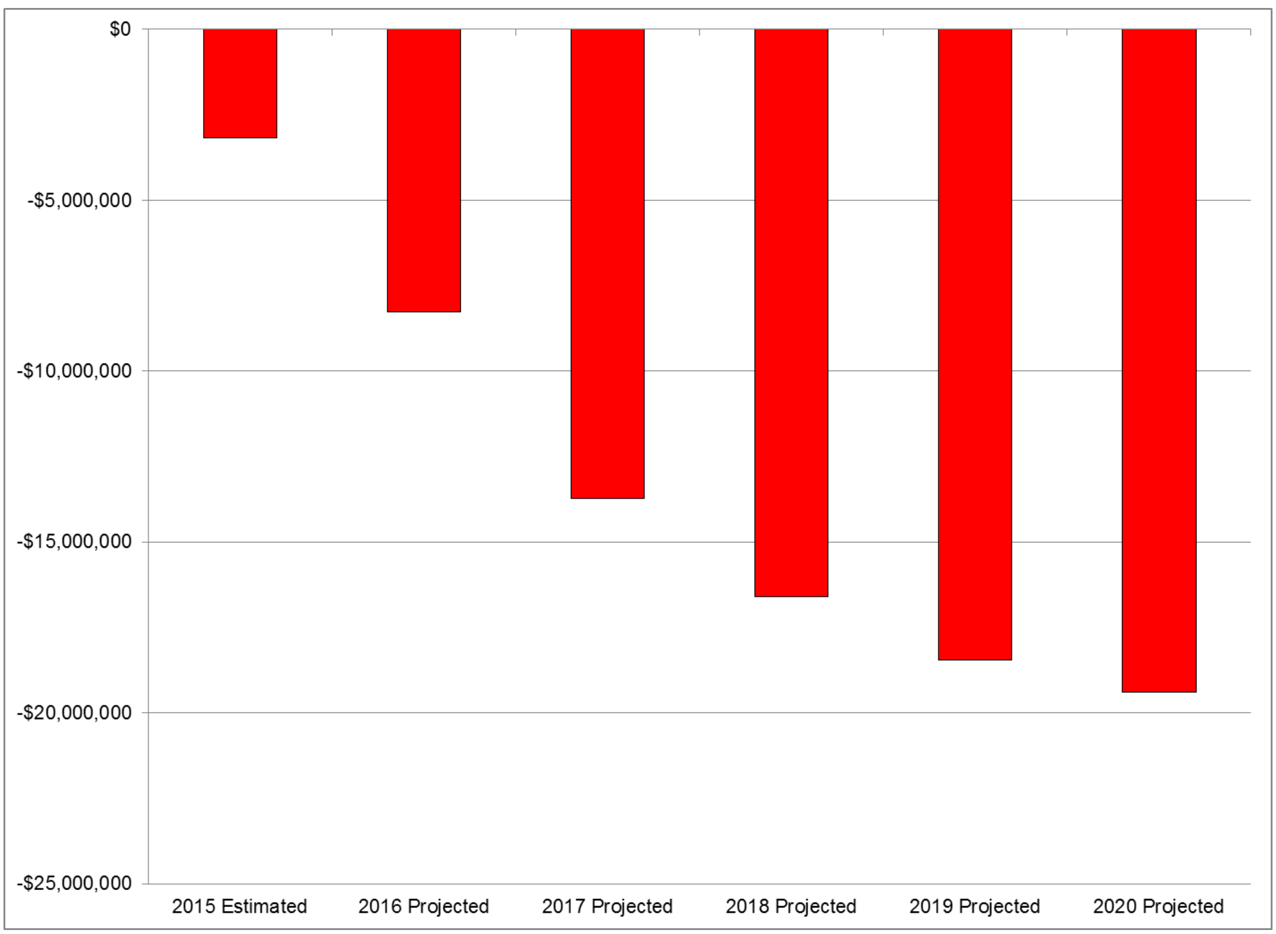
Table 3.1

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

Note: Totals may not add due to rounding

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

Graph 3.1



Revenue Projections—2015 – 2020

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

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

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

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

Table 3.2

	2015	**2016**	**2017**	**2018**	**2019**	**2020**
Revenue	Estimated	Projected	Projected	Projected	Projected	Projected
Tax Revenue	$65,256,052	$63,805,608	$63,930,798	$64,056,625	$64,183,092	$64,310,202
Nontax Revenue	19,065,561	17,464,594	17,347,102	17,232,001	17,119,245	17,008,789
Other Financing Sources	7,725,000	1,425,000	1,425,000	1,425,000	1,425,000	1,425,000
Total Revenue	**$92,046,613**	**$82,695,202**	**$82,702,900**	**$82,713,626**	**$82,727,337**	**$82,743,990**
Revenue	Percentage of Total Revenue					
Tax Revenue	70.9	77.2	77.3	77.4	77.6	77.7
Nontax Revenue	20.7	21.1	21.0	20.8	20.7	20.6
Other Financing Sources	8.4	1.7	1.7	1.7	1.7	1.7
Total Revenue	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note: Totals may not add due to rounding

Expenditure Projections—2015 - 2020

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

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

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

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

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

Table 3.3

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

Note: Totals may not add due to rounding

Conclusion of Baseline Projections

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

Implementation of Recovery Plan Mandates and Elimination of Operating Deficits

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

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

Implementation of Recovery Plan Mandates

Table 3.4

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

Implementation of Recovery Plan Mandates

Table 3.4

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

CHAPTER 4

Plan Implementation and General Plan Mandates

Overview

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

Communication with the Act 47 Coordinator

Reporting

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

Submission of Data

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

Types of Items/Data

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

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

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

Failure to Comply

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

Cooperation Among City’s Leadership

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

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

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

Once this 2015 Revised Recovery Plan is adopted the next step will be implementation. The Mayor (or a designee), representatives from City Council, the Business Administrator, and key management staff (as appropriate) shall participate in regular meetings, organized by the Act 47 Coordinator, to discuss and execute implementation of the mandates included in this 2015 Revised Recovery Plan. Within these meetings, the participants shall discuss key 2015 Revised Recovery Plan policy mandates and determine how each will be implemented. At the implementation meetings, other management issues may be discussed, including but not limited to current finances, human resources, economic development, general City operations and intergovernmental cooperation. The Act 47 Coordinator will be responsible for preparing each meeting's agenda and will lead the meetings. These gatherings are intended for a small number of attendees to focus on priority-setting and problem-solving and may result in follow-up assignments and associated progress reports.

General Plan Provisions

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

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

With respect to Capital Items/Budget:

- In general, it is the intent of the Act 47 Coordinator that the City shall fund these projects to the greatest extent possible using federal and/or state grants (or grants from other sources) as well as other "one-time" sources.

- In addition to the major capital projects, lesser capital purchases (especially vehicles, other rolling stock, technology infrastructure, and like items) shall generally be funded from funds budgeted for capital acquisition in the City's General Fund.

- The City has considered in the past the strategy of meeting its capital needs for vehicles and other rolling stock through the purchase of used equipment through dealers and auctions. This strategy shall be further developed by written policies so that appropriate controls on purchases ensure that the equipment purchased is in mechanically sound condition.

- In accordance with the terms of the City's Home Rule Charter, the Mayor shall annually submit a five-year Capital Budget for consideration and action by City Council. To the extent possible, specific plans and dollar estimates as well as funding sources shall be included along with timelines for project initiation and completion.

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

In addition, the Business Administrator in conjunction with the City Attorney, Human Resources Director, and professional risk managers shall review the City's existing liability and property insurance policy. The Business Administrator shall make recommendations to the Mayor on changes that might be undertaken in terms of overall coverage, deductible limits, and excess insurance in order to provide for either enhancements in coverage or reduction in cost.

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

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

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

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

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

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

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

An investment policy should:

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

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

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

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

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

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

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

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

APPENDIX A

Financial Review
2009 – 2013
2014 Estimated Versus 2014 Budget

Introduction

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

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

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

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

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

Table A.1

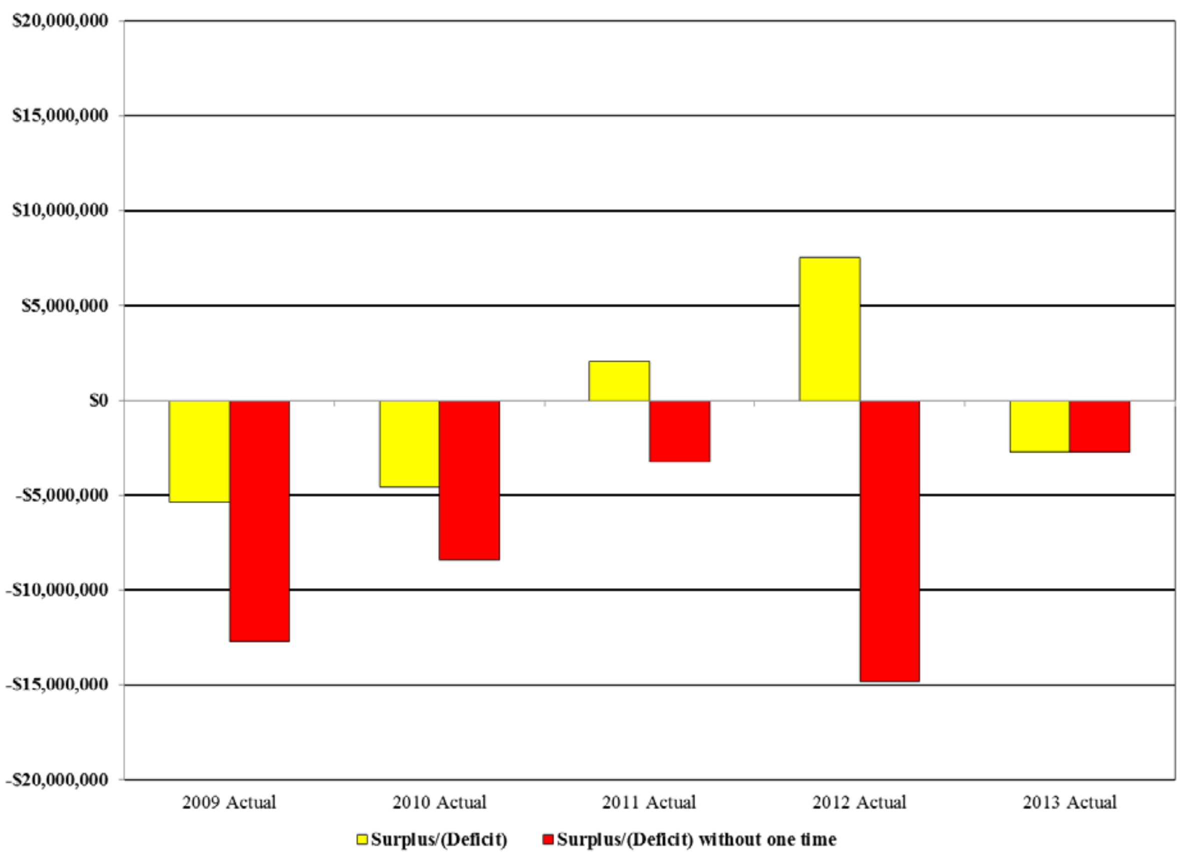
	2009	2010	2011	2012	2013	Change 2009 to 2013	
Revenues	$58,124,461	$57,823,942	$64,371,827	$81,128,371	$66,452,791	$8,328,331	14.4
Expenditures	63,476,817	62,401,768	62,316,336	73,607,872	69,185,642	$5,708,825	9.1
Surplus/(Deficit)	-$5,352,356	-$4,577,826	$2,055,491	$7,520,499	-$2,732,850		

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

Table A.2

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

Graph A.1



Revenue Review—2009 - 2013

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

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

Table A.3

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

Source: Historical Data from City As Provided

Tax Revenue

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

Tax Revenue
City of Scranton
2009 - 2013

Table A.4

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

Real Estate Tax

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

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

Table A.4A

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

Source: Municipal Tax Reports, NewPA.com

Act 511 Taxes

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

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

The real estate transfer tax accounted for approximately 5 percent of total taxes in 2009, 2010 and 2013, resulting in approximately $2.3 million in revenue. The amount collected increased by approximately $2 million annually in 2011 and 2012 due to the sale of several significant parcels including two City hospitals. The higher real estate transfer tax revenue helped the City make up the difference in 2011 and 2012 when real estate, mercantile and business privilege taxes were lowered. Local services tax revenue peaked in 2011 at $1.8 million and then fell to almost $1.5 million, rising again in 2013 to $1.6 million. The change between 2009 and 2013 was a decrease of 1.8 percent.

Non Tax Revenue

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

General Fund Non Tax Revenue
City of Scranton
2009 - 2013

Table A.5

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

Other Financing Sources

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

General Fund Other Financing Sources
City of Scranton
2009 – 2013

Table A.6

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

Revenue Review—2009-2013: Summary

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

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

Expenditure Review—2009 - 2013

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

General Fund Operating Expenditures
City of Scranton
2009 - 2013

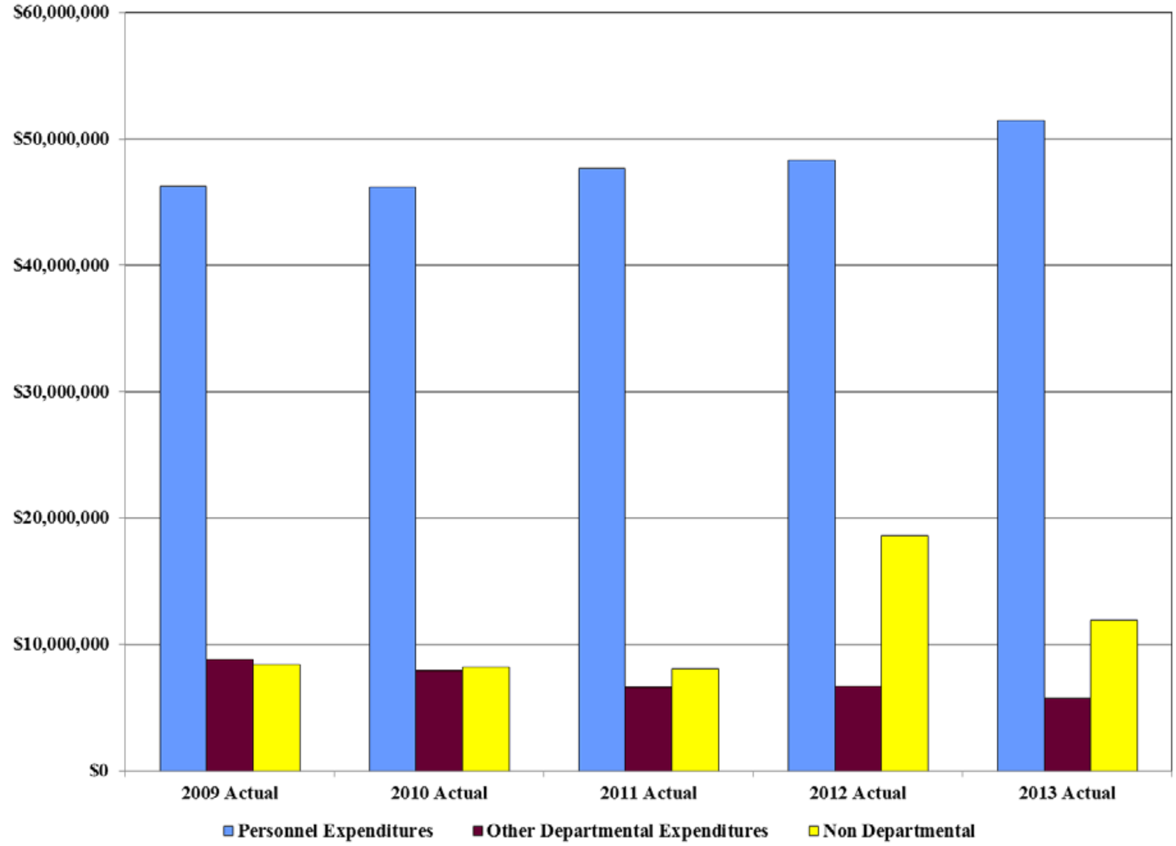
(**Excluding** Annual TRAN Principal Repayments)

Table A.7

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

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

Graph A.2



Personnel Expenditures

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

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

Table A.8

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

Source: Historical Data from City As Provided.

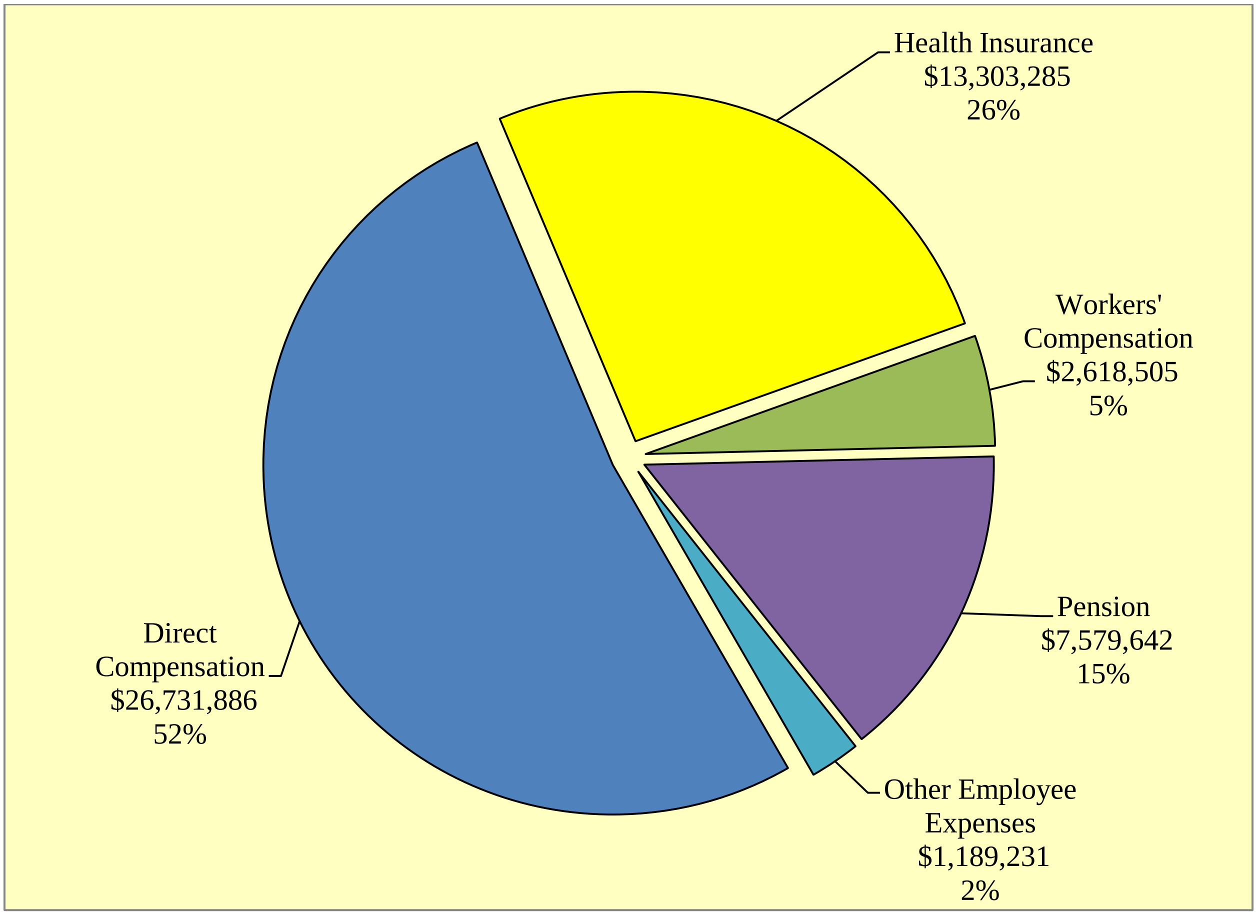
Total direct employee compensation increased by 10.3 percent between 2009 and 2013. Standard salary saw the largest growth in direct compensation and the second highest absolute growth of any personnel expenditure, rising by $2.9 million or 14.6 percent. Longevity experienced the highest percentage growth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

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

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

Personnel Expenditures General Fund
FY2013 Actual
City of Scranton

Graph A.3



Other Departmental Expenditures

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

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

Other Departmental Expenditures
City of Scranton
2009 - 2013

Table A.9

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

Source: Historical Data from City As Provided

Non-Departmental Expenditures

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

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

Non-Departmental Expenditures
City of Scranton
2009 - 2013

Table A.10

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

Expenditure Review—2009 – 2013: Summary

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

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

2014 Operating Budget Review

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

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

2014 Operating Budget
City of Scranton

Table A.11

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

Revenue

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

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

2014 Operating Revenues

Table A.12

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

Expenditures

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

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

The TAN repayment is anticipated to be lower than budgeted because the City borrowed only $13 million rather than the budgeted $17 million. Unpaid prior year expenses were paid but recorded in 2013. As previously noted, a borrowing for the $22 million court award was not obtained so the expenditure was not made. The combination of not paying the court award, along with unpaid prior year expense and interest and debt payments that are not reflected in the comparison, are the major reasons that total estimated expenditures are $37.0 million or 28.4 percent lower than budgeted expenditures for 2014.

2014 Operating Budget--Expenditures
City of Scranton

Table A.13

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

2014 Year End Carryover

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

2014 Year End Outstanding Payables
City of Scranton

Table A.14

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

Appendix B
Debt Obligations, Pension, and Other Post-Employment Benefits

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

Debt Policy

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

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

Long-Term Debt Obligations

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

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

Short-Term Debt Obligations

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

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

Table B.1

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

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

Table B.2

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

Guaranteed Authority Debt

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

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

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

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

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

Letter of Credit

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

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

Pension Funding and Other Post-Employment Benefits

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

Combined as distressed pension plans since 1987 under the provisions of the Commonwealth's Act 205, the City's police, firefighter, and non-uniformed pension funds provide annual pension payments to the City's retired employees. According to the Auditor General's Compliance Audit of August 2014, as of January 1, 2013, the Scranton police pension fund has a funded ratio of 28.8%; the Scranton firefighter's pension fund has a funded ratio of 16.7%; and the Scranton non-uniformed pension fund had a funded ratio of 23.0%. The combined pension funds paid out approximately $13.0 million in pension benefits to retirees in 2014, while receiving approximately $5.0 million per year in investment earnings and contributions from current employees. The City currently contributes approximately $9.0 million per year as its required annual Minimum Municipal Obligation (MMO) and the Commonwealth contributes approximately $3.0 million in annual aid.

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

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

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

Refinance the City's Debt

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

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