Introduced in Council on above date and referred to Committee on July 7, 2020

RULES

City Clerk

Scranton, PA July 21, 2020

Committee on Rules reports favorably on the within ordinance

Chairman

SIXTH ORDER: July 14, 2020

FILE OF THE COUNCIL NO. 12

2020

AN ORDINANCE

AMENDING FILE OF THE COUNCIL NO. 111, 2017 OF THE CITY OF SCRANTON ADOPTING AND IMPLEMENTING THE ACT 47 EXIT PLAN FOR THE CITY OF SCRANTON PURSUANT TO THE FINANCIALLY DISTRESSED MUNICIPALITIES ACT; AND AUTHORIZING THE MAYOR OF THE CITY OF SCRANTON TO ISSUE AN ORDER DIRECTING THE IMPLEMENTATION OF THE ACT 47 EXIT PLAN AMENDMENT WHICH WILL BECOME EFFECTIVE UPON ADOPTION ATTACHED HERETO AS EXHIBIT "A" IN ACCORDANCE WITH THE PROVISIONS OF 53 Pa. C.S.A. §11701.249, THE MUNICIPALITIES FINANCIAL RECOVERY ACT.

WHEREAS, the City of Scranton has been declared a Distressed Municipality by the Secretary of the Department of Community and Economic Development ("DCED") of the Commonwealth of Pennsylvania in accordance with Public Law 246, July 10, 1987, Act 47, the Distressed Municipalities Act, ("Act 47"); and

WHEREAS, pursuant to Ordinance No. 111 of 2017, the City of Scranton approved an Act 47 Exit Plan commissioned and prepared by the by the Pennsylvania Economy League, the City of Scranton's Act 47 Recovery Plan Coordinator, with the assistance of the City of Scranton; and

WHEREAS, the Pennsylvania Economy League, with the assistance of the City of Scranton, have prepared an Act 47 Exit Plan Amendment which will become effective upon adoption of said Act 47 Exit Plan Amendment hereby amending any and all previous Exit Plans, which is hereby submitted; and

WHEREAS, the Municipalities Financial Recovery Act, 53 Pa, C.S.A. §11701.245 and §11701.249 provide that the Chief Executive Officer (the Mayor of Scranton) in a Home Rule Municipality, may issue an Order directing the implementation of the Act 47 Exit Plan Amendment no later than seven (7) days following the enactment of an Ordinance approving the Plan Amendment.

NOW, THEREFORE, BE IT ORDAINED BY THE CITY OF SCRANTON COUNCIL that the Act 47 Exit Plan Amendment attached hereto as Exhibit "A" submitted by the Pennsylvania Economy League is hereby approved and adopted in accordance with the provisions of the Financially Distressed Municipalities Act, and Exhibit "A" provisions shall supersede and control any conflicts with the prior Exit Plan which it amends and the Mayor and other appropriate

CERTIFIED COPY

City Clerk

Officials of the City of Scranton are hereby authorized to execute any and all documents necessary to implement the Act 47 Exit Plan Amendment attached hereto as Exhibit "A".

SECTION 1. If any section, clause, provision or portion of this Ordinance shall be held invalid or unconstitutional by any Court of Competent Jurisdiction such decision shall not affect any other section, clause, provision or portion of this Ordinance, so long as it remains legally enforceable, minus the invalid portion. The City reserves the right to amend this Ordinance or any portion thereof from time to time as it shall deem advisable in the best interest of the promotion of the purposes and intent of this Ordinance, and the effective administration thereof.

SECTION 2. This Ordinance shall become effective immediately upon approval.

SECTION 3. This Ordinance is enacted by the Council of the City of Scranton under the authority of the Act of Legislature, April 13, 1972, Act No. 62, known as the "Home Rule Charter and Option Plans Law" and any other applicable law arising under the laws of the State of Pennsylvania.

Passed by the Council
July 21, 2020
Receiving the Affirmative votes of Council Persons
Schuster, McAndrew, Rothchild, Donahue, Gaughan

Negative NONE

William Gaughan Jr
President

Approved 7/22/2020
Mayor
City Clerk
Certified Copy

ACT 47 EXIT PLAN
AMENDMENT
FOR THE
CITY OF SCRANTON

Prepared For:

The City of Scranton

Date Amendment Filed:

July 1, 2020

Effective Upon Adoption by Ordinance

Prepared By:

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

PENNSYLVANIA
ECONOMY LEAGUE
Information, Insight, Integrity.

88 North Franklin Street, Suite 200 • Wilkes-Barre, PA 18701-1393
Phone: 570.824.3559 • Fax: 570.829.8099
www.pelcentral.org • Email: pel@pelcentral.org

Serving the Commonwealth and its communities from offices in:
Harrisburg • Philadelphia • Pittsburgh • Wilkes-Barre

July 1, 2020

Mayor Paige Gebhardt Cognetti
City of Scranton
340 North Washington Avenue
Scranton, PA 18503

Mr. William Gaughan
Council President
City of Scranton
340 North Washington Avenue
Scranton, PA 18503

Mr. Carl Deeley
Business Administrator
City of Scranton
340 North Washington Avenue
Scranton, PA 18503

Dear Mayor Cognetti, Council President Gaughan, and Mr. Deeley:

The COVID-19 pandemic is negatively impacting most, if not all, of the commonwealth's municipalities. This includes the City of Scranton. On May 29, 2020, the Governor of Pennsylvania signed into law Fiscal Code-Omnibus Amendments, P.L. 158, No. 23 ("Act 23 of 2020"). Section §2.1 of Act 23 of 2020 added a new Section §1604-D.1 to the Fiscal Code. Section §1604-D.1 provides as follows:

> Section 1604-D.1. Emergency plan extension.
>
> A municipality operating pursuant to a recovery plan under the act of July 10, 1987 (P.L.246, No.47), known as the Municipalities Financial Recovery Act, shall be eligible for an 18-month extension beyond the time limit imposed under section 254 of the Municipalities Financial Recovery Act.

The City adopted its current three-year Act 47 Exit Plan on July 27, 2017 ("2017 Exit Plan"). As you are aware, the three-year time limit of the City's adopted 2017 Exit Plan expires on July 27, 2020. Pursuant to Act 23 of 2020, the City is eligible for an 18-month extension beyond the July 27, 2020, time limit imposed by section 254 of Act 47.

In light of the enactment of Act 23 of 2020, the Pennsylvania Economy League, the City's Act 47 Coordinator ("Coordinator"), in consultation with the PA Department of Community and Economic Development ("DCED"), has prepared the enclosed *Act 47 Exit Plan Amendment for the City of Scranton* ("Exit Plan Amendment"). Section 249 of Act 47 authorizes the Coordinator to initiate an amendment to an adopted plan which must be adopted by City ordinance. The following is a review of the amendments included in the Exit Plan Amendment.

A. The Coordinator amended the entire Chapter 2 of the 2017 Exit Plan to update the text and baseline general fund projections. The Coordinator has revised the underlying assumptions used in the *Act 47 Coordinator's Recommendation to the Secretary of the Department of Community and Economic Development for the City of Scranton*, delivered by the Coordinator to DCED on March 31, 2020, and distributed to City officials on the same day. The Coordinator's revision of the underlying assumptions used in this Exit Plan Amendment have significantly increased the City's projected general fund operating fund deficits in the years 2020 – 2023.

As the City begins to receive 2020 second quarter tax revenue from its tax collectors and economic activity resumes in late summer 2020, the Coordinator will commence updating the 2020 – 2023 baseline financial projects included in this Exit Plan Amendment. In this vein, the Coordinator intends to continue its working relationship with the City administration and City Council with the preparation of the City's 2021 budget to project as reasonably as possible the City's general fund revenues and expenditures for 2021.

B. In Chapter 3, the Coordinator amended the text and tables on pages 3-1 through 3-5. The remainder of Chapter 3 in the 2017 Exit Plan remains unchanged.

C. The Coordinator amended the entire Chapter 10 of the 2017 Exit Plan to update the text and baseline general fund projection table. The Coordinator also amended the Deficit Abatement Initiatives in Chapter 10.

D. The Coordinator added a new Chapter 11 to reflect the permitted 18-month extension of the 2017 Exit Plan. The new expiration of the 2017 Exit Plan will be January 27, 2022.

All other terms and conditions of the City's adopted 2017 Exit Plan remain valid and enforceable.

As mentioned previously, the City is required to enact an ordinance adopting the proposed amendments to the City's 2017 Exit Plan prior to the expiration of its three-year time limit—July 27, 2020. The included Exit Plan Amendment is the complete and final document for the City's consideration. The Coordinator is available to discuss with City officials, both executive and legislative, any concerns or issues they may have regarding this letter or the proposed amendments.

Sincerely,

LeeAnne M Clayberger

LeeAnne Clayberger
Chief Executive Officer

cc: Members of City Council
DCED

INTRODUCTION

On February 17, 2017, the Pennsylvania Economy League, the City of Scranton's appointed Act 47 Coordinator ("Coordinator"), filed with the City a *Report Stating the Financial Condition of the City of Scranton* ("Financial Condition Report"). The Coordinator's Financial Condition Report recommended, pursuant to §255 of Act 47, that a three-year exit plan be prepared for the City. On June 30, 2017, the Coordinator filed with the City the *Act 47 Exit Plan for the City of Scranton*, as revised ("2017 Exit Plan"). The City subsequently adopted the 2017 Exit Plan on July 27, 2017. The three-year time limit of the City's adopted 2017 Exit Plan expires on July 27, 2020.

On May 29, 2020, the Governor of Pennsylvania signed into law Fiscal Code-Omnibus Amendments, P.L. 158, No. 23 ("Act 23 of 2020"). Section §2.1 of Act 23 of 2020 added a new Section §1604-D.1 to the Fiscal Code. Section §1604-D.1 provides as follows:

> Section 1604-D.1. Emergency plan extension.
>
> A municipality operating pursuant to a recovery plan under the act of July 10, 1987 (P.L.246, No.47), known as the Municipalities Financial Recovery Act, shall be eligible for an 18-month extension beyond the time limit imposed under section 254 of the Municipalities Financial Recovery Act.

Pursuant to Act 23 of 2020, the City is eligible for an 18-month extension beyond the July 27, 2020, time limit imposed by section 254 of Act 47.

The Coordinator, in consultation with the PA Department of Community and Economic Development ("DCED"), has prepared this *Act 47 Exit Plan Amendment for the City of Scranton* ("Exit Plan Amendment"). Section 249 of Act 47 authorizes the Coordinator to initiate an amendment of a plan prepared by the Coordinator. Such plan amendment must be adopted by ordinance by the City to become effective.

The primary purpose of this Exit Plan Amendment is to extend the term of the 2017 Exit Plan by the 18 months authorized by Act 23 of 2020. However, due the fact that the financial projections and cost containment provisions included in the 2017 Exit Plan are only through 2020, the Coordinator is obligated to update the financial projections and cost containment provisions included in the 2017 Exit Plan. The pages that follow include the terms and provisions of the 2017 Exit Plan that are amended by this Exit Plan Amendment. The remaining chapters, sections, tables and initiatives included in the 2017 Exit Plan shall remain valid and in effect. The terms and provisions included in this Exit Plan Amendment shall become effective immediately upon the adoption by ordinance by the City of Scranton.

Summary of Exit Plan Amendments

Section of 2017 Exit Plan	Amendment Action
Chapter 2	The entire Chapter 2 of the 2017 Exit Plan is hereby replaced by the Chapter 2 included in this Exit Plan Amendment.
Chapter 3 pages 3-1 through 3-5	Pages 3-1 through 3-5 of Chapter 3 of the 2017 Exit Plan are hereby amended. This includes all text and tables in the introduction section of Chapter 3 and all text and tables in the section titled Exit Plan Compliance with Act 133 of 2012. The remainder of Chapter 3 beginning with the section titled Workforce Cost Containment Provisions remains valid and in effect.
Chapter 10	The entire Chapter 10 of the 2017 Exit Plan is hereby replaced by the Chapter 10 included in this Exit Plan Amendment.
Chapter 11	Chapter 11 in the Exit Plan Amendment is a new chapter incorporated into and made a part of the 2017 Exit Plan.

CHAPTER 2

BASELINE GENERAL FUND PROJECTIONS 2020 - 2023

The 2017 Exit Plan contained baseline projections for the years 2017 - 2020. The extension of the City's Act 47 termination date beyond July 27, 2020, pursuant to Act 23 of 2020 obligates the Coordinator to correspondingly update the City's baseline financial projections. In the Coordinator's March 31, 2020, *Act 47 Coordinator's Recommendation to the Secretary of the Department of Community and Economic Development for the City of Scranton* (2020 Recommendation), the Coordinator provided updated City baseline projections for the years 2021 - 2025.[1] However, the Coordinator noted that the 2020 Recommendation's baseline projections were prepared *before* the outbreak of the COVID-19 pandemic. The Coordinator also cautioned that the baseline projections included in the 2020 Recommendation were subject to revision based on the progression of the pandemic's effect on the U.S. economy. Even though the U.S. and City economy has experienced over 3 months of the effect of the COVID-19 pandemic, the magnitude of the potential loss of revenue to the City in 2020 and beyond still remains uncertain at this time. Thus, the Coordinator realizes that several of the revenue assumptions used to develop the 2017 Exit Plan and 2020 Recommendation baseline projections are now moot until an equilibrium is established in several City revenue line items.

Act 23 of 2020 has placed the Coordinator in the unenviable position of having to make long-term financial projections as the financial ground upon which such projections are made is undergoing a major financial shift. Nonetheless, the Coordinator has reviewed the underlying assumptions used to make past baseline financial projections in the 2017 Exit Plan and the 2020 Recommendation. The Coordinator, in consultation with DCED and City officials, has revised the underlying assumptions of certain City revenue line items that the Coordinator reasonably believes reflects, to the extent possible at this time, adjustments to the underlying assumptions based on events over the past 3 months. It is the Coordinator's hope that over the next 3-6 months that the nadir of some City revenue line items will occur and then the Coordinator, in conjunction with the City, can begin the process of building more reliable baseline financial

[1] See Appendix A, *Act 47 Coordinator's Recommendation to the Secretary of the Department of Community and Economic Development for the City of Scranton*, Table 4, page 13.

projections for the City. In this vein, the Coordinator intends to continue its working relationship with the City administration and City Council with the preparation of the City's 2021 general fund operating budget over the coming months to project as reasonably as possible the City's general fund revenues and expenditures for 2021.

The assumptions below were used by the Coordinator to develop the City's 2020 – 2023 baseline financial projections in this Exit Plan Amendment.

Revenue Assumptions:

- All 2020 tax rates and fees were held constant through 2023.
- The following revenue items were reviewed on a line-by-line basis by the Coordinator and were adjusted accordingly, if necessary.
    - The City's real estate tax revenues will steady decline during the period due mostly to historical trends in assessment as a result of the lack of a countywide reassessment. It is uncertain whether the City's annual property tax collections will experience a decrease in 2020 and beyond due to the COVID-19 pandemic. Thus, the Coordinator has left unchanged the real estate tax revenues assumptions used in the 2020 Recommendation.
    - The City's earned income tax (EIT) revenue is projected to decrease by 7.5 % in 2020. City EIT revenue is thereafter increased annually by 1.0 percent.
    - The City's local services tax (LST) revenue is maintained at the Court approved Act 47 rate through the period. LST revenues are projected to decrease by 5% in 2020. LST revenue is thereafter increased annually by 0.1 percent.
    - Revenue from the City's business privilege and mercantile tax (BPMT) are projected at this time to remain the same as budgeted for 2020. The 2020 BMPT revenue projection is based on 2019 business gross receipts which were pre-COVID-19. However, BPMT revenue is decreased by 5% in 2021 and held at 2021 levels for 2022 and 2023.
    - The City's real estate transfer tax is projected to decrease by 5% in 2020. City real estate transfer tax revenue is held constant at the 2020 decreased projection for the years 2021 - 2023.

- The City's refuse fee revenue is decreased by 5% for 2020. City refuse fee revenue is held constant at the 2020 decreased projection for the years 2021 - 2023.
- Supplemental State Aid for pension was increased 2.0 percent annually.

- Other revenues are held constant over the period based upon the Act 47 Coordinator's historical data and trend analysis.

General Fund Revenue Projections—2020 – 2023

As shown in Table 2-1, the City's General Fund operating revenues are projected to decrease by $2.6 million or 2.6 percent from $99.7 million in 2020 to $97.1 million in 2023.

Tax revenue is anticipated to increase from $72.7 million in 2020 to $73.3 million in 2023, an increase of $589,866 or 0.8 percent.

Table 2-1
General Fund Baseline Revenue Projections
2020 – 2023

	2020	2021	2022	2023	Change	
Revenue	Estimated	Projected	Projected	Projected	$	%
Real Estate Taxes	$35,832,840	$35,797,007	$35,761,210	$35,725,449	($107,391)	(0.3)
EIT	26,711,516	26,978,631	27,248,418	27,520,902	809,386	3.0
LST	1,567,500	1,569,068	1,570,637	1,572,207	4,707	0.3
LST Act 47	3,135,000	3,138,135	3,141,273	3,144,414	9,414	0.3
Merc/BPT/Payroll Prep	2,575,000	2,448,750	2,448,750	2,448,750	(126,250)	(4.9)
RE Transfer Tax	2,613,500	2,613,500	2,613,500	2,613,500	0	0.0
Other Taxes	295,000	295,000	295,000	295,000	0	0.0
Total Tax Revenue	**$72,730,357**	**$72,840,091**	**$73,078,788**	**$73,320,223**	$589,866	0.8
Refuse Revenue	6,456,438	6,456,438	6,456,438	6,456,438	0	0.0
Licenses & Permits	2,038,164	2,038,164	2,038,164	2,038,164	0	0.0
Intergovernmental	4,459,266	4,429,618	4,516,758	4,605,619	146,352	3.3
Transfers	9,398,901	8,339,451	8,339,451	7,539,451	(1,859,450)	(19.8)
Other Non-tax revenue	4,654,324	3,131,726	3,130,954	3,130,184	(1,524,140)	(32.7)
Non-Tax Revenue	**$27,007,093**	**$24,395,397**	**$24,481,765**	**$23,769,855**	**($3,237,237)**	**(12.0)**
Total Revenue	**$99,737,449**	**$97,235,489**	**$97,560,553**	**$97,090,078**	**($2,647,371)**	**(2.7)**

Expenditure Assumptions:

- The number of personnel is held constant at the 2020 general fund 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 held constant.
- Employee/retiree medical insurance expenditures were increased annually by 5.5 percent from 2020 through 2023 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.
- No new or increased capital expenditures are included.
- Municipal pension obligations for 2020 are at the City's budgeted level. For 2021 – 2023 the projected MMO, as provided to the Coordinator by the City's Actuary, is based on a 7.25 percent return rate and the annual retiree COLAs suspended.
- Other expenditures were increased at various levels based on the Coordinator's historical data and trend analysis.
- No further increases in the costs of any other benefits were included.

General Fund Expenditure Projections—2020 - 2023

As illustrated in Table 2-2, the City's total operating expenditures are projected to increase from $103.3 million in 2020 to $105.2 million in 2023. Increases are noted in employee expenditures by $5.2 million or 7.5 percent. Pension and workers compensation expenditures were held constant at the 2020 budget level.

Table 2-2
General Fund Baseline Expenditure Projections
2020 - 2023

	2020	2021	2022	2023	Change	
Expenditures	**Estimated**	**Projected**	**Projected**	**Projected**	**$**	**%**
Direct Compensation	$34,509,898	$35,179,137	$35,832,273	$36,467,645	$1,957,746	5.7
Benefits	19,580,792	20,606,215	21,688,037	22,829,359	3,248,567	16.6
Pension	11,789,532	11,789,532	11,789,532	11,789,532	0	0.0
Workers Comp	3,109,811	3,109,811	3,109,811	3,109,811	0	0.0
Employee Expenditures	**$68,990,033**	**$70,684,695**	**$72,419,653**	**$74,196,347**	**$5,206,314**	**7.5**
Capital Expenditures	3,682,750	1,412,750	1,412,750	1,412,750	(2,270,000)	(61.6)
Other Departmental Expenditures	8,985,223	9,171,898	9,354,008	9,531,088	545,865	6.1
Non-Departmental Expenditures	3,042,420	1,342,537	1,349,772	1,356,807	(1,685,613)	(55.4)
Debt Service	18,648,096	18,702,380	18,629,708	18,692,754	44,658	0.2
Total Expenditures	**$103,348,522**	**$101,314,261**	**$103,165,892**	**$105,189,747**	**$1,841,224**	**1.8**

Other Departmental Expenditures are projected to increase slightly from $9.0 million in 2020 to $9.5 million in 2023 or 6.1 percent. Decreases are projected in non-departmental expenses at $1.7 million or 55.4 percent and in capital expenses, $2.27 million.

General Fund Projections—2020 – 2023

As based upon the above revenue and expenditure assumptions, Table 2-3 illustrates that the City's projected baseline deficit is expected to grow from $3.6 million in 2020 to $8.1 million in 2023.

Table 2-3
Baseline General Fund Projections
2020 – 2023
Excludes TRAN Principal

	2020 Estimated	2021 Projected	2022 Projected	2023 Projected
Revenues	$99,737,449	$97,235,489	$97,560,553	$97,090,078
Expenditures	$103,348,522	$101,314,261	$103,165,892	$105,189,747
Surplus/(Deficit)	($3,611,073)	($4,078,772)	($5,605,339)	($8,099,669)

Note: Totals may not add due to rounding.

Conclusion

The baseline projections for the period 2020 – 2023 project that the City will have operating budget deficits throughout the period. The negative impact on several of the City's revenue line items in 2020 will take months and, depending on the strength of the recovery of the U.S. economy, maybe years to return to pre-COVID-19 levels. Meanwhile, the Coordinator stresses that the City's operating expenditures will continue to increase annually being driven by contracted wage increases and increases in employee benefit expenses, in particular employee health care. As the City begins to receive 2020 second quarter tax revenue from its tax collectors and economic activity resumes in late summer 2020, the Coordinator will commence updating the 2020 – 2023 baseline financial projects included in this Exit Plan Amendment. The Coordinator intends to continue its working relationship with the City administration and City Council with the preparation of the City's 2021 budget to project as reasonably as possible the City's general fund revenues and expenditures for 2021. The Coordinator has included initiatives in this Exit Plan Amendment to guide the City through the remainder of fiscal year 2020 and beyond.

CHAPTER 3
WORKFORCE

While the cash compensation and benefits provided to City employees varies greatly by individual, the Coordinator's financial review of City personnel expenditures presented within the 2017 Exit Plan exhibit a very clear conclusion – the City must control its future personnel expenditures (wages, health benefits, workers compensation and pensions) to sustain its long-term operations. Personnel expenditures, for active employees *and* retirees, represent the majority of the City's General Fund operating expenses and rise annually during the review period. In addition to direct compensation, 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; a taxpayer guaranteed level of retirement benefits through a defined benefit pension plan; increased costs to the pension plan due to excessive awarding of disability pensions historically, and the inability to collect offsets on the foregoing even when the employee obtains other gainful employment. This level of cash compensation and benefits is offered within the context of the City's weak tax base and the stagnation or even reduction of major City revenue sources absent tax increases.

The City's fiscal health cannot be achieved without controlling its future personnel expenses, especially direct compensation, overtime, health care expenses, workers' compensation and pension benefits.

Number of Budgeted Employees by Category and Year

Category	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Administrative	32	22	29	28	28	30	27	29	32	31
Clerical	60	57	59	59	60	59	55	56	57	57
Firefighter	137	131	134	131	125	125	135	134	137	136
Legislative	7	7	7	7	7	7	7	7	7	7
Police	148	139	141	141	142	142	146	146	146	146
Public Works	93	84	84	84	84	86	93	94	95	96
Single Tax Office	27	19	19	17	17	17	17	17	18	18
Total	**504**	**459**	**473**	**467**	**463**	**466**	**480**	**483**	**492**	**491**

Control over personnel expenses is essential to the City'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 has resorted to layoffs or not filling vacant positions because it was unable to reduce or contain other components of compensation. However, complement reductions must also be balanced with the City's need to provide necessary and vital services to its businesses and residents. While reductions in the City's employee complement temporarily reduces City operating expenditures, the City cannot adequately address its structural operating deficits without diligently managing the entire employee compensation package it offers its employees so that the growth in employee compensation and employee benefits more closely tracks the City's revenue growth.

It is the Coordinator's intent to maintain an open and cooperative dialog between the City and its represented employees. Over 90 percent of the City's employees are represented by a collective bargaining unit.

Employee Group	Description	Term of CBA	Current Covered Positions
International Association of Machinists and Aerospace Workers Local 2462	All non-uniformed, non-management employees (Clerical)	Expiration Date 12/31/2020	57
International Association of Machinists and Aerospace Workers Local 2305*	Departments of Public Works, Parks and Recreation	Expiration Date 12/31/2021	96
Fraternal Order of Police (FOP), Lodge No. 2	All sworn Police Officers including all ranking Police Department officers who are covered by the FOP Collective Bargaining Agreement	Expiration Date 12/31/2021	146
International Association of Fire Fighters (IAFF), Local Union No. 669	All Fire Fighters including Fire Department officers who are covered by the IAAFF Collective Bargaining Agreement	Expiration Date 12/31/2021	136
Management and Non-Collective Bargaining Positions	Management and Non-Collective Bargaining Positions		31

These employees provide essential services to the City's residents from police and fire protection to the collection of refuse and the maintenance of City streets and parks. The Coordinator encourages the City and its represented employees to be ever mindful of the fact that the ultimate purse from which the funds used to provide these services are the hardworking citizens of the City. A financially insolvent City benefits no one.

Exit Plan Compliance with Act 133 of 2012

As required by Act 133 of 2012 (Act 133), which amended the Act 47, the Coordinator is required to provide an aggregate limit on expenditures for each individual collective bargaining unit for the current fiscal year and the next three years. The Coordinator has updated the aggregate expenditure limits for each individual collective bargaining unit in this Exit Plan Amendment. The expenditure limits were developed to offer each collective bargaining unit and the City an opportunity to actively participate in collective bargaining negotiations that produce an outcome consistent with the purpose of Act 47 and the amendments thereto. With limited exceptions for arbitration settlements rendered pursuant to Act 111 of 1968 (the Policemen and Firemen Collective Bargaining Act), any future collective bargaining agreement or memorandum of understanding or any amendment to any current collective bargaining agreement or memorandum of understanding agreed to by the City and any of its collective bargain units or any future arbitration settlement or adjustment rendered shall not exceed the expenditure limits provided in the 2017 Exit Plan and this Exit Plan Amendment. The expenditure limits contained herein shall become applicable upon the City's adoption of this Exit Plan Amendment.

The expenditure limits include the following assumptions which may be changed through collective bargaining but the total expenditures are not to exceed the total limits for each bargaining unit as provided in this Exit Plan Amendment. 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 2020 Operating Budget workforce level.
- Current wages have been increased as specified in collective bargaining agreements, memorandum of understanding, interest arbitration awards or court orders. At the conclusion of the current collective bargaining agreement, memorandum of

understanding or arbitration award, wages are anticipated to increase two percent annually for all bargaining units.

- Category of "Other Salary" is held constant at the 2020 budget amount.
- Longevity salary has been increased as specified in any current collective bargaining agreement, memorandum of agreement, interest arbitration award or court orders.
- Overtime salary is held constant at the 2020 budget amount.
- Uniform allowances are held at the 2020 budget amount.
- Employee medical insurance expenditures were increased annually by 5.5 percent from 2020 through 2021 in conformance with recently observed City experience and similar annual increases projected for other local government entities.
- Life and short-term disability insurance (non-pension disability benefit) is increased at 3.0 percent annually based on recent premium experience.
- Social Security costs have been increased by the rate of any increase in underlying salaries and wages.

The following maximum expenditure limits for each City collective bargaining unit and group of employees shall be effective upon adoption of this Exit Plan Amendment and shall remain in effect until the 2017 Exit Plan is further amended, is replaced by an emergency action plan pursuant to Chapter 6 of Act 47 or the City's distress determination is terminated.

Act 133 Aggregate Limits by Collective Bargaining Unit

International Association of Machinists and Aerospace Workers Local 2305	2020 Projected	2021 Projected	2022 Projected
Standard Salary	$4,523,209	$4,622,720	$4,719,797
Other Salary (Misc)	185,000	185,000	185,000
Longevity Salary	185,843	189,932	193,920
Overtime Salary	440,750	440,750	440,750
Uniform Allowance	37,020	37,020	37,020
Health Insurance - DPW Union Active	2,118,394	2,234,906	2,357,826
Social Security	408,112	416,038	423,769
Total Public Works	**$7,898,329**	**$8,126,365**	**$8,358,082**

International Association of Machinists and Aerospace Workers Local 2462 Clerical	2020 Projected	2021 Projected	2022 Projected
Standard Salary	$2,198,775	$2,247,148	$2,294,338
Other Salary (Misc)	13,000	13,000	13,000
Longevity Salary	41,084	41,988	42,869
Overtime Salary	8,000	8,000	8,000
Uniform Allowance	1,500	1,500	1,500
Health Insurance - Clerical Union Active	1,608,200	1,696,651	1,789,966
Social Security	172,956	176,725	180,403
Total Clerical	**$4,043,514**	**$4,185,012**	**$4,330,077**

Police	2020 Projected	2021 Projected	2022 Projected
Standard Salary	$10,188,969	$10,413,126	$10,631,802
Other Salary (Misc)	350,000	350,000	350,000
Longevity Salary	872,919	892,123	910,858
Overtime Salary	700,000	700,000	700,000
Court Appearance Salary	174,400	174,400	174,400
Uniform Allowance	115,850	115,850	115,850
Health Ins-Police Union Active	6,525,933	6,884,860	7,263,527
Life/Disability Insurance	150,634	150,634	150,634
Police Education Allowance	50,000	50,000	50,000
Social Security	178,151	181,680	185,122
Total Police	**$19,306,856**	**$19,912,673**	**$20,532,193**

Fire	2020 Projected	2021 Projected	2022 Projected
Standard Salary	$10,184,989	$10,409,058	$10,627,649
Other Salary (Misc)	205,000	205,000	205,000
Longevity Salary	736,942	753,155	768,971
Overtime Salary	325,000	325,000	325,000
Uniform Allowance	98,550	98,550	98,550
Health Insurance - Fire Union Active	5,964,788	6,292,852	6,638,958
Life/Disability Insurance	141,521	141,521	141,521
Social Security	166,053	169,537	172,936
Total Fire	**$17,822,843**	**$18,394,673**	**$18,978,585**

CHAPTER 10
ACHIEVING BALANCED GENERAL FUND BUDGETS 2020 – 2023

The COVID-19 pandemic gripping the United States and the world is negatively impacting the U.S. and global economy in ways not seen since the Great Depression. The negative economic impact of the COVID-19 pandemic is also affecting the economy of the Commonwealth of Pennsylvania and its municipalities. Scranton is no exception. The Coordinator's baseline projections for the years 2020 – 2023 as outlined in Chapter 2 of this Exit Plan Amendment project the City to incur increasing general fund operating budget deficits during this time period. (See Table 10-1.)

Table 10-1
Baseline General Fund Projections
2020 – 2023
Excludes TRAN Principal

	2020 Estimated	**2021 Projected**	**2022 Projected**	**2023 Projected**
Revenues	$99,737,449	$97,235,489	$97,560,553	$97,090,078
Expenditures	$103,348,522	$101,314,261	$103,165,892	$105,189,747
Surplus/(Deficit)	($3,611,073)	($4,078,772)	($5,605,339)	($8,099,669)

Deficit Abatement Initiatives

As previously mentioned, the Coordinator will continue to monitor the City's 2020 operating budget's performance with special attention on the operating budget's revenue line items. The Coordinator will update the 2020 – 2023 baseline financial projections and initiatives as warranted. It is the Coordinator's opinion that the implementation of the following initiatives will assist the City in eliminating the operating budget deficits projected in the years 2020 - 2023 and will help ensure that the City maintains a cash surplus to meet its expenditure obligations as they come due.

DA1 The Coordinator recommends that City officials pursue any state or federal financial assistance that becomes available for which the City is eligible to help offset the loss of City anticipated revenue due to the COVID-19 pandemic. This includes utilizing any new legislation that will assist the City with revenue enhancements or expenditure controls.

DA2 The Coordinator recommends that City officials continue to lobby their local state and federal legislative representatives for the introduction and passage of legislation that will be of assistance to the City and other municipalities. The City shall coordinate its lobbying efforts with other similarly situated commonwealth municipal officials and statewide organizations of which it is a member such as the Pennsylvania Municipal League.

DA3 The Coordinator recommends that the City continue to monitor its monthly cash flow projections through the end of 2020 and evaluate the necessity of a potential unfunded debt obligation as authorized by the Local Government Unit Debt Act, Act 177 of 1996, in the 4th quarter of 2020 to prevent a cash flow deficit during 2020.

DA4 The Coordinator recommends that the City not exceed the employee count by department beyond those budgeted in the 2020 general fund budget throughout the term of this Exit Plan Amendment, unless the addition of employees beyond those budgeted in the 2020 general fund budget complies with the Act 133 aggregate limits.

DA5 The Coordinator recommends that to the extent that the aforementioned deficit abatement initiatives do not entirely reduce the projected operating deficits, the City shall increase the tax rates on property to eliminate yearly operating deficits and/or reduce expenditures. The City may consider increases in other rates of taxation to reduce the impact of relying solely on property taxes for deficit reduction.

CHAPTER 11

EXTENSION OF EXIT PLAN TERMINATION DATE

The COVID-19 pandemic is negatively impacting most, if not all, of the commonwealth's municipalities. This includes the City of Scranton. On May 29, 2020, the Governor of Pennsylvania signed into law Fiscal Code-Omnibus Amendments, P.L. 158, No. 23 ("Act 23 of 2020"). Section §2.1 of Act 23 of 2020 added a new Section §1604-D.1 to the Fiscal Code. Section §1604-D.1 provides as follows:

> Section 1604-D.1. Emergency plan extension.
>
> A municipality operating pursuant to a recovery plan under the act of July 10, 1987 (P.L.246, No.47), known as the Municipalities Financial Recovery Act, shall be eligible for an 18-month extension beyond the time limit imposed under section 254 of the Municipalities Financial Recovery Act.

The City adopted its current three-year Act 47 Exit Plan on July 27, 2017 ("2017 Exit Plan"). The three-year time limit under the City's adopted 2017 Exit Plan expires on July 27, 2020.

Pursuant to Act 23 of 2020, the City is eligible for an 18-month extension beyond the July 27, 2020, time limit imposed by section 254 of Act 47. Section 249 of Act 47 authorizes a coordinator to initiate an amendment to a plan developed by a coordinator. A coordinator's amendment to a plan must be adopted by ordinance. The Coordinator recommends that the City extend the time limit imposed by §254 of Act 47 by 18 months to January 27, 2022. The City's adoption by ordinance of this Exit Plan Amendment will extend the time limit through January 27, 2022.

All other terms and conditions of the City's adopted 2017 Exit Plan remain valid and enforceable. If there is any conflict between any of the terms of this Exit Plan Amendment and the 2017 Exit Plan, the terms of this Exit Plan Amendment shall control.

APPENDIX

A

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

Prepared By:

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

March 2020

BACKGROUND

Scranton was incorporated as a city on April 23, 1866 with a population of 35,000. The City of Scranton (City) is located in Lackawanna County and is the largest municipality in northeastern Pennsylvania. It became a major commercial city—a center of mining, railroads and industry—and attracted thousands of new immigrants. By the mid-1930s, Scranton's population had swelled beyond 140,000 due to growth in the mining and industry. After World War II coal lost favor to oil and gas as heating fuel and manufacturing moved to lower labor cost areas of the United States and overseas. The City's population began a downward trend to an estimated 2015 population of 77,118.

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

The legislative branch is a Council that consists of five members elected at large for four-year terms. City Council appoints a City Clerk who is responsible for giving notice of Council meetings and keeping a journal of its proceedings. Council is required to meet once a week in regular session. All official and final action is taken by a majority vote. Ordinances or resolutions only become effective upon being signed by the Mayor or when passed by an extraordinary majority over the Mayor's veto. Council may adopt the Mayor's proposed budgets with or without amendments. If Council does not adopt a budget by December 15th the Mayor's proposed budget becomes the City's official budget for the ensuing year. The City's fiscal year commences on January 1 and ends on December 31.

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

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

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

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

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

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

FACTORS TO CONSIDER TO RESCIND A DISTRESS DETERMINATION

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

> (c) **Factors to Consider.** — If the secretary concludes that *substantial evidence* supports an affirmative determination for each of the following factors, the determination shall be that the distressed status will be rescinded. The secretary shall consider whether:
>
> (1) Operational deficits of the municipality have been eliminated and the financial condition of the municipality, as evidenced by audited financial statements prepared in accordance with generally accepted accounting principles and projections of future revenues and expenditures demonstrates a reasonable probability of future balanced budgets absent participation in this act.
> (2) Obligations issued to finance the municipality's debt have been retired, reduced or reissued in a manner that has adequately refinanced outstanding principle [*sic*] and interest and has permitted timely debt service and reasonable probability of continued timely debt service absent participation in this act.
> (3) The municipality has negotiated and resolved all claims or judgments that would have placed the municipality in imminent jeopardy of financial default.
> (4) The reasonably projected revenues of the municipality are sufficient to fund ongoing necessary expenditures, including pension and debt

> obligations and the continuation or negotiation of collective bargaining agreements and the provision of municipal services. Projections of revenues shall include any anticipated tax or fee increases to fund ongoing expenditures for the first five years after a termination of distressed status.

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

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

<u>Factor (1)</u>

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

The City provided the Coordinator with completed annual audits for the years 2016-2018. For 2019, the Coordinator utilized restated financial statements provided by the City. For 2020, the Coordinator will analyze the City's adopted 2020 operating budget and the Coordinator's database of City financials to create 2020 estimates.

During the period 2016 – 2019 the City experienced a mix of surpluses and deficits. The City's audited financial statements show that the City experienced an excess of revenues over expenditures of $3,972,101 in 2016. In 2016, the City received over $74,000,000 in proceeds from bonds. The principal 2016 bond financings consisted of $29,810,000 in bond financing to pay the police and fire judgment resulting from a 2011 Pennsylvania Supreme Court ruling; $7,720,000 refinancing a letter of credit that backed a 2008 taxable variable rate demand note; and $32,850,000 in bonds to generate the funds needed to defease the remaining outstanding debt of the Scranton Parking Authority (SPA) as part of the 2016 monetization of the SPA. The City also received $66,519,986 in proceeds from the sale of the Scranton Sewer Authority to a third party in December 2016 (2016 Sewer Sale Proceeds). This sale transaction significantly increased the City's fund balance from $5,050,411 to $75,542,498.

The City's 2017 audited financial statements evidence that the City experienced an excess of expenditures over revenues resulting in a deficit of ($42,262,695). However, this deficit occurred during 2017 due to the City's utilization of a portion of the 2016 Sewer Sale Proceeds in the fund balance to defease seven outstanding general obligation bonds and notes. The total long-term debt defeased by the City in 2017 was approximately $42,411,312. (See **Factor 2** for defeased 2017 debt details). The defeasance of the general obligation bonds and notes reduced the City's long-term debt general obligation notes and notes from $154,893,540 in 2016 to $113,463,684 in 2017. After accounting for the unbudgeted defeasance expenditure, the City's deficit in 2017 was ($148,617). The defeasance of these general obligation bonds and notes decreased the City's fund balance from $75,542,498 to $33,279,803.

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

For 2019, the City's 2019 unaudited financial statements were examined for this analysis. In 2019, the City experienced an excess of revenues over expenditures resulting in a $1,412,341 surplus. Unlike the prior three years, the City did not undertake any long-term debt obligations nor defease any long-term debt. The City's fund balance increased from $32,038,665 to $33,451,006.

Based upon the City's adopted 2020 budget and the Coordinator's financial database, the City is estimated to incur a slight deficit of ($124,290) in 2020. In 2020, the City will make its first principal payment of $6,000,000 on the Series of 2018 general obligation note thereby increasing the City's 2020 debt service payments. The City will transfer $6.0 million from the Webster Bank account to make this payment in 2020. The estimated 2020 deficit of ($124,290) will slightly reduce the City's fund balance to $33,326,716. (See Table 1.)

Table 1
CITY OF SCRANTON
General Fund Revenues and Expenditures
2016 to 2020

	2016 Audit	2017 Audit	2018 Audit	2019 Restated	2020 Estimated
Taxes	70,548,681	72,648,050	72,925,885	73,350,942	75,584,728
Intergovernmental	3,768,628	4,963,928	4,761,305	4,419,309	4,459,266
Departmental Earnings	1,410,012	281,014	554,483	307,639	447,000
Refuse Disposal Fee	7,440,667	6,637,754	6,970,633	7,268,069	7,111,678
Licenses & Permits	1,332,642	2,295,187	2,396,375	2,452,580	2,105,664
Cable Television Franchise Revenue	1,016,420	1,071,698	1,022,958	771,904	975,000
Payments In Lieu of Taxes	60,791	271,559	71,456	245,338	350,000
Investment Income	0	0	0	0	0
Other Revenues	904,101	3,073,037	881,339	1,161,203	967,300
Rents & Concessions	6,500	5,500	5,500	5,000	5,000
Program Income	0	0	432,088	0	0
Total Revenues	**86,488,442**	**91,247,727**	**90,022,022**	**89,981,984**	**92,005,636**
General Government	13,045,312	14,539,547	17,687,403	15,127,080	18,405,585
Public Safety	48,284,517	53,625,673	67,310,714	47,480,091	49,130,303
Public Works	10,889,714	12,384,073	13,074,685	13,044,460	13,601,452
Community Development	0	0	0	0	0
Culture & Recreation	649,603	685,201	725,924	949,953	872,015
Debt Service	12,420,110	8,943,290	10,688,041	12,212,524	18,201,846
Capital Outlay	0	1,975,936	3,912,713	1,876,768	1,893,300
Total Expenditures	**85,289,256**	**92,153,720**	**113,399,480**	**90,690,876**	**102,104,501**
Operating Surplus/(Deficit)	**1,199,186**	**(905,993)**	**(23,377,458)**	**(708,892)**	**(10,098,865)**
Transfers	1,016,976	2,930,526	169,391	2,741,550	9,398,901
Sale of Assets	0	2,570,139	0	0	1,520,824
Proceeds from Leases	0	0	1,944,539	106	100
Proceeds from Bonds	74,018,961	24,620,000	22,990,000	0	1,000
Premium of Issuance of Bonds	0	1,539,054			
TRAN	12,750,000	12,750,000	12,750,000	12,700,000	12,750,000
Transfers Out	-8,823,003	-175,000	-2,132,397	0	0
TRAN	-13,014,162	-12,964,896	-13,101,263	-12,946,598	-13,196,250
Payment to escrow Agent for Refunding/Retirements	0	-72,437,410	0	0	0
Parking Authority Debt Payments	-31,864,978				
Court Award Payment	-31,310,879	-189,115	-483,951	-373,824	-500,000
Total Other Financing Sources	**2,772,915**	**(41,356,702)**	**22,136,320**	**2,121,234**	**9,974,575**
Excess of Revenues & Other Financing Sources over Expenditures and Other Financing Uses	**3,972,101**	**(42,262,695)**	**(1,241,138)**	**1,412,341**	**(124,290)**
Sale of Sewer Authority	66,519,986				
Fund Balance Beginning of Year	5,050,411	75,542,498	33,279,803	32,038,665	33,451,006
Fund Balance End of Year	**75,542,498**	**33,279,803**	**32,038,665**	**33,451,006**	**33,326,716**

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

Factor (2)

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

As mentioned in **Factor (1)** above, the City used a large portion of the 2016 Sewer Sale Proceeds to defease a significant amount of long-term, high-interest debt in 2017. As a result, from 2016 to 2017 the City's outstanding long-term debt decreased from $158,893,540 to $113,463,684.

In 2018, the City issued a $22.9 million general obligation note to fund the City's three defined benefit pension plans. As previously mentioned, this note was secured by $22,990,000 of 2016 Sewer Sale Proceeds which are currently deposited in an account with Webster Bank. The City did not undertake any major issuances of general obligation bonds or notes in 2019.

During the period 2016 – 2019 the City timely made all of its debt service payments. The City's total outstanding debt decreased from $158,893,540 in 2016 to 117,634, 814 in 2019. (See Table 2.)

Table 2
CITY OF SCRANTON
Outstanding Debt Principal
2016 to 2019
(Outstanding as of December 31st each year)

	2016 Audit	2017 Audit	2018 Audit	2019 Estimated	Maturity Date
General Obligation Bonds					
Emmaus General Authority Series 2002	4,405,000	4,105,000	3,795,000	3,470,000	2028
Series B of 2003	25,195,000	0	0	0	
Series C of 2003	13,270,000	0	0	0	
Series D of 2003	6,135,000	0	0	0	
Series A of 2012	6,075,000	0	0	0	
Series C of 2012	6,655,000	0	0	0	
Series A and AA of 2016	39,278,595	37,175,000	34,570,000	31,815,000	2028/2025
Series of 2017	0	24,620,000	22,620,000	20,520,000	2029
Total GO Bonds	**101,013,595**	**65,900,000**	**60,985,000**	**55,805,000**	
General Obligation Notes					
Series B of 2012	800,000	0	0		
Series A of 2013	3,774,025	0	0		
Series of 2016	35,563,692	32,840,000	32,605,000	32,360,000	2032
Series of 2018	0	0	22,620,000	22,990,000	2023
Total GO Notes	**40,137,717**	**32,840,000**	**55,225,000**	**55,350,000**	
Lease Obligations Payable					
2006 Capitalized Lease Equip Energy System	700,428	0	0		
2006 Capitalized Buildings	8,820,000	7,705,000	0		2024
2016 Capitalized Lease Equipment	1,587,346	1,017,687	0		
2016 Street Light Lease	4,000,000	3,678,203	3,395,681	3,094,979	2027
Capitalized Lease Equipment	0	0	2,310,712	2,310,712	2023
Total Lease Obligations	**15,107,774**	**12,400,890**	**5,706,393**	**4,791,109**	
Notes Payable					
DCED Act 47 Loan	600,000	500,000	400,000	300,000	2022
PIB Loan	2,034,454	1,822,794	1,607,352	1,388,705	2025
Total Notes Payable	**2,634,454**	**2,322,794**	**2,007,352**	**1,688,705**	
Total Outstanding Debt	**158,893,540**	**113,463,684**	**123,923,745**	**117,634,814**	

The City has not notified the Coordinator nor is the Coordinator aware as of the writing of this Act 47 Coordinator's Recommendation of any new City debt obligations to be incurred in 2020. The City's 2020 debt service is projected to be $17,858,079, of which $6,000,000 will be transferred from the Webster Bank account for a principal payment on the 2018 general obligation note. Notwithstanding any borrowing which may be incurred in 2020, the Coordinator projects the City's debt service obligations for the years 2020-2025 as stated in Table 3.

Table 3
CITY OF SCRANTON
Debt Service
2020 to 2025

	2020 Debt Service	2021 Debt Service	2022 Debt Service	2023 Debt Service	2024 Debt Service	2025 Debt Service
General Obligation Bonds						
Emmaus General Authority						
Series 2002	456,450	454,725	457,650	455,050	457,100	457,100
Series A and AA of 2016	4,508,513	4,531,713	4,686,325	4,795,350	5,170,288	5,267,125
Series of 2017	3,231,000	3,230,750	3,225,000	3,233,750	2,296,000	868,750
Total GO Bonds	**8,195,963**	**8,217,188**	**8,368,975**	**8,484,150**	**7,923,388**	**6,592,975**
General Obligation Notes						
Series of 2016	1,878,000	1,875,000	1,876,500	1,872,250	2,442,500	3,783,500
Series of 2018	6,559,450	6,558,225	6,561,050	6,556,825	0	0
Total GO Notes	**8,437,450**	**8,433,225**	**8,437,550**	**8,429,075**	**2,442,500**	**3,783,500**
Lease Obligations Payable						
2016 Street Light Lease	429,767	438,218	446,379	455,150	464,090	473,206
Capitalized Lease Equipment	449,930	464,168	464,168	464,168	102,157	102,157
Total Lease Obligations	**879,697**	**902,386**	**910,547**	**919,318**	**566,247**	**575,363**
Notes Payable						
DCED Act 47 Loan	100,000	100,000	100,000	0	0	0
PIB Loan	244,969	244,969	244,968	244,811	244,991	244,991
Total Notes Payable	**344,969**	**344,969**	**344,968**	**244,811**	**244,991**	**244,991**
Total Debt Service	**17,858,079**	**17,897,768**	**18,062,040**	**18,077,354**	**11,177,125**	**11,196,828**

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

Factor (3)

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

Over the past 28 years the City, with a population of over 77,000 people, has had a fair share of litigation. During the 2017 Exit Plan period, the City has settled or fully adjudicated several outstanding lawsuits. However, as of the writing of this Act 47 Coordinator's Recommendation there remains several outstanding lawsuits that the City is defending, with one lawsuit in particular that involves a significant sum of money. The following is a review of the settled and active lawsuits involving the City.

Settled lawsuits:

1) In July 2019, the City settled a lawsuit filed by UGI Utilities, Inc., in 2015 that challenged a June 2015 City ordinance imposing new rules and fees on pavement cuts and inspections in the City. The City agreed to reduce the pavement cut and inspection fees to PennDOT standards and to provide UGI with a $100,000 credit against future pavement cut and inspections fees to be allocated over five years.

2) In April 2019, the City agreed to pay $245,000 to settle a federal lawsuit filed by a building contractor who alleged that the City Director of Licensing, Inspections and Permits improperly revoked his contracting licenses. The settlement will be paid from City general funds because insurance coverage of the claim was denied.

3) In March 2019, the City agreed to settle a class-action lawsuit filed in 2015 challenging the City's rental registration program. The City will pay a total of $71,100 to 544 property owners, lower the rental registration fee from $150 to $45 in 2020 and pay plaintiff's legal fees.

Outstanding lawsuits:

1) A class action lawsuit filed in December 2016 challenges the City's annual $300 trash fee as excessive. About 6,000 City property owners signed on as co-plaintiffs in June 2019.

In October 2019, the City appointed the law firm of Fox Rothschild LLP to provide legal services. Litigation is ongoing.

2) A potential class-action lawsuit filed in September 2018 alleges that Northeast Revenue Services, the City appointed collector of delinquent trash fees, has charged and collected interest on both delinquent garbage fees and on penalties that were not authorized by City ordinance. The City was ordered to be included as a defendant in the lawsuit. Litigation is ongoing.

3) The City is defending a 2017 Action in Mandamus alleging that the City is annually collecting Act 511 tax revenue in excess of the aggregate amount permitted in 53 P.S. §6924.320. The plaintiffs sought a judicial order to have the City modify their Act 511 tax rates to conform with §6924.320 and to escrow any Act 511 tax collection dollars that exceed the statutory limit. The City argued that the §6924.320 aggregate revenue limit does not apply to the City because as a home rule municipality the Home Rule Charter and Optional Plans Law, Act 62 of 1972, as amended, (Home Rule Law) permits the City to exceed the Act 511 tax rate limits and, consequently, the §6924.320 aggregate collection limits.

   On December 16, 2019, Judge James Gibbons of the Lackawanna County Court of Common Pleas agreed with the plaintiffs and ordered the City to set aside and sequester excess Act 511 taxes for the years 2015, 2016, 2017 (2019 Lackawanna Common Pleas Order). The 2019 Lackawanna Common Pleas Order also requires the City to determine, set aside and sequester excess Act 511 taxes received for fiscal year 2018 forthwith. Finally, the 2019 Lackawanna Common Pleas Order directs the City to reduce the rates of their Act 511 tax rates so that the total revenues collected for its Act 511 taxes going forward more closely approximate the Act 511 aggregate revenue limit.

   The City has informed the Coordinator that the estimated amount of money the City will need to set aside to comply with the 2019 Lackawanna Common Pleas Order is approximately $50 million. In addition, the City will be required to reduce its Act 511 tax rates to comply with the 2019 Lackawanna Common Pleas Order. To offset the reduced Act 511 tax revenue the City will have to increase its real property tax rates and/or impose significant expenditure reductions to comply with the 2019 Lackawanna Common Pleas Order.

On January 13, 2020, the City filed a Notice of Appeal of the 2019 Lackawanna Common Pleas Order with the Commonwealth Court of Pennsylvania. The City also filed, on February 25, 2020, a Petition for Extraordinary Jurisdiction or in the Alternative King's Bench Jurisdiction with the Supreme Court of Pennsylvania. The City's appeal filings has, by law, superseded enforcement of the 2019 Lackawanna Common Pleas Order.

The Coordinator understands that the City is currently in the legal process of appealing the 2019 Lackawanna Common Pleas Order and that at this time, the City's exercise of their appellate rights have not been finalized. With the supersedeas in place, it is the Coordinator's opinion that, at the time of the writing of this Act 47 Coordinator's Recommendation, the City's financial condition and public service provisions have not been immediately impacted by the 2019 Lackawanna Common Pleas Order. However, should the City not prevail in its appeal efforts, it is the Coordinator's opinion that, at that time, an evaluation of the City's fiscal condition and the options available would be warranted to determine the City's fiscal capacity to satisfy the 2019 Lackawanna Common Pleas Order or any modification that may be made to the 2019 Lackawanna Common Pleas Order by an appellate court.

Factor (4)

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

The Coordinator projects that the City will incur operating deficits throughout the 2021-2025 projection period. The lack of inherent growth in the City's real property tax revenue and only slight growth in the City's earned income tax revenue coupled with annual projected expenditure growth of 2.0% will cause the City to realize operating budget deficits throughout the projection period. (See Table 4.)

Table 4
CITY OF SCRANTON
General Fund Revenue and Expenditure
Baseline Projections
2021 to 2025

	2021 Projected	2022 Projected	2023 Projected	2024 Projected	2025 Projected
Revenue					
Real Estate Taxes	$35,797,007	$35,761,210	$35,725,449	$35,689,724	$35,654,034
EIT	29,408,633	29,967,397	30,536,778	31,116,977	31,708,199
LST	4,954,950	4,959,905	4,964,865	4,969,830	4,974,800
Merc/BPT/Payroll Prep	2,587,875	2,600,814	2,613,818	2,626,888	2,640,022
RE Transfer Tax	2,751,000	2,751,000	2,751,000	2,751,000	2,751,000
Other Taxes	295,000	295,000	295,000	295,000	295,000
Refuse Revenue	7,111,678	7,111,678	7,111,678	7,111,678	7,111,678
Licenses & Permits	2,038,164	2,038,164	2,038,164	2,038,164	2,038,164
Intergovernmental Revenues	4,429,618	4,516,758	4,605,619	4,696,234	4,788,640
Transfers	8,339,451	8,339,451	7,539,451	2,339,451	2,339,451
Other Non tax revenue	3,131,726	3,130,954	3,130,184	3,129,416	3,128,649
Operating Revenue	**$100,845,103**	**$101,472,332**	**$101,312,006**	**$96,764,360**	**$97,429,636**
Expenditures					
Direct Compensation	$35,213,505	$35,900,182	$36,568,182	$37,249,628	$37,944,790
Benefits	20,606,215	21,688,037	22,829,359	24,033,454	25,303,774
Pension	11,789,532	11,789,532	11,789,532	11,789,532	11,789,532
Workers Comp	3,109,811	3,109,811	3,109,811	3,109,811	3,109,811
Capital Expenditures	1,412,750	1,412,750	1,412,750	1,412,750	1,412,750
Departmental Expenditures	8,671,898	8,854,008	9,031,088	9,211,710	9,395,944
Nondepartmental Expenditures	1,342,537	1,349,772	1,356,807	1,363,983	1,371,303
Debt Service exc TRAN	18,256,130	18,183,458	18,246,504	11,079,357	11,130,412
TRAN Interest	446,250	446,250	446,250	446,250	446,250
Court Awards	500,000	500,000	500,000	500,000	500,000
Total Expenditures	**$101,348,628**	**$103,233,801**	**$105,290,284**	**$100,196,476**	**$102,404,567**
Operating Surplus/(Deficit)	**($503,525)**	**($1,761,469)**	**($3,978,278)**	**($3,432,116)**	**($4,974,931)**

As mentioned, the lack of inherent growth in the City's real property tax revenue is the main driver for the projected operating deficits. This lack of inherent grow is the result of annual flat or decreasing City real property assessed values. In nineteen years, the City's real property assessed values increased from $375,820,656 in 2000 to $388,299,190 in 2018 or by 3.3%. By contrast, the City's real property market values increased from $1,370,292,100 in 2000 to $2,378,758,636 in 2018 or by 73.6%. The result of flat or decreasing real property assessed values is that the City receives the same or less real property tax revenue year after year even though the City's real property tax rates remain constant. As the largest revenue source for City operations, this lack of inherent growth in the City's real property assessed values will force the City's elected officials to seek additional revenues to maintain pace with the City's expenditure growth. (See Table 5.)

Table 5
CITY OF SCRANTON
Real Property Market Value and Assessed Value
2000 to 2018

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

For the City to mitigate the effects of its annual flat or decreasing real property assessed values, the City will have to make incremental property tax rate increases and/or reduce expenditures over the next five years to avoid the projected operating budget deficits. The Coordinator recommends that the City increase its property tax millage rate by 1.4%, 3.5% and

6.2% in the years 2021 – 2023, respectively, to eliminate the projected operating deficits in those years. In 2024, the City's debt service obligations will be reduced by approximately $6,000,000 as the City's Series of 2018 general obligation note is satisfied in 2023. Although the Coordinator projects the City will incur a 2024 operating budget deficit of ($3,432,116), no tax increase is recommended in 2024. The accruing of City property tax revenue generated by the prior 2021 – 2023 property tax increases will generate $3,978,278 of additional revenue by 2024 leaving the City with a projected operating budget surplus of $546,162 in 2024. In 2025, the Coordinator recommends a 2.8% property tax millage increase to eliminate the projected ($4,974,931) operating budget deficit. The total property tax rate percentage increase over the five-year period of 2021 – 2025 is 13.9%. Any expenditure reductions implemented by the City during this period may reduce the percentage property tax millage rates recommended by the Coordinator in this Act 47 Coordinator's Recommendation. (See Table 6.)

Table 6
CITY OF SCRANTON
General Fund Revenue and Expenditure
Recommended Property Tax Increases
2021 to 2025

	2021 Projected	2022 Projected	2023 Projected	2024 Projected	2025 Projected
Revenues	$100,845,103	$101,472,332	$101,312,006	$96,764,360	$97,429,636
Expenditures	$101,348,628	$103,233,801	$105,290,284	$100,196,476	$102,404,567
Operating Surplus/(Deficit)	**($503,525)**	**($1,761,469)**	**($3,978,278)**	**($3,432,116)**	**($4,974,931)**
RE Tax Revenue Projection	$35,797,007	$35,761,210	$35,725,449	$35,689,724	$35,654,034
Annual RE Tax % Increase	1.4%	3.5%	6.2%	0.0%	2.8%
Additional RE Tax Revenue	$503,525	$1,257,943	$2,216,810	$0	$996,652
Accruement of RE Tax Revenue	$503,525	$1,761,469	$3,978,278	$3,978,278	$4,974,931
Operating Surplus/(Deficit)	**$0**	**$0**	**$0**	**$546,162**	**$0**
Accruement of RE Tax % Increase	1.4%	4.9%	11.1%	11.1%	13.9%

While real property tax rate increases and expenditure reductions are unpalatable political options, the incremental real property tax increases recommended by the Coordinator will prevent the City from having to make punitive double-digit real estate tax increases in the future. More importantly, the Coordinator's recommended annual tax increases will ensure that the City has sufficient cash available throughout a fiscal year to meet its debt obligations and its financial obligations to its employees, vendors and suppliers as they come due.

As previously mentioned in this Act 47 Coordinator's Recommendation, the City is a home rule municipality. Thus, according to §2962(b) of the Home Rule Law, the City is not subject to tax rate limits on real property or Act 511 taxes. If the 2019 Lackawanna Common Pleas Order noted above in **Factor (3)** is upheld as a limit on the aggregate amount of Act 511 revenue the City may collect in a fiscal year, which in turn would force the City to reduce its Act 511 tax rates, primarily its earned income tax rate, as a home rule municipality there is no statutory limit on the real property tax rate the City may impose to offset any reduction in City Act 511 tax rates.

At the time of the writing this Act 47 Coordinator's Recommendation, the City, along with the nation, is in the midst of the Coronavirus (COVID-19) pandemic. The future impact of the COVID-19 pandemic on the City's financial projections as presented by the Coordinator in this Act 47 Coordinator's Recommendation is unknown at this time. The Coordinator will continue to monitor the City's fiscal condition as the City progresses through the COVID-19 pandemic.

FISCAL EMERGENCY

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

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

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

The Coordinator's analysis in the Factors to Consider to Rescind a Distress Determination of this Act 47 Coordinator's Recommendation has determined that the City has been able to meet all of its financial obligations, including debt service, since the City's adoption of the 2017 Exit Plan. In addition, the Coordinator's cash flow projections project that the City will remain solvent throughout 2020, enabling the City to meet its financial obligations as they come due, including its 2020 debt service. (See Table 7.)

Table 7
CITY OF SCRANTON
Cash Flow Projections—Quarterly
2020

	1st Qtr Budget	2nd Qtr Budget	3rd Qtr Budget	4th Qtr Budget	2020 Total
Cash Beginning of Quarter	**1,267,530**	**13,672,037**	**13,331,966**	**8,105,933**	
Surplus Deficit	7,987,863	3,776,261	36,406	-11,354,279	
Other Financing Sources/(Uses)	11,416,644	-4,116,332	-5,262,439	-2,484,123	
Increase/(Decrease) in Payables	0	0	0	0	
(Increase)/Decrease in Other Cash Accounts	-7,000,000	0	0	7,000,000	
Other Balance Sheet Items Affecting Cash	0	0	0	0	
Cash End of Quarter	**13,672,037**	**13,331,966**	**8,105,933**	**1,267,531**	
Revenues	29,324,773	31,520,223	20,795,406	21,410,350	103,050,751
Total Revenues	**29,324,773**	**31,520,223**	**20,795,406**	**21,410,350**	**103,050,751**
Expenditures	19,742,254	19,172,227	18,018,121	27,470,053	84,402,655
Debt Service	1,594,657	8,571,735	2,740,879	5,294,576	18,201,846
Total Expenditures	**21,336,910**	**27,743,962**	**20,759,000**	**32,764,629**	**102,604,501**
Surplus/(Deficit)	**7,987,863**	**3,776,261**	**36,406**	**(11,354,279)**	**446,250**
Other Financing Sources/(Uses)					
TRAN	11,416,644	-4,116,332	-5,262,439	-2,484,123	-446,250
Debt Proceeds	0	0	0	0	0
Debt Defeasance	0	0	0	0	0
Net Other Financing Sources/(Uses)	**11,416,644**	**(4,116,332)**	**(5,262,439)**	**(2,484,123)**	**(446,250)**

AP Current Year at Prior Month	-375,387	-375,387	-375,387	-375,387
AP Current Year at Current Month	-375,387	-375,387	-375,387	-375,387
Change in AP Balance	0	0	0	0

In its adopted 2020 operating budget, the City has appropriated funds to provide many of the vital and necessary services enumerated in §11701.601 such as police and fire services, refuse collection and disposal, snow removal, payroll and pension obligations and the fulfillment of debt and other financial obligations. There is no evidence from the City or otherwise available to the Coordinator that as of the writing of this Act 47 Coordinator's Recommendation that the City is unable to ensure the continued provision of vital and necessary services.

Although the specter of a failed appeal on the City's behalf of the 2019 Lackawanna Common Pleas Order looms sometime in the future, it is not certain at this time whether this Order will be overturned by an appellate court ruling, that the City's exhaustion of its appellate rights will occur within 180 days or if the 2019 Lackawanna Common Pleas Order is upheld on appeal at some future date that it would render the City "insolvent" or "unable to ensure the continued provision of vital and necessary services." As mentioned previously in this Act 47 Coordinator's Recommendation, the Coordinator deems it necessary that a full evaluation of the City's financial condition and the options available to it would be warranted at the time such negative judgement is made final through the City's exhaustion of its appellate rights.

RECOMMENDATION

The Coordinator has reviewed the statutory factors necessary to make a determination of whether to request a rescission of the order declaring the City a distressed municipality and also the statutory criteria of whether to issue a determination of fiscal emergency in the City. It is the recommendation of the Coordinator that based upon a review of the totality of the factors included in §11701.255.1(c), substantial evidence supports an affirmative determination by the Secretary to issue a determination to rescind the order declaring the City of Scranton a distressed municipality. **However, the Coordinator is mindful that the City, along with the nation, is experiencing the effects of confronting the COVID-19 pandemic as of the time of this recommendation. The mutability of the circumstances created by the COVID-19 pandemic makes it impracticable at this time to project the extent of the negative impact on the City's**

future financial condition. Any such projection would be mere conjecture. The Coordinator will continue to monitor the fiscal impact of the COVID-19 pandemic on the City's fiscal condition over the next several weeks and months and provide its findings to DCED. Although not statutorily required, the Coordinator supports the Secretary of DCED's consideration of the extenuating circumstances facing the City as he evaluates the Coordinator's recommendation and the approaching July 27, 2020, statutory deadline for terminating the City's financially distressed status.

Although the City has experienced a mix of operating budget surpluses and deficits over the past four years, the City has achieved many successes that will assist in sustaining the City's financial condition into the future. The City efficiently utilized the $66.9 million of the 2016 Sewer Sale Proceeds to alleviate two outstanding issues. First, the City defeased over $42.0 million in high yield, long-term general obligation bonds and notes. By defeasing these long-term debt obligations, the City has reduced the cost of its future debt service. In addition, the City has established a practice of utilizing a paying agent to aid the City in meeting its annual debt service obligations. Under this arrangement, the City escrows approximately 32% of its annual collected real property taxes for debt service obligations. It is the Coordinator's opinion that this arrangement has ensured that the City has sufficient cash available to make its debt obligation payments when due and recommends that the City maintain this arrangement in the future.

Second, the City deposited $22.9 million of the 2016 Sewer Sale Proceeds into the City's aggregate pension fund. This infusion of cash into the City's pension funds, along with past market performance, has increased the funding ratio of all three City defined benefit pension funds. The aggregate pension fund reached a market value of over $100 million in November 2019 from a market value of $43.7 million in 2013.

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

The Coordinator is cognizant of the negative order issued by the Lackawanna County Court of Common Pleas in December 2019. Presently, the City is vigorously exercising its appellate rights seeking a reversal of this order. Hopefully, the City's appointed legal team will be successful. Until the City exhausts its appellate rights concluding the legal process of this litigation, the Coordinator can only conjecture several outcomes that may or may not occur in the future. The impact of this litigation will become much clearer upon the City's exhaustion of its appellate rights.

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

APPENDIX

A

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF COMMUNITY AFFAIRS

IN RE:	.	PETITION UNDER SECTION 201
CITY OF SCRANTON	.	AND 203 OF THE FINANCIALLY
	.	DISTRESSED MUNICIPALITIES ACT
***************************		
CITY OF SCRANTON	.	
	.	DOCKET NO. FDMA - 12
	.	
	.	
	.	

DEPARTMENTAL ORDER

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

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

Karen A. Miller

Karen A. Miller
Secretary
Department of Community Affairs