

November 21, 2011

Ms. Janet Evans  
President of Council  
City of Scranton  
340 North Washington Avenue  
Scranton, PA 18503

Mayor Christopher Doherty  
City of Scranton  
340 North Washington Avenue  
Scranton, PA 18503

Dear Council President Evans and Mayor Doherty:

As the City of Scranton's appointed Act 47 Coordinator, the Pennsylvania Economy League (PEL) has prepared the enclosed 2011 *Revised and Updated Act 47 Recovery Plan for the City of Scranton*. This 2011 Revised Recovery Plan is the result of a consultative process that PEL began jointly with the City of Scranton's Mayor, City Council and bargaining unit representatives in 2010. In 2010, PEL attended three City Council work sessions in which we identified issues impacting the City's financial future and listened to City Council's comments and recommendations to resolve the issues identified. Concurrently during 2010 we also meet with the Mayor and his staff for the same purpose and goal. PEL informed both governing bodies that we would be utilizing the City of Scranton's adopted 2011 operating budget as the basis for drafting the enclosed 2011 Revised Recovery Plan.

Throughout 2011 PEL has made the City aware of issues that have arisen under the actual performance of its 2011 operating budget. PEL has written several letters to the City's elected leadership informing them of these issues and further advanced them with the Mayor's and City Council's staff at our weekly Act 47 meetings. We also continued to seek the cooperation of the City's governing bodies throughout 2011. PEL has engaged the Mayor and his staff during development of this 2011 Revised Recovery Plan. Unfortunately, two written requests by us to City Council in May and July of 2011 to continue the dialogue initiated in 2010 have not been acknowledged by City Council. PEL has always viewed the development of a revised recovery plan for the City as a cooperative effort among all the parties. However, due to the escalating fiscal issues identified and communicated to the City's leadership throughout 2011, PEL, in consultation with the Pennsylvania Department of Community and Economic Development, concluded that the fiscal issues confronting the City of Scranton necessitated that PEL move forward with developing a revised recovery plan for the City that provides both short-term and long term mandates to address the fiscal issues confronting the City of Scranton.

It is PEL's opinion that based on the City's historical operating revenue and expenditure patterns the City of Scranton is projected to experience sizeable and growing General Fund operating budget deficits in the years ahead. During the period 2011-2015, the City's projected operating budget deficit will increase from \$6.1 million in 2011 to \$15.6 million in 2015. The City's cumulative operating budget deficit for the period 2011 - 2015 is projected to be \$63.1 million. These deficits can be avoided and future City operating budgets can be balanced if the City promptly adopts and implements the mandates contained in this 2011 Revised Recovery Plan. While all of the mandates included in this 2011 Revised Recovery Plan will not be viewed positively by all of the City's stakeholders—its elected leadership, City employees and City taxpayers—it is our opinion that the City's elected leaders are presently confronted with immediate, difficult, but necessary, decisions concerning the City's financial stability which if left unattended will impact the level of municipal services the City of Scranton's government will be able to provide its residents. Your responsibilities as elected leaders at this time in Scranton's long, proud, and storied history demand no less than your full attention and diligence to solve these financial problems.

We encourage the City's elected leadership to review the enclosed 2011 Revised Recovery Plan at the earliest possible time. It is PEL's objective that the City adopt this 2011 Revised Recovery Plan concurrently with its adoption of the City's 2012 operating budget and incorporate the 2011 Revised Recovery Plan's 2012 mandates into the City's 2012 General Fund operating budget. We remain available to address any questions the City's elected leadership may have concerning the 2011 Revised Recovery Plan.

Sincerely,

Gerald E. Cross  
Executive Director

Enclosure

**Revised and Updated Act 47 Recovery Plan**

**For the**

**City of Scranton**

**Effective Upon Adoption**



Prepared by:

Pennsylvania Economy League, Central PA LLC

November 2011

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## Executive Summary

Since January 10, 1992, the City of Scranton has operated under a Commonwealth of Pennsylvania determination of financial distress pursuant to Act 47 of 1987, the Municipalities Financial Recovery Act (Act 47). Since the City's adoption of the *2002 Revised and Updated Act 47 Recovery Plan for the City of Scranton* (2002 Revised Recovery Plan), implementation of the 2002 Revised Recovery Plan has occurred within an environment of extensive litigation and delays that have prevented some of the 2002 Revised Recovery Plan's recommendations from being implemented. In 2010, the Pennsylvania Economy League, acting as the Act 47 Coordinator for the City of Scranton, (Act 47 Coordinator) earnestly engaged the City of Scranton's Mayor and City Council in identifying issues impacting the City's financial future and seeking their cooperation with the Act 47 Coordinator to revise the City's adopted 2002 Revised Recovery Plan. The Act 47 Coordinator advised the City in 2010 that the Act 47 Coordinator would be utilizing the City adopted 2011 operating budget as the basis for its drafting of a revised recovery plan for the City. To this end, the Act 47 Coordinator has monitored the City's actual 2011 budget performance and communicated its observations to the City's elected and appointed leadership. In early November 2011, the Act 47 Coordinator prepared and presented to the City the *Act 47 Coordinator's Financial Review and Baseline Projections for the City of Scranton* (November 2011 Report) to assist the City as it prepared its 2012 operating budget. In addition to the information contained in the November 2011 Report, this *Revised and Updated Act 47 Recovery Plan for the City of Scranton* (2011 Revised Recovery Plan) includes mandates that when fully implemented will eliminate the City of Scranton's projected operating budget deficits for 2011- 2015.

The mandates included in this 2011 Revised Recovery Plan will impact all facets of City Government. Each mandate was developed with the express intention of providing the City with an opportunity to more effectively provide municipal services to its residents in a financially sustainable and responsible manner, both in the short-term and long-term. Implementation of all of the mandates contained in this 2011 Revised Recovery Plan will require compromise and sacrifice from all of the City's stakeholders — its elected leadership, employees and taxpayers. Time is of the essence and many of the mandates included herein must be implemented expeditiously. We believe that implementation of all of the mandates contained in this 2011 Revised Recovery Plan coupled with the commitment, leadership and involvement of all key City stakeholders will eliminate the projected operating budget deficits identified below and will produce a vibrant City of Scranton that will prosper well into the future.

## Projected General Fund Operating Budget Surplus/Deficit

As shown in the table below, **without** implementation of any of the mandates provided by this 2011 Revised Recovery Plan, baseline projections for the City's General Fund operating budgets indicate that the City will encounter substantial General Fund operating budget deficits from 2011 through 2015 with a cumulative deficit of over \$61.6 million. Total General Fund expenditures will **increase** by 13.3% through 2015 while the City's revenues are projected to **decrease** by 5.5% during the same period. Clearly, the City cannot sustain itself fiscally with such an expenditure and revenue mismatch and significant changes to the City's method of operation and the funding of its services are necessary in order to return the City to fiscal solvency.

**General Fund Operating Surplus/(Deficit)<sup>1</sup>**  
**City of Scranton**  
**2011 - 2015**  
 (Without Implementation of 2011 Revised Recovery Plan Mandates)

Surplus/(Deficit)	2011	2012	2013	2014	2015	Change %
	Estimated	Projected	Projected	Projected	Projected	
Revenues	\$60,058,694	\$55,929,000	\$56,194,524	\$56,466,725	\$56,745,647	-5.5
Expenditures	63,851,539	68,734,246	69,741,590	71,563,264	72,312,121	13.3
<b>Surplus/(Deficit)</b>	<b>-\$3,792,846</b>	<b>-\$12,805,246</b>	<b>-\$13,547,065</b>	<b>-\$15,096,539</b>	<b>-\$15,566,474</b>	
Workers' Compensation Transfer	5,000,000					
Accounts Payable at 12/31/2010	-7,348,350					
<b>Net Surplus/(Deficit)</b>	<b>-\$6,141,196</b>	<b>-\$12,805,246</b>	<b>-\$13,547,065</b>	<b>-\$15,096,539</b>	<b>-\$15,566,474</b>	<b>153.5</b>

**General Fund Revenue Projections—2011 – 2015**

As identified in the table below, the City’s operating revenue collections are projected to decrease 5.5% between 2011 and 2015. This decrease in operating revenue is primarily due to a projected 25.8% decrease in Act 511 taxes (other than earned income tax revenue) and a 43.3% decrease in Intergovernmental Reimbursements.

**General Fund Revenue Projections**  
**City of Scranton**  
**2011 - 2015**  
 (Without Implementation of 2011 Revised Recovery Plan Mandates)

Revenue Category	2011	2012	2013	2014	2015	Change 2011 -2015	
	Estimated	Projected	Projected	Projected	Projected	\$	%
Real Estate Taxes	\$13,400,000	\$13,600,000	\$13,600,000	\$13,600,000	\$13,600,000	\$200,000	1.5
Refuse Revenues	4,450,000	4,383,250	4,299,279	4,216,932	4,136,177	-313,823	-7.1
Utility Taxes	60,912	60,912	60,912	60,912	60,912	0	0.0
Earned Income Tax	22,477,359	22,395,000	22,729,950	23,069,924	23,414,998	937,639	4.2
Act 511 Taxes	7,595,000	5,605,980	5,616,982	5,628,006	5,639,052	-1,955,948	-25.8
Penalties & Interest	50,000	50,100	50,200	50,301	50,401	401	0.8
Licenses & Permits	1,650,000	1,653,300	1,656,606	1,659,920	1,663,240	13,240	0.8
Fines, Forfeits & Violations	911,200	1,111,200	1,111,200	1,111,200	1,111,200	200,000	0.0
Interest Earnings	7,200	7,214	7,229	7,243	7,258	58	0.8
Rents & Concessions	700	700	700	700	700	0	0.0
Intergovernmental Reimbursements	4,900,000	2,780,000	2,780,000	2,780,000	2,780,000	-2,120,000	-43.3
In Lieu of Taxes	183,250	183,250	183,250	183,250	183,250	0	0.0
Departmental Earnings	1,498,000	1,498,000	1,498,000	1,498,000	1,498,000	0	0.0
User Fees	60,654	60,775	60,897	61,019	61,141	487	0.8
Miscellaneous Revenues	936,500	936,500	936,500	936,500	936,500	0	0.0
Interfund Transfers	1,877,919	1,602,819	1,602,819	1,602,819	1,602,819	-275,100	-14.6
<b>Total Revenues</b>	<b>60,058,694</b>	<b>55,929,001</b>	<b>56,194,524</b>	<b>56,466,725</b>	<b>56,745,647</b>	<b>-3,313,047</b>	<b>-5.5</b>

<sup>1</sup> The cost impact of the October 19, 2011 Pennsylvania Supreme Court decision that remanded for reinstatement prior City of Scranton fire and police interest arbitration awards was not available when this 2011 Revised Recovery Plan was prepared and, therefore, any potential revenue and expenditure impact that may be associated with the Supreme Court decision is not included in the revenue and expenditure projections that follow. Once a cost impact is identified by the City, the Coordinator can amend this 2011 Revised Recovery Plan pursuant to the statutory process in Act 47 and incorporate any revenue and expenditure feedback into the 2011 Revised Recovery Plan projections.

The table below illustrates the projected proportion of City operating revenue generated by revenue source.

**General Fund Revenue Categories  
Proportion of All Operating Revenue  
City of Scranton  
2011 - 2015**

(Without Implementation of 2011 Revised Recovery Plan Mandates)

Revenue Category	2011	2012	2013	2014	2014
	Estimated	Projected	Projected	Projected	Projected
Earned Income Tax	37.4%	40.0%	40.4%	40.9%	41.3%
Real Estate Taxes	22.3%	24.3%	24.2%	24.1%	24.0%
Act 511 Taxes	12.6%	10.0%	10.0%	10.0%	9.9%
<b>Total All Taxes</b>	<b>72.4%</b>	<b>74.4%</b>	<b>74.6%</b>	<b>74.9%</b>	<b>75.2%</b>
Refuse Revenues	7.4%	7.8%	7.7%	7.5%	7.3%
All Other Revenue	12.0%	12.8%	12.8%	12.7%	12.6%
<b>Total Revenue</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

The City’s past and projected revenue base growth is impacted by the following factors:

- Stagnant real estate tax revenue growth that increases only when the City increases the real estate millage rate because the City is unable to benefit from increasing real estate market values due to Lackawanna County’s outdated real estate reassessment.
- The City relies on a high rate of taxation on City resident’s earned income that has provided steadily increasing earned income tax revenue, however, the City’s high EIT rate compared to its municipal neighbors mitigates against increasing the City’s EIT rate.
- The City has consistently relied on the use of one-time revenue sources and debt refinancing to provide the necessary revenue for the City to balance its annual budgets and to maintain a sufficient cash flow to maintain its day to day operations. The use of one-time revenue sources is not a panacea to the City’s long term structural deficits identified above and in fact the City’s past utilization of one-time revenue sources has contributed to the City’s large projected operating deficits by deferring difficult revenue and expenditure policy decisions.

**General Fund Expenditure Projections—2011 – 2015**

As identified in the table below, the City’s operating expenditures are projected to increase 13.3% between 2011 and 2015. This increase in operating expenditures is primarily due to a projected 17.5% increase in City Personnel Expenditures. In 2011, the City of Scranton’s Personnel Expenditures for employee compensation and benefits accounted for 73.7% percent of the City’s 2011 operating expenditures. City Personnel Expenditures as proportion of total operating expenditures is projected to increase to 76.5% in 2015. Thus, expenditure reductions from the City’s Other Departmental and Non-Departmental expenditure categories alone will not be sufficient to eliminate the projected City operating budget deficits unless the City is able to significantly reduce its Personnel Expenditures.

**General Fund Expenditure Projections**  
**City of Scranton**  
**2011 - 2015**  
 (Without Implementation of 2011 Revised Recovery Plan Mandates)

Expenditure Category	2011	2012	2013	2014	2015	Change 2015 - 2011	
	Estimated	Projected	Projected	Projected	Projected	\$	%
<b>Personnel Expenditures</b>							
Direct Compensation	\$24,939,212	\$26,842,469	\$28,065,275	\$29,165,250	\$29,165,250	\$4,226,038	16.9
Health Insurance	14,975,150	16,161,526	17,145,910	17,816,861	18,513,162	3,538,012	23.6
Workers' Compensation	1,700,000	1,700,000	1,700,000	1,700,000	1,700,000	0	0.0
Pension	4,253,215	4,464,849	4,753,764	4,848,612	4,848,612	595,397	14.0
Other Employee Expenses	1,206,364	1,135,282	1,097,626	1,080,740	1,080,253	-126,111	-10.5
<b>Total Personnel Expenditure</b>	<b>\$47,073,940</b>	<b>\$50,304,126</b>	<b>\$52,762,575</b>	<b>\$54,611,463</b>	<b>\$55,307,277</b>	<b>\$8,233,336</b>	<b>17.5</b>
<b>Other Departmental Expenditures</b>							
Professional Services	\$585,058	\$570,058	\$570,058	\$570,058	\$570,058	-\$15,000	-2.6
Gas, Oil, Lubricants, Vehicle Repair	1,010,476	1,030,892	1,051,921	1,073,581	1,095,890	85,414	8.5
Landfill	1,502,450	1,502,450	1,472,450	1,442,450	1,412,450	-90,000	-6.0
Capital Expenditures	377,900	377,900	377,900	377,900	377,900	0	0.0
Liability/Casualty Insurance	1,100,000	1,133,000	1,166,990	1,202,000	1,238,060	138,060	12.6
Utilities	1,864,267	1,892,895	1,922,382	1,952,753	1,984,036	119,769	6.4
All Other Departmental Expenditures	1,438,821	1,430,564	1,437,751	1,445,369	1,453,443	14,622	1.0
<b>Total Other Departmental Expenditures</b>	<b>\$7,878,972</b>	<b>\$7,937,759</b>	<b>\$7,999,452</b>	<b>\$8,064,111</b>	<b>\$8,131,837</b>	<b>\$252,865</b>	<b>3.2</b>
<b>Non Departmental Expenditures</b>							
Interest & Debt Exc Tans	\$7,106,000	\$7,067,781	\$7,154,982	\$7,063,110	\$7,048,427	-\$57,573	-0.8
Tan Interest Expense	579,979	562,000	562,000	562,000	562,000	-17,979	-3.1
SPA Citation Issuers	562,235	562,235	562,235	562,235	562,235	0	0.0
Other Operating Expense	650,413	700,346	700,346	700,346	700,346	49,932	7.7
<b>Non Departmental Expenditure</b>	<b>\$8,898,627</b>	<b>\$8,892,361</b>	<b>\$8,979,563</b>	<b>\$8,887,690</b>	<b>\$8,873,007</b>	<b>-\$25,620</b>	<b>-0.3</b>
Scranton Parking Authority Transfer		\$1,600,000					
<b>Total Expenditures</b>	<b>\$63,851,539</b>	<b>\$68,734,246</b>	<b>\$69,741,590</b>	<b>\$71,563,264</b>	<b>\$72,312,121</b>	<b>\$8,460,581</b>	<b>13.3</b>

**General Fund Expenditure Categories  
Proportion of All Operating Expenditures  
City of Scranton  
2011 - 2015**

(Without Implementation of 2011 Revised Recovery Plan Mandates)

Expenditure Category	2011 Estimated % of Total	2012 Projected % of Total	2013 Projected % of Total	2014 Projected % of Total	2015 Projected % of Total
<b>Total Personnel Expenditure</b>	<b>73.7%</b>	<b>74.9%</b>	<b>75.7%</b>	<b>76.3%</b>	<b>76.5%</b>
<b>Total Other Departmental Expenditures</b>	<b>12.4%</b>	<b>11.8%</b>	<b>11.5%</b>	<b>11.3%</b>	<b>11.2%</b>
<b>Non Departmental Expenditure</b>	<b>13.9%</b>	<b>13.3%</b>	<b>12.9%</b>	<b>12.4%</b>	<b>12.3%</b>
<b>Total Expenditures</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

As with most local governments, the services provided by the City of Scranton are labor-intensive and require people to prevent and investigate crime, respond to fire emergencies, maintain safe and clean streets, collect refuse and deliver the other important services of municipal government. Without corrective action, personnel expenditures will consume a larger portion of the City's total operating expenditures. The chart below provides a more detailed examination of projected City Personnel Expenditures for through FY2015. Bargaining unit employee expenditures are based on increases as outlined in current collective bargaining agreements, arbitration awards and court orders and contain no increases after the expiration of existing collective bargaining agreements or arbitration awards. Salaries for non-represented employees are projected to grow at 0% through 2015.

**Projected Personnel Expenditures – All City Employees  
City of Scranton  
2011 - 2015**

(Without Implementation of 2011 Revised Recovery Plan Mandates)

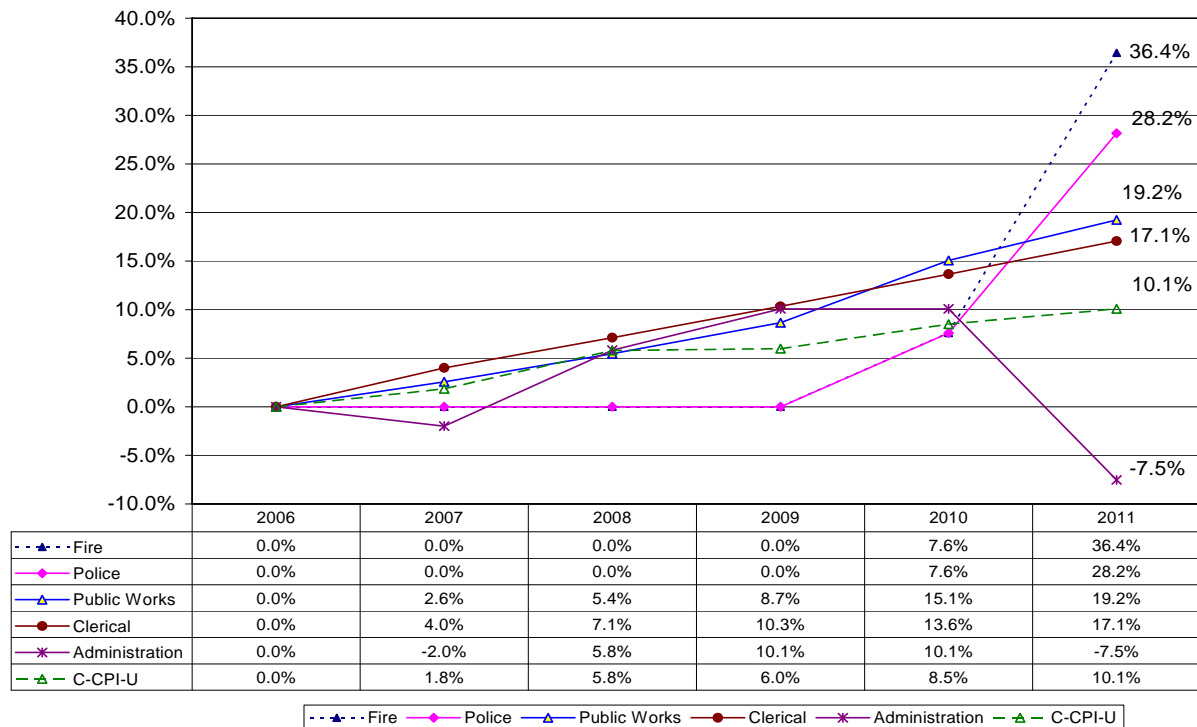
	2011	2012	2013	2014	2015	Change 2011-2015	
	Estimated	Projected	Projected	Projected	Projected	\$	%
Standard Salary	\$21,574,102	\$23,278,121	\$24,357,540	\$25,348,066	\$25,348,066	3,773,964	17.5
Other Salary (Misc)	389,409	389,409	389,409	389,409	389,409	0	0.0
Longevity Salary	1,321,821	1,359,138	1,427,877	1,491,142	1,491,142	169,321	12.8
Overtime Salary	717,446	771,638	808,544	829,467	829,467	112,021	15.6
Court Appearance Salary	135,006	149,855	158,679	168,218	168,218	33,212	24.6
Social Security	801,428	894,308	923,227	938,948	938,948	137,520	17.2
<b>Total Direct Compensation</b>	<b>\$24,939,212</b>	<b>\$26,842,469</b>	<b>\$28,065,275</b>	<b>\$29,165,250</b>	<b>\$29,165,250</b>	<b>4,226,038</b>	<b>16.9</b>
Uniform Allowance	259,320	261,445	263,770	263,770	263,770	4,450	1.7
Health Insurance Incl'd Retirees	14,975,150	16,161,526	17,145,910	17,816,861	18,513,162	3,538,012	23.6
Life/Disability Insurance	355,000	376,631	400,190	425,878	453,914	98,914	27.9
Unemployment Insurance	287,386	192,549	129,008	86,435	57,912	-229,475	-79.8
Workers' Comp Transfer	1,700,000	1,700,000	1,700,000	1,700,000	1,700,000	0	0.0
City 10% Early Retirement	261,658	261,658	261,658	261,658	261,658	0	0.0
City Pension	4,253,215	4,464,849	4,753,764	4,848,612	4,848,612	595,397	14.0
Police Education Allowance	43,000	43,000	43,000	43,000	43,000	0	0.0
<b>Total Other Employee Expense</b>	<b>\$22,134,728</b>	<b>\$23,461,657</b>	<b>\$24,697,299</b>	<b>\$25,446,213</b>	<b>\$26,142,027</b>	<b>4,007,298</b>	<b>18.1</b>
<b>TOTAL EMPLOYEE EXPENSE</b>	<b>\$47,073,940</b>	<b>\$50,304,126</b>	<b>\$52,762,575</b>	<b>\$54,611,463</b>	<b>\$55,307,277</b>	<b>\$8,233,336</b>	<b>17.5</b>

Source: 2011 – 2015 PEL Estimated/Projected

### Direct Compensation

The largest component of personnel expenditures is direct employee compensation, which is projected to account for 53% of FY2011 personnel expenditures. The chart below shows the cumulative base salary or base hourly wage increases received by employees in the City’s police, fire, and DPW unions and for non-represented, non-uniformed employees from January 2006 through 2011. These increases and their growth over time are compared to growth in the Chained Consumer Price Index for All Urban Consumers (C-CPI-U), considered by the federal government’s Bureau of Labor Statistics to be the best approximation for measuring the change in the cost-of-living.

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



Using August 2006 as the base month, the C-CPI-U grew by 10.1 percent through August 2011. Meanwhile, base wages for Department of Public Works and Clerical employees grew every year through 2011 for a cumulative increase of 19.2% and 17.1%, respectively, over the 2006 base. The City’s police and fire bargaining unit members had no growth in base wages (0%), from 2006 through 2008, however, as a result of Commonwealth Court decisions in 2009, fire and police employee base compensation has increased since 2009 by 36.4% for fire and 28.2% for police. Administrative wages fluctuated throughout the period, decreasing from 2006 to 2007 due to a change in personnel and administrative salary reductions in 2007, and then increasing in 2008 and 2009 before being reduced under the 2011 adopted City budget.

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

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

	2011 End Of Year Estimate	2012 End Of Year Estimate	2013 End Of Year Estimate	2014 End Of Year Estimate
<b>Administrative Average</b>	\$38,221	\$33,915	\$33,915	\$33,915
<b>Business Administrator</b>	\$59,500	\$59,500	\$59,500	\$59,500
<b>Clerical Average</b>	\$33,425	\$33,425	\$33,425	\$33,425
<b>Clerk to Council</b>	\$45,800	\$45,800	\$45,800	\$45,800
<b>Firefighter</b>	\$57,574	\$60,398	\$63,608	\$66,989
<b>Police Patrolman</b>	\$51,357	\$54,484	\$58,027	\$61,800
<b>Public Works Average</b>	\$38,539	\$39,891	\$41,555	\$41,555

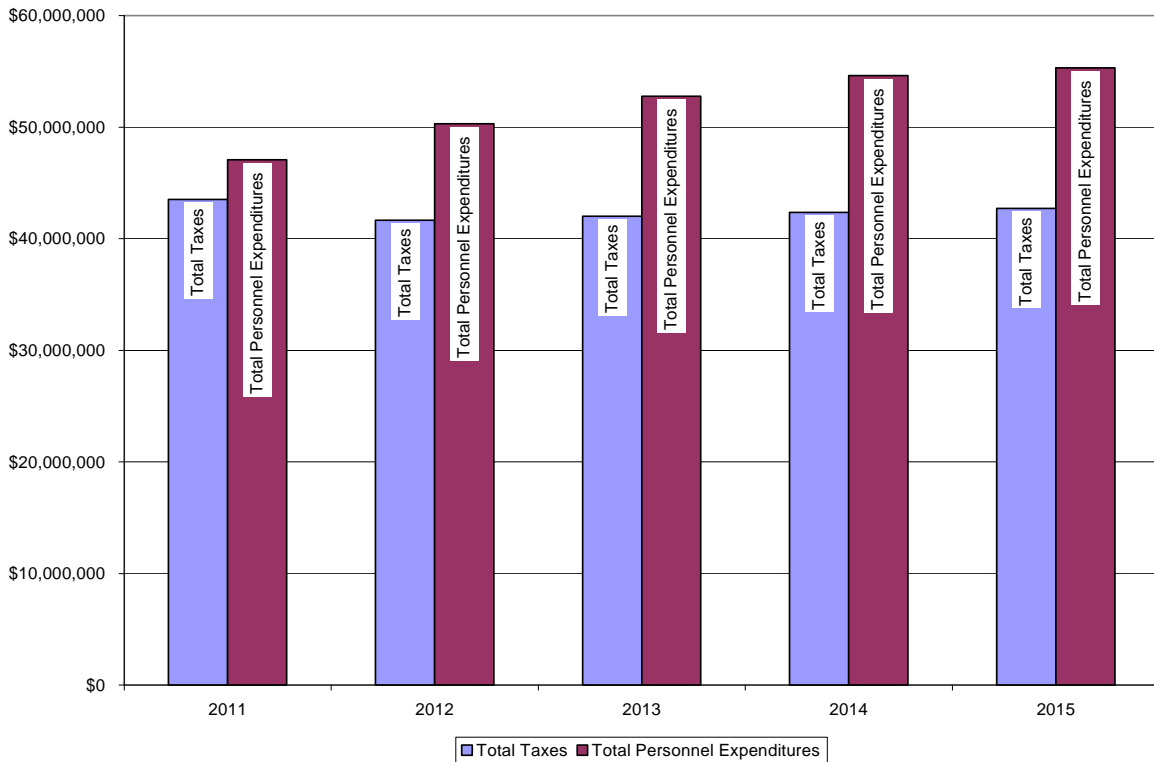
Source: 2011 – 2014 PEL Estimated From CBAs

The table and bar graph below provides a summary of the relationship between the City of Scranton's projected total taxes to be collected (real estate, EIT and other Act 511 taxes) and its projected Personnel Expenditures for the period 2011 – 2015. Currently, the City's Personnel Expenditures are **\$3,565,581** greater than the total taxes collected by the City in 2011. This trend is projected to continue into the future with the gap between the City's projected 2015 Personnel Expenditures and the City's total 2015 tax collections increasing to **\$12,653,227**.

**Comparison of Projected Total Taxes Collected and  
Projected Total Personnel Expenditures  
City of Scranton  
2011 — 2015**

	2011 Estimated	2012 Projected	2013 Projected	2014 Projected	2015 Projected
<b>Total Projected Taxes Collected</b>	<b>43,472,359</b>	<b>41,600,980</b>	<b>41,946,932</b>	<b>42,297,930</b>	<b>42,654,050</b>
<b>Total Projected Personnel Expenditure</b>	<b>47,073,940</b>	<b>50,304,126</b>	<b>52,762,575</b>	<b>54,611,463</b>	<b>55,307,277</b>
Percent Of Total Taxes Collected to Personnel Expenditures	92.3%	82.7%	79.5%	77.5%	77.1%
<b>Difference</b>	<b>-3,601,581</b>	<b>-8,703,146</b>	<b>-10,815,643</b>	<b>-12,313,533</b>	<b>-12,653,227</b>

### Comparison of Projected Total Taxes Collected and Projected Total Personnel Expenditures City of Scranton 2011 — 2015



### Workmen’s Compensation

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

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

## Legacy Costs

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

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

Retiree Health Care. In addition to providing its 479 City employees with health care coverage the City has also taken on the responsibility of providing health care coverage to over 500 former City employees who have retired. Currently the City includes the cost of its annual retiree health care expense in its annual operating budget along with the cost of its active employees. The City's estimated retiree health care liability as of 2010 is \$7.4 million. The City also pays for a group insurance health care termination benefit for various employees, spouses, and dependents. The legacy cost for this benefit (based upon a term extending until April 2043) has been estimated in the City's 2009 audit at \$10.6 million.

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

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

The restoration of the City's fiscal integrity cannot be achieved without the City 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. In addition to its annual Personnel Expenses, the City of Scranton's taxpayers are responsible for long-term personnel liabilities that include retiree pension costs, retiree health care costs and worker's compensation costs.

If the City fails to control its annual and long-term personnel expenses, the City will have to make dramatic workforce reductions that will limit its ability to provide the most basic municipal services to its residents. In the recent past, the City of Scranton has resorted to layoffs because it was unable to reduce or contain other components of employee compensation. While this 2011 Revised Recovery Plan identifies further areas where the City can reduce headcount, the City cannot survive without restructuring the entire employee compensation package it offers its employees so that employee compensation and workforce cost growth more closely track the City's achievable level of revenue.

### City of Scranton Debt Obligations—2011 - 2015

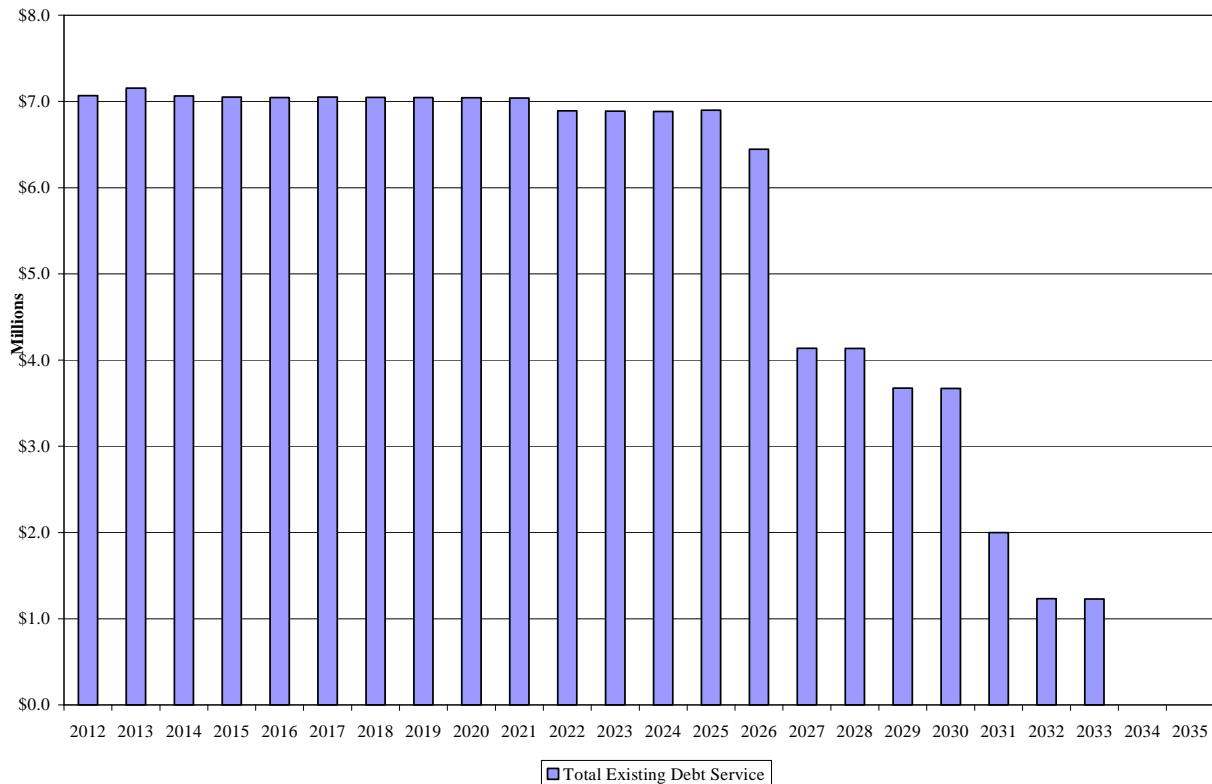
The City of Scranton uses various types of municipal borrowings to finance its operations both short-term and long term. This is a common practice among many larger municipal corporations. The City’s short-term general debt obligations include debt that has a maturity date of less than one year, such as tax and revenue anticipation notes (TANs). The City’s long-term debt obligations include bonds and notes with a maturity date of longer than one year. Along with the long-term personnel expenses identified above, the City’s long-term debt obligations will impact the City’s finances for decades into the future. The City’s annual projected long-term debt service is listed in the table and bar graph below

#### Projected City Debt Service City of Scranton 2012 - 2015

(Without Implementation of 2011 Revised Recovery Plan Mandates)

	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Current Debt Service	\$7,067,781	\$7,154,982	\$7,063,110	\$7,048,427

#### Projected Debt Service City of Scranton 2012 - 2035



In addition to the City’s direct debt obligations, the City also guarantees the debt of the Scranton Parking Authority. As a debt guarantor, the City is not directly responsible for budgeting or making annual debt service payments on its guaranteed debt. The City will only be obligated to make these debt service payments if the SPA debt service payments are late or not paid. As of December 31,

2010, the total outstanding principal and interest of the Scranton Parking Authority debt was more than \$99 million.

## Elimination of Projected 2011 – 2015 Operating Budget Deficits

The 2011 Revised Recovery Plan includes mandates for the years 2011 – 2015 that will address the City’s revenue and expenditure mismatch identified above and if fully implemented will eliminate the projected operating budget deficits and restore the City to fiscal solvency. The table below illustrates the impact of implementation of all of the mandates included in the 2011 Revised Recovery Plan.

### Impact of 2011 Revised Recovery Plan Mandates On Projected Operating Budget Deficits City of Scranton 2011 - 2015

	2011 Estimated	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Deficit	-\$6,141,195	-\$13,480,777	-\$14,222,596	-\$15,772,070	-\$16,242,005
Mandates Cumulative Impact	6,141,195	13,548,870	14,324,534	15,900,686	16,514,079
<b>Surplus/(Deficit)</b>	\$0	\$68,093	\$101,937	\$128,616	\$272,075
<b>Cumulative Surplus/(Deficit)</b>	\$0	\$68,093	\$170,030	\$298,646	\$570,721

Below is a summary of the impact of implementation of all of the 2011 through 2015 mandates included in the 2011 Revised Recovery Plan.

#### Expenditures and other uses:

- A 50% decrease in Parks and Recreation Spending.
- A 5% decrease in non-employee spending.
- Decreases in workforce of:
  - 3 Police Officers
  - 3 Firefighters
  - 1 Clerical
  - 1 Public Works
  - 1 Administration
- Reductions in employee base salary or base hourly wages:
  - Clerical employees 5% reduction in base salary or base hourly wage on January 1, 2012;
  - Administration employees 15% reduction in base salary or base hourly wage on either January 1, 2011 or January 1, 2012.
  - Public Works Department employees 15% reduction in base salary or base hourly wage on January 1, 2013
  - Police Department employees 15% reduction in base salary or base hourly wage on January 1, 2015.
  - Fire Department employees 20% reduction in base salary or base hourly wage on January 1, 2015.
- All City employee health care monetary contributions will be based on a percentage of base salary or base hourly wage.

#### Revenues and other sources:

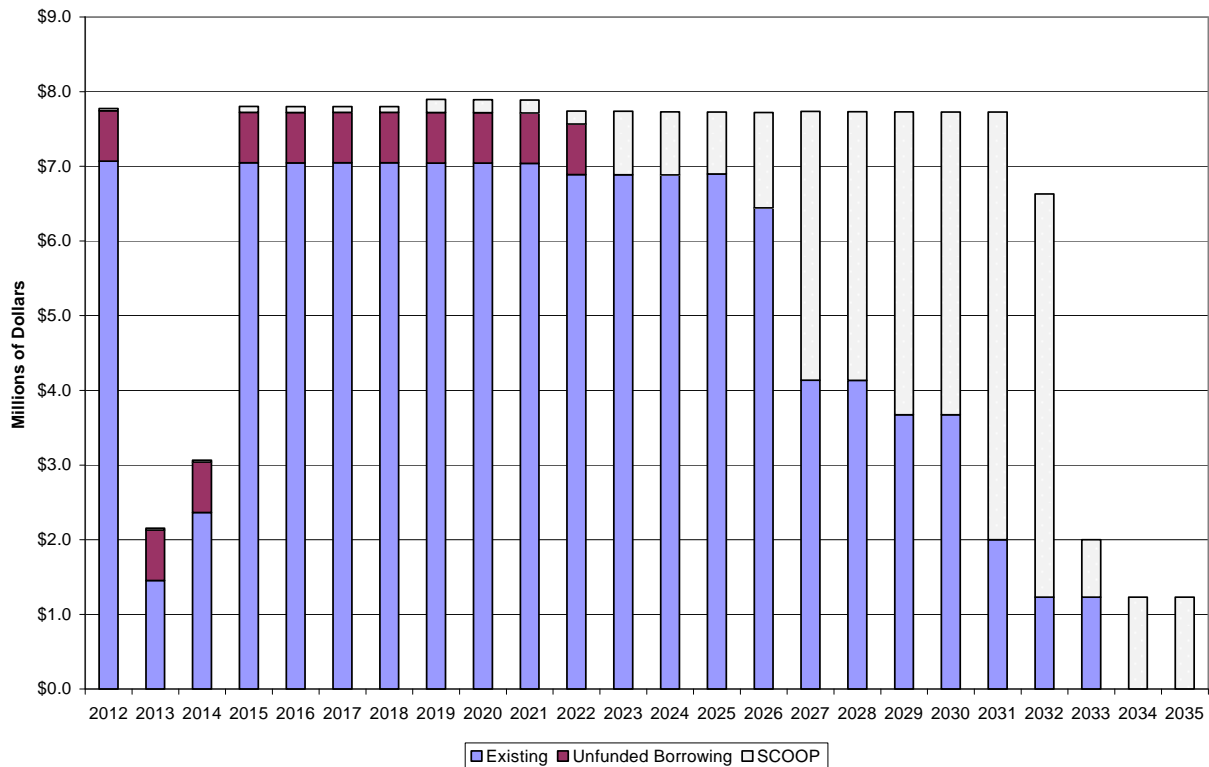
- Sale of the City’s parking meter concession to the Scranton Parking Authority.

- \$15.1 million in new borrowing consisting of unfunded borrowing of \$6.1 million to pay outstanding bills in 2011 and 2012 refinancing of the City’s existing debt service expenses in 2013 and 2014.
- A 70.7% cumulative increase in the dollar amount of real estate taxes levied over 4 years.
- A new \$22 refuse collection fee in 2012 increasing to \$72 by January 1, 2014.
- A new 15% parking tax in 2012.

**Impact on Annual Debt Service from  
2011 Revised Recovery Plan Debt Mandates  
City of Scranton  
2012 – 2015**

	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Current Debt Service	\$7,067,781	\$7,154,982	\$7,063,110	\$7,048,427
Unfunded Debt	\$675,531	\$675,531	\$675,531	\$675,531
Debt Mandate Impact	\$0	-\$5,000,000	-\$4,000,000	\$685,000
<b>Total Estimated Debt Service</b>	<b>\$7,743,312</b>	<b>\$2,830,514</b>	<b>\$3,738,641</b>	<b>\$8,408,958</b>

**Impact on Annual Debt Service from  
2011 Revised Recovery Plan Debt Mandates  
City of Scranton  
2012 – 2035**





# CHAPTER 1

## Introduction and Financial Review

### Introduction

Since January 10, 1992, the City of Scranton has operated under a Commonwealth of Pennsylvania determination of financial distress pursuant to Act 47 of 1987, the Municipalities Financial Recovery Act (Act 47). Since the City's adoption of the *2002 Revised and Updated Act 47 Recovery Plan for the City of Scranton* (2002 Revised Recovery Plan), implementation of the 2002 Revised Recovery Plan has occurred within an environment of extensive litigation and delays that have prevented some of the 2002 Revised Recovery Plan's recommendations from being implemented. A recitation of the past problems and conflicts will not provide relief to the immediate fiscal problems that the City of Scranton must address in 2011 and into the future.

The mandates included in this *2011 Revised and Updated Act 47 Recovery Plan for the City of Scranton* (2011 Revised Recovery Plan) will impact all facets of City Government. Each mandate was developed with the express intention of providing the City with an opportunity to more effectively provide municipal services to its residents in a financially sustainable and responsible manner, both in the short-term and long-term. Implementation of all of the mandates contained in this 2011 Revised Recovery Plan will require compromise and sacrifice from all of the City's stakeholders — its elected leadership, employees and taxpayers. Time is of the essence and many of the mandates included herein must be implemented expeditiously. We believe that implementation of all of the mandates contained in this 2011 Revised Recovery Plan coupled with the commitment, leadership and involvement of all key City stakeholders will eliminate the projected operating budget deficits identified in the Baseline General Fund Revenue and Expenditure Projections 2011 – 2015 chapter and will produce a vibrant City of Scranton that will prosper well into the future.

### Financial Review

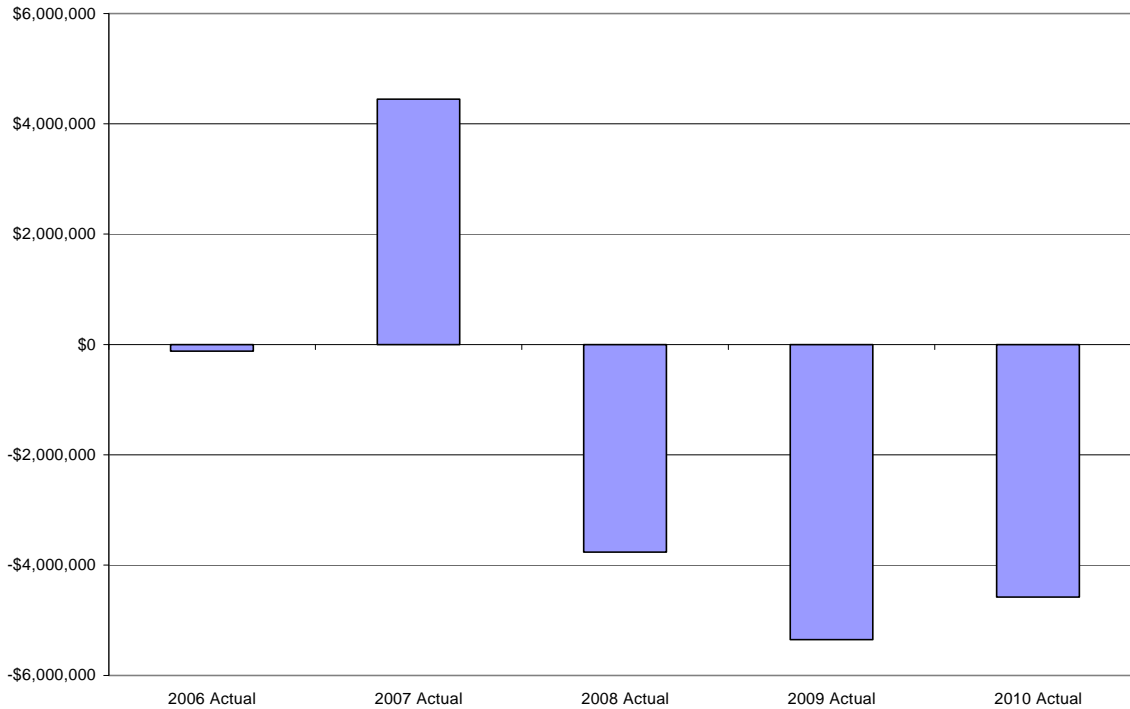
When the Act 47 Coordinator was preparing this 2011 Revised Recovery Plan the City had not yet received the City's final fiscal year 2010 audit. The most recent completed and final City audit was for FY 2009. The Act 47 Coordinator used the most recent available financial data provided by the City's Business Administrator's office to prepare this historical review and also to provide the basis for the financial projections contained elsewhere in this 2011 Revised Recovery Plan. The Act 47 Coordinator has also analyzed current data monthly and asked various questions to further confirm the data. The City financial statements are on a budget basis which includes some, but not all, accruals.

The table below illustrates the City of Scranton's General Fund operating budget performance for the years 2006 - 2010. The City has run a General Fund operating budget deficit in four out of the past five years.

**General Fund Surplus/(Deficit)**  
**City of Scranton**  
**2006 – 2010**  
 (Excluding Annual Tax Anticipation Notes)

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

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



**Revenue Review—2006 - 2010**

The table below illustrates that the City’s operating revenues, excluding Tax Anticipation Revenues, decreased by 1.6% between 2006 and 2010 from \$58.8 million in 2006 to \$57.8 million in 2010.

**General Fund Operating Revenues  
City of Scranton  
2006 - 2010**

**(Including One-Time Revenue Sources; Excluding Annual TAN Revenue)**

Revenue Category	2006	2007	2008	2009	2010	Change 2006-2010	
	Actual	Actual	Actual	Actual	Actual	\$	%
Real Estate Taxes	12,098,731	15,149,404	14,674,301	14,919,926	14,580,300	2,481,569	20.5
Refuse Revenues	4,728,129	4,465,378	4,449,141	4,308,606	4,118,995	-609,133	-12.9
Utility Taxes	60,853	56,846	58,412	60,913	63,034	2,181	3.6
Earned Income Tax	18,841,215	20,002,560	22,108,375	23,538,769	21,737,008	2,895,793	15.4
Act 511 Taxes	7,481,788	8,591,176	6,508,576	5,760,054	5,699,324	-1,782,465	-23.8
Penalties & Interest	33,170	28,225	35,970	40,962	32,267	-902	-2.7
Licenses & Permits	1,629,011	1,398,871	1,315,133	1,753,926	2,160,675	531,665	32.6
Fines, Forfeits & Violations	800,995	736,849	808,535	743,143	923,789	122,794	15.3
Interest Earnings	567,252	788,128	411,330	73,593	13,978	-553,274	-97.5
Rents & Concessions	0	0	700	700	0	0	0.0
Intergov. Reimbursements	2,842,641	2,991,125	2,793,864	2,801,326	2,642,097	-200,545	-7.1
In Lieu of Taxes	125,790	117,490	117,000	132,386	203,314	77,524	61.6
Departmental Earnings	1,246,809	1,131,515	1,152,020	1,141,487	1,373,000	126,192	10.1
User Fees	57,550	48,229	52,269	78,057	51,842	-5,708	-9.9
Miscellaneous Revenues	6,830,493	5,094,582	804,976	819,507	2,692,260	-4,138,233	-60.6
Interfund Transfers	1,432,271	1,674,606	1,435,556	1,951,105	1,532,058	99,786	7.0
<b>Total Revenues</b>	<b>58,776,697</b>	<b>62,274,983</b>	<b>56,726,157</b>	<b>58,124,461</b>	<b>57,823,942</b>	<b>-952,755</b>	<b>-1.6</b>

## Real Estate and Earned Income Tax Revenue

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

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

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

Source: Historical Data from City As Provided

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

Another issue impacting the City's real estate tax revenue collections is the significant amount of assessed property valuation in the City that is tax-exempt property (30.4% of City total assessed value)<sup>2</sup> that cannot provide millage based tax revenue for the City's General Fund operating purposes.

**Earned Income Tax.** During the review period, earned income tax revenue provided the City between 32.1% and 40.5% of total operating revenue. In comparison to neighboring municipalities, the City levies a relatively high earned income tax (EIT) rate of 2.4% on resident income. In addition, the Scranton School District levies a 1.0% EIT on City residents for a total 3.4% EIT rate on City residents. The City's EIT revenue has increased during the review period from \$18.8 million in 2006 to \$21.7 million in 2010. Unlike the City's real estate tax revenue, the City's earned income tax collections have increased over the review period while the rate has remained unchanged.

## All Other Revenue Sources

During the review period, City revenue from all other revenue sources for operations declined by \$6.3 million from the 2006 level of \$27,836,751 or a decrease of 22.7%. The City's all other revenue sources includes: the real estate property transfer tax, the local services tax on individuals working within the City's boundaries, the business privilege and mercantile tax, business licenses, building

<sup>2</sup> 2011 property assessment report from Lackawanna County.

permits, penalties and fines, and a yearly solid waste disposal fee. The table below provides a summary of operating revenue from all other revenue sources.

**All Other General Fund Revenue  
City of Scranton  
2006 - 2010**

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

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

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

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

Source: Historical Data from City As Provided

**One-Time Revenue Sources**

An additional source of revenue that the City has relied upon during the 2006 – 2010 review period is one-time revenue sources. By the Act 47 Coordinator's definition, a one-time revenue source is revenue that a municipality receives in a budget year that will not be available in future budget years. One-time revenue sources can be included as an integral part of a municipality's adopted budget or they may generated during the fiscal year from an unanticipated occurrence. The City has used various one-time revenue sources between 2006 -2010 that includes revenue from the sale of City assets, refinancing of prior debt and revenues that were the result of one time occurrences or events (sale of a large business located in the City). It is important to note that without these one-time revenue sources the City's operating deficits during the review period would have been significantly larger. Reliance on one-time revenues sources to conduct municipal operations is not a best practice for municipal budget operations. Proficient municipal budgeting is best practiced by reliance upon recurring, stable revenue sources.

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

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

**Revenue Review—2006 - 2010: Summary**

The following summary regarding the City’s recent historical General Fund operating revenues and other sources can be made:

- The City’s operating revenues decreased by 1.6% between 2006 – 2010.
- The City’s real estate tax revenue growth is stagnant and has only increased when the City increases the millage rate. The City is unable to benefit from increasing real estate market value due to Lackawanna County’s outdated reassessment.
- Earned income tax revenue has steadily increased keeping pace with purchasing power indices.
- Revenue received from other revenue sources—real estate transfer tax, business licenses and permits, and mercantile/business privilege taxes—declined 22.7% between 2006 – 2010.
- The City has chronically balanced its annual operating budgets with one-time revenue sources.

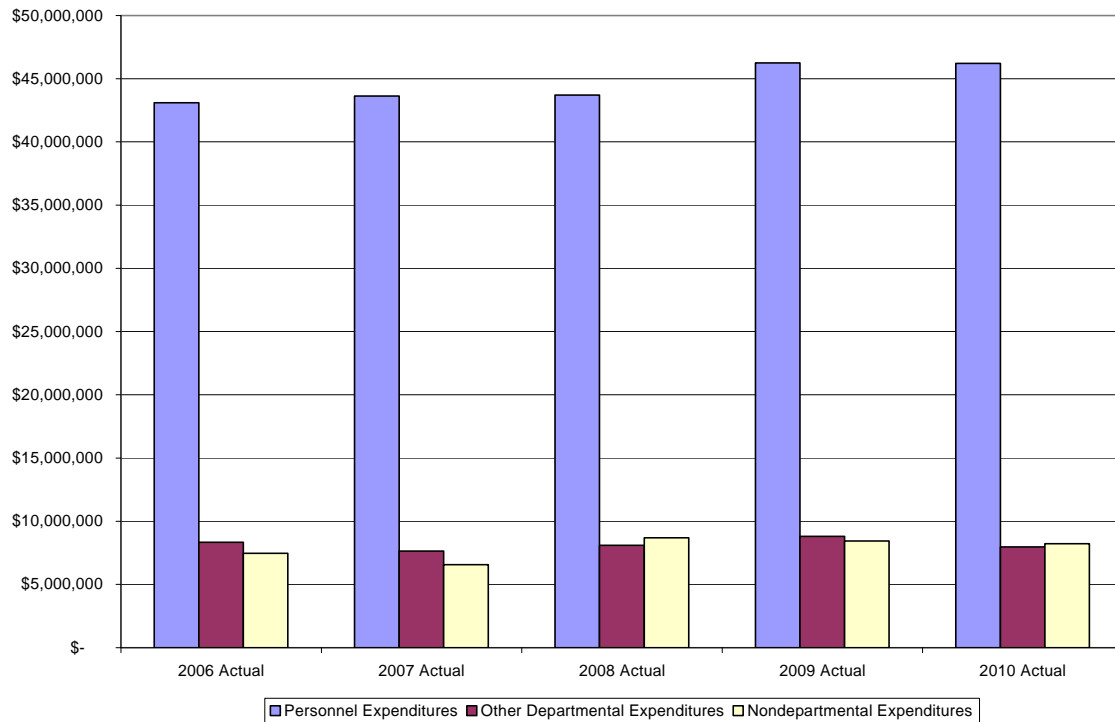
## Expenditure Review—2006 - 2010

The table below illustrates that the City of Scranton's operating expenditures increased from \$58.9 million in 2006 to \$62.4 million in 2010. During the 2006 – 2010 period total General Fund operating expenditures (excluding TAN principal repayments) rose by 5.9%.

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

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

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



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

### Personnel Expenditures

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

## Historic Personnel Expenditures – All City Employees City of Scranton 2006 - 2010

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

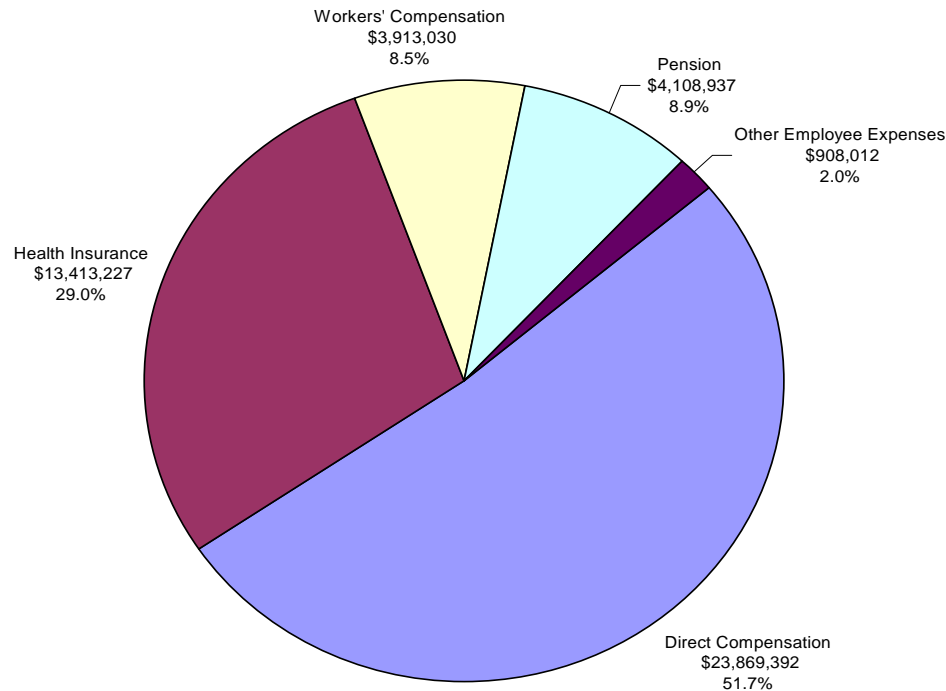
Source: Historical Data from City As Provided.

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

- Direct employee compensation increased by 9.2% between 2006 and 2010.
- City health care expenditures for employee and retiree health care grew by 15.5% from 2006 through 2010, from a total of \$11.616 million in 2006 to \$13.413 million in 2010.
- Pension expenditures fluctuated throughout the period. Pension actuarial valuations are performed every two years and will vary based on the value of assets held on the date of valuation.
- Workers' Compensation related expenditures on an annual basis did not vary substantively during the 2006-2010 review period.
- Other personnel expenditures increased by 5.1% during the 2006 – 2010 review period.

The chart below illustrates the proportion of City personnel expenditures in 2010.

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



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

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

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

### Collective Bargaining Agreements and Headcount as of September 2011

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

**Contract Terms and City Headcount as of October 2011  
By Bargaining Unit  
City of Scranton**

<b>Employee Group</b>	<b>Description</b>	<b>Headcount</b>	<b>Term of CBA</b>
Fraternal Order of Police (FOP), Lodge No. 2	All sworn Police Officers and ranking Police Department officers with the exception of the Chief of Police	136	Expiration Date 12/31/2014
International Association of Fire Fighters (IAFF), Local Union No. 669	All Fire Fighters and Fire Department officers with the exception of the Fire Chief	129	Expiration Date 12/31/2014
International Association of Machinists and Aerospace Workers Local 2462	All non-uniformed, non-management employees (Clerical and Single Tax Office)	79	Expiration Date 12/31/2011
International Association of Machinists and Aerospace Workers Local 2305	Departments of Public Works, Parks and Recreation	96	Expiration Date 12/31/2013
Non-Represented Employees	Management and elected	39	N/A
<b>Total Employees</b>		<b>479</b>	

Source: City Provided Data as of October 13, 2011

**Compensation and Benefits**

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

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

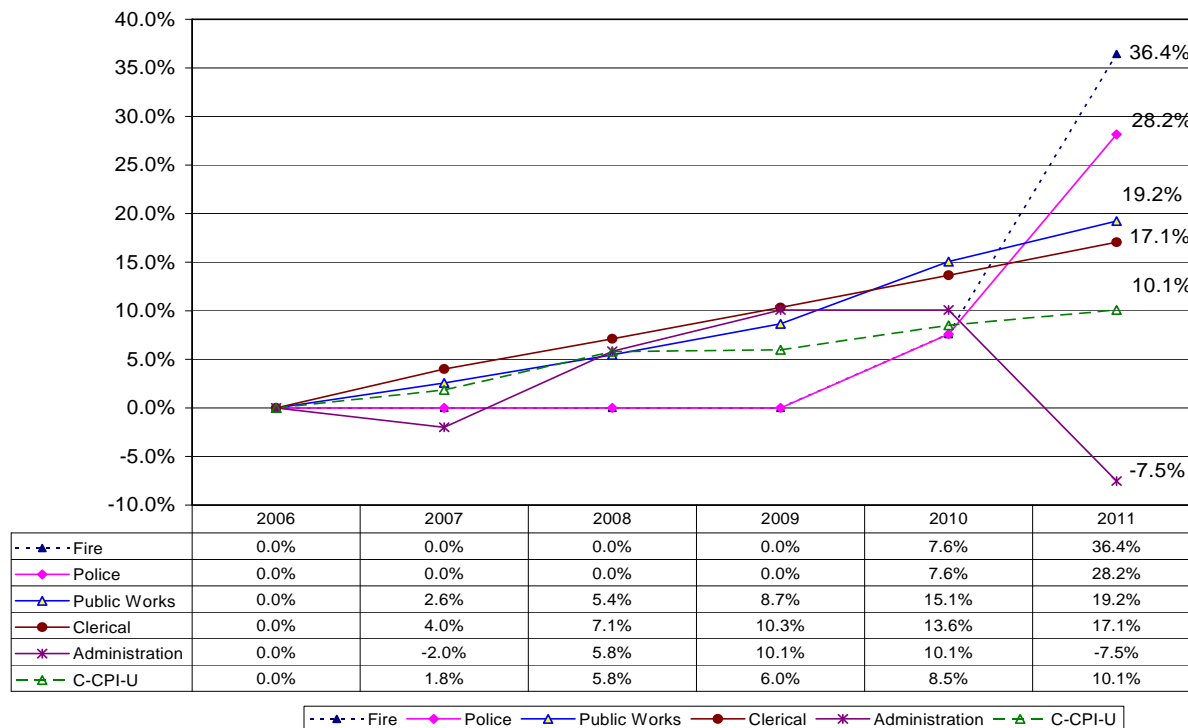
City of Scranton employees also receive non-compensatory benefits in addition to cash compensation. By far the most important and most significant non-compensatory benefit that City employees receive for their service is the opportunity to participate in the City's self-funded health insurance program. The City's health care expenditure is the City's second largest personnel expenditure. It important to note that the City's annual health care expenditures includes the current personnel complement of 479 active City employees and over 500 retired City employees. Other benefits received by City employees include:

- Life and Disability Insurance
- Defined Benefit Pension
- Uniform Allowance

### Direct Compensation

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

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



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

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

### Overtime

The City’s historical overtime expenditures have been a major cost driver for the City of Scranton, particularly for the fire and DPW functions. Leave usage, staffing levels, collective bargaining restrictions, service needs, public events and emergencies all contribute to the use of overtime. Between 2006 and 2010, overtime payments have increased by 45.0% for fire department employees and by 51.5%, 31.3%, and 5.0% for DPW Refuse Collection, Highways, and Garages, respectively. Overtime cost for the police department decreased by 65.5% between 2006 and 2010.

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

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

Source: City Provided Data

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

### Projected Overtime Budget City of Scranton 2011

	2011 Estimated	2011 Budget	Variance	% Variance
Police	\$227,673	\$80,000	\$147,673	184.6
Fire	83,950	83,950	0	0.0
Refuse	170,000	60,000	110,000	183.3
Bureau Of Highways	160,000	60,000	100,000	166.7
Bureau Of Garages	30,000	5,000	25,000	500.0
<b>Total</b>	<b>\$671,623</b>	<b>\$288,950</b>	<b>\$382,673</b>	<b>57.0%</b>

Source: Budget City Provided Data; PEL Estimated

#### Health Benefits

As of 2011, the City of Scranton offered health care benefits for 479 active employees and over 500 retirees. The chart below illustrates that the City's health care expenses increased by 15.5% during the 2006 - 2010 period. The City provides health care benefits through a self insurance program covering the costs of major medical, health care providers, dental, and vision care. Under the self insurance model, the City pays the actual employee cost for health care. For example, the City may incur a very minimal cost for one employee throughout a fiscal year while another employee may incur several hundred thousand dollars of medical bills. Thus, direct cost comparison to the cost of a typical private indemnity group health care plan (e.g. Blue Cross/Shield) is not very helpful.

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

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

Source: City provided data, Historical Benefit costs.

The charts below show the portion of health care expenses that is paid by City employees, while also comparing employee contribution rates against private sector norms and state and local governments.

**Health Benefits--Employee Cost Sharing  
City of Scranton  
2011  
(Per Month)**

	<b>Employee Cost Sharing \$</b>		<b>Employee Cost Sharing %</b>	
	<b>Individual Coverage</b>	<b>Family Coverage</b>	<b>Individual Coverage</b>	<b>Family Coverage</b>
Scranton FOP, Lodge No. 12	\$0	\$0	0%	0%
Scranton IAFF, Local Union No. 428	\$0	\$0	0%	0%
Scranton Public Works	\$100	\$132	N/A	N/A
Scranton Clerical & Single Tax Office	\$100	\$132	N/A	N/A
Scranton Non-Represented Employees	\$100	\$132	N/A	N/A
Private Sector Average <sup>3</sup>	\$75.00	\$333.00	20.0% of premium	30.0% of premium
State and Local Governments <sup>4</sup>	\$85.18	\$354.66	11.0% of premium	27.0% of premium

**Health Benefits Copayments  
City of Scranton  
2011**

	<b>Office Visit</b>	<b>Specialist Visit</b>	<b>Rx Co-pay Retail</b>
Scranton FOP, Lodge No. 12	\$10	\$10	\$6, \$15
Scranton IAFF, Local Union No. 428	\$10	\$10	\$6, \$15
Scranton Public Works	\$25	\$25	\$8, \$15, \$15
Scranton Clerical & Single Tax Office	\$25	\$25	\$8, \$15, \$15
Scranton Non-Represented Employees	\$25	\$25	\$8, \$15, \$15
Private Sector Average <sup>5</sup>	\$22	\$31	\$11, \$28, \$49
State and Local Governments	<i>Data unavailable</i>	<i>Data unavailable</i>	<i>Data unavailable</i>
Commonwealth of PA	\$15	\$25	\$10/\$18/\$36

Both nationally and in Pennsylvania, governments are moving toward implementing cost sharing for medical insurance for employees who do not share in the cost or increasing employees cost sharing for those who do contribute:

<sup>3</sup> Kaiser Family Foundation and Health Research & Educational Trust, Employer Health Benefits: 2010 Annual Survey.

<sup>4</sup> U.S. Bureau of Labor Statistics, "National Compensation Survey: Employee Benefits in the United States, March 2010."

<sup>5</sup> Kaiser Family Foundation and Health Research & Educational Trust, Employer Health Benefits: 2010 Annual Survey.

- In a January 2007 agreement, the largest Pennsylvania state employee unions agreed to incrementally raise member contributions to health care premiums from 1.0% of gross pay to 3.0% by 2011. Employees participating in health management initiatives may qualify for premium contribution discounts. Since 2003, the health plans for these employees have been redesigned to control costs by increasing deductibles and co-pays.
  - Prescription drug co-pays increased from two tiers (\$6, \$25) to three tiers (\$10, \$18, \$36).
  - Increases to out-of-network deductibles (from \$250 to \$400), coinsurance (now 30 percent), and out-of-pocket maximums (from \$1,000 to \$1,500/\$3,000).
  - Emergency room co-pays increased from \$25 to \$50.
- Wilkes-Barre City firefighters agreed to establish health care premium contributions in their last contract.
- Bethlehem City firefighter premium contributions increased from \$20 in 2007 to \$40 in 2009 while office visit co-pays increased from \$20 to \$25 and prescription drug co-pays increased from \$10/\$15 to \$15/\$25 in 2009.
- As negotiated in the contract ending June 30, 2009, Baltimore has increased premium cost sharing incrementally from 15% to 20% of premium for its PPO. Baltimore's emergency room visit co-pays also increased from \$25 to \$50 during the 2009 plan year.
- The Boston City Police Patrolman's contract, effective January 1, 2009, increased employee contributions to health premiums for HMOs from 12.5% to 15% of premium, while contributions for Point of Service (POS) coverage rose from 17.5% to 20% of premium.
- Chicago firefighter premium contributions as a percentage of salary increased on July 1, 2006 from approximately 1.0% for individual, 1.6% for individual plus one, and 2.0% for family to 1.3% for individual, 2.0% for individual plus one, and 2.5% for family.
- Active police officers and firefighters in Pittsburgh City now contribute to the cost of health care at approximately 15% of premium. Prior to 2005, no employee contributions were required.

### **Workmen's Compensation**

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

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

### **Legacy Costs**

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

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

Retiree Health Care. In addition to providing its 479 City employees with health care coverage the City has also taken on the responsibility of providing health care coverage to over 500 former City employees who have retired. Currently the City includes the cost of its annual retiree health care expense in its annual operating budget along with the cost of its active employees. The City's estimated retiree health care liability for 2010 was \$7.4 million. The City also pays for group insurance health care termination benefit for various employees, spouses, and dependents. The legacy cost for this benefit (based upon a term extending until April 2043) has been estimated in the City's 2009 audit at \$10.6 million.

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

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

**Other Departmental Expenditures**

The table below provides summary data on the City's Other Departmental Expenditure categories.

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

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

Source: Historical Data from City As Provided

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

- Expenditures on General Fund capital projects **decreased** by 58.2% between 2006 and 2010. This indicates the City's failure to adequately invest in critical City infrastructure and other capital assets which may limit the City's ability to adequately provide future services to its residents.
- Charges for utilities grew from 2006 through 2010, from \$1.381 million in 2006 to \$1.806 million in 2010, or by 30.7%.
- All other departmental expenditures increased by 12.2% for the review period.
- Landfill expenses fell during the period by 9.4% to \$1.471 million in 2010.

## **Non-Departmental Expenditures**

The table below provides summary data on the City's Non-Departmental Expenditure categories.

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

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

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

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

### **Expenditure Review—2006 – 2010: Summary**

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

- The City's annual operating expenditures have increased by 5.9% over the past 5 years.
- Public services provided by the City are labor-intensive—employee-related expenditures accounted for 74.1% of City's operating expenditures in 2010.
- Direct compensation is City's largest operating expenditure.
- Health insurance expenditures for both current and retired employees have increased 15.5% between 2006 and 2010.
- The City's annual debt service obligation has increased by 10.9% since 2006.
- Using August 2006 as the base month, the cost of living index grew by 10.1 percent through August 2011. During the same five year period, City paid base wages for Department of Public Works and Clerical employees had a cumulative increase of 19.2% and 17.1%, respectively.
- During the same five year period, the City's police and fire bargaining unit members had no growth in base wages from 2006 through 2008, however, as a result of Commonwealth Court decisions in 2009, fire and police employee base compensation increased by 36.4% for fire and 28.2% for police.
- Administrative wages fluctuated throughout the period, increasing in 2008 and 2009 before being reduced in 2011.
- In addition to its annual Personnel Expenses, the City of Scranton's taxpayers are responsible for long-term personnel liabilities that include retiree pension, retiree health care and worker's compensation.

## **Conclusion**

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

## CHAPTER 2

### Baseline General Fund Revenue and Expenditure Projections 2011 - 2015

In order to provide financial projections for the City of Scranton for the remainder of 2011 through 2015, the preceding review of the City's historical financial data was necessary to determine the City's revenue and expenditure baseline. The historical data used by the Act 47 Coordinator for reviewing the City's financial history included financial data independently maintained by the Act 47 Coordinator, the City's annual Audits through 2009 and City supplied data for 2010 and 2011 (subjected to monthly review and analysis by the Act 47 Coordinator). Estimates for the future rates of increase or decrease in individual operating revenue and expenditure line items were developed for the financial projections that follow based on the Act 47 Coordinator's analysis of the City's historical financial data, and where appropriate, independent trend analysis was utilized. Finally, the Act 47 Coordinator used the City adopted 2011 budget, as modified by the Act 47 Coordinator's independent estimate of the City's 2011 year end operating surplus or deficit, as the basis for the City's 2011 – 2015 financial projections.

**During the preparation of this 2011 Revised Recovery Plan, on October 19, 2011, the Pennsylvania Supreme Court issued a decision impacting the status of the City's 2006 interest arbitration awards affecting the collective bargaining agreements for the City's fire and police department employees. The Supreme Court decision remanded for reinstatement the 2006 fire and police arbitration awards. A cost impact of the Supreme Court decision was not available when this 2011 Revised Recovery Plan was prepared and, therefore, any potential revenue and expenditure impact that may be associated with the Supreme Court decision is not included in the revenue and expenditure projections that follow in this chapter and throughout the remainder of this 2011 Revised Recovery Plan. Any cost impact identified by the City in the future will be evaluated by the Act 47 Coordinator and if necessary the Act 47 Coordinator will initiate an amendment to this 2011 Revised Recovery Plan pursuant to the statutory process in Act 47 and incorporate any revenue and expenditure feedback from the Supreme Court decision into the 2011 Revised Recovery Plan projections.**

For the purposes of this chapter of the 2011 Revised Recovery Plan, the City of Scranton's General Fund operating revenue and expenditure projections for the remainder of 2011 through 2015 are presented below assuming the City maintains its current revenue and expenditure trends as identified by the Act 47 Coordinator.

#### Baseline Projections 2011 - 2015

The assumptions below were used in developing the 2011 – 2015 baseline projections for the City's General Fund operating budget assuming the City of Scranton maintains its current revenue and expenditure trends.

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

- All 2011 rates for taxes and fees were held constant through 2015.
- Revenue from real estate taxes has been increased slightly over the period to reflect the 2011 sale of a City hospital and the subsequent change of the hospital's tax exempt status to taxable property. Overall City property assessed valuation growth is assumed to be minimal

due to the combination of an old countywide assessment base and the offset of successful assessment appeals against any new construction or increase in assessed property values.

- Other tax revenue was reviewed on a line-by-line basis. Earned Income Tax revenue was increased by 1.5% per year, the Business Privilege & Mercantile Tax revenue by 0.2% per year and real estate transfer tax revenue by 0.2% per year over the 2011 estimated base adjusted to remove the one-time transfer tax revenue from the above mentioned 2011 hospital sale. All other tax revenue was either held constant or slightly adjusted based on the Act 47 Coordinator's historical data and trend analysis.
- State aid for pension expenses was adjusted for the 2011 reduction in employee complement beginning in 2012. The reduction in state aid was then held constant over the remainder of the period. The one time increase of \$1.7 million in State pension aid in 2011 as a result of a change in legislation is not assumed to occur again during the projection period.
- Other revenues are held constant over the period based upon the Act 47 Coordinator's historical data and trend analysis.

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

- The number of personnel has been held constant at the 2011 budget level less the 21 positions eliminated during August 2011.
- Wages have been increased as specified in current collective bargaining agreements, interest arbitration awards, or court orders. No wage increases are assumed at the conclusion of the current collective bargaining agreements or arbitration awards. Salaries for non represented City employees are projected at 0% growth through 2015.
- Medical insurance has been increased 9% for 2012, 7% for 2013, and 4% for both 2014 and 2015 in conformance with recently observed City experience and similar increases projected for other local government entities.
- Other major insurance costs have been projected on a line by line basis.
- No new debt is anticipated in the baseline projections.
- No new capital expenditures are included.
- Municipal pension obligations are adjusted based on increased employee costs.
- Other expenditures were increased at various levels based on the Act 47 Coordinator's historical data and trend analysis.

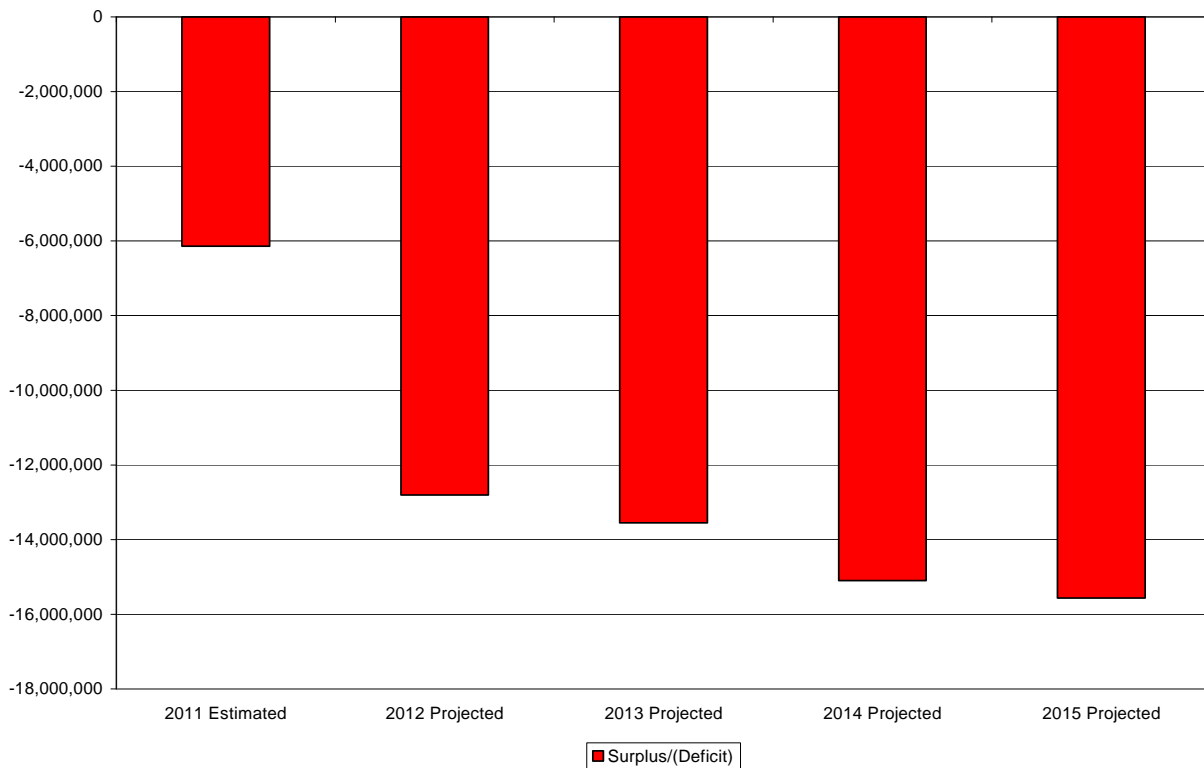
Based on the above assumptions, the following table provides the projected General Fund operating budget surplus/deficit for the City of Scranton for 2011 through 2015 **without** implementation of the 2011 Revised Recovery Plan mandates contained herein. The annual General Fund operating budget deficit is projected to increase from \$6.1 million in 2011 to \$15.6 million in 2015, an increase of \$9.5 million during the projection period. The cumulative General Fund deficit for the period 2011 - 2015 period is projected to be **\$63.2 million**.

**General Fund Projections  
City of Scranton  
2011 - 2015**

(Without Implementation of 2011 Revised Recovery Plan Mandates)

Surplus/(Deficit)	2011 Estimated	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Total Revenues	\$60,058,694	55,929,001	56,194,524	56,466,725	56,745,647
Total Expenditures	63,851,539	68,734,246	69,741,590	71,563,264	72,312,121
Projected Yearly Surplus/(Deficit)	-3,792,846	-12,805,246	-13,547,065	-15,096,539	-15,566,474
Workers' Compensation Transfer	5,000,000				
2010 Carry Over Deficit	-7,348,350				
<b>Total Projected Yearly Deficit</b>	<b>-6,141,195</b>	<b>-12,805,246</b>	<b>-13,547,065</b>	<b>-15,096,539</b>	<b>-15,566,474</b>

**General Fund Projections  
Surplus/(Deficit)  
City of Scranton  
2011 - 2015**



## Revenue Projections—2011 - 2015

The City's General Fund operating revenues are projected to decrease from \$60.1 million in 2011 to \$56.7 million in 2015 or by 5.5%. This decrease in projected operating revenues is a continuation of the 1.6% decrease in operating revenues identified in the City's 2006 - 2010 financial review period.

It is important to note that the City's 2011 projected Total Revenues of \$60,058,694 includes one-time revenues sources the City cannot rely upon in for future budget planning. The 2011 one-time revenue sources include approximately: \$2,000,000 in real estate transfer on the sale of a City hospital; \$1,700,000 in increased state aid for pensions from a change in legislation; and \$500,000 in prior year Wage Tax. In addition, the 2011 Worker's Compensation Transfer to the General Fund of \$5,000,000 identified in the table above is also considered a one-time revenue source for City budgeting purposes and without this transfer in 2011 the City's projected 2011 operating deficit would increase to \$11,141,195.

### General Fund Revenue Projections City of Scranton 2011 - 2015

(Without Implementation of 2011 Revised Recovery Plan Mandates)

Revenue Category	2011	2012	2013	2014	2015	Change 2011 -2015	
	Estimated	Projected	Projected	Projected	Projected	\$	%
Real Estate Taxes	\$13,400,000	\$13,600,000	\$13,600,000	\$13,600,000	\$13,600,000	\$200,000	1.5
Refuse Revenues	4,450,000	4,383,250	4,299,279	4,216,932	4,136,177	-313,823	-7.1
Utility Taxes	60,912	60,912	60,912	60,912	60,912	0	0.0
Earned Income Tax	22,477,359	22,395,000	22,729,950	23,069,924	23,414,998	937,639	4.2
Act 511 Taxes	7,595,000	5,605,980	5,616,982	5,628,006	5,639,052	-1,955,948	-25.8
Penalties & Interest	50,000	50,100	50,200	50,301	50,401	401	0.8
Licenses & Permits	1,650,000	1,653,300	1,656,606	1,659,920	1,663,240	13,240	0.8
Fines, Forfeits & Violations	911,200	1,111,200	1,111,200	1,111,200	1,111,200	200,000	0.0
Interest Earnings	7,200	7,214	7,229	7,243	7,258	58	0.8
Rents & Concessions	700	700	700	700	700	0	0.0
Intergovernmental Reimbursements	4,900,000	2,780,000	2,780,000	2,780,000	2,780,000	-2,120,000	-43.3
In Lieu of Taxes	183,250	183,250	183,250	183,250	183,250	0	0.0
Departmental Earnings	1,498,000	1,498,000	1,498,000	1,498,000	1,498,000	0	0.0
User Fees	60,654	60,775	60,897	61,019	61,141	487	0.8
Miscellaneous Revenues	936,500	936,500	936,500	936,500	936,500	0	0.0
Interfund Transfers	1,877,919	1,602,819	1,602,819	1,602,819	1,602,819	-275,100	-14.6
<b>Total Revenues</b>	<b>60,058,694</b>	<b>55,929,001</b>	<b>56,194,524</b>	<b>56,466,725</b>	<b>56,745,647</b>	<b>-3,313,047</b>	<b>-5.5</b>

## Expenditure Projections—2011 - 2015

As illustrated in the table below, the City's operating expenditures are projected to increase from \$63.9 million in 2011 to \$72.3 million in 2015. This 13.3% **increase** in projected operating expenditures from 2011 - 2015 is a continuation of the 5.9% increase in operating expenditures identified in the City's 2006 - 2010 financial review period. The principal factor for the increase in City expenditures is personnel expenditures, primarily employee direct compensation and employee and retiree health care insurance. Projections for employee direct compensation increase from \$24.9 million in 2011 to \$29.2 million in 2015, an increase of 16.9% from 2011 to 2015. Employee

and retiree medical insurance is projected to increase from nearly \$15.0 million in 2011 to \$18.5 million in 2015, an increase of 23.6%.

Other Departmental Expenditures are projected to increase from \$7.9 million in 2011 to \$8.1 in 2015 or 3.2%. Projected increases in insurance (12.6%), gas, oil and lubricants (8.5%) and utilities (6.4%) are partially offset by a projected decrease in landfill fees of (6.0%) and professional services of (2.6%). Non-Departmental Expenditures are projected to decrease slightly from \$8.98 million to \$8.73 million or 0.3%.

**General Fund Expenditure Projections  
City of Scranton  
2011 - 2015**

(Without Implementation of 2011 Revised Recovery Plan Mandates)

Expenditure Category	2011	2012	2013	2014	2015	Change 2015 - 2015	
	Projected	Projected	Projected	Projected	Projected	Change	%
<b>Employee Expenses</b>							
Direct Compensation	\$24,939,212	\$26,842,469	\$28,065,275	\$29,165,250	\$29,165,250	\$4,226,038	16.9
Health Insurance	14,975,150	16,161,526	17,145,910	17,816,861	18,513,162	3,538,012	23.6
Workers' Compensation	1,700,000	1,700,000	1,700,000	1,700,000	1,700,000	0	0.0
Pension	4,253,215	4,464,849	4,753,764	4,848,612	4,848,612	595,397	14.0
Other Employee Expenses	1,206,364	1,135,282	1,097,626	1,080,740	1,080,253	-126,111	-10.5
<b>Total Employee Expenditure</b>	<b>\$47,073,940</b>	<b>\$50,304,126</b>	<b>\$52,762,575</b>	<b>\$54,611,463</b>	<b>\$55,307,277</b>	<b>\$8,233,336</b>	<b>17.5</b>
<b>Other Departmental Expenditures</b>							
Professional Services	\$585,058	\$570,058	\$570,058	\$570,058	\$570,058	-\$15,000	-2.6
Gas, Oil, Lubricants, Vehicle Repair	1,010,476	1,030,892	1,051,921	1,073,581	1,095,890	85,414	8.5
Landfill	1,502,450	1,502,450	1,472,450	1,442,450	1,412,450	-90,000	-6.0
Capital Expenditures	377,900	377,900	377,900	377,900	377,900	0	0.0
Liability/Casualty Insurance	1,100,000	1,133,000	1,166,990	1,202,000	1,238,060	138,060	12.6
Utilities	1,864,267	1,892,895	1,922,382	1,952,753	1,984,036	119,769	6.4
All Other Departmental Expenditures	1,438,821	1,430,564	1,437,751	1,445,369	1,453,443	14,622	1.0
<b>Total Other Departmental Expenditures</b>	<b>\$7,878,972</b>	<b>\$7,937,759</b>	<b>\$7,999,452</b>	<b>\$8,064,111</b>	<b>\$8,131,837</b>	<b>\$252,865</b>	<b>3.2</b>
<b>Non Departmental Expenses</b>							
Interest & Debt Exc Tans	\$7,106,000	\$8,667,781	\$7,154,982	\$7,063,110	\$7,048,427	-\$57,573	-0.8
Tan Interest Expense	579,979	562,000	562,000	562,000	562,000	-17,979	-3.1
SPA Citation Issuers	562,235	562,235	562,235	562,235	562,235	0	0.0
Other Operating Expense	650,413	700,346	700,346	700,346	700,346	49,932	7.7
<b>Non Departmental Expenditure</b>	<b>\$8,898,627</b>	<b>\$10,492,361</b>	<b>\$8,979,563</b>	<b>\$8,887,690</b>	<b>\$8,873,007</b>	<b>-\$25,620</b>	<b>-0.3</b>
<b>Total Expenditures</b>	<b>\$63,851,539</b>	<b>\$68,734,246</b>	<b>\$69,741,590</b>	<b>\$71,563,264</b>	<b>\$72,312,121</b>	<b>\$8,460,581</b>	<b>13.3</b>

**City of Scranton Debt Obligations—2011 - 2015**

The City of Scranton uses various types of municipal borrowings to finance its operations both short-term and long term. This is a common practice among many larger municipal corporations. The City's short-term general debt obligations include debt that has a maturity date of less than one year, such as tax and revenue anticipation notes (TANs). The City's long-term debt obligations include bonds and notes with a maturity date of longer than one year. For the years 2012 – 2015 the City's annual projected debt service is listed in the following table.

**Projected City Debt Service  
City of Scranton  
2012 – 2015**

(Without Implementation of 2011 Revised Recovery Plan Mandates)

	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Current Debt Service	\$7,067,781	\$7,154,982	\$7,063,110	\$7,048,427

**Short-Term Debt Obligations**

The City's short-term debt or TANs for 2011 originally totaled \$14,500,000, with \$5,000,000 due on June 30, 2011 and \$9,500,000 due on December 31, 2011. The City paid the \$5,000,000 TAN in March with a transfer from the overfunded Workers' Compensation Fund. This payment allowed the City to retain a similar amount of cash in the General Fund to maintain operating expenses. The remaining \$9,500,000 TAN is due December 31, 2011.

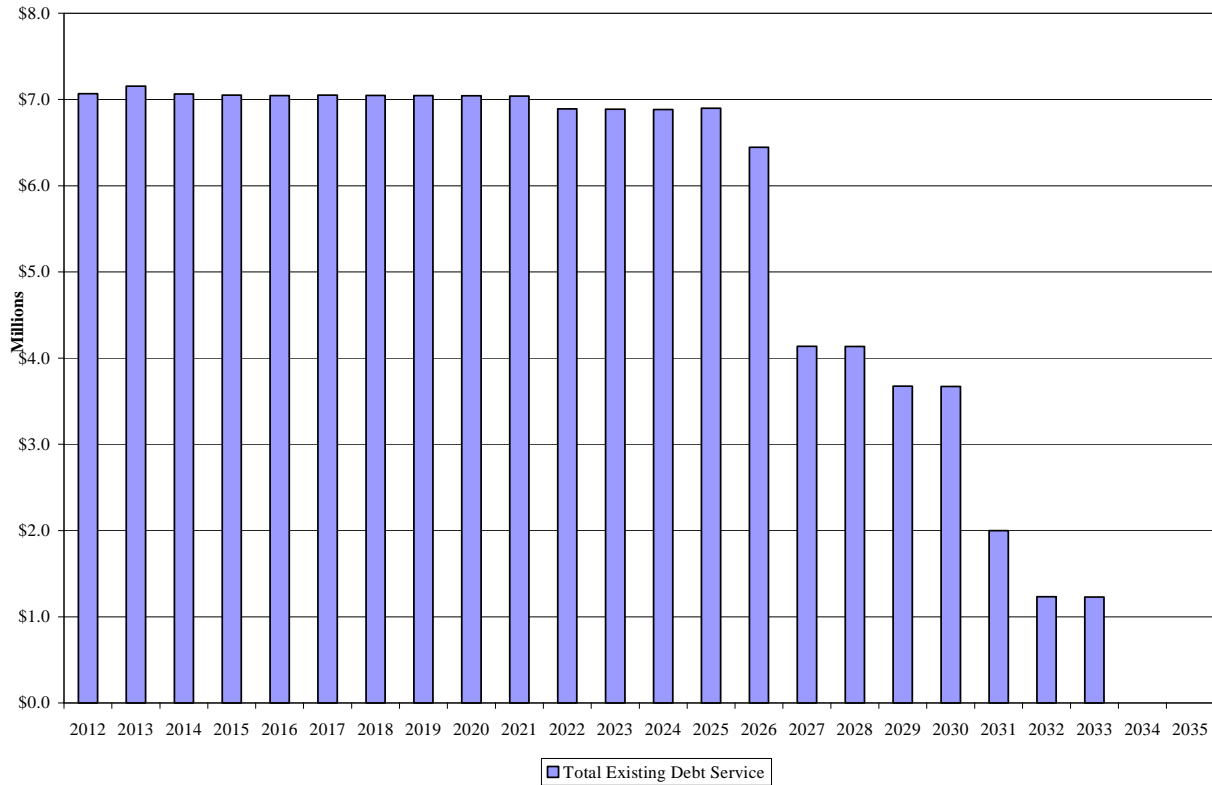
**Long-Term Debt Obligations**

As of the preparation of this 2011 Revised Recovery Plan, the City's General Fund is currently responsible for the debt service payments on eight series of bonds and notes.

<b>Outstanding Series</b>	<b>Maturity</b>	<b>Estimated Outstanding Remaining Debt Service As of December 31, 2011</b>
<b><i>City of Scranton General Obligation</i></b>		
Notes Series of 2002	8/1/2028	\$7,827,975
Bonds Series A of 2003	9/1/2014	\$1,619,865
Bonds Series B of 2003	9/1/2031	\$45,664,933
Bonds Series C of 2003	9/1/2033	\$27,028,312
Bonds Series D of 2003	9/1/2023	\$12,928,415
<b><i>City of Scranton Guaranteed Lease Revenue</i></b>		
Bonds Series of 2004	12/15/2016	\$2,905,932
Bonds Series of 2006	11/1/2024	\$15,072,075
Bonds Series of 2008	11/1/2026	\$9,022,794
<b>Total General Fund Debt Service</b>		<b>\$122,080,101</b>

The City's debt service on all series is projected to total \$122.1 million over the period from fiscal year 2012 through fiscal year 2033. For most of this period – the 14 years from 2012 through 2025 – the City is projected to pay approximately \$7.0 million in annual debt service from the General Fund. After the year 2025, at the current repayment schedule, the City's debt service obligations steadily decline and the will be paid off in 2033.

**Projected Debt Service  
City of Scranton  
2012 - 2035**



**Guaranteed Authority Debt**

In addition to the City’s annual General Obligation debt service, the City guarantees the debt of the Scranton Parking Authority. As a debt guarantor, the City is not directly responsible for budgeting or making annual debt service payments on its guaranteed debt. The City will only be obligated to make these debt service payments if the SPA debt service payments are late or not paid. As of December 31, 2010, the total outstanding principal and interest of the Scranton Parking Authority debt was more than \$99 million. In September 2011, the Scranton Parking Authority borrowed \$2.9 million in non-City guaranteed debt.

**City of Scranton  
Guaranteed Authority Debt  
Principal and Interest As of December 31, 2010**

	Principal	Interest	Total
Parking Authority	\$51,770,000	\$47,234,390	\$99,004,390

It is important to note that pursuant to the terms of the City of Scranton and Scranton Parking Operating Agreement, dated April 1, 1969, as amended, the City was notified by the SPA in a letter dated October 5, 2011, that the SPA anticipates an operating deficit of \$1.6 million in 2012. Under the terms of the Operating Agreement the City has agreed to include in its 2012 operating budget the SPA’s projected operating shortfall and to transfer the \$1.6 million to the SPA in 2012.

## Conclusion

Baseline projections for the City's General Fund **without** implementation of any of the mandates provided herein by this 2011 Revised Recovery Plan indicate that the City will encounter substantial General Fund operating budget deficits from 2011 through 2015 with a cumulative deficit of over \$63.2 million. Total General Fund expenditures will **increase** by \$8,460,581 or 13.3% through 2015 while the City's revenues are projected to **decrease** by \$3,313,047 or 5.5% during the same period. In addition to its annual operating budget expenses, the City of Scranton's taxpayers are responsible for long-term financial liabilities that include retiree pension, retiree health care, worker's compensation and long-term debt service.

Clearly, the City of Scranton will not be able to maintain the current level of service to its residents in future years if this revenue and expenditure mismatch is not addressed by the City's elected leadership. One-time revenue sources have previously enabled the City to defer adoption of difficult but necessary revenue and expenditure policies that would address the expenditure and revenue mismatch identified in the 2006 – 2010 period. As mentioned above, reliance on one-time revenues sources is not a best practice for managing municipal budgets. The projected increase in City operating expenditures relative to projected City operating revenues for the 2012 – 2015 period will make bridging the City's operating expenditure/revenue deficits with one-time revenue sources much more challenging in the future.

## CHAPTER 3

### Workforce Mandates

While the cash compensation and benefits provided to City employees will vary greatly by individual, the financial review of City personnel expenditures presented in the Introduction and Financial Review Chapter exhibits a very clear conclusion – the City must control its 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 with annual direct compensation increases provided to most employees during the review period, even during the current recession. In addition to direct compensation growth, additional opportunities for employee cash compensation and benefits are available through: longevity, premium payments and overtime compensation; a health plan with a high level of medical coverage and a lower employee cost than found in private or other public sector employers; retiree health care coverage; and a taxpayer guaranteed level of retirement benefits through a defined benefit pension plan. This level of cash compensation and benefits is offered within the context of the City and region's high unemployment, the City's weak tax base and the stagnation or even declination of major City revenue sources absent tax increases.

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

#### Projected Personnel Expenditures – All City Employees City of Scranton 2011 – 2015 (Without Implementation of 2011 Revised Recovery Plan Mandates)

	2011	2012	2013	2014	2015	Change 2011-2015	
	Estimated	Projected	Projected	Projected	Projected	\$	%
Standard Salary	\$21,574,102	\$23,278,121	\$24,357,540	\$25,348,066	\$25,348,066	3,773,964	17.5
Other Salary (Misc)	389,409	389,409	389,409	389,409	389,409	0	0.0
Longevity Salary	1,321,821	1,359,138	1,427,877	1,491,142	1,491,142	169,321	12.8
Overtime Salary	717,446	771,638	808,544	829,467	829,467	112,021	15.6
Court Appearance Salary	135,006	149,855	158,679	168,218	168,218	33,212	24.6
Social Security	801,428	894,308	923,227	938,948	938,948	137,520	17.2
<b>Total Direct Compensation</b>	<b>\$24,939,212</b>	<b>\$26,842,469</b>	<b>\$28,065,275</b>	<b>\$29,165,250</b>	<b>\$29,165,250</b>	<b>4,226,038</b>	<b>16.9</b>
Uniform Allowance	259,320	261,445	263,770	263,770	263,770	4,450	1.7
Health Insurance Inc'd Retirees	14,975,150	16,161,526	17,145,910	17,816,861	18,513,162	3,538,012	23.6
Life/Disability Insurance	355,000	376,631	400,190	425,878	453,914	98,914	27.9
Unemployment Insurance	287,386	192,549	129,008	86,435	57,912	-229,475	-79.8
Workers' Comp Transfer	1,700,000	1,700,000	1,700,000	1,700,000	1,700,000	0	0.0
City 10% Early Retirement	261,658	261,658	261,658	261,658	261,658	0	0.0
City Pension	4,253,215	4,464,849	4,753,764	4,848,612	4,848,612	595,397	14.0
Police Education Allowance	43,000	43,000	43,000	43,000	43,000	0	0.0
<b>Total Other Employee Expense</b>	<b>\$22,134,728</b>	<b>\$23,461,657</b>	<b>\$24,697,299</b>	<b>\$25,446,213</b>	<b>\$26,142,027</b>	<b>4,007,298</b>	<b>18.1</b>
<b>TOTAL EMPLOYEE EXPENSE</b>	<b>\$47,073,940</b>	<b>\$50,304,126</b>	<b>\$52,762,575</b>	<b>\$54,611,463</b>	<b>\$55,307,277</b>	<b>\$8,233,336</b>	<b>17.5</b>

Source: 2011 – 2015 PEL Estimated/Projected

Total City personnel expenses are projected to increase by 17.5% from 2011 to 2015. In contrast, total employee expenses during the previously reviewed 2006 - 2010 period increased by 7.2%. The main cost drivers of the projected increase in employee expenses are: a 23.6% increase in active and retired employee health care costs; a 17.5% increase in base salary or base hourly wage expenses; a 12.8% increase in longevity pay expenses; and a 15.6% increase in overtime expense.

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

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

	2011 End Of Year Estimate	2012 End Of Year Estimate	2013 End Of Year Estimate	2014 End Of Year Estimate
<b>Administrative Average</b>	\$38,221	\$33,915	\$33,915	\$33,915
<b>Business Administrator</b>	\$59,500	\$59,500	\$59,500	\$59,500
<b>Clerical Average</b>	\$33,425	\$33,425	\$33,425	\$33,425
<b>Clerk to Council</b>	\$45,800	\$45,800	\$45,800	\$45,800
<b>Firefighter</b>	\$57,574	\$60,398	\$63,608	\$66,989
<b>Police Patrolman</b>	\$51,357	\$54,484	\$58,027	\$61,800
<b>Public Works Average</b>	\$38,539	\$39,891	\$41,555	\$41,555

Source: 2011 – 2014 PEL Estimated From CBAs

Restoration of the City’s fiscal health cannot be achieved without controlling its future personnel expenses, especially direct compensation, overtime and health care expenses. Control over personnel expenses is essential to the City of Scranton’s fiscal survival. Without it, the City will eventually have to make dramatic workforce reductions that will limit its ability to provide the most basic municipal services to its residents. In the recent past, the City of Scranton has resorted to layoffs because it was unable to reduce or contain other components of compensation. While this 2011 Revised Recovery Plan identifies further areas where the City can reduce headcount, the City cannot survive 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 achievable level of revenue.

Therefore, the mandates outlined in this Workforce Mandates chapter of the 2011 Revised Recovery Plan are intended to assist the City in controlling its personnel expenses. The intended goal is to move the City toward a structurally balanced budget so that it can focus its attention on improving City services, instead of merely sustaining them, and pursuing financial recovery and growth, instead of merely surviving as a municipal entity. While workforce changes are difficult, City personnel expenditures must become aligned with the City’s revenue receipts to ensure Scranton’s survival in the short term and stability in the long term. A financially insolvent city benefits no one, especially City employees.

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

The following workforce mandates in this 2011 Revised Recovery Plan are cost containment mandates that are both reasonable and necessary to the City's financial recovery. These mandates become effective as of the date of the City's adoption of this 2011 Revised Recovery Plan. They cover the financial projection period of 2011 through 2015 and are intended to remain effective indefinitely thereafter unless provided for in a subsequent Revised Recovery Plan or the rescission of the City of Scranton's designation as a financially distressed municipality under Act 47. The terms and provisions of any existing collective bargaining agreement, arbitration settlement or arbitration award shall be followed for the remainder of the agreement, settlement or award's current term, except to the extent that said agreements, settlements or awards are modified or vacated as a result of any pending appeals relating to said agreements, settlements or awards or the parties voluntarily amend an existing agreement, settlement or award.

It is the intention of the Act 47 Coordinator that the City negotiate with the bargaining unit representatives of its employees in good faith to incorporate these workforce mandates and any other mandates enumerated throughout this 2011 Revised Recovery Plan. This may require changes to current collective bargaining agreements. However, to the extent that the City is unable to reach agreement with any of its unions, resulting in interest arbitration or other legal proceedings, it is the express intention of the Act 47 Coordinator that the implementation of these workforce mandates and all other mandates enumerated throughout this 2011 Revised Recovery Plan is **mandatory**. The only exception to the mandatory intent and nature of these mandates will be by amendment to said mandates, based upon approval from the Act 47 Coordinator, in conjunction with the Pennsylvania Department of Community and Economic Development. Any such amendment must comply with Act 47 and be in conformance with the financial parameters set forth in this 2011 Revised Recovery Plan.

All cost containment mandates must be addressed. No provisions of any collective bargaining agreement, memoranda of understanding, side agreement or settlement agreement, arbitration settlement or arbitration award, nor any other documents nor past practices may be interpreted or applied, nor may any new provisions be added to any such agreements or documents, which would have the effect of additional costs to the City for the implementation of any of these mandates, or any of the other mandates in this 2011 Revised Recovery Plan. This includes by way of illustration, but not limitation, severance pay, overtime, premium pay, retroactive pay and additional hours of work.

Further, these workforce mandates and any other mandates in this 2011 Revised Recovery Plan revision shall be made part of any voluntary or involuntary labor agreements, to include arbitration settlements or arbitration awards, between the City and any of its bargaining units which are entered into or awarded after the adoption of this 2011 Revised Recovery Plan.

Wherever reference is made to parameters for all bargaining units, employee groups, collective bargaining agreements, arbitration settlements or arbitration awards, such provision shall also apply fully to non-represented City personnel unless expressly stated otherwise. Further, 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. Further, no past practices shall in any manner interfere with any of the mandates in this 2011 Revised Recovery Plan.

In some cases, the 2011 Revised Recovery Plan workforce mandates may represent a reaffirmation or clarification of existing management rights. Although most 2011 Revised Recovery Plan workforce mandates would require changes to collective bargaining agreements for union-represented personnel, inclusion of any specific workforce mandates herein should not automatically be interpreted to imply that the workforce mandate is currently constrained.

1. Precluded Contractual Provisions

Unless, and only to the extent that, applicable law requires a change in any of the wages, benefits, terms, provisions or conditions enumerated herein, all new labor agreements between the City and the unions representing its employees (whether resulting from collective bargaining between the parties or interest arbitration pursuant to Act 111, as applicable, or otherwise) covering the calendar years 2011 and subsequent years (or any portion thereof) shall not contain, require or provide for any of the following:

- a. Any term or provision which continues or adds any restrictions on the City's Management Rights. Examples of prohibited terms or provisions include, but are not limited to, provisions limiting the City's ability to subcontract bargaining unit or other work; to determine employees' work hours, shifts and schedules; to implement a layoff in employee complement in any City department, division, bureau, office, etc.; or to decide which bargaining unit member performs a particular duty or function. See Management Rights more fully discussed in item (2).
- b. Any provision which obligates the City to promote or assign or to permit bumping of any employee on the basis of seniority, rather than on the basis of qualifications and performance, except to the extent that preference is accorded to the most senior of those employees having relatively equal qualifications and performance.
- c. Any provision which expands any bargaining unit members' rights to present grievances to the City or to appeal grievances to arbitration.
- d. Any new benefit of any kind for current employees and retirees or improvements to existing benefits, including without limitation retiree pension and health care benefits.

2. Management Rights.

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

3. Base Salary and Base Hourly Wages

a. Collective Bargaining Employees

Subject to the provisions of any current collective bargaining agreement, arbitration settlement or arbitration award, any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2011 Revised Recovery Plan shall not provide for any base salary or any base hourly wage increases for the period of 2011 through 2015 and indefinitely thereafter unless modified in a subsequent Revised Recovery Plan. In addition, the percentage reductions in base salary or base hourly wages shall be implemented for the Employee Groups on the Effective Dates as specified in the table below and the reduced base salary or base hourly wage shall continue indefinitely from the stated Effective Date unless modified in a subsequent Revised Recovery Plan.

Employee Group	Description	Term of CBA	Percentage Reduction
International Association of Machinists and Aerospace Workers Local 2462	All non-uniformed, non-management employees (Clerical and Single Tax Office)	Expiration Date 12/31/2011	Effective January 1, 2012 5.0% (Five percent)
International Association of Machinists and Aerospace Workers Local 2305	Departments of Public Works, Parks and Recreation	Expiration Date 12/31/2013	Effective January 1, 2014 15.0% (Fifteen Percent)
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 12/31/2014	Effective January 1, 2015 15.0% (Fifteen Percent)
Police Department Management Employees	The Chief of Police		Effective January 1, 2015 15.0% (Fifteen Percent)
International Association of Fire Fighters (IAFF), Local Union No. 669	All Fire Fighters including Fire Department officers who are covered by the IAFF Collective Bargaining Agreement	Expiration Date 12/31/2014	Effective January 1, 2015 20.0% (Twenty Percent)
Fire Department Management Employees	The Fire Chief		Effective January 1, 2015 15.0% (Fifteen Percent)
Management and Non-Collective Bargaining Positions	(See NOTE below.)		Effective January 1, 2012 15.0% (Fifteen Percent)

NOTE: The base salary or base hourly wage of certain management and non-collective bargaining positions was reduced by the City's 2011 adopted budget. It is the intent of the 2011 Revised Recovery Plan that the base salary or base hourly wage of all management and non-collective bargaining positions shall be reduced by 15% of the position's base salary or base hourly wage in the City's adopted 2010 operating budget. Therefore, if a position's 2010 budgeted base salary or base hourly wage was reduced by 15% or more by the City's adopted 2011 operating budget, then the base salary or base hourly wage of the position shall not be changed. If a position's base salary or base hourly wage was reduced by less than 15%, remained the same or was increased during 2011, then the position's base salary or base hourly wage shall be reduced or further reduced so that the total reduction in base salary or base hourly wage shall be 15% less than the position's base salary or base hourly wage in the City's adopted 2010 operating budget.

b. Non-Collective Bargaining Employees

The individual 2011 base salary or base hourly wage for non-collective bargaining employees shall not be increased for the period of 2011 through 2015 and indefinitely thereafter unless modified in a subsequent Revised Recovery Plan. In addition, the percentage reductions in base salary or base hourly wages shall be implemented for the Employee Groups on the Effective Dates as specified in the table above and the reduced

base salary or base hourly wage shall continue indefinitely from the stated Effective Date unless modified in a subsequent Revised Recovery Plan.

c. Back Pay

Subject to the provisions of any current collective bargaining agreement, arbitration settlement, or arbitration award, any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2011 Revised Recovery Plan shall not provide any retroactive base salary or base hourly wage adjustment or back payments of any kind for the period 2012 through 2015 and indefinitely thereafter unless modified in a subsequent Revised Recovery Plan.

d. Bonuses

Subject to the provisions of any current collective bargaining agreement, arbitration settlement, or arbitration award, any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2011 Revised Recovery Plan shall not provide any monetary or non-monetary bonus of any kind for the period 2012 through 2015 and indefinitely thereafter unless modified in a subsequent Revised Recovery Plan.

4. Holidays, Personal Days, and Vacation Days

a. Holidays and Personal Days. The total number of combined annual holidays and personal holidays for every City employee employed as of December 31, 2011 shall not be increased above the number of days that are stated in the last applicable collective bargaining agreement, arbitration settlement or arbitration award. Subject to the provisions of any current collective bargaining agreement, arbitration settlement or arbitration award, for all City employees hired on or after January 1, 2012, the maximum number of combined annual holidays and personal holidays shall be no more than eight (8).

b. Vacation Days. The total number of annual vacation days for every City employee employed as of December 31, 2011, shall not be increased above the number of days that are stated in the last applicable collective bargaining agreement, arbitration settlement or arbitration award. Subject to the provisions of any current collective bargaining agreement, arbitration settlement or arbitration award, for all City employees hired on or after January 1, 2012, the maximum number of vacation days shall be earned according to the following schedule:

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

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

5. Paid Leave

In addition to the limitations on holidays, personal days, and vacations enumerated above, there shall be no increase or improvement in any other form of paid leave. The scheduling of vacation, holidays, and personal days shall be balanced and evenly distributed throughout the year in such a manner as to preclude the need for overtime. The City shall adopt and strictly enforce a

management/supervisory oversight policy covering all types of leave (sick, family, bereavement, etc.).

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

6. Compensatory Time

Subject to the provisions of any current collective bargaining agreement, arbitration settlement or arbitration award, any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2011 Revised Recovery Plan shall not provide compensatory time off to any City employee.

7. Sick Days

The total number of annual sick days for every City employee employed as of December 31, 2011, shall not be increased above the number of days that are stated in the last applicable collective bargaining agreement, arbitration settlement or arbitration award. Subject to the provisions of any current collective bargaining agreement, arbitration settlement or arbitration award, full-time employees hired on or after January 1, 2012, shall earn one sick day per month beginning the first day of the month following the date of hire. Employees may earn sick days only while on active pay status (i.e., when an employee is actually working and not on any form of leave—paid or unpaid).

There shall be no annual buyout for unused sick days. Except as provided by law, an employee will be eligible for sick day buyout of a maximum of 120 days only upon an employee’s death or retirement at the rate of fifty (50) percent of the employee’s base salary or base hourly wage at the time of death or retirement. There shall be no buyout for accumulated sick days upon termination of employment other than death or retirement.

8. Health Insurance Benefits

Subject to the provisions of any current collective bargaining agreement, arbitration settlement or arbitration award, any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2011 Revised Recovery Plan shall include the contribution percentage of each City employees base salary or base hourly wage as specified in the schedule below to begin on January 1, 2012, to help defray the cost of City provided healthcare, unless the employee opts out of the City provided health care plan because the employee has other health care insurance coverage. Proof of other health insurance coverage must be provided to the City before an employee can opt out of City provided health care coverage.

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

For the years beyond 2015, the 2015 contribution percentage shall apply indefinitely unless modified in a subsequent Revised Recovery Plan.

9. Retirees Healthcare

Subject to the provisions of any current collective bargaining agreement, arbitration settlement or arbitration award, any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2011 Revised Recovery Plan shall not provide any retiree health care benefits to any current or future City employee that retires from City employment beginning upon adoption of this 2011 Revised Recovery Plan and continuing indefinitely thereafter unless modified in a subsequent Revised Recovery Plan.

10. Regular Part-time Employees

The City shall have the right to hire regular part-time employees. Regular part-time employees shall be used or scheduled in such a fashion so as to virtually eliminate the need for nonemergency overtime within the City. Regular part-time employees shall be part of the applicable bargaining unit, and regular part-time police and firefighters will be hired through Civil Service procedures. Regular part-time employees may be scheduled at any time but shall not be scheduled to work more than 35 hours per week (42 hours per week for firefighters), except for court time, training, and in cases of emergency. Regular part-time employees may be used to replace a full-time employee who is absent from work for any reason. In this regard, the City shall have the right to change the schedules of regular part-time employees, for any reason, or to use regular part-time employees as "on call" replacements for full-time employees. The City shall have the right, in its sole discretion, to determine the starting wages and job duties of regular part-time employees. Thereafter, regular part-time employees shall receive the same percentage increase to their hourly wage, if any, as full-time employees within the same bargaining unit. The City shall first give the right to bid for the part-time positions to any current laid-off employees, subject to any required skills, certifications, and qualifications for the part time position. Qualified part-time employees shall be considered for full-time positions filled through the normal job posting procedure. Regular part-time employees shall not be eligible for any form of employee benefits or paid leave.

11. Elimination of Minimum Manning.

Subject to the provisions of any current collective bargaining agreement, arbitration settlement or arbitration award, any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2011 Revised Recovery Plan shall not contain any minimum manning requirements of any kind for any particular bargaining unit, shift, platoon, job classification, specialization, apparatus, equipment or vehicle manning or position.

12. No Layoff Clauses. Subject to the provisions of any current collective bargaining agreement, arbitration settlement or arbitration award, any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2011 Revised Recovery Plan shall not contain a no layoff clause. The City shall have the sole right to determine the number of personnel employed and utilized by the City. Further, the City shall have the right to layoff any employees for economic or any other reasons, without limitation.

13. Clothing Allowance.

Effective immediately, the clothing allowances paid to any City employee shall be limited to employees on active pay status and shall not exceed \$750 per eligible employee. The City shall have the right to determine how best to make the clothing allowance available. This may include the use of an exclusive supplier, a quartermaster system, or some other arrangement which could differ from bargaining unit to bargaining unit.

14. Longevity.

Subject to the provisions of any current collective bargaining agreement, arbitration settlement or arbitration award, any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2011 Revised Recovery Plan shall not provide longevity payments to any employee hired on or after the date this 2011 Revised Recovery Plan is adopted. No longevity shall be paid to any management employee. For all other employees, longevity shall be capped for all years subsequent at the conclusion of any existing collective bargaining agreement, arbitration settlement or arbitration award at the absolute dollar amount paid to each employee at the conclusion of the applicable agreement, settlement or award.

15. Elimination of Subcontracting Clauses.

Subject to the provisions of any current collective bargaining agreement, arbitration settlement or arbitration award, any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2011 Revised Recovery Plan shall not contain any provision which prohibits or limits the right of the City to subcontract any service, function, or activity.

16. Duplication of Benefits.

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

17. Sick Leave/Doctors Evaluation.

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

18. Family Medical Leave Act.

The City shall comply with The Family Medical Leave Act (FMLA) of 1993, which provides up to 12 weeks of leave in a 12-month period and which guarantees the same or an equivalent job upon return to work. If an employee does not meet the eligibility requirements for a family or medical leave, but needs time off because of a medical condition, the City may grant up to four weeks of unpaid leave, but job reinstatement is not guaranteed. Appropriate doctor certification must be provided along with a completed Family Medical Leave form in order to take a leave under FMLA. If the leave is taken to care for the birth or placement of a child, or is to care for a seriously ill family member, any accrued vacation time must first be used followed by accrued sick time. Thereafter leave would be without pay. All sick leaves without pay will be designated as leave under the provisions of the FMLA.

19. Short-term Disability Insurance.

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

20. Workers' Compensation and Heart Lung Benefits.

An employee who suffers a work related accident, injury, or illness shall follow the procedures developed by the Department of Human Resources unless governed by the State Workers' Compensation Act or other applicable law. Such procedures shall be revised and promulgated for the City by the Director of Human Resources, in consultation with the City's Risk Manager and other advisors including legal counsel not later than April 1, 2012, and include, but not be limited to, a mandatory drug and alcohol test upon having a work-related accident or incurring a work-related injury. The City shall consider the use of a risk manager to administer and coordinate the Workers' Compensation program. The City shall retain qualified doctors and specialists for the purpose of conducting independent examinations. The City shall make the initial determination concerning whether the injury or condition in question is work-related before paying any benefits. Should any claim be determined to be compensable then the City in conjunction with its risk manager shall review each claim at least every 90 days. Because injured City employees retain many of the emoluments of their job such as health and welfare benefits and time credited toward their pension, the City shall mandate that injured employees treat with the City's selected medical providers for the duration of their disability rather than only the first 90 days (30 days for firefighters). This mandate shall also extend the captive period to police officers and firefighters covered under the Heart and Lung Act.

21. Elimination of Past Practices.

Subject to the provisions of any current collective bargaining agreement, arbitration settlement, or arbitration award, any collective bargaining agreement, arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2011 Revised Recovery Plan shall not contain any provision or clause which protects past practices or any rights which are not specifically set forth in the applicable agreement, settlement or award. The Unions shall be given the opportunity to identify and negotiate any specific practices or rights which they would like to preserve and have included in future collective bargaining agreements.

22. Grievance Procedures.

All grievance procedures in any collective bargaining agreement shall be amended to include a provision that requires the following as part of the initial filing of any grievance:

1. Specific identification of nature and all details concerning the grievance in question.
2. Specific identification of the section of the collective bargaining agreement which has been violated.
3. Specific remedy requested including the section of the collective bargaining agreement which authorizes the remedy requested.

The grievance must be filed within a 7-day period following the first occurrence giving rise to the grievance. The City will have no duty to process or arbitrate any grievance which does not comply with these requirements.

23. Drug and Alcohol Testing.

The City shall have the right to establish and implement a policy requiring a drug and alcohol test prior to employment with the City and providing for random drug and alcohol testing for current employees. No provision of any collective bargaining agreement arbitration settlement, arbitration award or any other document executed or awarded after the adoption of this 2011 Revised Recovery Plan shall prohibit the City from exercising this right.

24. Modified Duty.

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

25. Absence Reporting.

The City shall fully implement an absence reporting system. Employees must record any vacation, sick, personal, jury, or bereavement leaves on an Absence Report form and submit a copy to the Department Director.

26. Job Descriptions.

The City shall have the right to re-evaluate and modify job descriptions for all employees. Job descriptions shall include an enumeration of appropriate knowledge, experience, and qualifications which are required for an employee to be eligible for hire or promotion. The City shall have the ability to conduct desk audits to establish the duties being performed by various positions and how such duties may be more efficiently distributed. Job descriptions shall be updated periodically as part of the Human Resources Plan.

## CHAPTER 4

### Mandates to Eliminate Projected Operating Budget Deficits

As highlighted in the previous chapters of this 2011 Revised Recovery Plan and noted in the table below, the City of Scranton has a structural General Fund operating budget deficit crisis. The City's operating revenues received in the past and projected to be received in the future have not been, and will not be, enough to meet its 2011 and future years operating expenditures. The City has attempted to eliminate its prior years' General Fund operating budget deficits by using one time revenue sources and most recently by reducing its personnel complement.

#### General Fund Operating Surplus/(Deficit) City of Scranton 2011 - 2015

(Without Implementation of 2011 Revised Recovery Plan Mandates)

Surplus/(Deficit)	2011	2012	2013	2014	2015	Change	
	Estimated	Projected	Projected	Projected	Projected	\$	%
Revenues	\$60,058,694	\$55,929,000	\$56,194,524	\$56,466,725	\$56,745,647	-\$3,313,047	-5.5
Expenditures	63,851,539	68,734,246	69,741,590	71,563,264	72,312,121	8,460,581	13.3
<b>Surplus/(Deficit)</b>	<b>-\$3,792,846</b>	<b>-\$12,805,246</b>	<b>-\$13,547,065</b>	<b>-\$15,096,539</b>	<b>-\$15,566,474</b>	<b>-\$11,773,628</b>	<b>310.4</b>
Workers' Compensation Transfer	5,000,000						
Accounts Payable at 12/31/2010	-7,348,350						
<b>Net Surplus/(Deficit)</b>	<b>-\$6,141,196</b>	<b>-\$12,805,246</b>	<b>-\$13,547,065</b>	<b>-\$15,096,539</b>	<b>-\$15,566,474</b>	<b>-\$9,425,278</b>	<b>153.5</b>

As of the date of the preparation of this 2011 Revised Recovery Plan, the City's estimated operating deficit for 2011 General Fund revenues and expenditures is \$3.8 million with a 2010 deficit carryover of more than \$2.3 million for a total estimated 2011 operating deficit of \$6.1 million. Because of one-time revenue items received in 2011 that cannot be expected to reoccur in 2012 as well as the expected increase in 2012 operating expenses, the Act 47 Coordinator projects the 2012 General Fund operating deficit will be \$12.8 million.

To put the projected \$12.8 million 2012 operating deficit into perspective, the projected \$12.8 million operating deficit is equivalent to the following:

- 95.6% of estimated 2011 year end real estate taxes;
- 57.0% of the estimated 2011 earned income taxes collected;
- 21.3% of total estimated 2012 General Fund revenues;
- Over 18% of total estimated 2012 General Fund expenditures.

This chapter of the 2011 Revised Recovery Plan identifies mandates that the City must implement to eliminate the City's operating budget deficits as projected by the Act 47 Coordinator. These mandates impact both City operating revenues and expenditures. The implementation of **all** of the mandates in this chapter and the mandates in the Workforce Mandates chapter will: eliminate the projected operating budget deficits; enable the City to pay its debt service obligations; place the City on a course to fiscal stability by restoring the City's credit worthiness; enable the City to pay its employees and its vendors in a timely manner; and put the City on a path that will allow the Commonwealth to rescind the City's determination of Act 47 financial distress.

## 2011 - 2015 Mandates

As illustrated in the table below, implementation of **all** of the mandates included in this 2011 Revised Recovery Plan will eliminate the City's projected operating budget deficits and permit the City to begin accumulating a General Fund positive balance. To achieve this result it is imperative that the City of Scranton take the necessary action to implement all of the mandates enumerated in this 2011 Revised Recovery Plan. In the event that any of the mandates specified below are not implemented by the City, either by not increasing revenue or decreasing expenditures as required, then the City shall replace the resultant loss of revenue or the loss of anticipated expenditure reductions by an equivalent revenue amount by increasing its real estate millage rates above what is mandated in this 2011 Revised Recovery Plan so that the intent of the mandates impact on the City's projected operating deficits is maintained.

### 2011 - 2015 Mandates Impact On Structural Budget Deficit City of Scranton

	2011	2012	2013	2014	2015
	Estimated	Projected	Projected	Projected	Projected
Deficit	-\$6,141,195	-\$13,480,777	-\$14,222,596	-\$15,772,070	-\$16,242,005
Mandates Cumulative Impact	6,141,195	13,548,870	14,324,534	15,900,686	16,514,079
<b>Surplus/(Deficit)</b>	\$0	\$68,093	\$101,937	\$128,616	\$272,075
<b>Cumulative Surplus/(Deficit)</b>	\$0	\$68,093	\$170,030	\$298,646	\$570,721

During the preparation of this 2011 Revised Recovery Plan, on October 19, 2011, the Pennsylvania Supreme Court issued a decision impacting the status of the City's 2006 interest arbitration awards affecting the collective bargaining agreements for the City's fire and police department employees. The Supreme Court decision remanded for reinstatement the 2006 fire and police arbitration awards. A cost impact of the Supreme Court decision was not available when this 2011 Revised Recovery Plan was prepared and, therefore, any potential revenue and expenditure impact that may be associated with the Supreme Court decision is not included in the revenue and expenditure projections that follow in this chapter of the 2011 Revised Recovery Plan. Any cost impact identified by the City in the future will be evaluated by the Act 47 Coordinator and if necessary the Act 47 Coordinator will initiate an amendment to this 2011 Revised Recovery Plan pursuant to the statutory process in Act 47 and incorporate any revenue and expenditure feedback from the Supreme Court decision into the 2011 Revised Recovery Plan projections.

## 2011 Mandates

It is the intent of this 2011 Revised Recovery Plan to eliminate the City's projected \$6.1 million deficit for the year 2011. It is the Act 47 Coordinator's belief that the first step on the City's path to financial stability will be for the City to eliminate its carry over deficits of unpaid bills which is the basis of the City's structural operating budget deficits. The City's prior years' unmet expense obligations have confused the proper public policy debate and clouded the perception of the City's current and continuing fiscal dilemma. Eliminating the City's carry over deficits of unpaid bills will position the City to begin 2012 with an adopted budget free of any outstanding prior year expense obligations.

**Elimination of Prior Years Carry Over Deficits.** As shown in the table below, the Act 47 Coordinator has estimated that as of the date of preparation of this 2011 Revised Recovery Plan that the City will require more than \$6,141,195 to completely eliminate prior years carry over expenditure obligations. Pursuant to the Local Government Unit Debt Act, Act 185 of 1972, as amended, the City shall prepare and file a petition with the Lackawanna County Court of Common Pleas immediately, even before adoption of this 2011 Revised Recovery Plan, requesting an unfunded borrowing in the amount of approximately \$6.1 million (or as needed based on the latest information available to the City at the time of filing the petition). This unfunded borrowing will be used to satisfy all the City's projected outstanding expense obligations for 2011. The elimination of the projected 2011 operating deficit will allow the City to begin the 2012 fiscal year without carry over expenditures from 2011. The resultant debt service will increase the City's annual debt service payments by approximately \$675,531 annually for 10 years beginning in 2012 and will be paid by a real estate tax increase of 5% dedicated to debt service beginning in 2012. The impact of the increase in the City's annual debt service is included in the beginning Surplus/(Deficit) for the years 2012 – 2015.

## 2011 Mandates

	2011 Estimated	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Projected Yearly Surplus/(Deficit)	-6,141,195	-13,480,777	-14,222,596	-15,772,070	-16,242,005
Unfunded Borrowing Proceeds	6,141,195				
<b>Mandate Total</b>	<b>6,141,195</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Remaining Surplus/(Deficit) after 2011 Mandates Implementation</b>	<b>\$0</b>	<b>-\$13,480,777</b>	<b>-\$14,222,596</b>	<b>-\$15,772,070</b>	<b>-\$16,242,005</b>

## 2012 Mandates

	2011 Estimated	2012 Projected	2013 Projected	2014 Projected	2015 Projected
<b>Remaining Surplus/(Deficit) after 2011 Mandates Implementation</b>	<b>\$0</b>	<b>-\$13,480,777</b>	<b>-\$14,222,596</b>	<b>-\$15,772,070</b>	<b>-\$16,242,005</b>
<b>Mandates and Impacts for 2012</b>					
<b>Revenue Mandates</b>					
Sale of Meters		6,000,000	0	0	0
Net Loss Sale of Meter Concession		0	-702,765	-702,765	-702,765
Restore MBP to 2010 Levels		323,145	323,791	324,439	325,088
Refuse Collection Fee		433,400	433,400	433,400	433,400
Parking Tax		655,200	655,200	655,200	655,200
MBRO Agreements		168,573	169,236	169,917	170,614
Increase PILOTS		25,000	25,000	25,000	25,000
Intergovernmental Cooperation		50,000	60,000	75,000	75,000
<b>Expenditure Reduction Mandates</b>					
Non Employee Department Expenses—5%		71,528	71,888	72,268	72,672
Staff Reductions		89,735	109,217	199,203	201,121
Clerical Employee Base Salary or Base Hourly Wage Reduction		86,906	86,906	86,906	86,906
Administration Position Base Salary or Base Hourly Wage Reduction		85,467	85,467	85,467	85,467
Reduce Parks & Recreation Spending		225,917	231,506	233,410	235,429
<b>Real Estate Tax Mandate</b>					
Real Estate Tax Increase—42%		5,334,000	5,334,000	5,334,000	5,334,000
<b>Mandates Total</b>		<b>\$13,548,870</b>	<b>\$6,882,844</b>	<b>\$6,991,445</b>	<b>\$6,997,131</b>
<b>Remaining Surplus/(Deficit) after 2012 Mandates Implementation</b>	<b>\$0</b>	<b>\$68,093</b>	<b>-\$7,339,752</b>	<b>-\$8,780,626</b>	<b>-\$9,244,874</b>

### 2012 Expenditure Reduction Mandates

**Reduce non-employee departmental expenses by 5%.** The City shall reduce total non-employee departmental expenditures by 5% in the 2012 budget from the 2011 budget levels. These budgetary reductions shall be applied as appropriate and practical so as to minimize the effect on basic City operations and public services. An across the board reduction for each budget category shall not be used to accomplish this reduction.

**Staff Reductions: reduce police and fire departments by one employee each.** Beginning January 1, 2012, the City shall reduce the complement of the fire and police departments by one full time employee in each department. To the extent possible, the employee reduction in each

department shall occur through attrition in the ranks so as to minimize the City's 2012 unemployment compensation expense.

**Decrease Base Salary and Base Hourly Wage where applicable.** As outlined in the Workforce Mandates chapter of this 2011 Revised Recovery Plan, the base salaries and base hourly wages for the City employees listed below shall be reduced as specified.

Employee Group	Description	Term of CBA	Percentage Reduction
International Association of Machinists and Aerospace Workers Local 2462	All non-uniformed, non-management employees (Clerical and Single Tax Office)	Expiration Date 12/31/2011	Effective January 1, 2012 5.0% (Five percent)
Management and Non-Collective Bargaining Positions	(See NOTE below.)		Effective January 1, 2012 15.0% (Fifteen Percent)
<p>NOTE: The base salary or base hourly wage of certain management and non-collective bargaining positions was reduced by the City's 2011 adopted budget. It is the intent of the 2011 Revised Recovery Plan that the base salary or base hourly wage of all management and non-collective bargaining positions shall be reduced by 15% of the position's base salary or base hourly wage in the City's adopted 2010 operating budget. Therefore, if a position's 2010 budgeted base salary or base hourly wage was reduced by 15% or more by the City's adopted 2011 operating budget, then the base salary or base hourly wage of the position shall not be changed. If a position's base salary or base hourly wage was reduced by less than 15%, remained the same or was increased during 2011, then the position's base salary or base hourly wage shall be reduced or further reduced so that the total reduction in base salary or base hourly wage shall be 15% less than the position's base salary or base hourly wage in the City's adopted 2010 operating budget.</p>			

**Reduce the Parks and Recreation budget by 25% and pursue an increase in Payments in Lieu of Taxes that will be dedicated to the operation, maintenance, and programming of the City's Parks and Recreation program.** The City operates an extensive and impressive system of parks and recreational opportunities for its citizens. The operation of Parks and Recreation is an important and vital urban amenity. However, faced with deficits and reductions in all core services, the City must re-evaluate funding levels and funding sources for parks and recreation. The City shall reduce the 2012 operating budget for Parks and Recreation by 25% over the 2011 budgeted amount. The Act 47 Coordinator recommends that the City shall seek to minimize the impact of this funding reduction on its parks and recreation services through an effort to attract payments in lieu of taxes (PILOT) from organizations and property owners that are exempt from City real estate property taxation. The City shall also assist these organizations and other interested groups in the establishment of a not for profit organization (under the direction of the Office of the Mayor) to solicit and expend funds for the City parks and recreation operations. The use of PILOT payments for a dedicated, civic purpose will enable the City to increase the level of contributions from currently exempt property tax entities. The experience of many Pennsylvania cities and municipalities that utilize PILOT payments to fund general municipal operations (personnel expense and overhead) are difficult to solicit successfully and difficult to maintain year to year. The willingness of tax exempt property entities to make PILOT contributions for dedicated civic and capital purposes is much more positive and many exempt organizations can justify a PILOT contribution for a specific municipal activity rather than PILOT contributions for unspecified, general municipal expenses.

**Employee contributions to Health Care Insurance.** Subject to the provisions of any current collective bargaining agreement, arbitration settlement or arbitration award, each City employee shall contribute a percentage of his/her base salary or base hourly wage as specified in the schedule shown below and in the Workforce Mandates chapter of this 2011 Revised Recovery Plan to help defray the cost of City provided healthcare, unless the employee opts out of the City provided health

care plan because the employee has other health care insurance coverage. Proof of other health insurance coverage must be provided to the City before an employee can opt out of City provided health care coverage. For the years beyond 2015, the 2015 contribution percentage shall apply indefinitely unless modified in a subsequent Revised Recovery Plan.

The Act 47 Coordinator has estimated that the clerical employees (with contract termination of December 31, 2011) currently contribute a health care cost that is approximately equivalent to the contribution under this mandate. Therefore, the 2012 financial impact of this mandate is not included in the above 2012 mandate table.

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

**Cost Savings and Efficiencies from Intergovernmental Cooperation**

Lackawanna County. The City shall make a concerted effort to more strongly communicate and coordinate their efforts in areas of common interest with Lackawanna County’s elected leadership. Toward this end, the Mayor and City Council should initiate meetings with Lackawanna County’s elected officials to be held at least quarterly, beginning in the first quarter of 2012, to discuss matters of mutual concern which may be of benefit to both entities and their common taxpayers. Discussions shall include the examination of a countywide reassessment to address the imbalance in property tax assessed valuation.

Scranton School District. The City shall make a concerted effort to more strongly communicate and coordinate their efforts in areas of common interest with the Scranton School District’s elected leadership. To this end, the Mayor and City Council should initiate meetings with Scranton School District’s elected officials to be held at least quarterly, beginning in the first quarter of 2012, to discuss matters of mutual concern which may be of benefit to both entities and their common taxpayers.

Pennsylvania League of Cities and Municipalities and the Government Finance Officers Association. The City’s staff shall make every attempt to utilize its membership in and the resources of the Pennsylvania League of Cities and Municipalities to the greatest extent feasible. The same shall be the case with respect to the Government Finance Officers Association.

The City shall make a concerted effort to host an annual meeting beginning in 2012 of Scranton City, Scranton School District and Lackawanna County elected leaders. It is the Act 47 Coordinator’s intent that all three municipal entities governing the City’s residents can discover mutual benefits through direct communication that will benefit the City’s residents either financially or through service delivery.

**2012 Revenue Mandates**

**Sale of Parking Meter Concession to the Scranton Parking Authority.** Immediately upon the adoption of this 2011 Revised Recovery Plan, the City shall enter into negotiations with the Scranton Parking Authority to prepare a sale of the City’s parking meter concession to the Authority. It is expected that this mandate will produce approximately \$6.0 million in one-time revenue with a loss of approximately \$1.1 million in recurring revenue. However, this transaction will reduce City meter collection expenses by approximately \$485,000. Thus, it is estimated that the City’s loss in annual

revenue from the sale will be approximately \$702,765. Because of the timing of this sale the effect of this sale on City meter revenues and expenses cannot be established with certainty at this time. The deficit impact listed for this mandate assumes that the transfer of the concession will occur as soon as possible in the 2012 fiscal year.

**Restore Mercantile and Business Privilege Taxes (MBPT) to 2010 Rates.** The City shall increase the MBPT rates to the level of the 2010 approved budget. The estimated increase in MBPT over the 2011 estimated year end receipts is \$323,145.

**Implement a refuse collection fee to cover costs of refuse collection.** The City currently levies a \$178 landfill tipping fee on its residents. The landfill tipping fee pays for the City's cost to dispose of its City collected garbage in a landfill. In addition to the landfill tipping fee, the City shall institute a \$22 refuse collection fee to begin on January 1, 2012. The refuse collection fee shall be used to offset City expenses for collecting its resident's garbage. The \$22 refuse fee will generate \$433,400 in 2012.

**Levy a 15% Parking Tax on revenues from parking operations.** The City shall implement a 15% tax on gross revenue from private and public parking operations in the City beginning January 1, 2012. The Act 47 Coordinator believes that a 15% tax rate is appropriate and permissible under current state law. The Act 47 Coordinator estimates yearly revenue at \$655,000 on an estimated base of \$4.3 million in parking revenues from both public and private parking lot operators.

As of the preparation of this 2011 Revised Recovery Plan, the Scranton Parking Authority had commissioned a rate and fee structure feasibility study to be completed in early 2012. Upon conclusion of the feasibility study the City shall review the conclusions and recommendations of the feasibility study and the City may, in consultation with the Act 47 Coordinator, adjust the 15% tax rate. It is the Act 47 Coordinator's expectation that a uniform tax on all parking operations in the City will have a uniform impact on all rates and therefore should avoid a competitive disadvantage to the Scranton Parking Authority operations.

In the event that this mandate is not implemented, the City shall levy a property tax increase of equivalent value of \$655,200 in the 2012 General Fund operating budget or demonstrate to the Act 47 Coordinator an equivalent amount of expenditure reductions in the 2012 General Fund operating budget.

**Explore Market Based Revenue Opportunity Agreements.** The City shall pursue an RFP process to select a broker to help identify potential City assets available for a Market Based Revenue Opportunity program, assist with establishment of a policy framework and market available and approved opportunities no later than February 29, 2012. The MBRO program shall be implemented no later than July 1, 2012. Market based revenue opportunities (MBRO) have been used by many municipalities in Pennsylvania and around the country to produce revenue from advertising, service concessions, marketing and sponsorship opportunities. The City's location as a regional destination and core community, an increasing tourist destination, and a regular venue for business meetings makes an MBRO effort an important alternative to increases in local fees and taxes. Based upon the results of similar municipal MBRO plans, the City can expect approximately 1% of General Fund revenues once an MBRO program is fully implemented by 2015. The estimated 2012 revenue is based on an estimated one fourth of one percent of the City's total projected 2012 general operating revenues and takes into account the anticipated time to develop and implement MBRO initiatives. The estimated revenue for 2012 from a beginning MBRO program is \$168,573.

**Increase PILOT contributions by \$25,000 in new or increased payments.** In addition to the Recreation and Parks PILOT program detailed above, the City shall emphasize its efforts regarding current PILOT contributions for either general fund expenses or other City expenses as specified by

the donor. The City shall seek contributors to contribute up to an additional \$25,000 in PILOT revenue in 2012. The City shall also solicit voluntary contributions from other government and government sponsored organizations to reimburse the City for a portion or all of the services provided by the City. The City shall review the implementation of an Act 55 format for the formal agreement and payment of specified PILOT revenue from organizations exempt from property taxation. The City shall also review the eligibility of current tax exempt City business entities that currently claim tax exempt status starting with those business entities having the highest tax-exempt values and those who utilize substantial amounts of City services.

**Increase Real Estate taxes 42% to cover remaining deficit after implementation of all other 2012 mandates.** Beginning January 1, 2012, the City shall increase its real estate tax millage by 42% to eliminate the projected deficit that remains after implementation of all other revenue and expenditure mandates for 2012. If the City fails to implement any of the mandates listed above, the City shall increase its real estate tax millage rate commensurately to offset the revenue increase or expenditure reduction identified for the mandate not implemented in the 2012 table above. The real estate tax millage increase in this mandate includes the real estate debt service millage required to service the repayment of the 2011 unfunded debt borrowing

**Refinancing the City's Current Debt Service.** Immediately upon adoption of this 2011 Revised Recovery Plan, the City shall initiate the process to refinance the City's current General Fund debt service obligations in 2013 and in 2014. The refinancing shall involve a "scoop refinancing" of the City's scheduled 2013 and 2014 General Fund debt service to accomplish a reduction in the amount of debt service paid in those years.

**Review City License and Permit Fees.** Immediately upon the adoption of this 2011 Revised Recovery Plan the City shall begin a RFP process to select a consultant to review and make recommendations on the City's license and fee structure. The review shall recognize any limits imposed on these fees by applicable uniform state law. The City shall review the feasibility of increasing penalties for late or non-payment to no less than the Federal tax standard. Federal taxes are subject to a combined civil penalty of up to 50% of tax for failure to file (5% per month up to 25%) and pay (0.5% per month up to 25%). For example, the City of Philadelphia imposes a penalty of 30% of unpaid tax for the first year and 15% for each subsequent year. The new fee schedule shall be adopted and implemented in the City's 2013 General Fund operating budget. The City shall apply for a grant under the Act 47 grant program to assist in payment of the costs associated with a license and fee study.

## 2013 Mandates

	2011 Estimated	2012 Projected	2013 Projected	2014 Projected	2015 Projected
<b>Remaining Surplus/(Deficit) after Implementation of 2011 - 2012 Mandates</b>	\$0	\$68,093	-\$7,339,752	-\$8,780,626	-\$9,244,874
<b>Mandates and Impacts for 2013</b>					
<b>Revenue Mandates</b>					
Refuse Collection Fee Increase--\$25			492,500	492,500	492,500
MBRO Agreements--.25%			169,236	169,917	170,614
Fees Increase After Fee Study			165,661	165,992	166,324
Increase PILOTS			25,000	25,000	25,000
<b>Expenditure Reduction Mandates</b>					
Refinancing Reduction in Debt Service			5,000,000	4,000,000	-685,000
Staff Reductions			95,407	115,430	201,121
Reduce Parks & Recreation Spending			231,506	233,410	235,429
<b>Real Estate Tax Mandate</b>					
Real Estate Tax Increase—7.0%			1,262,380	1,262,380	1,262,380
<b>Mandate Total</b>			<b>\$7,441,689</b>	<b>\$6,464,629</b>	<b>\$1,868,368</b>
<b>Remaining Surplus/(Deficit) after 2013 Mandates Implementation</b>	\$0	\$68,093	<b>\$101,937</b>	<b>-\$2,315,997</b>	<b>-\$7,376,505</b>
<b>Cumulative Surplus/(Deficit)</b>	\$0	\$68,093	<b>\$170,030</b>	<b>-\$2,145,966</b>	<b>-\$9,522,472</b>

### 2013 Expenditure Reduction Mandates

**Staff Reductions: reduce police and fire departments by one additional uniformed employee each.** Beginning January 1, 2013, the City shall reduce the complement of the fire and police departments by one full time employee in each department. To the extent possible, the employee reduction in each department shall occur through attrition in the ranks so as to minimize the City's 2013 unemployment compensation expense.

**Employee contributions to Health Care Insurance.** Subject to the provisions of any current collective bargaining agreements, arbitration settlement or arbitration award, each City employee shall contribute a percentage of his/her base salary or base hourly wage as specified in the schedule shown below and in the Workforce Mandates chapter of this 2011 Revised Recovery Plan to help defray the cost of City provided healthcare, unless the employee opts out of the City provided health care plan because the employee has other health care insurance coverage. Proof of other health insurance coverage must be provided to the City before an employee can opt out of City provided health care coverage. For the years beyond 2015, the 2015 contribution percentage shall apply indefinitely unless modified in a subsequent Revised Recovery Plan.

The 2013 financial impact of this mandate is not included in the above 2013 mandate table. The Act 47 Coordinator has estimated that current employees (with contract termination of December 31,

2011) currently contribute a health care cost that is approximately equivalent to the contribution under this mandate.

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

**Reduce Parks and Recreation budget by an additional 25%.** The 2013 City budget shall reduce funding for the parks and recreation department by an additional of 25% for a total 50% reduction over the 2011 adopted City operating budget for this department. The City shall continue the PILOT program mandate outlined in the 2012 Expenditure Mandates to achieve the revenue goals for recreation and parks service delivery.

### 2013 Revenue Mandates

**Refinancing the City's Current Debt Service.** Immediately upon adoption of this 2011 Revised Recovery Plan, the City shall initiate the process to refinance the City's current General Fund debt service obligations in 2013 and in 2014. The refinancing shall involve a "scoop refinancing" of the City's scheduled 2013 and 2014 General Fund debt service to accomplish a reduction in the amount of debt service paid in those years. The debt service refinancing mandate will reduce the City's 2013 debt service payments by approximately \$5,000,000. The long-term impact of this debt refinancing mandate is considered herein under the Impact of 2011 Revised Recovery Plan Mandates on City General Obligation Debt section of this chapter.

**Increase refuse collection fee to cover costs of refuse collection.** The City shall increase the refuse collection fee by \$25 beginning on January 1, 2013. The refuse collection fee for 2013 shall be \$47. It is estimated that this refuse collection fee increase will generate an additional \$492,500 in 2013.

**Expand Market Based Revenue Opportunity Agreements.** The City shall continue the MBRO program in 2013. The 2013 revenue from this mandate is estimated to be an additional revenue contribution of \$169,236. This will result in the total 2013 MBRO estimated revenue of \$337,809 or 0.50% of total General Fund operating revenue.

**Increase PILOT contributions by \$25,000 in new or increased payments.** The City shall seek contributors to contribute up to an additional \$25,000 in PILOT revenue in 2013. The City shall solicit voluntary contributions from other government and government sponsored organizations to reimburse the City for a portion or all of the services provided by the City.

**License and Permit Fee Increase.** The City shall review the results of the 2012 fee study and adjust the schedule of fees and other charges so that the actual costs of providing City services is fully reimbursed by the applicable fees and charges. It is estimated that the total increase in fees for 2013 will be \$165,661.

**Increase Real Estate taxes 7.0% to cover remaining deficit after implementation all other 2013 mandates.** Beginning January 1, 2013, the City shall increase its real estate tax millage by 7.0% to eliminate the projected deficit that remains after the implementation of all other revenue and

expenditure mandates for 2013. If the City fails to implement any of the mandates listed above, the City shall increase its real estate tax millage rate commensurately to offset the revenue increase or expenditure reduction identified for the mandate not implemented in the 2013 table above.

## 2014 Mandates

	2011	2012	2013	2014	2015
	Estimated	Projected	Projected	Projected	Projected
<b>Remaining Deficit after Implementation of the 2011 - 2013 Mandates</b>	\$0	\$68,093	\$101,937	-\$2,315,997	-\$7,376,505
<b>Mandates and Impacts for 2014</b>					
<b>Revenue Mandates</b>					
Refuse Collection Fee Increase--\$25				492,500	492,500
MBRO Agreements--.75%				169,917	170,614
Increase PILOTS				25,000	25,000
<b>Expenditure Reduction Mandates</b>					
Staff Reductions				200,219	220,833
DPW Base Salary and Base Wage Reduction—15%				592,158	592,158
<b>Real Estate Tax Mandate</b>					
Real Estate Tax Increase—5%				964,819	964,819
<b>Mandates Total</b>				<b>\$2,444,613</b>	<b>\$2,465,924</b>
<b>Remaining Surplus/Deficit after 2014 Mandates Implementation</b>				<b>\$128,616</b>	<b>-\$4,910,582</b>
<b>Cumulative Surplus/(Deficit)</b>	<b>\$0</b>	<b>\$68,093</b>	<b>\$170,030</b>	<b>\$298,646</b>	<b>-\$4,611,936</b>

### 2014 Expenditure Reduction Mandates

**Staff Reductions: reduce administration, clerical, police, fire and public works departments by one employee each.** Beginning January 1, 2014, the City shall reduce the complement of the administration, clerical staff, fire, police, and public works departments by one full time employee in each department. To the extent possible, the employee reduction in each department shall occur through attrition in the ranks so as to minimize the City's 2014 unemployment compensation expense.

**Decrease DPW Base Salary and Base Hourly Wage where applicable.** As outlined in the Workforce Mandates chapter of this 2011 Revised Recovery Plan, the base salaries and base hourly wages for the City employees listed below shall be reduced as specified.

Employee Group	Description	Term of CBA	Percentage Reduction
International Association of Machinists and Aerospace Workers Local 2305	Departments of Public Works, Parks and Recreation	Expiration Date 12/31/2013	Effective January 1, 2014 15.0% (Fifteen Percent)

**Employee contributions to Health Care Insurance.** Subject to the provisions of any current collective bargaining agreement, arbitration settlement or arbitration award, each City employee shall contribute a percentage of his/her base salary or base hourly wage as specified in the schedule shown below and in the Workforce Mandates chapter of this 2011 Revised Recovery Plan to help defray the cost of City provided healthcare, unless the employee opts out of the City provided health care plan because the employee has other health care insurance coverage. Proof of other health insurance coverage must be provided to the City before an employee can opt out of City provided health care coverage. For the years beyond 2015, the 2015 contribution percentage shall apply indefinitely unless modified in a subsequent Revised Recovery Plan.

The 2014 financial impact of this mandate is not included in the above 2014 mandate table. The Act 47 Coordinator has estimated that clerical employees (with contract termination of December 31, 2011) and Public Works employees (with contract termination of December 31, 2013) currently contribute a health care cost that is approximately equivalent to the contribution amount under this mandate.

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

**The City shall continue a two-year refinancing of the city’s current General Fund debt obligations.** This mandate is the result of the 2012 mandate to refinance the City’s 2013 and 2014 debt service. This mandate will provide the City with approximately \$4,000,000 in operating budget cost savings in 2014. The long-term impact of this debt refinancing mandate is considered herein under the Impact of 2011 Revised Recovery Plan Mandates on City General Obligation Debt section of this chapter.

**2014 Revenue Mandates**

**Increase the refuse collection charge to cover costs of refuse collection.** The City shall increase the refuse garbage collection fee by \$25 to begin on January 1, 2014. The refuse collection fee for 2014 shall be \$72. It is estimated that this refuse collection fee increase will generate an additional \$492,500 in 2014.

**Expand Market Based Revenue Opportunity Agreements.** The City shall continue the MBRO program so that an additional 2014 revenue contribution of \$169,917 will bring the total 2014 MBRO estimated revenue to \$507,726 or approximately .75% of total General Fund revenue.

**Increase PILOT contributions by \$25,000 in new or increased payments.** The City shall seek contributors to contribute up to an additional \$25,000 in PILOT revenue in 2014. The City shall solicit voluntary contributions from other government and government sponsored organizations to reimburse the City for a portion or all of the services provided by the City.

**Increase Real Estate taxes 5.0% to cover remaining deficit after implementation of all other 2014 mandates.** Beginning January 1, 2014, the City shall increase its real estate tax millage by 5.0% to eliminate the projected deficit that remains after the implementation of all revenue and expenditure mandates for 2014. If the City fails to implement any of the mandates listed above, the City shall increase its real estate tax millage rate commensurately to offset the revenue increase or expenditure reduction identified for the mandate not implemented in the 2014 table above.

## 2015 Mandates

	2011 Estimated	2012 Projected	2013 Projected	2014 Projected	2015 Projected
<b>Remaining Deficit after Implementation of the 2011 - 2014 Mandates</b>	<b>\$0</b>	<b>\$68,093</b>	<b>\$101,937</b>	<b>\$128,616</b>	<b>-\$4,910,582</b>
<b>Mandates and Impacts for 2015</b>					
Revenue Mandates					
Increase PILOTS					25,000
MBRO Agreements—1%					170,614
Expenditure Reduction Mandates					
Police & Fire Contribution to Healthcare					504,121
Police Base Salary and Base Wage Reduction—15%					1,286,948
Fire Base Salary and Base Wage Reduction—20%					1,777,689
<b>Real Estate Tax Mandate</b>					
Real Estate Tax Increase—7%					1,418,284
<b>Mandates Total</b>					<b>5,182,656</b>
<b>Remaining Surplus/(Deficit) after 2015 Mandates</b>	<b>\$0</b>	<b>\$68,093</b>	<b>\$101,937</b>	<b>\$128,616</b>	<b>\$272,075</b>
<b>Cumulative Surplus/(Deficit)</b>	<b>\$0</b>	<b>\$68,093</b>	<b>\$170,030</b>	<b>\$298,646</b>	<b>\$570,721</b>

## 2015 Expenditure Reduction Mandates

**Employee contributions to Health Care Insurance.** Subject to the provisions of any current collective bargaining agreement, arbitration settlement or arbitration award, each City employee shall contribute a percentage of his/her base salary or base hourly wage as specified in the schedule shown below and in the Workforce Mandates chapter of this 2011 Revised Recovery Plan to help defray the cost of City provided healthcare, unless the employee opts out of the City provided health care plan because the employee has other health care insurance coverage. Proof of other health insurance coverage must be provided to the City before an employee can opt out of City provided health care coverage. For the years beyond 2015, the 2015 contribution percentage shall apply indefinitely unless modified in a subsequent Revised Recovery Plan.

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

**Decrease Fire and Police Base Salary and Base Hourly Wage where applicable.** As outlined in the Workforce Mandates chapter of this 2011 Revised Recovery Plan, the base salaries and base hourly wages for the City employees listed below shall be reduced as specified.

Employee Group	Description	Term of CBA	Percentage Reduction
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 12/31/2014	Effective January 1, 2015 15.0% (Fifteen Percent)
Police Department Management Employees	The Chief of Police		Effective January 1, 2015 15.0% (Fifteen Percent)
International Association of Fire Fighters (IAFF), Local Union No. 669	All Fire Fighters including Fire Department officers who are covered by the IAFF Collective Bargaining Agreement	Expiration Date 12/31/2014	Effective January 1, 2015 20.0% (Twenty Percent)
Fire Department Management Employees	The Fire Chief		Effective January 1, 2015 15.0% (Fifteen Percent)

### 2015 Revenue Mandates

**Increase PILOT contributions by \$25,000 in new or increased payments.** The City shall seek contributors to contribute up to an additional \$25,000 in PILOT revenue in 2015. The City shall solicit voluntary contributions from other government and government sponsored organizations to reimburse the City for a portion or all of the services provided by the City.

**Increase Real Estate taxes 7.0% to cover remaining deficit after implementation of all other 2015 mandates.** Beginning January 1, 2015, the City shall increase its real estate tax millage by 7.0% to eliminate the projected deficit that remains after the implementation of all other revenue and expenditure mandates for 2015. If the City fails to implement any of the mandates listed above, the City shall increase its real estate tax millage rate commensurately to offset the revenue increase or expenditure reduction identified for the mandate not implemented in the 2015 table above.

## 2011 - 2015 Mandates—Summary

The Act 47 Coordinator believes that the mandates enumerated in this 2011 Revised Recovery Plan are both practical and necessary for the City’s financial recovery. For too long the City of Scranton has merely survived financially as its structural budget deficit has increased which in turn has imposed a burden on the City’s elected leadership to maintain the municipal services it provides to its residents. The City’s structural budget deficit is projected to continue increasing to the point where the City will no longer be able to defer making difficult revenue and expenditure decisions if it wants to maintain the current level of municipal services it provides to its residents.

As illustrated in the table below, implementation of all of the mandates in this 2011 Revised Recovery Plan will alleviate the City’s short-term fiscal imbalance and provide a remedy for the City’s long term financial stability. The implementation of all of the mandates will require compromise and sacrifice from all City stakeholders—its elected leadership, employees and taxpayers. Implementation of the mandates contained in this 2011 Revised Recovery Plan will enable the City to meet the Commonwealth’s public policy declaration in Act 47 that municipalities are able to “provide for the health, safety and welfare of their citizens; pay due principal and interest on their debt obligations when due; meet financial obligations to their employees, vendors and suppliers; and provide for proper financial accounting procedures, budgeting and taxing practices” and position the City on a solid path toward exiting the Commonwealth’s Act 47 distressed municipality program.

### 2011 - 2015 Mandates Impact On Structural Budget Deficit City of Scranton

	2011 Estimated	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Deficit	-\$6,141,195	-\$13,480,777	-\$14,222,596	-\$15,772,070	-\$16,242,005
Mandates Cumulative Impact	6,141,195	13,548,870	14,324,534	15,900,686	16,514,079
Surplus/(Deficit)	\$0	\$68,093	\$101,937	\$128,616	\$272,075
Cumulative Surplus/(Deficit)	\$0	\$68,093	\$170,030	\$298,646	\$570,721

The following is a summary of the impact of implementation **all** of the 2011 through 2015 mandates listed above on the City’s expenditures and other uses and the City’s revenues and other sources.

Expenditures and other uses:

- A 50% decrease in Parks and Recreation Spending.
- A 5% decrease in non-employee spending.
- Decreases in workforce of:
  - 3 Police Officers
  - 3 Firefighters
  - 1 Clerical
  - 1 Public Works
  - 1 Administration
- Reductions in employee base salary or base hourly wages:
  - Clerical employees 5% reduction in base salary or base hourly wage on January 1, 2012.

- Administration employees 15% reduction in base salary or base hourly wage on either January 1, 2011 or January 1, 2012.
- Public Works Department employees 15% reduction in base salary or base hourly wage on January 1, 2013
- Police Department employees 15% reduction in base salary or base hourly wage on January 1, 2015.
- Fire Department employees 20% reduction in base salary or base hourly wage on January 1, 2015.
- All City employee health care monetary contributions will be based on a percentage of base salary or base hourly wage.

Revenue and other sources:

- Sale of the City's parking meter concession to the Scranton Parking Authority.
- \$15.1 million in new borrowing consisting of unfunded borrowing of \$6.1 million in 2011 to pay outstanding bills and the 2012 refinancing of the City's existing debt service expenses in 2013 and 2014.
- A 70.7% cumulative increase in the dollar amount of real estate taxes levied over 4 years.
- A new \$22 refuse collection fee in 2012 increasing to \$72 by January 1, 2014.
- A new 15% parking tax in 2012.

## **Impact of 2011 Revised Recovery Plan Mandates on City General Obligation Debt**

### **Long-Term Debt Obligations With Implementation of 2011 Revised Recovery Plan Mandates**

This 2011 Revised Recovery Plan Mandates chapter mandates that immediately upon adoption of this 2011 Revised Recovery Plan the City shall prepare and file an unfunded borrowing petition with the Lackawanna County Court of Common Pleas requesting approval of approximately \$6.1 million in unfunded borrowing to address the City's projected outstanding 2011 financial obligations. This unfunded borrowing mandate will increase the City's annual debt service payments by approximately \$675,531 annually for 10 years beginning in 2012.

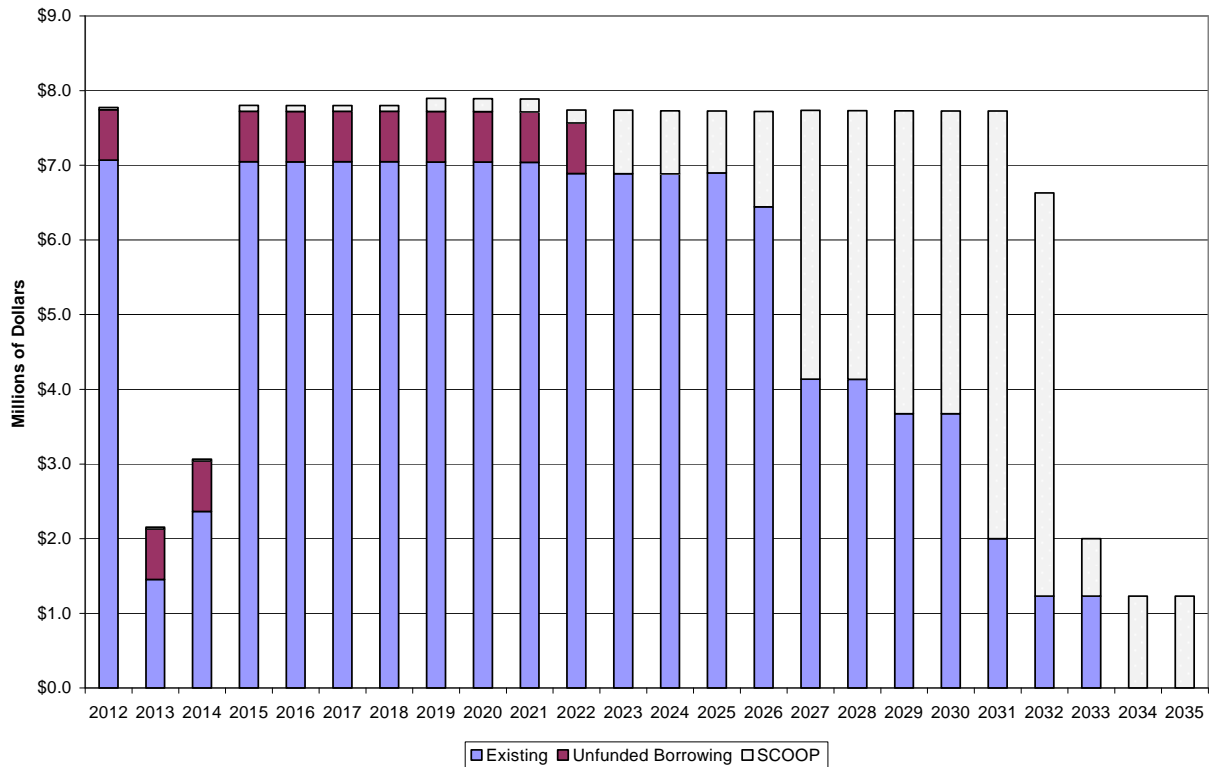
This 2011 Revised Recovery Plan Mandates chapter also mandates that the City initiate the process in 2012 of a "scoop refinancing" of the City's General Fund debt service obligations due in 2013 and 2014. This refinancing will reduce the City's projected debt service payments by approximately \$5.0 million in 2013 and \$4.0 million 2014. Under the new debt service schedule created by the "scoop refinancing", the City's debt service will increase through 2031.

The projected impact of implementation of the debt related mandates in this 2011 Revised Recovery Plan is shown in the table and bar graph below.

### Impact on City Annual Debt Service from 2011 Revised Recovery Plan Debt Mandates 2012 – 2015

	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Current Debt Service	\$7,067,781	\$7,154,982	\$7,063,110	\$7,048,427
Unfunded Debt	\$675,531	\$675,531	\$675,531	\$675,531
Refinancing of Debt Service	\$0	-\$5,000,000	-\$4,000,000	\$685,000
<b>Total Estimated Debt Service</b>	<b>\$7,743,312</b>	<b>\$2,830,514</b>	<b>\$3,738,641</b>	<b>\$8,408,958</b>

### Impact on City Annual Debt Service from 2011 Revised Recovery Plan Debt Mandates 2012 – 2035



At the time this 2011 Revised Recovery Plan was written the City’s underlying BB- rating from Standard & Poor’s is below investment grade and severely limits the market access for the City’s debt obligations and refunding savings. However, the adoption of this 2011 Revised Recovery Plan and implementation of its mandates will improve the City finances which should subsequently improve the creditworthiness of the City. The City can then pursue re-evaluation by the rating agencies and look to achieve investment grade status.

**Use of the “scoop refinancing” tool should be carefully monitored because as a general rule it is not a “best practice” to restructure existing debt with future debt in order to pay less now. Not only does this restructuring push the expenses of the City’s current budget problems onto future taxpayers but the practice also has transaction costs that are paid in refinancing charges in the present. However, given the City’s current fiscal position, the Act 47 Coordinator believes this type of refinancing is acceptable as part of a larger, coherent financial plan that requires a bridge to provide time for all of the 2011 Revised Recovery Plan expenditure and revenue mandates to take effect.**

## **Impact of 2011 Revised Recovery Plan Mandates on City Real Estate Taxes**

As noted elsewhere in this 2011 Revised Recovery Plan, the City’s assessed property valuations have not increased at the same rate as the market value of City property. Since 1994 the increase in taxable real estate assessments for the City has been limited to just 0.04% compared to a 35% increase in the City’s market values. The lack of a recent county-wide real property reassessment causes a distortion in the impact of real estate tax increases so that individual property owners will experience widely differing effects from real estate tax millage increases. According to the State Tax Equalization Board’s calculation of tax equity in Lackawanna County, based on assessed values and actual market values, an individual may be paying a tax bill that is anywhere **from 61% too much to 61% too little**. This inequity is also seen in the lack of real property valuation updates which tend to keep the assessed value of a residence at the value of purchase or major renovation without considering the increased market value of property.

Because of the effect on real property taxes from the outdated Lackawanna County real property assessment, the 2011 Revised Recovery Plan mandates for real estate tax increase are expressed in percentage increases and not in terms of the more familiar absolute millage. Each individual taxpayer can estimate the impact of increased real estate taxes on their individual situation by increasing their 2011 City real estate tax bill by the stated percentage.

The Act 47 Coordinator has estimated below the impact of implementation of the mandated real estate tax increases in this 2011 Revised Recovery Plan on different groups of single family owned residential properties in the City.

### **Single Family Owned Residential Real Estate Tax Distribution by Amount of Taxes Paid to Scranton City Only 2011 Assessment Base**

<b>Amount of Real Estate Taxes Paid To City</b>	<b>% Total Real Estate Tax Base</b>	<b>2011 Real Estate Taxes Paid</b>	<b>2015 Real Estate Tax Projected</b>	<b>Total Real Estate Tax Increase by 2015</b>
Under \$250 per year	22.4%	\$ 250	\$ 427	\$ 177
Over \$250 and under \$500 per year	50.3%	\$ 500	\$ 854	\$ 354
Over \$500 and under \$750 per year	19.4%	\$ 750	\$ 1,280	\$ 530
Over \$750 and under \$1,000 per year	5.8%	\$ 1,000	\$ 1,707	\$ 707
Over \$1,000 per year	2.1%	More than \$1,000	More than \$1,707	More than \$707
<b>Total</b>	100.0%			
<b>Median* Property Tax Bill</b>		\$ 355	\$606	\$251
*The median number is the middle number in a list of ordered numbers of which there is an equal amount of numbers above and below the median number.				

A review of the table above shows that at the current City real estate tax millage rates 72.7% of all single family owned residential taxpayers paid \$500 or less in City property taxes in 2011. For those property taxes, the City provided annually full time services including police protection, fire protection, maintenance of streets and removal of snow and storm water, recreation, code enforcement, and other items of amenity for life in the City.

As a result of the real estate tax millage increases mandated in the 2011 Revised Recovery Plan those same property owners will see the following increases in their 2015 property tax bill as follows:

- 22.4% will pay an increase of \$177 per year **or less.**
- 72.7% will pay an increase of \$354 per year **or less.**
- The median increase for single family owned residential taxpayers is \$251.

## Alternative Revenue Sources

During the preparation of the 2011 Revised Recovery Plan's projected revenues and expenditures for the period 2011 - 2015, the Act 47 Coordinator considered several alternative sources to increase City revenues other than increasing the City's real estate millage rate. These alternative revenue sources were considered in the context of immediate availability to the City, the necessity of enabling legislation by the Pennsylvania General Assembly and the experience of other Pennsylvania municipalities regarding these sources of revenue. The City may consider, in consultation with the Act 47 Coordinator, utilizing these alternative revenue sources as it prepares future budgets under this 2011 Revised Recovery Plan. However, it is the intent of the Act 47 Coordinator that **all** tax and fee increases mandated in this 2011 Revised Recovery Plan, including the mandated real estate tax increases, be implemented and any exception to the mandatory intent of any of the tax or fee increase mandates must be approved by the statutory process outlined in Act 47 which includes the approval of the Act 47 Coordinator in conjunction with the Pennsylvania Department of Community and Economic Development.

**Non-Resident Earned Income Tax.** Under Act 47, the City of Scranton (a Class 2A City) may seek to increase the tax on nonresident income. However, §123 (c) (3) of Act 47 provides the following:

- a. *(3) A petition filed by a city of the second class A under this subsection may not include an increase in a tax on nonresident income unless the municipality certifies to the court, with regard to those provisions of the plan having a measurable fiscal impact, that: (i) the municipality has substantially implemented the provisions which are within the authority of the chief executive officer or governing body, including, but not limited to, provisions of the plan that call for increasing existing tax rates levied on residents and increasing fees charged by the municipality; (ii) the municipality has taken those actions required to obtain the approval of other parties for those provisions which may not be implemented without such approval, including, but not limited to, the approval of a court, local electors or any collective bargaining unit; and (iii) the additional income from the aforementioned actions is insufficient to balance the municipal budget, necessitating additional revenue from an increase in the tax on nonresident income.(Amended 1996, P.L. 645, No. 108)*

In order for the City to increase its nonresident income tax rate, a mandate to increase its nonresident income tax rate must first be included in a City adopted revised recovery plan. The City would then have to petition the Lackawanna County Court of Common Pleas to increase the nonresident income tax rate and demonstrate to the Court that it meets the legal burden outlined above in §123 (c) (3) of Act 47.

**Amusement Tax.** The City may levy a tax on amusements under the Local Tax Enabling Act and the City would be able to levy this tax upon a variety of subjects including ski lift tickets, bowling alleys, and other venues. It cannot be levied against memberships for health and fitness clubs. The City can investigate the revenue potential from a broad based amusement tax and provide estimates of the revenue projected to be collected and the administrative expenses associated with collection to the Act 47 Coordinator for their review.

**Payroll Tax.** The City of Pittsburgh was granted authority as a Second Class City to levy a tax at the rate of 0.55% on the gross amount of payroll expense generated as a result of an employer conducting business activity within the City. As part of the enabling legislation, the City of Pittsburgh was required to eliminate certain business taxes so that the revenue produced from the payroll tax would not exceed the amount of tax revenue collected by the eliminated business taxes. In order for this payroll tax to be available to the City of Scranton, legislative action by the Pennsylvania General Assembly would be required. The City may convene a meeting of its State legislative delegation to explore the legislative dimensions of attempting to enact a payroll tax for the City of Scranton.

**Sale or Lease of City Assets, Municipal Authorities and Component Units.** The City of Scranton performs a variety of services that are performed either solely by the City or in combination with other component units of municipal government. In addition, the City retains certain municipal assets that retain a market value. Some of these services or assets may be sold or the operations leased at market value. This 2011 Revised Recovery Plan mandates the City's sale of the parking meter concession that it currently owns. It is much simpler for the City to sell or lease an asset that it directly owns and controls. The sale or lease of assets that are owed by municipal authorities operating in the City will require the acquiescence of the boards operating and controlling those authorities before any sale or lease of municipal authority assets. The City, in consultation with the Act 47 Coordinator, may consider negotiating with the respective boards of authorities operating and providing municipal services to its residents to ascertain any possible alternative revenue sources for City operating expenses

## **CHAPTER 5**

### **PLAN IMPLEMENTATION AND GENERAL PLAN MANDATES**

#### **Overview**

Successful implementation of this 2011 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 2011 Revised Recovery Plan is to restore the community's confidence in the City of Scranton's ability to effectively maintain current operations into the future.

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

##### **Reporting**

It is important that the City continue to regularly report its progress in implementing this 2011 Revised Recovery Plan to the Act 47 Coordinator. This, in turn, allows the Act 47 Coordinator, as the agent of DCED, to ensure that the Commonwealth is up-to-date on the status of implementation efforts. Therefore, the City shall provide cash flow, revenue and expenditure status reports to the Act 47 Coordinator no less frequently than monthly during the period it remains under a determination of distress. These reports may be in spreadsheet form, written memo or other form as requested by the Act 47 Coordinator or may take the form of weekly or monthly meetings. Additional on-site meetings involving the Act 47 Coordinator and appropriate officials and employees shall also be held on an as needed basis to review implementation efforts and to aid in the overall recovery plan implementation process.

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

The City shall continue to routinely provide the Act 47 Coordinator with all data pertinent to the City's financial recovery effort. For example, the annual budget shall be sent to the Act 47 Coordinator as soon as it is introduced and again upon its adoption. In addition, key management, administrative, and financial decisions made by the City, which may or may not relate directly to the 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. Privilege shall be defined as the attorney-work product doctrine, the attorney-client privilege, the doctor-patient privilege or other privilege recognized by a court interpreting the laws of this Commonwealth. The City Solicitor shall have the right to determine whether a document is protected by attorney client or attorney work product privilege. For all other forms of privilege if, after being informed of the general contents of the document, the Act 47 Coordinator determines that a document contains information which should be transmitted to the Act 47 Coordinator as well as information which is privileged, the City shall transmit the information which is subject to access and withhold the information which is not subject to transmission. If the information

which is not subject to transmittal is an integral part of the document and cannot be separated, the City shall redact from the document the information which is not subject to transmittal. The City shall explain why any information has been redacted;

- 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 to 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 2011 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 2011 Revised Recovery Plan which may result in sanctions by the state which includes the withholding of Commonwealth funding.

## **Cooperation Among City 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.

The current relationship among the City's elected officials is one of critical importance in terms of improving existing levels of cooperation. Numerous people, both within and outside the City government, have described the tense, even hostile relationships between the Mayor and City Council. At the same time, these different branches of government have expressed to the Act 47 Coordinator the desire to work together with their counterparts with the welfare of Scranton citizens foremost in mind. While differences of opinion and some level of conflict are inherent to the politics of governing, a greater than normal level of distrust and poor communication currently exists between the Executive and Legislative branches of Scranton City government and their constituent supporters, both inside and outside of government. **It is imperative that the City's elected leaders find common ground upon which they can cooperate on managing the myriad issues that impact the City's financial and administrative operations.**

Once this 2011 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 2011 Revised Recovery Plan. Within these meetings, the participants shall discuss key 2011 Revised Recovery Plan policy mandates and determine how each will be implemented. At the implementation meetings, other management issues may be discussed, including but not limited to City finances, human resources, economic development, general operations and intergovernmental cooperation.

The Act 47 Coordinator will be responsible for preparing each meeting's agenda and will lead the meetings. These gatherings are intended for a small number of attendees to focus on priority-setting and problem-solving and may result in follow-up assignments and associated progress reports.

## General Plan Provisions

The following outlines the general provisions of the City of Scranton's 2011 Revised Recovery Plan for 2011 - 2015, and indefinitely thereafter unless modified in a subsequent Revised Recovery Plan.

### Finances and Financial Management

**Scranton Housing Authority.** Not later than March 1, 2012, 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.

**Cable Television.** The City shall remain alert to opportunities to produce additional revenues from its cable television franchise agreement.

**Scranton Sewer Authority.** Not later than March 1, 2012, the City shall meet with representatives of the Scranton Sewer Authority to determine what additional financial assistance may be provided to the City including an investigation into the value of the City portion of Authority assets and its operations.

**Employee Benefits/Pensions.** The City shall continue to follow the requirements of Act 205 particularly as they relate to budgeting the entire cost of its pension Minimum Municipal Obligation. The City shall review on an annual basis in conjunction with the pension actuarial reports the status of this payment and its required MMO payment.

**Employee Benefits/Health Care.** The City shall initiate a major review of its health care insurance and related programs, advisors and administrators. The goal of the review shall be a reduction in the rate of increase of employee health care costs and this review should be completed as soon as practical but no later than October 1, 2012. The City shall have sole discretion in conducting the review and in the re-design of the health care options provided for employees. A sample redesign of the City's health care program is included in the Appendix to this 2011 Revised Recovery Plan. The City shall apply for an Act 47 grant to provide funding for this review.

**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 the foregoing:

- 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 Workmens' 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 workmens' 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 the amortization of the 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 prior to April 1, 2012 on changes that might be undertaken in terms of overall coverage, deductible limits, and excess insurance in order to provide for either enhancements in coverage or reduction in cost.

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

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

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

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

- Utilization of a modified accrual accounting system.
- Full encumbrance accounting, including encumbrances for contracts.
- Streamlining the City's purchasing and invoicing system including receipts of merchandise purchased or services performed.
- Development and use of information and data system technology.
- Timely financial reporting on a monthly or demand basis.
- Development of various cost-accounting processes.
- A review of the financial management and reporting practices of the City's component units and the Single Tax Office, and requirements for audits where appropriate.
- Preparation for meeting recent GASB reporting requirements and a time line for meeting their requirements.
- Centralization of the accounting function to the maximum extent feasible.
- Review and integrate where possible the OECD financial system with that of the base City system.
- Accounting for accrued personnel liabilities such as, compensated absences and related items.
- Review of budgeting practices including transfer procedures.
- Determination of a "date certain" for year-end cut-off including procedures for accrual estimation.
- Recommendations on retaining additional trained accounting staff or contracted accounting professionals.
- Development of financial procedures for emergency situations.

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

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

An investment policy should:

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

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

After due consideration and review by all relevant parties, the Mayor—as soon as possible but no later than June 30, 2012—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.

### **Administration Assistance**

**Update Human Resources Management Plan.** Subject to other provisions of this 2011 Revised Recovery Plan, the City shall review and update its Human Resources Management Plan. 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; particular emphasis will be to provide training in information technology.
- Cross training for all employees so that the absence of any one employee will not endanger operational efficiency.
- Written guidelines for travel reimbursement while on City business.
- Policies for the use of City vehicles and/or reimbursement for use of an employee's vehicle while on City business.
- Compilation of all relevant policies and procedures in an updated Personnel Manual. The Personnel Manual shall be completed and provided to all employees by September 1, 2012. The Personnel Manual shall be designed to aid in the understanding and adherence to City policies and to minimize misunderstandings among personnel. The Personnel Manual should—at a minimum—include the following:
  - Mission statement and core values
  - Organization structure
  - Business hours, work schedules, overtime policies and time keeping procedures
  - Employee classifications, salary and overtime rates, and pay dates
  - Criteria set forth by the Fair Labor Standards Act relative to exempt and non-exempt status
  - Holiday, vacation, sick leave, and other compensated absence policies
  - Attendance policies
  - Employee benefit plan descriptions and eligibility
  - Employee conduct policy
  - Employee separation and termination procedures

**Inspections and Licenses.** The City's Department of Permits, Licensing, and Inspections is responsible for the issuance of all licenses and building, housing, health, and zoning inspections and

enforcement. The City shall ensure that all its inspectors continue to maintain required certifications. Further, the Department shall determine what new and additional requirements, if any, have been imposed on the City by applicable law. The Director, in conjunction with the City Business Administrator and Director of Information Technology shall explore data/informational systems which may be used to facilitate the various permitting and licensing functions of the department.

**Service Delivery/ Emergency Management.** The City, under the direction of its Emergency Management Coordinator, and in conjunction with the Police Chief and Fire Chief and other applicable staff shall conduct a review of its emergency management practices. Such review shall be completed by July 1, 2012. All practices and relevant changes to past practices shall be developed into an updated Emergency Management Plan.

**Economic and Community Development.** Although there has been improvement in the general economic and community development of the City since the 2002 Revised Recovery Plan's adoption, the current U.S. economic climate is proving challenging to municipalities and business entities alike. Therefore, the City shall conduct a review of the economic and community development analysis provided under this 2011 Revised Recovery Plan and contained in the Appendix section of this Plan. Based upon this review, the City shall determine the appropriate level of community and economic development actions and programs considering the reduced level of Federal and State funds for these activities.

### **Grant Moneys**

**Act 47 Grants.** As enumerated elsewhere in this 2011 Revised Recovery Plan the City needs to take a variety of steps in order to advance the recovery process and the receipt of grant money will facilitate some of these steps. Therefore, the City shall apply for the Act 47 grants enumerated elsewhere in this updated and revised Recovery Plan. Specifically, the City shall apply for grants to:

- Prepare a fee study for all City fees and permits so that the revenue and the cost of services are aligned and current. Grant Request = \$80,000
- Evaluate and redesign the City's employee health care payment system, including third party administration and wholesale plan redesign. The goal of the study shall be to reduce the City's administrative costs and to reduce the rate of growth in employee health care medical costs. Grant Request = \$80,000
- Update a Human Relations Plan/Personnel Manual—Grant request = \$50,000.

In addition the City shall apply for any additional Commonwealth, federal, private or nonprofit grants which will advance the recovery process, meet stated goals, and improve the City's capacity to govern effectively and efficiently meet its obligations.

# APPENDICES

## 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

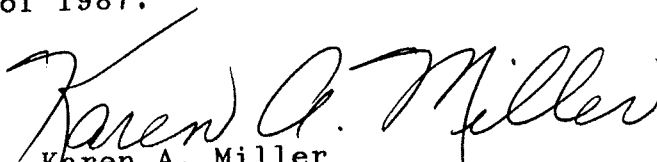
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CITY OF SCRANTON .  
DOCKET NO. FDMA - 12  
. . . . .

DEPARTMENTAL ORDER

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

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

  
Karen A. Miller  
Secretary  
Department of Community Affairs

## APPENDIX B

## Baseline Revenue Projections Without Implementation of Act 47 2011 Revised Recovery Plan

Revenue Category	2011	2012	2013	2014	2015	Change 2011 - 2015	
	Estimated	Projected	Projected	Projected	Projected	\$	%
Real Estate Taxes	\$13,400,000	\$13,600,000	\$13,600,000	\$13,600,000	\$13,600,000	\$200,000	1.5
Refuse Revenues	4,450,000	4,383,250	4,299,279	4,216,932	4,136,177	-313,823	-7.1
Utility Taxes	60,912	60,912	60,912	60,912	60,912	0	0.0
Earned Income Tax	22,477,359	22,395,000	22,729,950	23,069,924	23,414,998	937,639	4.2
Act 511 Taxes	7,595,000	5,605,980	5,616,982	5,628,006	5,639,052	-1,955,948	-25.8
Penalties & Interest	50,000	50,100	50,200	50,301	50,401	401	0.8
Licenses & Permits	1,650,000	1,653,300	1,656,606	1,659,920	1,663,240	13,240	0.8
Fines, Forfeits & Violations	911,200	1,111,200	1,111,200	1,111,200	1,111,200	200,000	21.9
Interest Earnings	7,200	7,214	7,229	7,243	7,258	58	0.8
Rents & Concessions	700	700	700	700	700	0	0.0
Intergovernmental Reimbursements	4,900,000	2,780,000	2,780,000	2,780,000	2,780,000	-2,120,000	-43.3
In Lieu of Taxes	183,250	183,250	183,250	183,250	183,250	0	0.0
Departmental Earnings	1,498,000	1,498,000	1,498,000	1,498,000	1,498,000	0	0.0
User Fees	60,654	60,775	60,897	61,019	61,141	487	0.8
Miscellaneous Revenues	936,500	936,500	936,500	936,500	936,500	0	0.0
Interfund Transfers	1,877,919	1,602,819	1,602,819	1,602,819	1,602,819	-275,100	-14.6
<b>Total Revenues</b>	<b>\$60,058,694</b>	<b>\$55,929,001</b>	<b>\$56,194,524</b>	<b>\$56,466,725</b>	<b>\$56,745,647</b>	<b>-\$3,313,047</b>	<b>-5.5</b>
Workers' Compensation Fund Transfer	5,000,000						
<b>Total Revenues With Workers' Comp. Transfer</b>	<b>\$65,058,694</b>	<b>\$55,929,001</b>	<b>\$56,194,524</b>	<b>\$56,466,725</b>	<b>\$56,745,647</b>		

## Revenue Mandates Under Act 47 2011 Revised Recovery Plan

Revenue Category	2011 Estimated	2012 Projected	2013 Projected	2014 Projected	2015 Projected	Total
Real Estate Taxes	\$0	\$5,334,000	\$6,596,380	\$7,561,199	\$8,979,483	\$28,471,062
Refuse Revenues	0	433,400	925,900	1,418,400	1,418,400	4,196,100
Utility Taxes	0	0	0	0	0	0
Earned Income Tax	0	0	0	0	0	0
Act 511 Taxes	0	978,345	978,991	979,639	980,288	3,917,263
Penalties & Interest	0	0	0	0	0	0
Licenses & Permits	0	0	165,661	165,992	166,324	497,977
Fines, Forfeits & Violations	0	0	-1,100,000	-1,100,000	-1,100,000	-3,300,000
Interest Earnings	0	0	0	0	0	0
Rents & Concessions	0	0	0	0	0	0
Intergovernmental Reimbursements	0	0	0	0	0	0
In Lieu of Taxes	0	25,000	50,000	75,000	100,000	250,000
Departmental Earnings	0	0	0	0	0	0
User Fees	0	0	0	0	0	0
Miscellaneous Revenues	6,141,195	6,168,573	338,473	509,750	682,456	13,840,447
Interfund Transfers	0	0	0	0	0	0
<b>Total Revenue Mandates</b>	<b>\$6,141,195</b>	<b>\$12,939,318</b>	<b>\$7,955,405</b>	<b>\$9,609,980</b>	<b>\$11,226,951</b>	<b>\$47,872,849</b>

## Revenue Projections With Implementation of Act 47 2011 Revised Recovery Plan Mandates

Revenue Category	2011	2012	2013	2014	2015	Change 2011 - 2015	
	Estimated	Projected	Projected	Projected	Projected	\$	%
Real Estate Taxes	\$13,400,000	\$18,934,000	\$20,196,380	\$21,161,199	\$22,579,483	\$9,179,483	68.5
Refuse Revenues	4,450,000	4,816,650	5,225,179	5,635,332	5,554,577	1,104,577	24.8
Utility Taxes	60,912	60,912	60,912	60,912	60,912	0	0.0
Earned Income Tax	22,477,359	22,395,000	22,729,950	23,069,924	23,414,998	937,639	4.2
Act 511 Taxes	7,595,000	6,584,325	6,595,973	6,607,645	6,619,340	-975,660	-12.8
Penalties & Interest	50,000	50,100	50,200	50,301	50,401	401	0.8
Licenses & Permits	1,650,000	1,653,300	1,822,267	1,825,912	1,829,563	179,564	10.9
Fines, Forfeits & Violations	911,200	1,111,200	11,200	11,200	11,200	-900,000	-98.8
Interest Earnings	7,200	7,214	7,229	7,243	7,258	58	0.8
Rents & Concessions	700	700	700	700	700	0	0.0
Intergovernmental Reimbursements	4,900,000	2,780,000	2,780,000	2,780,000	2,780,000	-2,120,000	-43.3
In Lieu of Taxes	183,250	208,250	233,250	258,250	283,250	100,000	54.6
Departmental Earnings	1,498,000	1,498,000	1,498,000	1,498,000	1,498,000	0	0.0
User Fees	60,654	60,775	60,897	61,019	61,141	487	0.8
Miscellaneous Revenues	7,077,695	7,105,073	1,274,973	1,446,250	1,618,956	-5,458,739	-77.1
Interfund Transfers	1,877,919	1,602,819	1,602,819	1,602,819	1,602,819	-275,100	-14.6
<b>Total Revenues</b>	<b>\$66,199,889</b>	<b>\$68,868,318</b>	<b>\$64,149,929</b>	<b>\$66,076,705</b>	<b>\$67,972,598</b>	<b>\$1,772,709</b>	<b>2.7</b>
Workers' Compensation Fund Transfer	5,000,000						
<b>Total Revenues With Workers' Comp. Transfer</b>	<b>\$71,199,889</b>	<b>\$68,868,318</b>	<b>\$64,149,929</b>	<b>\$66,076,705</b>	<b>\$67,972,598</b>		

## Baseline Expenditure Projections Without Implementation of Act 47 2011 Revised Recovery Plan

Expenditure Category	2011	2012	2013	2014	2015	Change 2011 - 2015	
	Projected	Projected	Projected	Projected	Projected	Change	%
<b>Employee Expenses</b>							
Direct Compensation	\$24,939,212	\$26,842,469	\$28,065,275	\$29,165,250	\$29,165,250	\$4,226,038	16.9
Health Insurance	14,975,150	16,161,526	17,145,910	17,816,861	18,513,162	3,538,012	23.6
Workers' Compensation	1,700,000	1,700,000	1,700,000	1,700,000	1,700,000	0	0.0
Pension	4,253,215	4,464,849	4,753,764	4,848,612	4,848,612	595,397	14.0
Other Employee Expenses	1,206,364	1,135,282	1,097,626	1,080,740	1,080,253	-126,111	-10.5
<b>Total Employee Expenditure</b>	<b>\$47,073,940</b>	<b>\$50,304,126</b>	<b>\$52,762,575</b>	<b>\$54,611,463</b>	<b>\$55,307,277</b>	<b>\$8,233,336</b>	<b>17.5</b>
<b>Other Departmental Expenditures</b>							
Professional Services	\$585,058	\$570,058	\$570,058	\$570,058	\$570,058	-\$15,000	-2.6
Gas, Oil, Lubricants, Vehicle Repair	1,010,476	1,030,892	1,051,921	1,073,581	1,095,890	85,414	8.5
Landfill	1,502,450	1,502,450	1,472,450	1,442,450	1,412,450	-90,000	-6.0
Capital Expenditures	377,900	377,900	377,900	377,900	377,900	0	0.0
Liability/Casualty Insurance	1,100,000	1,133,000	1,166,990	1,202,000	1,238,060	138,060	12.6
Utilities	1,864,267	1,892,895	1,922,382	1,952,753	1,984,036	119,769	6.4
All Other Departmental Expenditures	1,438,821	1,430,564	1,437,751	1,445,369	1,453,443	14,622	1.0
<b>Total Other Departmental Expenditures</b>	<b>\$7,878,972</b>	<b>\$7,937,759</b>	<b>\$7,999,452</b>	<b>\$8,064,111</b>	<b>\$8,131,837</b>	<b>\$252,865</b>	<b>3.2</b>
<b>Non Departmental Expenses</b>							
Interest & Debt Exc Tans	\$7,106,000	\$7,067,781	\$7,154,982	\$7,063,110	\$7,048,427	-\$57,573	-0.8
Scranton Parking Authority Transfer		\$1,600,000					
Tan Interest Expense	579,979	562,000	562,000	562,000	562,000	-17,979	-3.1
SPA Citation Issuers	562,235	562,235	562,235	562,235	562,235	0	0.0
Other Operating Expense	650,413	700,346	700,346	700,346	700,346	49,932	7.7
<b>Non Departmental Expenditure</b>	<b>\$8,898,627</b>	<b>\$10,492,361</b>	<b>\$8,979,563</b>	<b>\$8,887,690</b>	<b>\$8,873,007</b>	<b>-\$25,620</b>	<b>-0.3</b>
<b>Total Expenditures</b>	<b>\$63,851,539</b>	<b>\$68,734,246</b>	<b>\$69,741,590</b>	<b>\$71,563,264</b>	<b>\$72,312,121</b>	<b>\$8,460,581</b>	<b>13.3</b>
Accounts Payable at 12/31/2010	7,348,350						
<b>Total Expenditures Including 2010 Accounts Payables</b>	<b>\$71,199,889</b>	<b>\$68,734,246</b>	<b>\$69,741,590</b>	<b>\$71,563,264</b>	<b>\$72,312,121</b>		

## Expenditure Mandates Under Act 47 2011 Revised Recovery Plan

Expenditure Category	2011 Projected	2012 Projected	2013 Projected	2014 Projected	2015 Projected	Total
<b>Employee Expenses</b>						
Direct Compensation	\$0	-\$480,477	-\$813,075	-\$1,705,835	-\$4,772,451	-\$7,771,838
Health Insurance	0	-28,279	-60,517	-141,019	-650,781	-880,596
Workers' Compensation	0	0	0	0	0	0
Pension	0	-11,406	-24,124	-39,480	-39,480	-114,490
Other Employee Expenses	0	85,667	168,361	254,593	153,988	662,609
<b>Total Employee Expenditure</b>	<b>\$0</b>	<b>-\$434,495</b>	<b>-\$729,355</b>	<b>-\$1,631,742</b>	<b>-\$5,308,723</b>	<b>-\$8,104,315</b>
<b>Other Departmental Expenditures</b>						
Professional Services	\$0	\$0	\$0	\$0	\$0	\$0
Gas, Oil, Lubricants, Vehicle Repair	0	0	0	0	0	0
Landfill	0	0	0	0	0	0
Capital Expenditures	0	-11,500	-23,000	-23,000	-23,000	-80,500
Liability/Casualty Insurance	0	0	0	0	0	0
Utilities	0	0	0	0	0	0
All Other Departmental Expenditures	0	-163,557	-219,540	-238,729	-243,170	-864,997
<b>Total Other Departmental Expenditures</b>	<b>\$0</b>	<b>-\$175,057</b>	<b>-\$242,540</b>	<b>-\$261,729</b>	<b>-\$266,170</b>	<b>-\$945,497</b>
<b>Nondepartmental Expenses</b>						
Interest & Debt Exc Tans	\$0	\$0	-\$5,000,000	-\$4,000,000	\$685,000	-\$8,315,000
Tan Interest Expense	0	0	0	0	0	0
Spa Citation Issuers	0	0	-397,235	-397,235	-397,235	-1,191,704
Other Operating Expense	0	0	0	0	0	0
<b>Non Departmental Expenditure</b>	<b>0</b>	<b>0</b>	<b>-5,397,235</b>	<b>-4,397,235</b>	<b>287,765</b>	<b>-9,506,704</b>
<b>Total Expenditures</b>	<b>\$0</b>	<b>-\$609,553</b>	<b>-\$6,369,129</b>	<b>-\$6,290,706</b>	<b>-\$5,287,128</b>	<b>-\$18,556,516</b>

## Expenditure Projections With Implementation of Act 47 2011 Revised Recovery Plan Mandates

Expenditure Category	2011	2012	2013	2014	2015	Change 2011 - 2015	
	Projected	Projected	Projected	Projected	Projected	\$	%
<b>Employee Expenses</b>							
Direct Compensation	\$24,939,212	\$26,361,992	\$27,252,200	\$27,459,415	\$24,392,799	-\$546,413	-2.2
Health Insurance	14,975,150	16,133,247	17,085,393	17,675,842	17,862,381	2,887,231	19.3
Workers' Compensation	1,700,000	1,700,000	1,700,000	1,700,000	1,700,000	0	0.0
Pension	4,253,215	4,453,443	4,729,640	4,809,132	4,809,132	555,917	13.1
Other Employee Expenses	1,206,364	1,220,949	1,265,987	1,335,333	1,234,241	27,877	2.3
<b>Total Employee Expenditure</b>	<b>\$47,073,940</b>	<b>\$49,869,631</b>	<b>\$52,033,220</b>	<b>\$52,979,722</b>	<b>\$49,998,553</b>	<b>\$2,924,613</b>	<b>6.2</b>
<b>Other Departmental Expenditures</b>							
Professional Services	\$585,058	\$570,058	\$570,058	\$570,058	\$570,058	-\$15,000	-2.6
Gas, Oil, Lubricants, Vehicle Repair	1,010,476	1,030,892	1,051,921	1,073,581	1,095,890	85,414	8.5
Landfill	1,502,450	1,502,450	1,472,450	1,442,450	1,412,450	-90,000	-6.0
Capital Expenditures	377,900	366,400	354,900	354,900	354,900	-23,000	-6.1
Liability/Casualty Insurance	1,100,000	1,133,000	1,166,990	1,202,000	1,238,060	138,060	12.6
Utilities	1,864,267	1,892,895	1,922,382	1,952,753	1,984,036	119,769	6.4
All Other Departmental Expenditures	1,438,821	1,267,007	1,218,212	1,206,640	1,210,273	-228,548	-15.9
<b>Total Other Departmental Expenditures</b>	<b>\$7,878,972</b>	<b>\$7,762,702</b>	<b>\$7,756,912</b>	<b>\$7,802,381</b>	<b>\$7,865,667</b>	<b>-\$13,305</b>	<b>-0.2</b>
<b>Nondepartmental Expenses</b>							
Interest & Debt Exc Tans	\$7,106,000	\$7,743,312	\$2,830,513	\$3,738,641	\$8,408,958	\$1,302,958	18.3
Scranton Parking Authority Transfer		\$1,600,000					
Tan Interest Expense	579,979	562,000	562,000	562,000	562,000	-17,979	-3.1
Spa Citation Issuers	562,235	562,235	165,000	165,000	165,000	-397,235	-70.7
Other Operating Expense	650,413	700,346	700,346	700,346	700,346	49,932	7.7
<b>Non Departmental Expenditures</b>	<b>8,898,627</b>	<b>11,167,892</b>	<b>4,257,859</b>	<b>5,165,986</b>	<b>9,836,304</b>	<b>937,676</b>	<b>10.5</b>
<b>Total Expenditures</b>	<b>\$63,851,539</b>	<b>\$68,800,225</b>	<b>\$64,047,991</b>	<b>\$65,948,089</b>	<b>\$67,700,523</b>	<b>\$3,848,984</b>	<b>6.0</b>
Accounts Payable at 12/31/2010	\$7,348,350						
<b>Total Expenditures Including 2010 Accounts Payables</b>	<b>\$71,199,889</b>	<b>\$68,800,225</b>	<b>\$64,047,991</b>	<b>\$65,948,089</b>	<b>\$67,700,523</b>		

## APPENDIX C

December 21, 2010

Ms. Janet Evans  
President of Council  
City of Scranton  
340 North Washington Avenue  
Scranton, PA 18503

Mayor Christopher Doherty  
City of Scranton  
340 North Washington Avenue  
Scranton, PA 18503

Dear Council President Evans and Mayor Doherty:

I am writing in regard to the Amended Act 47 Recovery Plan revision process begun earlier this year and continued with the cooperation of City Council and the Administration through regular presentations and meetings with the intent of developing a revision to the City's 2002 Act 47 Amended Recovery Plan. During our conversations with Council and the Administration throughout 2010, PEL stated its goal of incorporating the City's adopted 2011 budget as a key element in a Recovery Plan revision. The City of Scranton's recent adoption of a budget for 2011 is a significant step in the process of revising the City's 2002 Amended Recovery Plan.

Our office has reviewed the City's amended and adopted 2011 budget received by us on December 15, 2010. In our review of the 2011 budget, PEL compared the revenues and expenditures against our estimates based on the City's past financial trends and then developed by us under the Recovery Plan revision process. We offer the following comments regarding the revenue and spending plan as part of the development of the Amended Recovery Plan revision.

#### REVENUES

The most significant changes in revenues in the 2011 budget are as a result of lowering the real estate and business gross receipts tax rates. It is expected that these rate changes will result in a revenue decrease of more than \$1,200,000 in real estate current revenue and more than \$480,000 in the business gross receipts taxes. While PEL's historical trends of these taxes illustrate the slow or stagnant growth in these revenues these taxes have nonetheless provided reliable revenue sources for the City. The reduction of these stable tax revenue rates can jeopardize the City's obligation to meet expenditures in 2011 but also long-term City expenditures beyond 2011 such as contractual wage obligations, health insurance and pension costs which have historically demonstrated significant growth trends. We agree that having a competitive City tax policy is important to economic development efforts and the long term sustainability of the City's overall economy. However, this policy must be balanced against the need to generate sufficient revenues to maintain core municipal services providing for the health, safety and welfare of City residents and for the City to sustain a structurally balanced budget with a minimum of 5 to 10 percent unreserved fund balance.

Significant revenue increases are budgeted in 2011 for several line items that are above historical trends. It is our opinion that the expected revenues from these items may not occur at the level and timeliness needed for the City's ongoing operation during 2011.

The 2011 budget estimates delinquent real estate taxes will reach \$1,600,000. Based on historical analysis, we estimated collections of \$1,000,000 in delinquent real estate tax collections. As we understand it, the City plans a revision to its procedure for collecting these delinquent amounts. In addition, the budget also anticipates \$315,000 in filing fees associated with delinquent real estate accounts as a result of the revised collection process. Recognizing the City's commitment to revise its delinquent real estate tax collection policy in 2011, PEL does not have sufficient information from the City regarding this new delinquent collection policy to either estimate or endorse this revenue line item increase.

The City's 2011 budget also projects an increase in current earned income tax collections. While there would be an expected increase in collections from persons and properties that are removed from KOZ status and begin to pay taxes, it is our recent experience that the wage tax revenue in other cities has begun to slow and even decline from 2009 levels as a result of the recession. If the local unemployment rate remains at the current level or increases during 2011, the City may not fully realize the budgeted amount for these taxes. In addition, the lag time between employer collection and remittance to the City of any new earned income tax revenue may impact the City's ability to maintain a sufficient cash flow to meet its operational expenses. The delay in receipt of the additional earned income tax from other municipal tax collectors will reduce the cash amount available during the budget year.

Local services tax revenue (LST) was increased by \$158,000 at the current per employee tax rate (\$47 to the City, \$5 to the School District). This increase represents more than 3,000 new employees hired by City employers, an increase of ten percent over the more than 30,000 jobs reflected in the current LST collection. As with the earned income tax estimates, based on the current local unemployment rate, the modest projections for national and local economic growth in 2011, and the lag time in collections there is some question as to the City's ability to receive the budgeted level of employment based tax revenue.

Under new initiatives for revenue in the 2011 budget, the City budgeted an increase of \$140,000 from collection of the housing rental license fee. The budget estimates revenue significantly greater than the historical trend of less than \$30,000 per year from the expected implementation of an enhanced rental license collection policy in 2011. While increased monitoring of rental properties is a needed and proper duty of City government, it has been our experience that increasing rental compliance and collections of rental fees comes at an increased personnel effort and subsequent increased costs performing this task. Putting aside the positive aspects of rental control and property maintenance, the increased revenue from this source may prove difficult to achieve in 2011.

Significant new revenue has been forecast for parking ticket fees and we understand that this expected increase is based on the implementation of a new parking survey system that may increase revenue collections. While PEL is aware of various methods to enhance the revenue and efficiency of meter enforcement, the timely and effective installation of this new parking system, along with the capital and labor expenditures necessary to install the new system, will greatly impact this revenue source, regardless of the discounted collections (\$300,000) provided for in the 2011 budget versus the vendor expectations for increased revenues.

### EXPENDITURES

As you may recall, during our presentations we emphasized that the growth rate of several of the City's line item expenditures have significantly exceeded the growth rate of the City's revenue resources especially the cost of employee and retiree health care. The City's health insurance costs have doubled since 2000 with more than 50 percent of those costs paid for healthcare for retirees. Retiree health care costs are not reducible through the City budget and these retiree costs are expected to increase over time. PEL projects that the increase in the City's total health care cost will be ten percent in 2011. Although the 2011 budget reduces the number of employees and consequently health care insurance costs, based on the 2009 and 2010 actual expenses the amount budgeted for health care in 2011 does not seem to provide enough funds to pay the expected costs even at the reduced complement of employees. Based on a 10 % increase this would cause the City's health care insurance line item to be under budgeted by at least \$1,000,000.

Our review has also identified other significant expenditure items that may impact the City's operations in 2011 that include:

- An apparent underfunding of the expected employer tax required under the amended budget employee counts;
- The expected reduction in the cost of utilities that may be difficult to achieve under required operations;
- Expected reductions in overtime costs that rely on factors outside the City's control (weather events for example);
- Large reductions in legal professional services that impact on the City legal defense options for liability claims and general business operation; and
- Reductions in routine equipment and building maintenance, which can lead to unbudgeted costs to repair or replace equipment or cause a reduction in the City's ability to provide necessary services.

### CONCLUSION


While the City's 2011 budget does not have a deficit as adopted, a deficit could develop if the revenue and expenditure projections outlined above do not occur as expected. The City's reduction in real estate and gross receipts tax rates will reduce the flow of money for City operations in 2011. Other budget revenue items have been estimated higher than historical trends would indicate and the timing of the receipt of these revenues may not match the scheduled expenditures. Any unexpected shortfall in these estimated revenues may cause a situation where the City cannot replace lost revenue within the 2011 budget year as tax rates are generally not able to be increased before the next budget year. In addition, the City also does not possess a significant general fund balance to replace any 2011 revenue shortfall.

The City's 2011 budget boldly cuts expenditures but leaves no margin for error. As stated above, we are concerned that some expenditure reductions on the City's 2011 budget may jeopardize the City's ability to maintain services to its residents, legally defend itself against liability claims, and compensate City employees for the labor and benefits they have been promised. If the expected expenditure reductions do not save enough funds as the year goes on, large and severe cuts in spending and personnel may be necessary.

For these reasons, the City's 2011 budget will require constant monitoring of both revenues and expenditures against historical trends and constant comparison of budget to actual performance. The City should take steps to develop a more structured and formalized reporting of revenue and expenditures between the Council and Administration. At a minimum, the Administration should provide to Council monthly revenue, expenditure, and cash flow reports and provide for sharing of revenue and expenditure data on a very timely basis. These reports should be structured so that both Council and the Administration can take appropriate action to head off financial difficulties that might occur in 2011. This monitoring will enable the City to respond to shortfalls in revenue or unanticipated expenditures through budget transfers or necessary expenditure reductions, including employee counts and public service delivery reductions.

As the Act 47 Recovery Plan Coordinator, PEL will continue to prepare the Recovery Plan revision and provide the City with its resources, advice and services as the City implements its 2011 budget.

Sincerely,

  
Gerald E. Cross  
Executive Director

GEC/blc

cc: Nancy Krake, City Clerk  
Fred Reddig, DCED  
Matt Domines, DCED



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March 31, 2011

Mr. Ryan McGowan  
Business Administrator  
City of Scranton  
340 North Washington Avenue  
Scranton, PA 18503

Dear Mr. McGowan:

I am writing in reply to your letter of March 22, 2011, requesting a review of the City's January and February 2011 cash flow statements as provided to us by your office. PEL has prepared our own cash flow projection model as part of our Recovery Plan revision process. This model is based on our understanding of the City's historical patterns of revenue and other sources and expenditures and other uses. We compared your cash flow projections to our model in order to provide the following comments and we will continue to update this model as we receive monthly revenue and expenditure data. We greatly appreciate your efforts at providing timely information from your office.

#### 2010 Year-End Analysis

Before providing you with PEL's analysis of the City's 2011 cash flow statements and projections, I would like to take this opportunity to provide you with PEL's analysis of the City's 2010 year-end fiscal position. The City adopted a balanced 2010 budget with revenues and expenditures projected at \$77,865,746. Based upon our review of the unaudited 2010 revenue and expenditure report as received from your office, revenues and other sources were approximately \$72.2 million while expenditures and other uses were approximately \$77.0 million. Thus, the City experienced a 2010 operating budget deficit in that expenditures and other uses exceeded revenue and other sources by more than \$4.5 million. A portion of this excess of expenditures over revenues was the result of the City's overestimation of expected one-time revenue of \$2,000,000 from the sale of delinquent real estate taxes that did not occur with the result of expected budgeted revenue not being received by the City in 2010. The City's historical reliance on one-time revenues to supplement its annual operating budget was the subject of our presentations to the City in 2010 and the City's \$4.5 million operating budget deficit in 2010 further exemplifies the structural operating budget deficit that must be addressed under a revision of the 2002 Adopted Recovery Plan.

#### 2011 Cash Flow Projections

We compared your most recent cash flow report reflecting actual January and February 2011 revenue and expenditures with our updated model and note that your report projects a 2011 operating budget deficit of \$3.9 million. We do not dispute your projections and at this time our independent review of the 2011 cash flow leads us to believe that the potential exists for a higher 2011 operating budget deficit. As we continue to receive monthly reports from the City, we can better refine our projections.

We also compared your 2011 year-end estimates to those estimates that we developed based on historical trends for revenue and expenditures. When we compare these estimates against your cash flow projections, we have some concern that the City's 2011 year-end estimates of revenue and expenditures may not be attained. Specifically, we believe that the City's current real estate tax revenue will be

approximately \$1,000,000-\$1,200,000 less than the year-end and budget projections. Our review also shows that wage tax collection may not meet your year-end or budget projections. We will continue to monitor your collection experience for both of these items and will advise you accordingly.

In addition, there are several 2011 budgeted revenue initiatives that must be developed further if the City is to receive sufficient revenue from these sources. These revenue initiatives include increased revenue from parking meter enforcement, rental ordinance enforcement, and delinquent real estate tax collection. It is important to continue to pursue these opportunities so that this revenue can be realized within the 2011 budget year. The City must take all necessary and appropriate steps to avoid a repetition of the revenue receipts shortfall that occurred in 2010.

In our opinion, based upon the projected operating budget deficit for 2011 and the unaudited 2010 deficit as recorded, the City may encounter difficulty maintaining monthly cash flow needs preventing the City from making timely payments on vendor bills, supplies, payroll, and debt obligations. It is possible that the City could run short on cash as early as the third quarter of this year. Accordingly, we encourage your payment of the \$5,000,000 TAN debt obligation that is due in June 2011 as quickly as possible to avoid further costs in interest and to ensure adequate cash is available to meet the June due date of this TAN loan. It is our understanding that the City's Workers' Compensation fund has a funding surplus under the City's self-funding requirements for this fund. Therefore, in compliance with the City's Irrevocable Trust Agreement, you should consider using any cash surplus in this fund to pay off the TAN. Use of general fund revenue to pay the June 2011 TAN will only advance the date that the City may experience inadequate cash flow to pay its obligations of payroll and other items.

It is critical that the City make provisions at this time to ensure sufficient cash resources are available in December 2011 to pay the \$9,500,000 TAN obligation due on December 31<sup>st</sup> and also to meet other December financial obligations. We believe it is imperative that the City pursue the estimated revenue initiatives identified in the City's 2011 budget as well as institute immediate cost saving measures. Cost reductions must occur soon enough to develop cash savings to offset the projected 2011 operating budget deficit and to ensure cash availability for December 2011 debt and payroll obligations. Based upon the City's 2010 unaudited revenue experience and our review of your 2011 cash flow projections, the City would be remiss to rely solely on the premise that expected 2011 revenue initiatives will have enough success that serious expenditure reductions do not need to be implemented as soon as possible.

We will continue throughout the year to provide you with our revised cash flow projections as part of our Recovery Plan Revision. Please feel free to call us to discuss these estimates.

Sincerely,

  
Gerald E. Cross  
Executive Director

cc: Mayor Chris Doherty  
City Council President  
Members of City Council  
Matthew Domines



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May 23, 2011

Ms. Nancy Krake, City Clerk  
City of Scranton  
340 North Washington Avenue  
Scranton, Pennsylvania 18503

Dear Ms. Krake:

The Pennsylvania Economy League has the singular responsibility under Act 47 to initiate, draft and propose revisions to an adopted Recovery Plan. However, PEL recognizes that a successful Recovery Plan revision necessitates a cooperative effort involving the City's elected representatives and appointed officials. PEL also believes that it is equally important that the City's elected representatives and appointed officials have an understanding of the underlying issues identified by PEL as we introduce the 2011 revision to the adopted 2002 Recovery Plan.

As requested by City Council in 2010, we have set the 2011 adopted City budget as the base year for the revised Recovery Plan. Accordingly, we request that City Council schedule a public caucus on Tuesday July 5, 2011, prior to the regular Council meeting to update City Council of the issues identified by PEL and offer proposed initiatives to be incorporated into the revised Recovery Plan.

Thank you for your consideration of this scheduling request and we look forward to presenting the Revised Recovery Plan to Council.

Sincerely,

  
Gerald E. Cross  
Executive Director



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July 5, 2011

Ms. Nancy Krake, City Clerk  
City of Scranton  
340 North Washington Avenue  
Scranton, Pennsylvania 18503


Dear Ms. Krake:

The Pennsylvania Economy League has the singular responsibility under Act 47 to initiate, draft and propose revisions to a municipality's adopted Recovery Plan. Recognizing this responsibility, on May 23, 2011, PEL forwarded to your attention a letter requesting City Council to provide us with a public caucus for PEL to update City Council of issues identified by PEL that are relevant to the development of a revised City of Scranton Recovery Plan and to provide City Council with an opportunity to offer initiatives for PEL consideration as we develop a revised Recovery Plan. To date PEL has not received a response from City Council.

PEL believes it is important for the members of City Council and the public to be aware of the issues identified by PEL as we seek to revise the City's 2002 Recovery Plan. Aware of City Council's August recess, we request City Council to provide us with a public caucus on either September 13<sup>th</sup> or 20<sup>th</sup>.

Thank you for your consideration of this scheduling request and we look forward to meeting with City Council.

Sincerely,

  
Gerald E. Cross  
Executive Director



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August 15, 2011

Ms. Janet Evans  
President of Council  
City of Scranton  
340 North Washington Avenue  
Scranton, PA 18503

Mayor Christopher Doherty  
City of Scranton  
340 North Washington Avenue  
Scranton, PA 18503

Dear Council President Evans and Mayor Doherty:

The Pennsylvania Economy League advised the City of Scranton's governing bodies in 2010 that we would use the City's 2011 adopted general operating budget as the basis for an update of the City's 2002 Recovery Plan Revision. As part of attaining this goal, this letter is a follow up to our letter to the City dated March 31, 2011, that presented our review of the City of Scranton's 2011 budget and cash flow projections through February 2011.

Utilizing the City's actual revenues and expenditures through June 30, 2011, PEL has recently updated our City of Scranton 2011 budget and cash flow projection model. This model is based on our understanding of the City's historical patterns of general operating revenue and expenditures and other sources and uses. We then compared the City's June 2011 budget and cash flow projections to our model. We greatly appreciate the Business Administrator's Office efforts at providing us timely information.

#### 2011 PEL Revenue Estimates

The City's adopted 2011 budget projected the City would collect \$74,991,268 in general operating revenues. Based upon the City's actual revenue collections through June 30, 2011, and PEL's review of the City's historical revenue collection patterns, PEL is projecting the City will collect \$70,156,335 in 2011 general operating revenues. Thus, we project that the City's general operating revenues will be under budgeted estimates by approximately \$4.8 million.

The revenue shortfall spans all categories of revenues. The largest absolute differences are in the budgeted revenues estimated for Licenses and Permits (estimated to be under budget by \$876,714), Delinquent Real Estate Tax (under by \$800,000), Refuse Fees (by \$675,943), Fines, Forfeits and Violations (by \$556,000), current Real Estate tax (by \$498,293), Earned Income Tax (by \$372,545), Penalties and Interest (by \$316,100), and Parking Meters (by \$300,000).

As we outlined in our letter of March 31, 2011, there are several 2011 budgeted revenue initiatives that must be developed if the City is to receive significant budgeted revenue from these sources. These revenue initiatives include increased revenue from parking meter enforcement, rental ordinance enforcement, and delinquent real estate tax collection. It remains important that the City continues to pursue these opportunities so that some level of revenue from these sources can be realized within the 2011 budget year.

It is important to note that during 2011, the City has also received revenues that we consider one-time revenue sources. By our 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. In this sense, the City has received more than \$7.4 million

in one-time revenues in 2011--\$2,000,000 in Real Estate Transfer Tax from the unanticipated sale of Mercy Hospital, a \$5,000,000 transfer to the operating budget from the overfunded Workmen's Compensation Fund and \$412,459 in Delinquent Wage Tax from the Single Tax Office. The City's 2011 operating budget revenue shortfall would be significantly larger without these one-time revenue sources in 2011. However fortuitous these revenues are for the City's 2011 general operating budget, the City cannot rely on these revenue sources for future budget planning.

#### 2011 PEL Expenditure Estimates

The City's adopted 2011 budget projected the City would expend \$74,991,267 in general operating expenses. PEL is projecting the City will expend \$78,369,474 in 2011 general fund expenses. Thus, we project that the City's 2011 general operating expenses will exceed the City's adopted budget by \$3.3 million.

Unlike revenues, the City's over expenditure does not affect each budget category, but is predominantly the result of a \$3.4 million difference in projected costs for the City's self-insured health care. The City's 2011 budget projected health insurance cost at \$11,707,398. PEL projects the City will expend \$15,107,907 in health insurance costs in 2011, a difference of \$3,400,509.

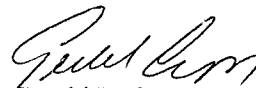
Other expenditure categories are projected to be over the budgeted amount. For example, the largest variance (other than Employee Health Insurance) is in Overtime (over budget by \$408,712) and Street Lighting (by \$217,221). On a positive note, there are other expenditure categories that are estimated to be below budget. These include Salary and Wages (by \$532,872), Transfers to Workers Compensation Fund (by \$251,925), and Unemployment Insurance (by \$220,208). It is important to note that our expenditure projections do not include the impact of recently announced reductions in the City's workforce planned for September

#### Conclusion

Based upon our review above, PEL is concerned that the City's 2011 adopted budget estimates of revenue and expenditures may not be attained. We anticipate that the City will realize a shortfall of \$4.8 million in expected revenues and an increase over budgeted expenditures of \$3.3 million. Taken together, we believe that the City will have an \$8.2 million operating budget deficit in 2011. Based upon this projected operating budget deficit for 2011, it is our opinion the City may encounter difficulty maintaining monthly cash flow needs preventing the City from making timely payments on vendor bills, supplies, payroll, and debt obligations. It is possible that the City could run short on cash as early as the third quarter of this year. **It is critical that the City make provisions at this time to ensure sufficient cash resources are available in December 2011 to pay the \$9,500,000 TAN obligation due on December 31<sup>st</sup> and also to meet other December financial obligations. We believe it is imperative that the City continue to pursue the estimated revenue initiatives identified in the City's 2011 budget as well as institute immediate cost saving measures.** It is clear that the City's current financial condition has the potential to jeopardize the City's ability to provide for the health, safety and welfare of its citizens or respond to unanticipated expenses or emergencies that may arise.

The PEL will continue to monitor the City's 2011 operating budget performance as we prepare an update to the City's 2002 Recovery Plan Revision for the City's consideration. In our preparation of an update, we will be targeting the elimination of the City's estimated \$8.2 million operating budget deficit as the primary goal of the update. Please feel free to call us to discuss these estimates or to discuss any questions you may have.

Sincerely,



Gerald E. Cross  
Executive Director

cc: Ryan McGowan  
Members of City Council  
Matthew Domines



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September 9, 2011

Ms. Janet Evans  
President of Council  
City of Scranton  
340 North Washington Avenue  
Scranton, PA 18503

Mayor Christopher Doherty  
City of Scranton  
340 North Washington Avenue  
Scranton, PA 18503

Mr. Frank Joyce  
Finance Chair  
City of Scranton  
340 North Washington Avenue  
Scranton, PA 18503

Dear Council President Evans, Mayor Doherty, and Mr. Joyce:

This letter is a follow up to our letter to the City of Scranton dated August 15, 2011, that presented our review of the City's 2011 budget and cash flow projections through June 30, 2011. Utilizing the City's actual revenues and expenditures through July 31, 2011, PEL has further refined our City of Scranton 2011 budget and cash flow projection model.

Based upon this most recent review, we continue to believe that as of the date of this letter the City will have an \$8.2 million operating budget deficit in 2011. As a consequence of this budget shortfall, PEL is concerned that the City will not be able to satisfy the \$9,500,000 payment on its 2011 Tax Anticipation Note due on or before December 31, 2011. Further, we estimate that the City's monthly cash position in December 2011 will not be sufficient to fund the combination of the 2011 TAN repayment, two regular payroll periods, and other anticipated City operating obligations. It is becoming increasingly apparent that the City's current financial condition has the potential to jeopardize the City's ability to provide for the health, safety and welfare of its citizens or respond to unanticipated expenses or emergencies that may arise. It is also possible that the City could run short on cash to meet its monthly financial obligations sooner than December 2011.

**We believe it is imperative that the City make provisions at this time to ensure sufficient cash resources are available in December 2011 to satisfy the \$9,500,000 TAN obligation due no later than December 31<sup>st</sup>, its two regular December payroll obligations, and also to meet other December financial obligations. Therefore, we recommend that the City's governing bodies begin immediately the process of an unfunded borrowing in the amount of \$8,200,000 in order to meet its remaining 2011 financial obligations. The legal standards for an unfunded borrowing is contained in the Local Government Unit Debt Act and will require a hearing before, and the approval of, the Lackawanna County Court of Common Pleas.**

The projected \$8.2 million operating budget deficit in 2011 is a continuation of the structural operating budget deficits that have characterized the City's operating finances for over two decades. As Act 47 coordinator, PEL advised the City of Scranton's governing bodies in 2010 that we will be utilizing the City's adopted 2011 operating budget as the basis for an update of the City's 2002 Recovery Plan Revision. In the near future we will be delivering to the City a Recovery Plan update that will target the elimination of the City's structural operating budget deficit. Please feel free to call us to discuss this recommendation or to discuss any questions you may have.

Sincerely,

  
Gerald E. Cross  
Executive Director

cc: Ryan McGowan, Members of City Council  
Matthew Domines



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October 3, 2011

Ms. Janet Evans  
President of Council  
City of Scranton  
340 North Washington Avenue  
Scranton, PA 18503

Mayor Christopher Doherty  
City of Scranton  
340 North Washington Avenue  
Scranton, PA 18503

Mr. Frank Joyce  
Finance Chair  
City of Scranton  
340 North Washington Avenue  
Scranton, PA 18503

Dear Council President Evans, Mayor Doherty, and Mr. Joyce:

This letter is a follow up to our letter to the City of Scranton dated September 9, 2011, that presented our concern of the City's year-end cash flow position. In that letter we recommended that the City initiate an unfunded debt proceeding of \$8.2 million to ensure sufficient cash resources are available to satisfy its anticipated 2011 operating expenses. Subsequent to our September 9, 2011 letter, we were recently notified by the City that it recently received a one-time increase of approximately \$1,700,000 in state aid for its 2011 pension payments. This one-time increase was the result of legislative changes for 2011 only and will not be received in future years. Accordingly, our estimates for the year end cash deficit and our recommended level of unfunded borrowing can be revised. Based on this receipt of a one-time increase in state aid for the City's 2011 pension expense, we have lowered our estimated 2011 year-end cash deficit position to \$6.5 million; therefore the recommended level of unfunded borrowing by the City should not exceed that deficit amount. Our recommendation of an unfunded debt borrowing of \$6.5 million would result in an estimated annual debt service payment of approximately \$700,000 per year for ten years beginning in 2012.

Also subsequent to our September 9, 2011 letter, the City Administration presented to City Council an alternative source of funds to strengthen the City's year-end cash flow position. The alternative would involve the selling of the City's parking meter concession to the Scranton Parking Authority in addition to an unfunded debt borrowing petition. The estimated revenue from the sale of the parking meter concession is \$6.0 million and the unfunded debt proceeds are estimated at \$4.0 million. We have reviewed this proposal in regard to our earlier letter, the City's recent receipt of unanticipated 2011 state pension aid and also as part of the Revised Recovery Plan that we are preparing to present to the City. As the City's appointed Act 47 coordinator we offer the following comments to the Administration's proposed financial transactions.

The immediate impact of the parking meter concession sale would be the City acquiring \$6.0 million in funds that -- depending upon the timing of the receipt of funds -- the City may use to close a large portion of the 2011 projected cash flow shortfall. The longer term consequences to the City of this transaction will be a permanent reduction in annual meter revenue currently used for City general fund purposes. We estimate that the net effect of the sale of the City's parking meter concession on the City's 2012 budget and beyond will be a net negative change of approximately \$702,000 per year. In contrast, our recommendation of an unfunded debt borrowing of \$6.5 million would result in an estimated equivalent annual debt service payment for ten years beginning in 2012.

Regarding the \$4.0 million unfunded debt portion of the Administration's request, we estimate annual debt service to be \$440,000 per year for ten years beginning with the 2012 budget. However, with the City's receipt of the unanticipated state pension aid and the commensurate lowering of our projected 2011 cash deficit to \$6.5 million, the City may want to consider reducing the amount of unfunded borrowing to \$500,000. We estimate the annual debt service for a \$500,000 unfunded borrowing to be \$54,000 per year for ten years beginning with the 2012 budget.

**Regardless of the method the City decides upon to address its projected 2011 cash deficit, it is imperative that the City begin the financing process expeditiously to ensure adequate financial resources are available to the City to meet its 2011 obligations.**

It is important to note that the sale of the parking meter concession, any unfunded borrowing and the City's receipt of the \$1.7 million state pension aid are to be considered one-time revenue sources and funds received from these sources will not be available to address the City's projected operating budget deficits through 2015. Thus, the City must continue to explore both revenue and expenditure options for the 2012 budget year and beyond. Accordingly, the Revised Recovery Plan will also be focusing on these options to eliminate the City's projected structural operating deficits during the 2012 through 2015 period. Please feel free to call us to discuss any questions you may have with our analysis.

Sincerely,

  
Gerald E. Cross  
Executive Director

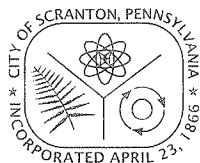
cc: Ryan McGowan, Members of City Council  
Matthew Domines

# Council of the City of Scranton

340 No. Washington Avenue • Scranton, Pennsylvania 18503 • Telephone (570) 348-4113 • Fax (570) 348-4207

Nancy Krake  
City Clerk

Boyd Hughes, Esq.  
Counsel



Janet Evans, President  
Pat Rogan, Vice President  
Robert McGoff  
Frank Joyce  
Jack Loscombe

October 31, 2011

Mr. Gerald Cross, Executive Director  
Pennsylvania Economy League  
88 North Franklin Street, Suite 200  
Wilkes Barre, Pa. 18701-1393

Dear Mr. Cross:

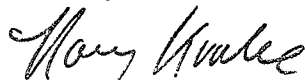
Scranton City Council would like to offer multiple solutions to address the City's financial ills:

1. The Mayor should immediately initiate negotiations with the FOP and IAFF unions to lessen the financial impact of the Supreme Court decision and provide an agreement that is fair to both the people of Scranton and their public safety employees. He owes it to the taxpayers of Scranton to extend an olive branch to police and fire personnel and to discuss lower payments and a multi-year payment schedule.
2. The City debt should be refinanced.
3. Borrowing or a bond issue should be pursued.
4. The Street Smart Technologies Parking Program should be included in the Mayor's 2012 proposed budget and implemented.
5. Appraisals of the City parking garages and lots and the Scranton Sewer Authority should occur as soon as possible. National companies should be contacted to request proposals for the sale or lease of parking garages and the management and operation of the Scranton Sewer Authority.
6. Include an amusement tax in the 2012 proposed budget and aggressively pursue a change in the City's classification in order to implement a commuter and a payroll tax to be included in the 2012 budget.

6. Include an amusement tax in the 2012 proposed budget and aggressively pursue a change in the City's classification in order to implement a commuter and a payroll tax to be included in the 2012 budget.
7. Cut City departments which were not previously targeted in August 2011.
8. Negotiate to eliminate or reduce payments to employees who opt out of City provided healthcare.
9. Limit DPW overtime to emergency declarations for snow removal, flooding situations, cave-ins and other natural disasters.
10. Negotiate a wage freeze and/or shorten work week or work hours for City Hall employees.
11. Eliminate non-essential budgetary expenditures, including the funding of organizations.
12. Pursue buyouts of workers' compensation cases and early retirements.
13. Aggressively pursue large City non-profits for payment in lieu of taxes. The Mayors of Reading and Pittsburgh have been successful in these ventures and the same Pennsylvania Economy League that oversees Scranton recommended this action in 2011 to the Mayor of Harrisburg.
14. Pursue collection of the \$600,000.00 owed for the property which formerly housed the DPW garages.
15. Bring City towing of vehicles in-house by using City owned property for a storage or tow yard and eliminate the unnecessary use of vehicles by City employees such as the head of the IT department.

It is up to you to implement or enforce these measures and programs. The decision is yours to either cut services and increase taxes or work with City Council to address the City's financial problems in ways which are less painful and burdensome for the people of Scranton.

Sincerely,



Nancy Krake  
City Clerk

cc: Scranton City Council



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November 2, 2011

Ms. Nancy Krake, City Clerk  
City of Scranton  
340 North Washington Avenue  
Scranton, Pennsylvania 18503

Dear Ms. Krake:

I am in receipt of your letter of October 31, 2011 and I thank you for the proposals and for City Council's efforts in addressing the City's current and projected financial shortfalls.

The proposals listed in your letter are noteworthy and merit consideration as actions to be undertaken to address the City's financial crisis. However, contrary to your instruction, at this time PEL has no statutory authority under Act 47 to monitor the implementation of your proposals **unless** they are included in a City adopted revised recovery plan. Most of your proposals may in fact be implemented as policy initiatives by the City at any time. During our weekly meetings, we have repeatedly stressed the City's need for cost cutting initiatives along with increasing revenue to reduce the City's current and projected deficits and to enhance the City's creditworthiness. Therefore, we encourage City Council to share these proposals with the City Administration to determine the feasibility of including them in the City's 2012 General Fund operating budget

We appreciate City Council reaching out to us at this time with their proposals to address the City's financial crisis. We have consistently involved the current City Council as a partner in the Act 47 recovery plan revision process beginning with our three public presentations to City Council in 2010. Unfortunately, our written requests to City Council in May and July of 2011 to continue this dialogue have not been acknowledged by City Council. Nonetheless, we look forward to further discussing City Council's suggestions as outlined in your letter as part of the process for revising the City adopted 2002 Revised Recovery Plan.

Sincerely,



Gerald E. Cross  
Executive Director



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November 7, 2011

Ms. Janet Evans  
President of Council  
City of Scranton  
340 North Washington Avenue  
Scranton, PA 18503

Mayor Christopher Doherty  
City of Scranton  
340 North Washington Avenue  
Scranton, PA 18503

Mr. Frank Joyce  
Finance Chair  
City of Scranton  
340 North Washington Avenue  
Scranton, PA 18503

Dear Council President Evans, Mayor Doherty, and Mr. Joyce:

This letter is a follow up to our series of letters to the City of Scranton that have presented our review of the City's 2011 budget, the City's cash flow projections, and our recommendations to mitigate the effects of the expected 2011 year-end cash deficit. In accordance with our September 29, 2011, correspondence to the City of Scranton, it remains our opinion that the City of Scranton will experience an approximate \$6.5 million 2011 year-end cash deficit. We continue to advise the City that it is our recommendation that the City begin immediately the process of an unfunded debt borrowing of \$6.5 million to ensure the City has sufficient cash reserves to meet its remaining 2011 expense obligations. The estimated annual debt service payment of this unfunded borrowing transaction will be approximately \$700,000 per year for ten years beginning in 2012.

We have prepared the enclosed Act 47 Coordinator's Financial Review and Baseline Projections for the City of Scranton—November 2011 which provides our review of the City of Scranton's prior years' revenues and expenditures performance and also includes projections of the City's revenues and expenditures through the remainder of 2011 and for the period 2012 - 2015. We believe that the information contained in this report will be a useful guide for the City as it prepares its 2012 General Fund operating budget. **Please note that the cost impact of the recent Supreme Court Opinion is not included in any of the projections for the remainder of 2011 and for the period 2012 through 2015. Once the City has agreed upon a cost impact of this Opinion, PEL will review and update its financial projections for the City. We encourage the positive cooperation of all City stakeholders in the process to calculate the costs of the Opinion.**

Throughout 2011 PEL has continued its efforts to prepare a 2011 Revised Recovery Plan for the City of Scranton. Unfortunately, the recent Supreme Court Opinion that remanded for reinstatement prior fire and police arbitration awards has caused us to delay the issuance of a 2011 Revised Recovery Plan as planned prior to the City's 2012 budget preparation process. As the City of Scranton's appointed Act 47 Coordinator, PEL will continue to prepare a revised Recovery Plan for the City of Scranton and looks forward to working with the City's elected representatives and appointed officials as we develop a revised Recovery Plan that will eliminate the City's projected structural operating deficits.

Please feel free to call us to discuss this enclosure or to discuss any questions you may have.

Sincerely,

  
Gerald E. Cross  
Executive Director

cc: Ryan McGowan, Members of City Council  
Matthew Domines

## APPENDIX D



October 5, 2011

Janet Evans  
Pat Rogan  
Robert McGoff  
Frank Joyce  
Jack Loscombe  
340 North Washington Avenue  
Scranton, PA 18503

Dear Members of Council:

In accordance with the provisions of the Operation Agreement, dated as of April 1, 1969, as amended, between the City of Scranton and the Scranton Parking Authority, the Authority hereby provides notice to the City of Scranton that the Authority has an anticipated deficit for the fiscal year 2012 of approximately \$1.6 million. In accordance with the Operating Agreement, the Authority has approved increased rates for the 2012 fiscal year. Without this increase in rates the anticipated deficit would be in excess of \$1.6 million.

According to the Lease, dated as of April 1, 1969, as amended, the City has agreed to provide this anticipated shortfall and include such amount in the City's budget. At this time the Authority is requesting payment by June 1, 2012 of an amount sufficient to cover the projected shortfall, that such amount be included in the City of Scranton 2012 Budget and appropriated for payment and that such amount be provided to the The Bank of New York Mellon Trust Company, N.A., as successor trustee under the Trust Indenture, dated as of April 1, 1969, as amended, for deposit into the Parking Revenue Account.

Very Truly Yours,

A handwritten signature in black ink, appearing to read "Robert Scopelliti", is written over a faint, larger version of the same signature.

Robert Scopelliti  
Executive Director

cc: Paul A. Kelly Jr., Esquire  
Ryan McGowan  
Mayor Christopher A. Doherty  
The Bank of New York Mellon Trust Company, N.A., as Trustee