

CITY OF SCRANTON FINANCIAL RECOVERY UPDATE



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Greater Scranton Chamber of Commerce, Scranton, PA

TODAY'S AGENDA

1. Provide an update regarding the City's progress with regard to our July 2014 plan and the Pennsylvania Economy League's March 2015 Revised Act 47 Recovery Plan
2. Discuss the process that led to the eventual sale of the Scranton Sewer Authority and outline the planned use of sale proceeds
3. Explain the remaining steps the City must take to finally stabilize its budget, control tax and fee increases, and strengthen its economy
4. Question and Answer

THE CITY OF SCRANTON AS OF THE JULY 2014 PLAN: FINANCIAL CRISIS

- The July 2014 Plan identified three problems the City had to address:
 - *The police and fire backpay judgement*
 - *The City's need to continually "bail out" the Scranton Parking Authority and pay its Receiver*
 - *The most distressed major pension system in the Commonwealth; funding requirement to jump by 25% in 2017 due to lapse of Act 44.*
- At the time, bankruptcy was a theoretical possibility but was ruled out—as was the request for a State-appointed receiver
 - *Unlikely to be able to meaningfully control pension costs*
 - *Commonwealth statutory limitations (Governor must agree)*
 - *Tax increases would likely have been pursued first before expense reductions*
- Scrantonians also faced an \$140 million environmental Consent Decree to control stormwater-induced combined sewer overflows

MAJOR INITIATIVES COMPLETED: POLICE AND FIRE BACKPAY JUDGEMENT

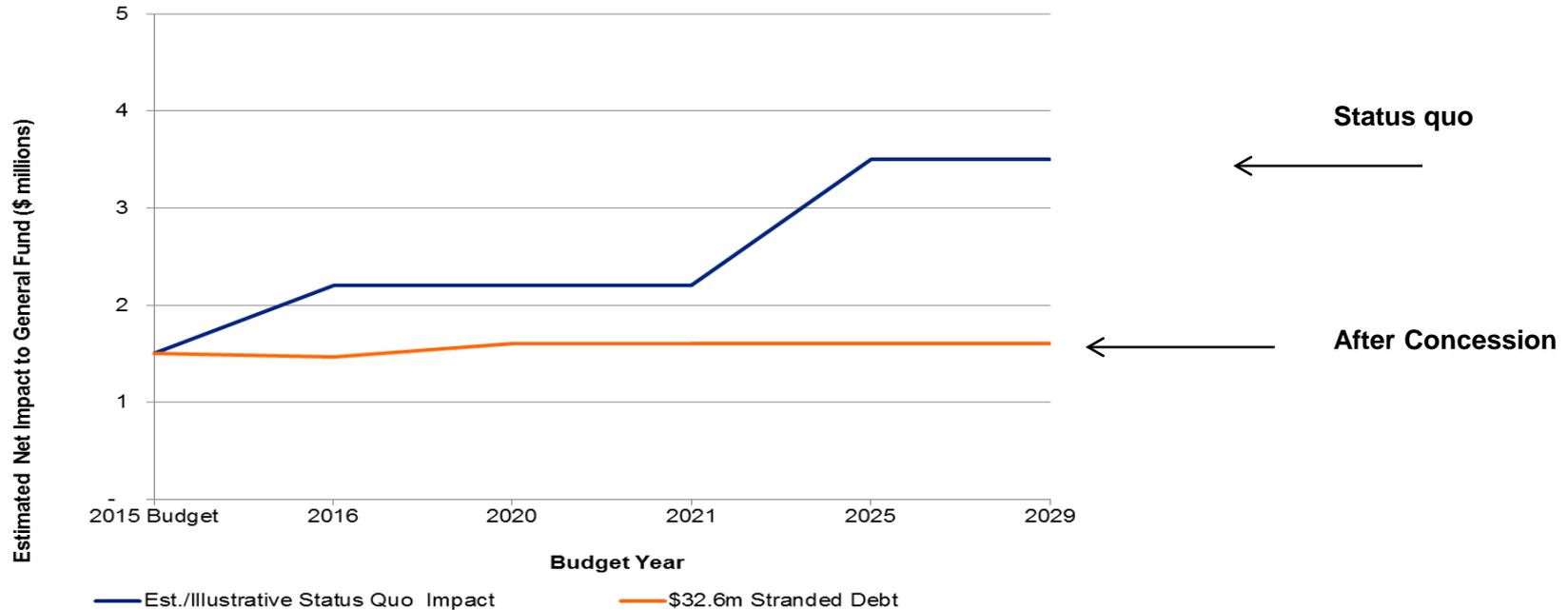
- The police and fire judgement was paid, contingent upon concessions
 - *Unrealistic and overly burdensome solutions were dismissed (e.g., a 12 percent loan-financing), but interest was ~\$100,000/month*
 - *After nearly a decade, agreement was reached between the City and the police and fire unions in a mediation run by Senior Judge Mazzone*
 - *Payment to retirees negotiated down by \$3.6mm (\$10% of total judgement)*
 - *A \$1.5mm pension contribution was made from the police and fire unions*
 - *Pension reforms were memorialized in an MOU regarding the disability process (TPA position created and physician vetting process strengthened)*

MAJOR INITIATIVES COMPLETED: SHEDDING SCRANTON PARKING AUTHORITY LIABILITY

- Default on City-guaranteed SPA debt was the single most damaging act for the City's finances (loss of credit rating)
- City had to pay \$3mm a year in SPA debt service, projected to rise to \$4mm in 2017 and beyond
- Exhaustive procurement process led to a lease-concession of the SPA and City meters to the National Development Council, a non-profit specializing in economic development
- The City no longer has an financial responsibility to the SPA, but must continue to pay for its "stranded debt" (c.f., chart on following page)
- The parking system was unified, the average monthly rate was lowered, rates were stabilized, and tens of millions of capital investment will be made
- \$4 million PennDOT grant applied for and awarded by City and SPA
- Full Circle: Moody's, "Credit positive" on account of aggregate debt reduction of 31 percent

MAJOR INITIATIVES COMPLETED: SHEDDING SCRANTON PARKING AUTHORITY LIABILITY

City General Fund Impact from Parking Monetization



- “Status Quo” scenario reflects continuing to receive nominal parking tax revenue, parking fines/permits, and parking meter revenues. Also reflects continuing to pay Republic citation issuers, SPA debt service guarantee, capital costs, and Receiver/Trustee fees.
- “New Agreement” scenario reflects (1) debt service to pay estimated GO refunding debt (est \$32.6m) as well as \$1,000,000 of residual SPA debt due in 2016 prior to Parking transaction settlement, (2) loss of annual meter revenue, (3) \$4.5 million Marketplace lease payment, and (4) \$2.85 million Electric City Agreement. New Agreement scenario does not reflect any potential benefit from Concessionaire grants.

MAJOR INITIATIVES COMPLETED: PENSION FUNDING

- Proceeds from the sewer deal provided funds to stabilize the pension
 - *In lieu of Act 205 “pension commuter tax”, additional real estate tax increase, and earned income tax increases*
- Rather than put money directly into the pension to restore funding, high interest debt was paid off to create a dedicated funding stream *into* the pension
- Direct payment into the pension will occur through an Irrevocable Trust; payments will only be made if pension reforms are met

MAJOR INITIATIVES COMPLETED: PENSION FUNDING – SEWER SALE PROCESS

- Scranton Sewer Authority Engineer, Gannett Fleming, projected 4.57% increase for 30 years (271% total); Authority decided the only way forward was to seek outside help
- Scranton Sewer Authority initially only sought Operations and Maintenance. “management” proposals to deal with \$140mm stormwater-induced combined sewer overflows
- We advised the City to intervene and ask to revise the RFP to seek management, lease-concession, and sale proposals
- Four national/international firms responded in May 2015; BAFO and clarifications received in November 2015
- Sale was the only model that remained competitive, achieving both rate stabilization and proceeds for the City; sale closed in December 2016.

City would have received \$0.00 if the original approach was pursued

MAJOR INITIATIVES COMPLETED: PENSION FUNDING – SEWER SALE PROCESS

- The length and cost to complete this complex deal is in line with local, regional, and national benchmarks; even routine bond sales can be higher
- The closing date assumed in the deal assumption, impacting cash and debt, was 12/1/15, meaning an additional year passed prior to the actual close
- Ongoing litigation (easements)

Major Initiatives Completed: Pension Funding – Sewer Sale Process (Comps.)

Deal	Professional Fees	Value of Transaction	PF % of Value
Scranton Sewer Authority (Purchase Price)	\$4,363,676	\$195,000,000	2.24%
Scranton Sewer Authority (Total Value Created)	\$4,363,676	\$545,000,000	0.80%
Allentown/Lehigh County Lease Concession 2014	\$5,337,569	\$296,760,141	1.80%
Allentown/Lehigh County Lease Concession 2014 (Payment to Allentown Only)	\$5,337,569	\$211,332,217	2.53%
Scranton School District Bonds Series A, B, C, & D of 2017	\$1,526,738	\$63,210,075	2.42%
Wilkes-Barre Area School District Bonds Series A&B of	\$823,978	\$37,472,185	2.20%
Wilkes-Barre City GO Notes of	\$131,566	\$5,265,000	2.50%
Greater Hazleton Joint Sewer Authority Sewer Revenue Bonds Series A&B of 2012	\$412,189	\$20,059,022	2.05%
Lackawanna County GO Bonds Series A&B of 2016	\$1,117,408	\$72,301,901	1.55%
Lackawanna County GO Bonds	\$4,572,893	\$59,280,393	7.71%

MAJOR INITIATIVES COMPLETED: STORMWATER MANAGEMENT

- When American Water bought the Authority, they also bought a \$140 million Consent Decree, meant to limit combined sewer overflows that dump untreated sewage into waterways when the system is overburdened with stormwater
- The Consent Decree requires the construction of 73 unique storm water infrastructure projects, totaling \$140 million
- The most expensive pieces: stormwater retention tank: \$18 million and another at \$11 million.
- The City maintained and will continue to maintain the separate storm system; a future storm water authority would focus entirely on maintenance, new green, and minor grey infrastructure to limit stormwater runoff *itself*

MAJOR INITIATIVES COMPLETED: PENSION FUNDING – SEWER SALE PROCEEDS PLANNING

- Focus on high interest debt reduction
- Pension fund investment through Trust, contingent on reforms
- Long term investments in stormwater, economic development, and capital
- Eliminates substantial portion of the City's liabilities, providing a workable budgets as a stable bridge to structural balance
- Next step is to restructure services and delivery of core services

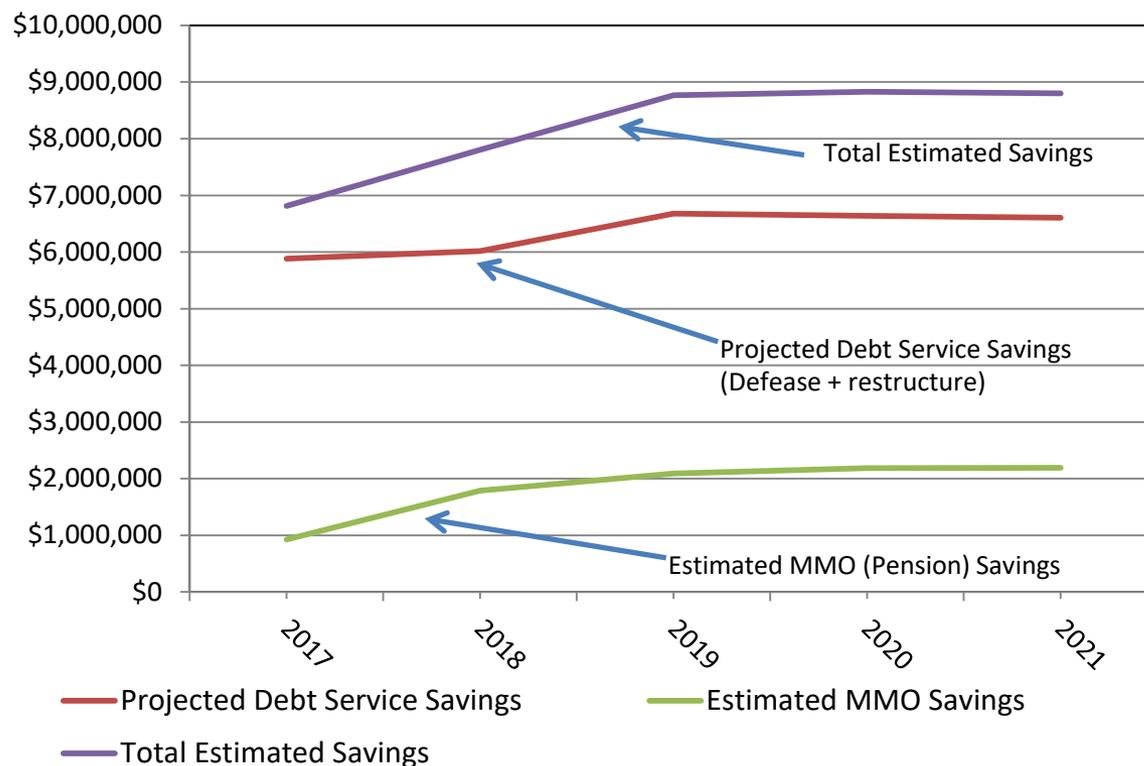
Major Initiatives Completed: Pension Funding – Sewer Sale Proceeds Planning

SUMMARY OF SEWER PROCEEDS USES		
Use of Funds	Amount	% of Total
Budgeted Debt Reduction	\$43,242,621	63%
Reduce Pension Fund Investment Return Assumption (7.75%)	\$4,638,000	7%
Reduce Pension Fund ARC Capital Improvement Down Payment(s)	\$18,193,600	26%
Economic Development Stormwater Runoff Planning/Startup Cost	\$2,000,000	3%
	\$500,000	1%
	\$500,000	1%
Total Non-Escrow Funds	\$69,074,221	100%
Reduce Pension Fund Investment Return Assumption (7%)	\$14,000,000	N/A
Total Sewer Proceeds	\$83,074,221	N/A

Item	Value
Total PAWC Payment to SSA	\$195,500,000
Debt Defeasance	(\$73,400,000)
Cash Adjustment	(\$12,400,000)
Other Liability Payoff	(\$4,400,000)
Net to Municipalities	\$105,300,000
Broker's Fee	(\$1,200,000)
Net to Municipalities After Broker's Fee	\$104,100,000
Net to Scranton	\$83,300,000
Net to Scranton Less Escrows/Wind Down+Net Funding	\$69,100,000

Major Initiatives Completed: Pension Funding – Sewer Sale Proceeds Planning

Year	Estimated Total Savings
2017	\$ 6,810,767
2018	7,802,286
2019	8,768,021
2020	8,826,888
2021	8,798,879
Subtotal	41,006,840
2022 -2037	58,968,267
Total	99,975,107



NEXT STEPS

- Act 47 Exit Plan (PEL Public Hearing - January 21st, 2017 Public Hearing)
- Further debt restructuring/refinancing (Summer 2017)
- Create pension funding Trust (Mayor and Council – Summer 2017)
- Complete separate stormwater system management study (City, Arcadis, and Stakeholder Committee – Fall/Winter 2017)
- Execute economic development plan (City/Chamber/NRN/Scranton Tomorrow – Fall 2017)
- Improve City revenue cycle (City/County – Single Tax Office – Winter 2017)
- Reassessment (County – ASAP)

QUESTIONS AND ANSWERS

HJA STRATEGIES
