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The Office of Mayor William L. Courtright
City of Scranton

Remarks of Mayor Courtright in the 2016 State of the City Address

November 4, 2016

Good morning. First, I want to thank the Chamber for hosting us here today and also for their support of our efforts to move our city forward. I would also like to welcome all the esteemed guests and members of the public who took the time to come out today.

I think many of you in this room, and many of those listening all across the City of Scranton, will agree when I say that this year has been the most significant year for our City in a generation.

Why?

Because, today, I am proud to say I believe our city has finally turned a corner.

Today, our city is stable, our city is strong, and our city is moving forward.

But this didn't just happen. We did it together, we did it as a community. Together, we have made a new future for our city. Sure, it wasn't easy, and we're not done yet, but we are closer than ever before.

Not only have we stabilized our budget and finances, but we worked to make our city a destination again. Last year, Scranton's population grew faster than any other city in the northeast, three-times faster than Pennsylvania's second place city, Allentown, and six times faster than Philadelphia. We have great new businesses opening up every month, from restaurants to medical offices. Our universities, colleges, and hospitals are expanding, offering more services to more people, and are positioning themselves as leaders in 21st Century innovation industries.

As hopeful as we are today, let me remind you of where we were just a little over three years ago.

Our city was nearly bankrupt. Our City Council meetings were being considered for a reality TV show. Our pension system was on the verge of financial failure, the most distressed in the state, and our parking system was in the middle of financial and physical collapse. Our sewer system had been hit with an $140 million mandate to clean up its operation, and we owed our police and fire unions tens of millions of dollars in backpay.

We had been a distressed city in Act 47 nearly since the program began—almost 25 years. Newspapers from the *Scranton Times* to the *New York Times* were saying Scranton was about to go bankrupt. The financial press and think tanks were writing articles about how our City's fate was sealed and how it would shortly be decided in bankruptcy, taking control out of our hands and giving it to a federal judge.

And it was also just a little over three years ago when I decided to run for Mayor. I told my wife Kim I needed to run because I couldn't just watch this happen. I couldn't just watch the City I grew up in, the city that made me who I am today, the city that I love, fall apart like this. I ran because I wanted to do something.

Like all of you, I knew about the situation our city was in, but I didn't appreciate just how deep the challenge was until I was sworn in as Mayor. I remember meeting in my office with Henry Amoroso and hearing in painful detail just how much trouble we were in—the union judgement, debt with 9 percent interest, our parking system's receivership, our nearly broke pensions—and the difficult steps we would need to take to fix these problems. When you start to see what these problems mean for regular people and businesses, that it means an environment where people don't want to move to, where people don't want to invest, where people don't want to expand or start businesses, it stars to explain why we need to try to do whatever we can to fix them.

Working with my administrative team, HJA Strategies, the Pennsylvania Economy League, and in partnership with City Council, we developed a plan to do something and tackle each problem head on. The Amoroso Plan was released in July of 2014 and the Revised Act 47 Recovery Plan in early 2015.

They were both very comprehensive and detailed documents, but I can boil them down to three basic points: we needed to get the union judgement off our books, we needed to turn the Parking Authority from a liability into an asset, and we needed to stabilize our pensions—for the sake of our retirees and our taxpayers.

And, I am proud to say, that after three years of hard work, we have addressed each of these problems and we have delivered a stable, fair, and comprehensive solution for each one.

From a city that was on the brink of bankruptcy when I took office not even three years ago, Scranton is now poised to exit Act 47 after a quarter of a century in the program.

So, how did we do it?

From the moment I walked in the door, the union judgment presented the single most immediate problem. Interest on the judgement was piling up at a court-ordered rate of 6 percent—that's $100,000 per month—and the banks wanted 12 percent interest to finance the backpay. That wasn't acceptable to me.

What was acceptable to me? Meaningful concessions from the unions, a fair interest rate from the banks, and real, game-changing pension reforms. Meeting each of the requirements was an absolute, non-negotiable condition for my approval of this deal.

And, I can say that our deal met my requirements.

I am proud of the deal we fought for and I am proud of the deal we got.

We can't forget how we got here. In late 2011, after nearly ten-years of litigation that went all the way up to the Pennsylvania Supreme Court, the Court ruled that the City unlawfully capped police and firefighter wages and that the City had to pay them back for the wages they should have earned. A settlement was reached between the Doherty Administration and the unions a year later, stating that the police and firefighters were owed $16 million, accounting for five years of lost wages. Retirees were owed $7.6 million.

When I came into office, we could not negotiate the Court-ordered judgement amount. Our job was to develop a strategy to pay it back and to do so responsibly. Sure, we owed the police and firefighters their pay. But we also knew we owed the entire City a strong and steady budget, as well as meaningful pension reform.

So we came to the unions with three conditions:

We would not pay the full 6 percent interest rate for the backpay; we would not pay unless a portion of the payment was an investment into the pension funds; and we would not pay without real pension reforms to ensure that this investment, and any future one, would be sound.

After more than two years of hard work, culminating in two days of tough negotiations in mediation, we came out with a deal; a very good deal.

First, the overall back pay is just under $30 million. I want to underline one thing. Had the previous Administration paid by the June 30th, 2013 deadline they committed to, the City would have saved $3.7 million.

Second, we were able to negotiate out the interest payment to retirees, saving us $3.6 million. In addition, we negotiated the retirees' payment to be a part of this deal, not out of the pension funds themselves, preventing what the pension fund's actuary wrote "would have been devastating to the Pension Plans."

Third, over $1.5 million was deposited into the police and fire pension funds. And, as part of this deal, we negotiated game-changing pension reforms with the unions. With any deposit that goes into the pension, I have always emphasized that I need to have confidence that our investment will be secure. The City's pension funds will now be run by a nationally-recognized Third Party Administrator, who will ensure that the pension funds are professionally managed, that all regular and disability pensions are only paid according to the strict application of our laws, and that the pension system operates at the high standard expected by our retirees and taxpayers. In addition, every reform negotiated last year into the fire contract, which seeks to reign in costs for disability pensioners, was added to the police contract.

While resolving the union judgement was the most pressing issue, out of all the problems my Administration inherited, out of all the messes we had to clean up, the Parking Authority may have been the worst. Each year, we had to budget about $3 million to pay the Parking Authority's debt—debt they should be paying, but can't. With the restructuring, we're saving at least $30 million in debt, and the average monthly parking rate is about $5 lower than it was before the deal.

On top of that, we were paying hundreds of thousands of dollars in fees for the Receiver's accountants, consultants, and lawyers; these expenses didn't go towards making our parking system better, they just drained money out of the City.

But our biggest achievement has been cleaning up the legacy of the Parking Authority's default, which the City caused in 2012 by refusing to pay the parking Authority debt, which the City legally guaranteed. The default lost us our credit rating and, until we started getting to work fixing all this, it froze us out of the credit markets entirely or caused us to pay interest rates of 7, 8, and 9 percent even for the most routine financing.

Through an exhaustive process we began almost two years ago, we looked at dozens of options for the Authority's restructuring and concluded that a concession-lease deal with a non-profit, the National Development Council, a leader in innovative economic development solutions, was the best option for the City.

Basically, the concession-lease model means that NDC will take over the day to day operations of the parking system while the City retains ownership. We also maintain meaningful control over many of the most critical decisions we will make about parking. And, because they are a non-profit, once all the annual expenses are paid off, any money left over will flow back to the City. NDC will also thoroughly modernize the parking system—cleaning up the garages, relighting them, and introducing the kind of technology that makes the parking experience much more pleasant, safe, and convenient.

We also partnered with John Basalyga, one of the many dynamic businesspeople in our City, to maximize the economic development potential of this deal. Our partnership with John fully unifies the vast majority of the public parking in downtown Scranton and allowed us to save one of the most critically important garages from a multi-million dollar demolition. After receiving no interest in the Electric City garage during the RFP process, we realized that if we had to bear the cost of repairing the garage on our own, it would have made more financial sense to just demolish it, leaving a critical portion of the downtown that is seeing a lot of exciting development without public parking. Both John and I felt strongly that finding a way to keep the garage operational was vital for the downtown's development, so we made a deal to essentially split the cost of the most crucial repairs.

But as severe and as pressing as the union judgement and the restructuring of the Parking Authority were, the biggest challenge to a financially stable and vibrant future for our city is our pension system, the most underfunded and distressed in the state.

As many of you know, we plan to use a significant portion of the money from the sewer deal to ensure that we meet our mandatory obligation in every future budget without forcing taxpayers to make up the difference.

Let me be clear: we are not just writing a big check to the pension fund and moving on. Any deposit I make into the pension fund will come with certain conditions and controls attached to it— all in addition to the reforms we enacted as part of the judgement negotiations. Our goal is not only to stabilize the pension now, but to make sure it stays stable for every retiree and taxpayer forever.

We are making sure that we do not squander this opportunity and are working each day on a plan to invest the money as carefully and efficiently as possible. While the majority of the money will likely be aimed at reducing the pension liability, a significant portion will be aimed at getting high interest rate debt lowered or off our books entirely, and a smaller portion allocated towards critical capital projects that will help spur economic development.

The sale of the Scranton Sewer Authority is a transformative deal for our City. While we are happy that our partnership with the Authority allowed us to maximize the financial benefit to the City, the sale, at the end of the day, is really about ensuring the greatest long term benefit for ratepayers. The sale is the best way for our city to meet an $140 million federal environmental mandate while keeping rates stable.

The Sewer Authority has had an outstanding record of service, but any assertion that it could have easily funded the $140 million tab for federally mandated improvements is misguided and goes against the Authority's own rate study, which projected a 4.7 percent rate increase each year for decades. In our deal, Pennsylvania American Water guaranteed a 1.9 percent rate increase over the next ten years. This deal also protects Authority employees. Each and every employee will be offered a job by Pennsylvania American Water in Scranton, so long as they pass the standard pre-employment screening. Finally, American Water committed to bring 100 new family sustaining jobs to Scranton by 2020.

This sewer deal has been years in the making and was run by a team of locally and nationally-recognized experts who helped the Authority weigh the pros and cons of each and every option proposed by other public authorities and nearly every major water and sewer company operating in Pennsylvania. The sale model offered clear advantages and created the most value, allowing the Authority to meet its financial needs and providing ratepayers with over $350 million in savings for the next 30 years or approximately $7,500 per household.

Many questions have also been raised about what this deal means for stormwater. In short, it does not and could not have changed the ***City's*** stormwater obligation and helps the Authority address its own stormwater obligation in the most efficient and cost effective way possible. Indeed, the recent Pennsylvania Public Utility Commission order approving our deal 4-1 will also not impact the City's stormwater obligation and does not change what was laid out in the deal from the very beginning with regard to rate spreading.

Scranton currently deals with stormwater in two ways. The vast majority of stormwater flows through the Sewer Authority's pipes and is combined with sewage—this is called wastewater. When we get a heavy rainfall, the extra stormwater causes some wastewater to flow into the Lackawanna River. The $140 million remediation plan mandated by the federal government is meant to ensure less and less wastewater flows into the river. This is far-and-away the greatest stormwater obligation facing Scranton and this deal meets that obligation.

The City, by law, is entirely responsible for a ***separate*** stormwater system that is a fraction of the size of the Authority's. The main difference is that sewage never enters this system and so stormwater can be safely discharged into waterways with minimal treatment. Currently, the City and the Sewer Authority are both involved in maintaining this separate stormwater system, which costs each only an insignificant fraction of their budgets.

Due to increasing federal regulations on this separate system, the City will need to find new ways to meet these obligations separate and apart from the Sewer Authority deal. Let me be clear: this would have happened whether or not we did the deal at all.

Stormwater is a complicated issue, but it is one we have carefully been addressing since the sewer deal was first considered. We have been engaged in conversations with agencies like PENNVEST, the EPA, the PADEP, and the Pennsylvania Municipal League, as well as deepening our discussions with other municipalities that have developed effective stormwater management strategies. My team and I spent full days at the City of Lancaster and Hampden Township, both recognized as leaders in stormwater management, to learn more about their strategies and to tour their facilities. These conversations helped us craft an RFP for consulting services to make a detailed plan to meet the City's growing separate stormwater obligation; we were also awarded a state grant to fully fund this study.

This study may recommend that separate stormwater maintenance be funded by a stormwater fee. Unlike other revenue sources, a stormwater fee would spread costs among both individual [and] homeowners, as well as for-profit *and* nonprofit businesses. We can look at our peer cities in Pennsylvania, such as Lancaster, which has an average stormwater fee for single family homes between $4 and $12 per quarter.

While I believe we have demonstrated that we delivered on each of our plan's big three initiatives, you don't have to take my word for it. When I came into office, the City could barely get a simple loan from a local bank, let alone get the kind of interest we are now getting from some of the world's leading financial institutions, like Citibank, Goldman Sachs, and Wells Fargo. In fact, they were so interested that our $35 million bond offering to clean up the Parking Authority's debt was 9-times oversubscribed. That means that the bonds we had available were 9-times short of what the demand was. In the past, we would have been lucky to find one interested buyer, now they are coming to us. In fact, the interest rate we just negotiated is about half of what the last two bond series issued in 2012 and 2013 were.

And, while the Parking Authority default lost us our credit rating, Moody's called our restructuring of the Parking Authority a "credit positive," citing the fact it reduced our parking-related debt by 31 percent.

While a lot of my day to day these past three years has been focused on making sure we completed each of the three major financial recovery initiatives, I am incredibly proud of all the exciting developments and accomplishments we've seen in our city these past three years. From a population growing far faster than any of our peers in the northeast, to an even more vibrant downtown, to pioneering new businesses like Net Driven, to game-changing developments like the Marketplace at Steamtown, to innovative partnerships like Geisinger and TCMC's, to the continuing support of of long-time pillars of the Community like the University of Scranton, Allied, Lackawanna College, and Marywood, Scranton is becoming a better and better place to live, work, and play every day.

We've also paved more streets than we have in generations and just closed on a $4 million deal to totally revamp our streetlighting throughout the City, using the savings from more efficient lighting to pay for the upgrade at no cost to the taxpayer.

Finally, I want to close by thanking someone who couldn't be here with us today. One of my dear friends and a partner: Council President Bob McGoff. It's been almost a year since Bob passed, and I wish he could have been here today and had the chance to see so much of his work bear fruit. Together we decided on day one that we needed to change the political culture if any of this was going to work. To change it from a reality TV show to a team working towards the same goal of a stronger city. I met with Bob every Monday to talk about the issues and he came to countless meetings on everything from our budget to Act 47 to the parking deal. Even when it became a struggle for him, he always came because he cared about this city so much. While a lot of Bob’s work helped lay the foundation for many of the specific initiatives we worked on, it really was the strong foundation he helped build for our city’s culture that I believe will be his most lasting legacy—a legacy that our Council honors in his partnership on all our efforts to move Scranton forward.

Once again, let me thank you all for coming today and thank you for all the work you have done to help make our city an even better place. Thank you, God bless you, and God bless the City of Scranton .