



OFFICE OF THE MAYOR

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Mayor Courtright's Statement on Settling the Police and Fire Judgments

"Today, we are announcing that the City of Scranton is finally putting one of its worst financial legacies squarely behind it and once and for all doing away with the last Administration's police and fire union back pay judgement that threatened to skyrocket taxes, destabilize our budget, have our assets sold out from under us, and drive our City into bankruptcy."

"Today, after more than two years of my Administration's constant work, we are announcing that a liability amounting to more than a quarter of our City's budget is finally off our back, off of our balance sheet, and that we did it by fighting hard for concessions, standing firm with the banks to demand a fair interest rate, and ensuring real, game-changing pension reforms as an absolute, non-negotiable condition for my approval of this deal. I am proud to say, with the great work of my team, we did just that."

"First, a little bit of the history. 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 cut police and firefighter wages and that the City had to pay them back. After the Supreme Court ruling, 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. In addition, retirees were owed \$7.6 million, too. And, on top of all that, whenever a day passed that they weren't paid, the interest, which was first agreed to and then finally ordered by the Court, 6 percent—which equals the minimum required by Pennsylvania law—was piling up by about \$100,000 per month."

"But, after all the dust settled, nothing happened. The last Administration decided that this was a problem they didn't have to deal with, that it could be passed to the next Mayor and the next Council; from everything we could tell, there was no effort to actually pay the police and firefighters what the Court ordered, even though the court-ordered interest was piling on a court-ordered judgment."

"While they did nothing, newspapers from the *Scranton Times* to the *New York Times* were talking about Scranton going bankrupt. The financial press and think tanks were writing articles about the "pending" Scranton bankruptcy, 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. But I was not going to let that happen."

“As soon as my Administration came into office, we got a team together and developed a plan to find a way to move our City forward and get this anchor off of our neck—an anchor that became heavier every day by piling on interest and closing us out of the credit markets even for small and routine financings to help keep the City going.”

“When we released the Amoroso Plan in July 2014, which identified the judgement as one of the three problems we had to fix—along with the Scranton Parking Authority and the pensions themselves—we immediately began working to execute on our strategy for recovery. Because the judgement is so large, we couldn’t just put it in the budget; we had to find a way to finance it. When I came into office, we met with lenders who told us they could finance the judgement—for 12 percent interest. We knew that was simply not acceptable. So, we got to work and developed a plan. Thanks to the tireless efforts of our City’s team, HJA Strategies, and the support of the Wolf Administration, we were able to develop a unique way to finance the judgment without crippling the City’s budget by using multiple debt service reserve funds to ensure that creditors get paid.”

“However, even though we owed the police and firefighters their pay, we knew we also owed the entire City a strong and steady budget, as well as meaningful reform. That’s why after designing a fair and feasible financing for the judgement, we came to the unions with three conditions: first, ensuring that the City would not pay out the full 6 percent interest rate, which does not reflect current market conditions; second, a portion of the payment must be an investment into the pension funds; and, third, real pension reform to ensure that this investment, and any future one, would be sound. After months of give and take with the unions, we finally agreed to enter into mediation with Senior Judge Robert Mazzone, who generously offered his time, his patience, and his commitment to Scranton.”

“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. I am very happy to report that we are finally moving on from this chapter in our City’s history, moving forward, and further down the path to prosperity.”

Here is a summary of some of what we accomplished:

- The City will pay only what the police and firefighters are owed—not a cent more.
- Up through December 31, 2013, interest will be calculated at the Court-ordered minimum 6 percent. From the start of the Courtright Administration on, the interest rate will be cut in half, calculated at a reduced rate of 3 percent.
- The City will deposit the interest savings into each Union’s respective pension fund— a savings of over \$1 million.
- The retirees will receive no interest, saving over \$3 million for the City.
- The City’s pension funds will be managed 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.

- Disability pension determinations will be made by a single specialist physician, selected from a panel with no ties to the Unions or the Administration, and this physician's determination will be final.
- All of the pension reform language negotiated into the current fire contract will be added to the police contract.

Mayor William Courtright will provide more information on this matter next week.

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