

## Mayor Courtright's Statement on the Settlement and Financing of the Police and Fire Judgements

**(Scranton, Pennsylvania)** –“Late last week, we announced that the City of Scranton finally put one of its worst financial legacies squarely behind it and once and for all did away with the last Administration’s police and fire union back pay judgement that threatened to skyrocket taxes, destabilize our budget, and drive our City into bankruptcy. “

“Last week, after more than two years of my Administration’s constant work, we announced 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.”

“Today, I want to walk through some of the details of our deal and explain why it marks a critical step forward for our City—both right now and for its long term fiscal stability and prosperity.”

“To put it bluntly, without reaching a solid resolution to this issue, concluding some of our other major initiatives this year, from stabilizing and modernizing the Parking Authority to restoring financial health and sound management to our pensions, would have been challenged. Putting this behind us truly allows us to move forward and get done what we need to do for our City.”

“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 capped 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. When we came into office, we could not negotiate the amount—once again, the Court had already decided. Our job was to develop a strategy to pay it back and to do so responsibly. “

“While the last Administration 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, like tax anticipation notes.”

“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 rate for backpay interest, 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.”

“First, the overall back pay for active police and firefighters, as well as retirees, including interest for the actives, is just under \$30 million. I want to underline one thing here. Notwithstanding the fact that we never should have been in this situation in the first place, had the Doherty Administration paid by the June 30th, 2013 deadline set in their own Settlement Agreement, the City would have saved \$3.7 Million—the approximate equivalent of two years of debt service.”

“Second, we were able to negotiate out the interest payment to retirees, saving us \$3.6 million—over 10 percent of what we are paying out for back pay and the active’s interest. In addition, in order to provide critical relief to our pension funds, we negotiated the retirees’ payment to be a part of this deal, *not* out of the pension funds themselves. Had we not been able to negotiate this key deal point, the pension fund’s actuary wrote that the alternative “result would have been devastating to the Pension Plans.”

“Third, over \$1.5 million will be deposited into the police and fire pension funds. Of course, shoring up the pension funds has always been one of the highest priorities of my administration. This is a crucial step in that direction and demonstrates our collective willingness to see that we all take responsibility in seeking change for the better. Essentially, we accomplished this by negotiating down the interest rate from 6 percent to 3 percent, starting when I took office, and then using the 3 percent savings that would have otherwise gone directly to back pay for this critical investment. Now, this is not going to be used in our budget, but will be deposited directly into the pension fund, allowing this investment to grow and help defray the long term liability we are working everyday to reduce.”

“Fourth, as part of this deal, but with a focus on the long term financial recovery of this City, we negotiated game-changing pension reforms with the unions. With any deposit that goes into the pension, from the \$1.5 million we are announcing today to a potential investment many times that from the proceeds of the sewer deal, I have always emphasized that I need to have confidence that that investment will be secure.”

“From this point onward, 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. In addition, every reform negotiated last year into the fire contract, which seeks to reign in the COLAs for disability pensioners, will be added to the police contract.”

“In total, the backpay, active interest, *and* pension fund deposit amounts to \$31.5 million. Again, we also achieved \$3.6 million in concessions *beyond* the \$1.6 million pension deposit.”

“In addition, as with any debt issue, there will be costs related to the financing of the transaction itself, which we will finalize in the coming weeks.”

“What we have proven today is that the City of Scranton meets its challenges. We do not kick the can down the road or look for an easy way out. We had a problem, we thought about it, strategized, and we solved it. Am I happy that we will have to add this debt service cost to our budget? Of course not. But it was our responsibility and I would rather announce to the financial community, our own community of stakeholders, and all Scrantonians that this Administration pays its debts—rather than tell them that we give up, default, and hand the keys over to a federal judge.”

“Our accomplishment today marks a huge step forward for the City of Scranton. And, I am excited to say, that you will be hearing from me again in the next few weeks with more major announcements on our progress meeting some of our City’s biggest challenges.”

“Again, let me summarize 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—approximately \$1.5 million.”
- “The retirees will receive no interest, saving over \$3.6 million for the City.”
- “The City’s pension funds will be managed by a nationally-recognized Third Party Administrator, Disability pension determinations will be made by a single specialist whose determination will be final.”
- “All of the pension reform language negotiated into the current fire contract will be added to the police contract.”

Thank you.