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Ratings

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Research Update:

Scranton, PA GO Rating Raised To 'A-' On Stabilizing Financial Performance And Healthy Reserves; Outlook Stable

January 12, 2026

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Overview

- S&P Global Ratings raised its long-term rating to 'A-' from 'BBB+' on Scranton, Pa.'s general obligation (GO) debt.
- The outlook is stable.
- The rating action reflects our view of the city's stabilizing financial performance, restoration of reserves to healthier levels, and strengthening tax base, which has benefitted from the most recent reassessment.

Rationale

Security

The city's GO debt is secured by its full faith and credit pledge. The city's series 2016A and AA (taxable) guaranteed lease revenue bonds, issued by the Redevelopment Authority of the City of Scranton, are secured by a pledge of payments from the city pursuant to the sublease and guaranty agreement between the authority and the city. The sublease constitutes a GO of the city, and the full-faith-and-credit and taxing power is pledged for debt service. The city may levy ad valorem tax without limit to rate or amount on all taxable property within its borders.

Credit highlights

The rating reflects our view of the city's stable operating environment, anticipated tax base growth following reassessment, and improving policies and practices. As a result of proactive financial management, the city has controlled expenditure growth while revenue has consistently outperformed the budget in four of the last five years; a deficit in fiscal 2024 was associated with planned one-time spending with the expectation of federal and state grant reimbursements for the projects. Approximately $1 million in state grants associated with a city hall project has already been reimbursed in fiscal 2025. The city estimates a $3 million surplus, which will be added to fund balance. The city has also established a dedicated capital reserve fund, which is estimated to be approximately $4.3 million in fiscal 2025. It will rely on recurring transfers from the general fund since it does not have its own dedicated taxing source. The city's use of bond proceeds in 2021 and 2024 to pay off debt and refund the city's GO note series 2016 also contributed to its improved financial performance.

At the same time, we note that the city's general fund receivables remain high, which, in our opinion, somewhat overstates available reserves. Specifically, net receivables totaled $17.5 million for taxes and $4.2 million for garbage fees. These receivables are offset by $10.3 million in deferred revenue, but $11.3 million of receivables have no offset on the balance sheet. While management states they are related to earned income and local services taxes from the fourth quarter of 2024 and were collected within the first 60 days of 2025, we have adjusted for these receivables in our analysis, which result in available reserves totaling 6.6% of revenues. Given the positive results expected in fiscal 2025 and balanced operations planned in the fiscal 2026 budget (totaling $115.5 million), we expect that the city's flexibility will improve as we continue to monitor its receivables.

The rating also reflects the following:

- The city's diverse tax base has benefitted from the most recent county reassessment, which will increase the city's assessed valuation by 75% to $5.8 billion, effective in 2026. At the same time, economic activity continues. Officials indicate that through efforts to streamline an onerous permit process and reduction of permit fees, over 1000 housing units have been built over the last few years, with increase small-medium sized business activity. However, income metrics at both local and county level lag the national average, with weak local incomes contributing to the city's history of high delinquencies, which somewhat constrains our view of the economy. We note that tax collections have improved in recent years as Scranton has changed some of its collection methods and as economic conditions have improved, however average below 90%. We could revise our view of the economy if the city establishes a track record of high collections as its economy grows.
- Operating results have been predominately positive since fiscal 2020. Fiscal 2024 is the first year of five that the city experienced a deficit after budgeting for balanced operations. This was due to one-time spending on a Federal Emergency Management Agency-related flood control project, which management expects will be reimbursed. This city is also expecting another reimbursement relating to a $1 million state grant for a city hall restoration project. We note that the city satisfied its requirements as part of the Act 47 Exit Plan in fiscal 2022 and its $68 million in American Rescue Plan Act funds have been fully obligated and are on schedule to be spent by the conclusion of 2026 in compliance with federal regulations. Major revenue includes earned income and other local option taxes (38% of 2024 revenue) and real estate taxes (39%).
- The conservative management team has consistently outperformed the budget since fiscal 2020. Management provides council with monthly budget-to-actual reports and makes regular budget adjustments. Scranton's city policy requires a five-year capital budget, which the city updates annually as part of the budget process. In our opinion, it is comprehensive and detailed, including projects, costs and funding sources. As planned, in 2025, management produced its first five-year financial forecast accounting for revenues, expenditures, reserves, capital needs, and debt. In our opinion, the assumptions were conservative and if we view evidence of management consistently integrating its forecast into its annual budgeting process while continuing to maintain balanced operations, we could improve our view of management practices. Officials reviewed and updated their investment policy in 2025 and

continue to maintain a formal debt policy (adopted in September 2022) that includes affordability metrics such as limiting general fund-supported debt service to 10% of expenditures, targets no less than 60% of par amortized in 10 years, limits variable-rate debt to 15% of debt outstanding, and prohibits derivatives. The city also has a formal reserve policy that sets a target unassigned general fund balance of 8% of the upcoming year's expenditures and a minimum of 3%, with a replenishment mechanism.

- High legacy fixed costs represent a significant portion of the budget. While these remain elevated, we believe that management has made efforts over the last five years to manage these higher costs by tackling both the debt burden (currently $66.2 million) and high unfunded retirement liabilities. On the debt side, management has reduced debt and fixed-out variable-rate debt. Favorably, 100% of the city's net direct debt matures within 10 years and the city has no additional new-money debt plans. In addition, the city eliminated the need for cash flow borrowing in the 2024 budget, whereby the city did not require tax and revenue anticipation note issues. Scranton's series 2021 and 2023 GO notes were privately placed with M&T Bank, but we do not view these as contingent liquidity risks. On the pension side, the city implemented measures to reduce unfunded pension liabilities as part of its Act 47 Exit Plan. These included freezing pension cost-of-living adjustments and increasing employee contributions, resulting in improved funded ratios and lower actuarially determined contributions. In addition, the city has established an other postemployment benefits (OPEB) trust, which totaled $2.6 million in fiscal 2024. The city does not have a set amount that it will add to the trust but plans to contribute as the budget allows--for fiscal 2026, the city intends to add $300,000. Given the size of these liabilities ($230.5 million across the three OPEB plans) relative to the trust, we believe costs will remain a source of budgetary pressure.
- Scranton reports its audits on a generally accepted accounting principles basis, which we have accounted for in our analysis of the city's transparency. For more information on our institutional framework assessment for Pennsylvania cities, see "Institutional Framework Assessment: Pennsylvania Local Governments, Sept. 9, 2024.

Environmental, social, and governance

We view social capital risks as a negative consideration in our credit analysis because the city's weak sociodemographic profile has inhibited its ability to collect revenue due to historically high delinquencies. We consider environmental factors associated with physical risks somewhat elevated as a result of heightened flood risk in several neighborhoods. In September 2023 a major flooding event hit the city, resulting in around $7 million in damages to public infrastructure. Officials note that the city continues to prioritize stormwater management improvement projects and developing a sustainability and climate action plan. We view governance factors as neutral in our analysis.

Outlook

The stable outlook reflects our view that the city will maintain consistent financial performance and reserves at or near current levels as it addresses its high receivables.

Downside scenario

We could take negative rating action if the city's finances are pressured, resulting in a deteriorating fund balance position with no plan to restore them.

Upside scenario

IF the city continues to demonstrate structural balance and maintains reserves at a level comparable with those of higher-rated peers, moderates its long-term liabilities, and incorporates long-term budgeting practices into its regular operations, we could raise the rating.

Scranton, Pennsylvania--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	3.70
Economy	6.0
Financial performance	3
Reserves and liquidity	3
Management	2.00
Debt and liabilities	4.50

Scranton, Pennsylvania--key credit metrics

	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	--	--	71	72
County PCPI % of U.S.	--	--	81	82
Market value ($000s)	--	3,273,102	2,732,549	2,681,854
Market value per capita ($)	--	42,976	35,932	36,816
Top 10 taxpayers % of taxable value	--	--	7.0	--
County unemployment rate (%)	--	3.9	4.1	4.5
Local median household EBI % of U.S.	--	70	66	65
Local per capita EBI % of U.S.	--	69	66	66
Local population	--	76,162	76,047	72,844
Financial performance				
Operating fund revenues ($000s)	--	109,942	107,916	102,123
Operating fund expenditures ($000s)	--	117,874	108,783	98,195
Net transfers and other adjustments ($000s)	--	4,394	5,958	(410)
Operating result ($000s)	--	(3,538)	5,091	3,518
Operating result % of revenues	--	(3.2)	4.7	3.4
Operating result three-year average %	--	1.6	5.5	4.8
Reserves and liquidity				
Available reserves % of operating revenues	--	6.6	14.0	14.6
Available reserves ($000s)	--	7,219	15,145	14,912
Debt and liabilities				
Debt service cost % of revenues	--	8.3	8.7	9.6
Net direct debt per capita ($)	869	869	1,007	996
Net direct debt ($000s)	66,182	66,183	76,613	72,581
Direct debt 10-year amortization (%)	100	100	94	--
Pension and OPEB cost % of revenues	--	21.0	19.0	26.0
NPLs per capita ($)	--	516	731	986

Scranton, Pennsylvania--key credit metrics

	Most recent	2024	2023	2022
Combined NPLs ($000s)	--	39,294	55,600	71,833

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List		
Upgraded;Outlook Action		
	To	**From**
Local Government		
Scranton, PA Unlimited Tax General Obligation	A-/Stable	BBB+/Positive

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.