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Scranton Stalked by Bankruptcy Mulls Selling Sewers: Muni Credit.

Scranton, with the weakest pension plan among Pennsylvania's cities, is trying to prop up its retirement funds to avoid becoming the first U.S. municipality since Detroit to file for bankruptcy.

The former manufacturing community will tax commuters starting next month and may sell its sewer system to buttress its retirement funds. The city has 23 cents for every dollar in retiree obligations, down from 47 cents in 2009, according to state data. Without a fix, Scranton may go bankrupt in less than five years, said Pennsylvania Auditor General Eugene DePasquale.

Cities and towns nationwide are coping with paying for pension benefits agreed to in more robust fiscal times. Pennsylvania ranks among the states of most concern since it has allowed municipalities to underfund mounting obligations, said Tamara Lowin, director of research at White Plains, New York-based Belle Haven Investments, which manages about \$2 billion of municipal bonds.

"Without union cooperation, it would be incredibly difficult for them to resolve their liability problem outside of bankruptcy," she said.

National Deficit

Localities in Pennsylvania face at least \$6.7 billion in unfunded pension liabilities, DePasquale said. The state, home to more than a quarter of U.S. public-employee plans, should consolidate systems and limit the local pension costs that it reimburses, he said.

Across the country, municipal officials have altered pensions, from Washington's repeal of some workers' cost-of-living adjustments, upheld by its Supreme Court this year, to Rhode Island's hike in retirement ages in 2011. States and local governments had about \$1.4 trillion less than they needed as of the end of March to pay for promised benefits, according to the Federal Reserve Board.

Scranton, about 125 miles (201 kilometers) northwest of New York, is considering changes to its plans, said David Bulzoni, the business administrator.

"We would like to be in a position to try to solve as many problems that we can, with assistance from the commonwealth, without having to look at that option," he said of bankruptcy.

Distressed Program

The city has been in Pennsylvania's program for fiscally distressed municipalities, called Act 47, since 1992. At the time, it was racking up budget deficits and had lost 21 percent of its population over two decades, according to the state's Community and Economic Development Department.

Dwindling coal and railroad industries took a toll, said Jason Shrive, the city's lawyer. The community is still shrinking: its population fell 0.4 percent from 2010 to 2013, to about 76,000 residents, even as Pennsylvania's grew 0.6 percent, Census data show. About 21 percent of Scranton

residents live in poverty, compared with 13 percent statewide.

The city, with an annual budget of about \$130 million, has about \$99 million of debt, financial filings show. None of the three biggest ratings companies grade the bonds.

Scranton general obligations maturing in September 2028 and insured by Ambac traded Sept. 5 at an average yield of 6 percent, or 3.5 percentage points above benchmark munis, data compiled by Bloomberg show.

Three Funds

The city runs three pension funds, one each for police officers, firefighters and non-uniformed personnel. The police and fire plans have fewer active employees than retirees, according to the auditor general's report. Combined, the funding status is 23 percent, weakest among Pennsylvania cities, data from the state's Public Employee Retirement Commission show.

The funds for fire personnel and municipal workers will run out of money in about three years and for the police, in about five, DePasquale's report said.

Scranton "will be facing bankruptcy within five years, potentially sooner without a fix to this," he said by telephone.

Municipal bankruptcies are rare, with 291 since 1980 and no filing by a community since Detroit's record case in July 2013, said James Spiotto, a bankruptcy specialist and managing director at Chicago's Chapman Strategic Advisors LLC, which advises on financial restructuring.

Wake Up

"Detroit has been a wake-up call for others to address their problems," he said. "Chapter 9 is a process, not a solution. It is time-consuming and uncertain, and you may wind up in a place where you may not want to be."

Scranton's pension costs are rising. The city's contribution next year will reach \$15.8 million, from \$3.4 million in 2008, data from the city and the auditor general show. Pension expenses will take up 16 percent of the budget in 2018, from 9 percent in 2006, according to a July presentation by Hackensack, New Jersey-based financial consultant HJA Strategies LLC.

The seat of Lackawanna County, Scranton passed a 0.75 percent income tax on nonresident commuters effective Oct. 1. The measure would generate at least \$5 million annually, based on county data on tax collections, and the funds would go toward pensions, Bulzoni said.

Besides the local and federal governments, top employers include health-care centers, a bond document shows. Opponents have sued to prevent the levy, which they consider illegal.

Sewer Sale

Another option is to sell the sewer authority, which has started a review of the proposal, Bulzoni said. In addition, municipal officials this month met with union representatives to discuss contract features that are depleting pension assets, Bulzoni said. He declined to elaborate because he said some solutions will involve bargaining.

"There has to be some collective agreement to help shore up the plan's solvency," he said.

John J. Judge IV, president of the International Association of Fire Fighters Local 60, said he's optimistic officials will solve the fiscal crisis.

"It's going to take a little bit of time to turn it around," Judge said.

By Romy Varghese Sep 14, 2014 5:00 PM PT

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