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'Put Bankruptcy on the Ballot!'

Activists in financially beleaguered Scranton, Pa., are petitioning for a ballot initiative that would let residents decide if the city should file for bankruptcy. It's a first-of-its-kind petition and reflects the ongoing frustrations of a city that's been "fiscally distressed" for two decades.

Scranton is one of Pennsylvania's Act 47 cities, which designates it as fiscally distressed and opens it up to aid and other resources from the state. The designation also means that the city must comply with certain fiscal requirements, such as developing a recovery plan.

But Act 47 has had its problems, the biggest being that it doesn't seem to provide enough oversight. For example in 2011, the Scranton City Council voted to lower property taxes to provide relief for residents. But the move intensified the city's budget problems, which included legacy costs, a shrinking tax base and limited access to the credit market. "Why council and executive actions that do not comply with a recovery plan are not constrained by Act 47 is a mystery," wrote Natalie Cohen, Wells Fargo's managing director for municipal research, in a recent analysis.

Another big problem is that cities languish in the program for decades. The act became law in 1987 and by 2012, 14 municipalities across the state had been in the program more than a decade. Some, like Scranton, have been in the program for more than 20 years.

The Takeaway: Scranton's recovery plan says it will exit Act 47 by the close of 2017. The city has actually made strides in recent years to stay on schedule, including settling a back pay issue that threatened to drain the city's coffers and approving some tax increases to help get its underfunded pensions back on track, among others. In short, it's making all the kinds of decisions municipalities have to make to exit bankruptcy. It's just doing so without the label.

But it's understandable, given the length of the city's fiscal distress, why residents might not have too much faith in that plan. Their frustration and skepticism is a lesson for other states — such as Michigan and New Jersey — that have oversight programs for distressed municipalities. Bankruptcy may be a label states would rather avoid, but residents might be clamoring for it if it means it'll get the job done more efficiently.

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