Can Power Be Restored in the Electric City? A Case Study of Scranton, Pennsylvania

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ABSTRACT

Like many former industrial cities, Scranton is struggling. A 75-year population decline has eroded its tax base, and city officials have been unable to control costs—a combination that threatens to bankrupt the city. Scranton was classified as a distressed municipality under Pennsylvania Act 47 in 1992, yet nearly 25 years later its problems remain. This study analyzes the economic, fiscal, and political factors that contributed to Scranton's decline and that have prevented it from recovering. It is a study in economic and fiscal forensics that provides lessons for other municipalities. We conclude by offering several recommendations to improve Scranton's finances and economic outlook.

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Keywords: public pensions, regional population, municipality, local public economy

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Like other industrial cities in the Midwest and Northeast, the city of Scranton is struggling economically and fiscally. Population decline has eroded its tax base and blighted its neighborhoods. The costs of local government services—driven largely by employee costs—continue to increase, driving the city closer to insolvency. Pennsylvania classified Scranton as fiscally distressed in 1992, yet successive city governments have failed to fully implement recommended reforms as a result of a variety of factors. These include the effect of the collective bargaining process on local spending decisions, as well as state-level laws and regulations that conflict with the goals of local fiscal discipline and economic growth.

Scranton's fiscal and economic outlook is a product not only of political and institutional factors, but also of long-standing economic realities that are largely out of the control of local politicians. Those contributing factors include increased international competition, technological advancement that has reduced the demand for manufacturing workers, and migration of people to the Sunbelt states.

This paper is a case study of how Scranton's fortunes have changed over time, from its origin as a thriving industrial city to its decades-long fiscal and economic decline. We examine the major economic, political, and fiscal institutions that account for the city's current performance, and we then offer recommendations for how Scranton and other similarly situated Pennsylvania cities can implement policies that foster fiscal stability and economic growth.

Our study consists of four sections. The first section provides a brief economic history of Scranton to the current period. The second section examines the major fiscal institutions that shaped the city from the last part of the 20th century to its present insolvent condition. The third section puts Scranton into a regional context to compare and contrast its situation with those of its neighbors. The fourth section presents a series of recommendations based on the analysis.

ECONOMIC HISTORY OF SCRANTON

Scranton is located in northeastern Pennsylvania, 120 miles northwest of New York City and 125 miles north of Philadelphia. The area was settled in the 1700s, but Scranton was not incorporated as a city until 1866, during a period of population and economic growth. Scranton's industrial history began in 1846 when Benjamin Loder, president of the New York and Erie Railroad, invested in an iron manufacturing company owned by the Scranton family. Loder gave the Scrantons a contract to produce 12,000 tons of iron T-rails for railroad tracks, which became the first rails produced in the United States.[1]

> "The Great Depression and the changing economy combined to weaken two of Scranton's leading industries: coal and railroads."

Over the next 50 years, Scranton became a bustling industrial city. The three biggest industries in Scranton during the late 19th century were coal, iron and steel, and railroads, with coal the largest. The region is heavily endowed with anthracite coal, which is a hard, high-carbon coal used for heating, energy production, and iron smelting.

Coal mining and iron production provided employment for thousands of workers, who then generated additional economic activity when they spent their earnings. By 1900, Scranton was the 38th-largest city in the country, with a population of 102,026.[2] Two years later, the Lackawanna Iron and Steel Company relocated from Scranton to Buffalo, New York, an event that coincides with the beginning of Scranton's gradual decline. However, this decline did not happen overnight.

Even after the Lackawanna Iron and Steel Company relocated, Scranton continued to be a manufacturing hub. In 1905 two technical schools opened that taught young men mechanical and shop drawing, forging and foundry

1. At that time, rails were imported from Great Britain, adding time and cost to railway construction in the United States. See Frederick L. Hitchcock, *History of Scranton and Its People* (New York: Lewis Historical, 1914).
2. "Analysis of Impediments to Fair Housing Choice: City of Scranton, Pennsylvania" (Maryville, TN: Community Development Services, 2011).

FIGURE 1. SCRANTON AND LACKAWANNA COUNTY POPULATION, 1850–2014

Source: US Census Bureau, "Population Estimates: Historical Data," accessed October 10, 2016, https://www.census.gov/popest/data/historical.

work, and the use of complex industrial machines.[3] In 1915, firms in Scranton were manufacturing more than 70 different articles, and the city's manufacturing output had a total value of approximately $100 million.[4]

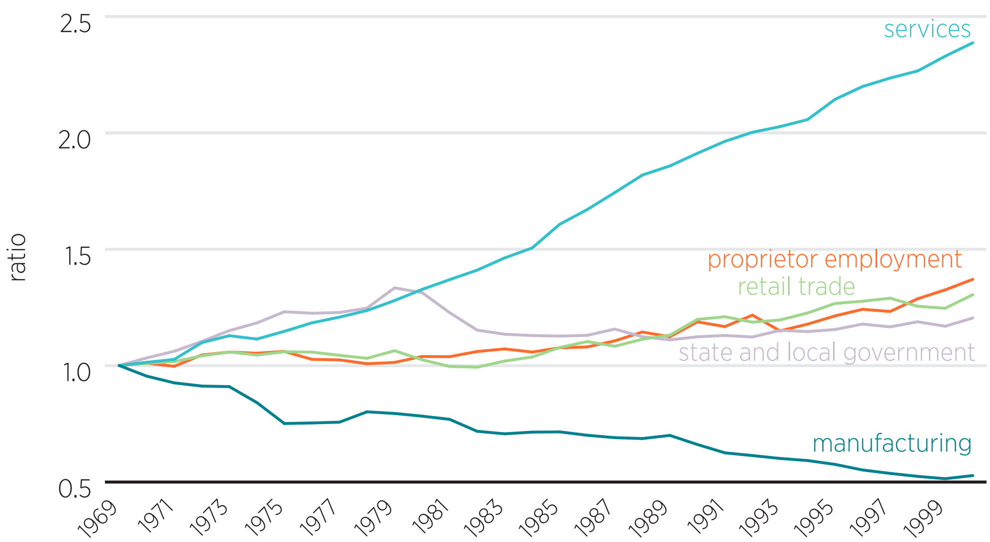
Scranton's population continued to grow at a steady rate until 1910, but its growth slowed dramatically from that point forward, as shown in figure 1. The population continued to increase at a slower rate until 1930, when it peaked at 143,433.

The Great Depression and the changing economy combined to weaken two of Scranton's leading industries: coal and railroads.[5] Gas and oil began to replace anthracite coal as fuel sources, and the increasing popularity of the automobile decreased the demand for passenger rail. Additionally, more firms began using trucks to ship merchandise, which decreased the demand for Scranton's freight shipping services. From 1930 onward, the city's population steadily declined, before leveling off in 2000 at approximately 76,000.

In 2014, the population was estimated at 75,281, and Scranton was the sixth-largest city in Pennsylvania. However, it did not rank in the top 200 cities

3. Cheryl A. Kashuba, *A Brief History of Scranton, Pennsylvania* (Stroud, Gloustershire, UK: History Press, 2009).
4. Ibid.
5. Ibid.

FIGURE 2. LACKAWANNA COUNTY EMPLOYMENT GROWTH, 1969–2000



Note: The ratio for each sector is calculated as number of jobs in year *t* divided by number of jobs in 1969, where *t* is a year between 1969 to 2000. An increasing ratio means there were more jobs in that sector over time, while a decreasing ratio means there were fewer jobs.

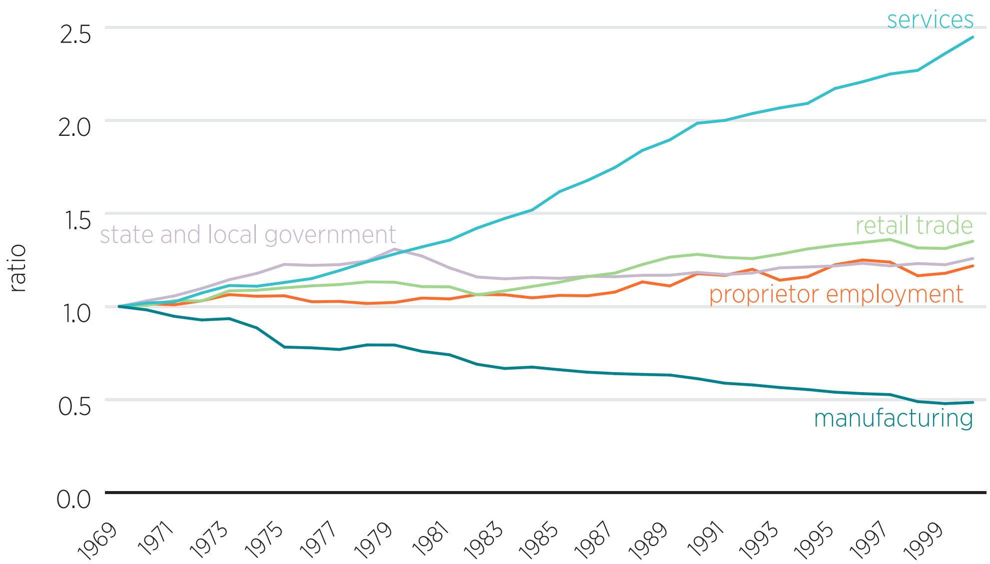
Source: US Department of Commerce, Bureau of Economic Analysis, "Local Area Personal Income and Employment," accessed October 10, 2016, http://www.bea.gov/iTable/iTable.cfm?reqid=70&step=1&isuri=1&acrdn=7#reqid=70&step=1&isuri=1.

nationally, a far drop from its position at 38th in 1900. Lackawanna County, where Scranton is located, has experienced a similar decline in population since 1930.

Similarly to other midwestern and northeastern cities, Scranton's employment composition evolved from largely manufacturing to the service sector during the latter part of the 20th century. In both Lackawanna County and the Scranton metropolitan statistical area (MSA), service-sector employment increased from 1969 to 2000 while manufacturing employment declined, as shown in figure 2. In the figure, the number of jobs in 1969 is the base of each sector's ratio.

On the one hand, there were nearly 150 percent more workers in service-sector jobs in Lackawanna County in 2000 than there were in 1969. On the other hand, there were 50 percent fewer manufacturing workers in 2000 than in 1969. Proprietor, retail trade, and state and local government employment increased by about 30 percent over the same period. The large increase in service-sector employment occurred while Scranton's population was declining. This trend tells us that the manufacturing sector was much larger than the other sectors in

FIGURE 3. SCRANTON MSA EMPLOYMENT GROWTH, 1969–2000



Note: The ratio for each sector is calculated as number of jobs in year *t* divided by number of jobs in 1969, where *t* is a year between 1969 and 2000. An increasing ratio means there were more jobs in that sector over time, while a decreasing ratio means there were fewer jobs.

Source: US Department of Commerce, Bureau of Economic Analysis, "Local Area Personal Income and Employment," accessed October 10, 2016, http://www.bea.gov/iTable/iTable.cfm?reqid=70&step=1&isuri=1&acrdn=7#reqid=70&step=1&isuri=1.

Scranton: a 50 percent decline in manufacturing employment more than offset the gains in the other sectors.

From 1969 to 1980, the increase in state and local government employment was closely tracking the increase in service-sector jobs. This parallel change is interesting because both the county's and Scranton's populations were declining, which means that the ratio of government workers per resident was increasing. The increase in government workers per resident likely contributed to Scranton's fiscal strain in the 1980s and 1990s.

The Scranton MSA experienced similar changes in manufacturing, service, and state and local employment from 1969 to 2000, as shown in figure 3. Together, these figures show that Scranton and other nearby communities transitioned from manufacturing economies to service-sector economies in the latter half of the 20th century.

The transition from a manufacturing economy to a service economy presents a new challenge for Scranton and similar cities. As stated by Edward L. Glaeser and Janet E. Kohlhase, "In a service economy, where transport costs are small and natural productive resources nearly irrelevant, weather and government stand as the features which should increasingly determine the location of people."[6] The success of Scranton's manufacturing sector was mostly due to the large deposits of coal in the area and to the city's proximity to both eastern and midwestern markets. The relative decline of the US steel industry and of the use of coal more generally, along with the movement of the US population to the West and South, has eroded those advantages. Because city officials and residents can no longer rely on past geographic advantages, they must improve their government—local economic policies and fiscal institutions—if they want to attract people and firms.

The change in Scranton's economy and attendant loss of population and firms further diminished the city's tax base. Paradoxically, over the same period, government spending increased, as figure 4 shows. Between 1951 and 2005, real total revenue and real total expenditures each increased from $20 million to more than $100 million, even though these spending increases had to be spread across fewer people.

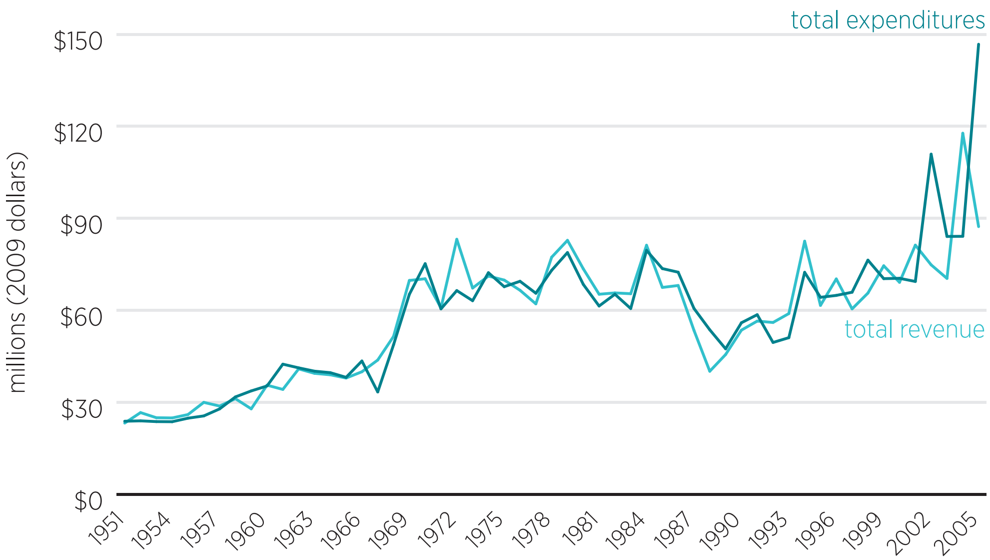
Over time, the cost of providing public goods and services in municipalities tends to increase as the relative productivity of labor declines in the government sector. As capital investment increases in the private sector, labor becomes more productive, which leads to higher wages. Goods and services provided by local governments—police, fire, education—often do not realize the same capital-induced productivity gains, but to attract productive workers, governments must increase wages by a similar amount. The result is that, over time, government workers are paid more for the same level of output. This phenomenon is known as "Baumol's cost disease," named after economist William Baumol.[7]

Figure 5 depicts Scranton's inflation-adjusted expenditures per capita for police protection, fire protection, and current expenditures for select years. The left axis measures current expenditures and the right axis measures fire and police expenditures.

Spending in all three areas increased between 1951 and 2005, except for a small decline in per capita fire expenditures from 2000 to 2005. This general increase is an indication of Baumol's cost disease because the real cost of

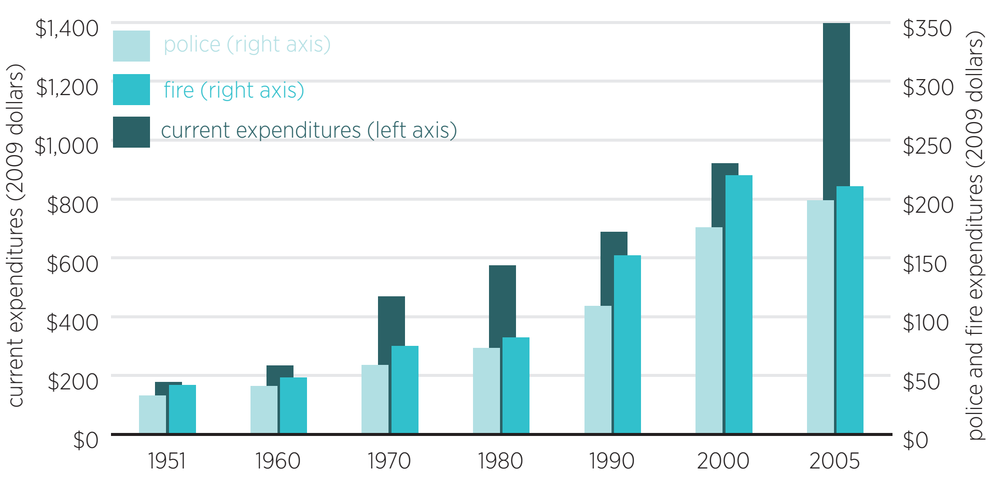
6. In a cross-county regression, Glaeser and Kohlhase find that as the share of employment in agriculture, fishing, forestry, and mining—a proxy for a county's natural resources—rises by 1 percent, the population growth of the county between 1920 and 2000 declines by 4.5 percent. See Edward L. Glaeser and Janet E. Kohlhase, "Cities, Regions, and the Decline of Transport Costs" (NBER Working Paper No. 9886, National Bureau of Economic Research, Cambridge, MA, August 2003), 212.
7. William J. Baumol, "Macroeconomics of Unbalanced Growth: The Anatomy of Urban Crisis," *American Economic Review* 57 (1967): 415–26.

FIGURE 4. SCRANTON TOTAL REVENUE AND EXPENDITURES, 1951–2005



Source: US Census Bureau, *Annual Survey of Local Government Finances and Census of Governments*, 1951–2005.

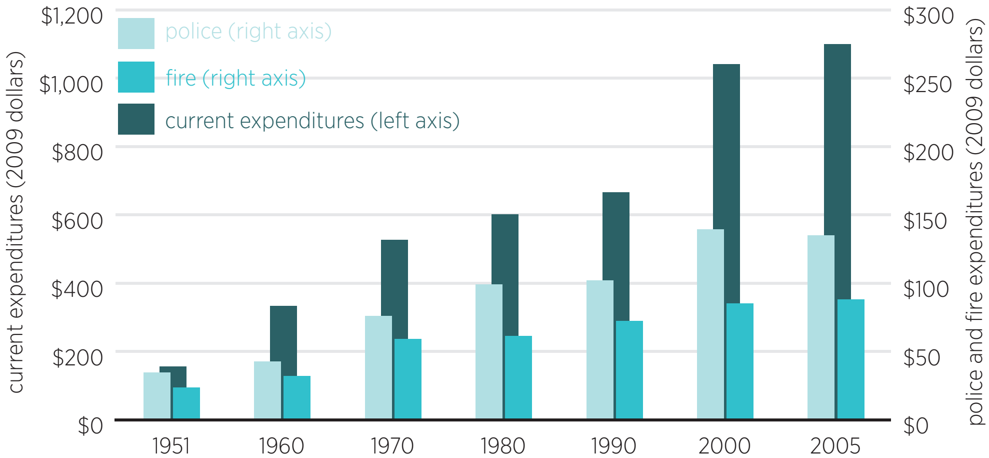
FIGURE 5. SCRANTON PER CAPITA EXPENDITURES, 1951–2005



Notes: Current expenditures are total expenditures less capital outlays, and they measure the amount of money spent by the government to operate and service previously accrued debt. Not all the data are displayed for evenly spaced decades.

Source: US Census Bureau, *Annual Survey of Local Government Finances and Census of Governments*, 1951–2005. Calculations are by the authors.

FIGURE 6. BETHLEHEM PER CAPITA EXPENDITURES, 1951–2005



Notes: Current expenditures are total expenditures less capital outlays, and they measure the amount of money spent by the government to operate and service previously accrued debt. Not all the data are displayed for evenly spaced decades.

Source: US Census Bureau, *Annual Survey of Local Government Finances and Census of Governments*, 1951–2005. Calculations are by the authors.

government is increasing over time. Per capita police protection increased by 499 percent and fire protection by 404 percent between 1951 and 2005, while current expenditures rose by 692 percent, a nearly sevenfold increase.

As a comparison, figure 6 shows the same information for Bethlehem, Pennsylvania, a similar-sized city.[8] The left axis measures per capita current expenditures and the right axis measures per capita fire and police expenditures. From 1951 to 2005, Bethlehem's per capita costs also increased, but by less than Scranton's. In 2005, Bethlehem's per capita current expenditures and police and fire protection costs were $297.67, $63.66, and $122.61 less than Scranton's, respectively, despite being similar to Scranton's in 1951.

By 1991, the rising cost of city expenditures and weak revenues led the city to seek Act 47 designation from the state to reorganize the city's finances. The purpose of Act 47 of 1987, or the Municipalities Financial Recovery Act,[9] is to help municipalities address the causes of structural deficits and the economic and population changes that have been experienced by dozens of Pennsylvania's

8. Bethlehem's population was 70,966 in 2000, while Scranton's was 76,816. By 2014, their popultions were nearly identical: 75,135 and 75,281, respectively.
9. Municipalities Financial Recovery Act of 1987, P.L. 246, No. 47 § 102.

municipalities. Despite Act 47 designation, Scranton's fiscal situation has not improved over the following almost three decades. In fact, it steadily worsened to its current condition of near insolvency. Scranton's experience under Act 47 will be discussed in more detail in the next section.

Other factors contributing to the higher real cost of government services are unionization and public-sector collective bargaining, which increase the growth of wages and benefits.[10] Labor unions also encourage the use of labor and often delay the implementation of capital that improves the productivity of workers. The next section examines the major factors contributing to Scranton's inability to stabilize its finances, including the role of unions and collective bargaining.

"Despite Act 47 designation, Scranton's fiscal situation has not improved over . . . almost three decades. In fact, it steadily worsened to its current condition of near insolvency."

SCRANTON'S FISCAL INSTITUTIONS: ALMOST THREE DECADES UNDER ACT 47

Scranton's designation as an Act 47 city was an outcome of years of economic decline and growing fiscal pressure. Pennsylvania's Department of Community Economic Development observed that Scranton suffered from a "historical inability to deal effectively with economic changes by making the significant operational adjustments that should have been made."[11] The major failures included governance and political problems, a "self-defeating tax structure that stifled economic growth," and an ongoing cash deficit.[12]

10. For a study of police unions, see Ann Bartel and David Lewin, "Wages and Unionism in the Public Sector: The Case of Police," *Review of Economics and Statistics* 63, no. 1 (1981): 53–59. For more general studies, see Jeffery Zax and Casey Ichniowski, "The Effects of Public Sector Unionism on Pay, Employment, Department Budgets, and Municipal Expenditures," in *When Public Sector Workers Unionize*, ed. Richard B. Freeman and Casey Ichniowski (Chicago: University of Chicago Press, 1988), 323–64; Chris Edwards, "Public Sector Unions and the Rising Costs of Employee Compensation," *Cato Journal* 30 (2010): 87.
11. Pennsylvania Economy League, *Revised and Updated Act 47 Recovery Plan for the City of Scranton*, May 2002, 6.
12. Ibid.

As stated earlier, the purpose of Act 47 of 1987 is to help municipalities address the causes of structural deficits and the economic and population changes that have been experienced by dozens of Pennsylvania's municipalities.[13] Receiving an Act 47 designation results in the appointment of a coordinator who is responsible for preparing a plan to assist the municipality in resolving its fiscal problems. Elements of this plan may include eliminating deficits, balancing the budget, satisfying payments for payroll and benefits, and restoring good fiscal management. The coordinator's plan is submitted to the municipal government and is subject to a public comment period and to revision by the coordinator. The municipality may then vote to adopt and implement the coordinator's plan, or it may choose to establish its own plan. Failure to adopt or fully implement a recovery plan results in the withholding of state aid payments.[14]

Since 1992, Scranton has voted to implement five recovery plans. Each plan has attempted to address structural deficits, rising employee costs, and weak economic growth through a mixture of policies, but no plan has managed to stabilize Scranton's fiscal or economic decline.

Scranton's first recovery plan, in place between 1992 and 1995, included deficit relief in the form of $5.8 million in borrowing, $400,000 in state grants, $300,000 in voluntary contributions from nonprofits, and an agreement with firefighter and police unions to short-term wage freezes, employee cuts, and caps on healthcare costs.[15] The city also pursued economic revitalization projects. The state and federal governments contributed $240 million for county roads, an industrial park, a minor league baseball stadium, a coal museum, and a ski area. A further $340 million was dedicated to a railroad museum, a shopping mall, and the Steamtown National Historic Site. Those projects were anticipated to attract half a million tourists when completed in 1994.[16] Unfortunately, they have largely failed to revitalize the area. The mall in particular has a high vacancy rate and has been scrutinized by local officials because of repeated loan deferment.[17]

Not only did those projects fail to deliver significant economic benefits, but city officials also could not successfully negotiate with public-sector unions

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13. "Municipal Fiscal Stress and Recovery," *Pennsylvania Legislator's Municipal Deskbook*, 4th ed. (Harrisburg, PA: Local Government Commission, General Assembly of the Commonwealth of Pennsylvania, October 2014), 173–77.
14. Municipalities Financial Recovery Act §§ 248, 264.
15. Pennsylvania Economy League, *Revised and Updated Act 47 Recovery Plan for the City of Scranton*, May 2002, 7.
16. Michael deCourcy Hinds, "Short of Cash, Scranton Is Reorganizing," *New York Times*, December 26, 1991.
17. Meghan Ashlin Rich, "'From Coal to Cool': The Creative Class, Social Capital, and the Revitalization of Scranton," *Journal of Urban Affairs* 35, no. 3 (2013): 365–84.

over cost controls. Rising worker compensation costs, a poor tax structure, and weak fiscal management left the city with a budget gap of between $4 million and $5 million.

The city administrator and recovery plan coordinator drafted a new plan in 1995 to tackle employee costs and increase collections, but the city council rejected that plan in favor of its own revised 1996/97 recovery plan, which was estimated to save the city $2 million. The measures included no wage increases, caps on health insurance, and elimination of perks (longevity pay and clothing allowances). As with the original plan, implementation was problematic and financial improvements did not materialize, "partly due to the lack of aggressiveness by the City and partly because of protracted collective bargaining negotiations and the arbitration process."[18] The 1998 budget addressed its ongoing structural deficits with one-time revenues and a skipped $2.3 million pension contribution.[19]

The contract that the city and the International Association of Fire Fighters agreed on ignored all the cost-containment measures of the budget and recovery plan. This union contract reinstated wage increases and perks, established a minimum-manning clause, and removed health insurance payment caps. It also added $4.8 million to the city's costs, and it increased pension obligations by $1.9 million. Those actions were found to "violate the letter and spirit of [the] adopted Recovery Plan," thus triggering state sanctions in which grants, loans, and other payments were placed into escrow.[20]

Scranton was then left with the problem of closing a structural deficit of between $5.5 million and $10 million in 1999. Scranton had undertaken a sewer privatization deal with American Anglian, which agreed to pay $10 million to the city of Scranton and the borough of Dunmore for a five-year contract to operate the sewer, thereby allowing both governments to avoid tax increases.[21] Scranton anticipated a payment of $6.7 million from American Anglian to cover payments to the pension system for 1998 and 1999, but the payment did not materialize. Thus, the city concluded fiscal year 1999 with $6.2 million in unpaid bills.[22]

Minor improvements in the 2000 budget—higher garbage fees and real estate and wage taxes, plus the sale of the municipal golf course—were insufficient to cover an anticipated deficit of between $3.5 million and $4 million.[23]

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18. Pennsylvania Economy League, *Revised and Updated Act 47 Recovery Plan*, May 2002, 13.
19. Ibid., 13–14.
20. Ibid., 16.
21. Paul Kengor, "Privatization Update: Scranton Saves; Health Centers Privatized" (Susquehanna Valley Center for Public Policy, July 21, 1999).
22. Pennsylvania Economy League, *Revised and Updated Act 47 Recovery Plan*, May 2002, 27.
23. Ibid., 28.

“Infusions [of state aid] bought Scranton some time. But the driver of the city’s deficits—increasing pension costs and the terms of collective-bargaining agreements—remained unaddressed.”

In November 2000, the state agreed to release $3.8 million in escrow funds to the city. The city was advanced $7.5 million for a contract to manage the pension fund, and a judge ruled that the city did not have to immediately obtain workers’ compensation insurance.[24] Those infusions bought Scranton some time. But the driver of the city’s deficits—increasing pension costs and the terms of collective-bargaining agreements—remained unaddressed.

The city’s third recovery plan, adopted in 2002, contained several provisions to control labor costs and improve administration, and it introduced new economic development projects.[25] Over the next 10 years, implementation of these measures largely failed. The city’s habitual reliance on one-time revenues and bonds for expenses ensured continued fiscal deterioration and a falling credit rating.

A key question is raised by Scranton’s first 10 years under Act 47: Why didn’t the recovery plans “stick”? The 2002 recovery plan was adopted with 72 percent voter approval. The city further promised to enforce the plan’s measures even as it entered into collective-bargaining negotiations with public-sector unions that year.

Effectively, Scranton’s next decade of fiscal stress highlighted a major institutional weakness in the laws governing municipal finances. Act 111 of 1968, which governs binding arbitration for police and firefighters’ unions, can be used to neutralize and reverse Act 47 recovery plans.

Act 111 is intended to give police and firefighters’ unions binding arbitration in exchange for a prohibition against striking.[26] However, the law evolved to “give uniformed employees the upper hand when it comes to collec-

24. Ibid., 29.
25. Those provisions included caps on wages, clothing allowances, and health insurance benefits and the elimination of minimum-manning requirements, longevity pay, and duplication of benefits. See Pennsylvania Economy League, *Revised and Updated Act 47 Recovery Plan*, May 2002, 63–82.
26. Police and Firemen Collective Bargaining Act, P.L. 237, No. 111 (1968).

tive bargaining."[27] When negotiations between the city and unions break down, an arbitration panel of three people is selected. Municipalities are required to pay the full cost of arbitration, regardless of ability to pay. Arbitration sessions are not open to the public. The municipality has limited ability to appeal the panel's decisions.

In 2002, when negotiations between the city and the unions reached an impasse, an Act 111 arbitration panel was selected. In 2006 and 2008, the panel awarded bonuses and salary increases, reinstated minimum-manning requirements, made adjustments for health insurance deductibles, and expanded health benefits, thereby negating the Act 47 Recovery Plan.

The city-appointed arbitrators argued that the awards were illegal under Section 252 of Act 47, which states that "a collective bargaining agreement or arbitration settlement executed after the adoption of a plan shall not in any manner violate, expand or diminish [an Act 47 recovery plan's] provisions." The unions sued, claiming that the city's refusal to grant wage increases and bonuses violated Act 111. The Lackawanna County court agreed with the city, noting that the arbitration awards would prevent the city from improving its financial condition.

The unions appealed. The Commonwealth court also found in favor of the city, arguing that the Act 111 arbitration award could "serve as a mandate for the City to unilaterally amend the Plan to comply with the Award."[28] The unions appealed to the Supreme Court of Pennsylvania and focused their argument on the specific wording of Act 47, arguing the language applied only to "collective bargaining agreements" and "arbitration settlements," not to "arbitration awards."[29] The unions further argued that municipalities were using recovery plans to hurt public employees and that the Act 47 coordinator "worked in concert with the city of Scranton to develop plan recommendations, specifically intended to slash wages, benefits, work rules, and safety protections."[30]

The city countered that the union's interpretation of Act 47 was harmful and could lead to a similar outcome in every distressed Pennsylvania municipality because unions would "always demand arbitration and await an 'arbitration award' knowing that this stratagem could negate all reasonable limitations set

27. Pennsylvania League of Cities and Municipalities, "Core Communities in Crisis: Task Force Report" (Harrisburg, PA: 2010), 6.
28. City of Scranton v. Firefighters Local Union No. 60 of the International Association of Firefighters AFL-CIO, 612 Pa. 23 (2011), available at http://caselaw.findlaw.com/pa-supreme-court/1583053.html, 12.
29. Ibid., 13.
30. Ibid., 17.

forth in the municipality's Act 47 Recovery Plan. . . . The various arbitration panels could eviscerate . . . the comprehensive plan for recovery."[31]

In October 2011, the Supreme Court of Pennsylvania in a 6–1 decision ruled in favor of the unions, finding that the city must pay the arbitration-determined awards from 2003 through 2007.[32] The total amount owed to workers, including retroactive wage increases, was estimated to be $32 million.[33] The city and unions reached a settlement reducing the award to $17 million plus a $5.1 million pension contribution.[34]

The decision triggered legislative action. In July 2012, the Pennsylvania General Assembly passed Act 133, amending Act 47 by including the term *arbitration award* as also being subject to the limits of Act 47.[35] Act 133 is meant to restore Act 47 to its original intent—enabling the recovery plan administrator to place expenditure limits on individual collective-bargaining units during future negotiations.[36]

A new recovery plan was proposed in August 2012 to combat Scranton's projected annual deficits of between $4 and $10 million.[37] The plan called for a series of measures: increasing revenues, cutting costs, and monetizing city assets projected to produce a $3.4 million surplus in FY 2013. Without those measures, compensation costs were estimated to rise 7.1 percent through FY 2015, thus necessitating service cuts and layoffs.[38]

The surplus did not materialize. Moreover, the revised 2015 recovery plan bluntly states that Scranton is out of time. Operating deficits are projected to increase to $19.4 million by 2020. Real estate revenues would have to increase by 119 percent alongside service cuts to eliminate the growing gap between

31. Ibid., 19.
32. Ibid.
33. Jim Lockwood, "Scranton Council Candidates Differ on Union Contract," *Scranton Times-Tribune*, May 14, 2013.
34. Pennsylvania Economy League, *Revised and Updated Act 47 Recovery Plan for the City of Scranton*, August 24, 2012.
35. "Municipalities Financial Recovery Act—Contents, Plan Not Affected by Certain Collective Bargaining Agreements or Settlements, Filing Municipal Debt Adjustment under Federal Law, Collective Bargaining Agreements, Furlough of Employees and Disputes," P.L. 1104, No. 133 (2012).
36. Timothy A. Frey and Silvia A. Shin, "Governor Corbett Signs into Law an Amendment to Act 47 Concerning Distressed Municipalities in Pennsylvania," Public Finance Practice Alert (Saul Ewing LLP, July 2012).
37. Pennsylvania Economy League, *Revised and Updated Act 47 Recovery Plan for the City of Scranton*, August 24, 2012.
38. Ibid., 2–3.

revenues and spending. The new plan urges city officials to act quickly to cut employee costs in order to avoid bankruptcy.[39]

SCRANTON'S MAJOR FISCAL INSTITUTIONS

Twenty-five years of Act 47 recovery plans document the role that rising employee costs, which have been generated through collective bargaining and binding arbitration, have played in Scranton's downward spiral. These costs, along with an ineffective tax structure and state-level municipal pension policy, are the major obstacles to restoring Scranton to fiscal health. We now consider each of them separately.

Employee Costs

The rising cost of Scranton's employees is a direct result of collective bargaining and of a binding arbitration process, "which is insulated from . . . 'market conditions.'"[40] Collective bargaining and binding arbitration allow firefighters, police, and other unionized workers to realize compensation increases that exceed both inflation[41] and city residents' ability to pay.

Employee costs account for 64 percent of total city expenditures. In 2014, employee expenses totaled $61.3 million. Those expenses are projected to rise to $76 million in 2020. As figure 7 shows, direct compensation, health benefits, and pensions are the fastest-growing items. Related to those costs is the 2011 state supreme court ruling that requires Scranton to pay an interest-accumulating $20 million back-pay award. The award is considered a win for public employees, and in July 2015, city officials announced that they would issue a $22.4 million bond to pay it.[42]

Decades of structural deficits emerged as the result of the growing mismatch between the cost of providing city services and the economic base and wealth of the city.

Figure 8 shows the inflation-adjusted increase in public-sector salaries and wages in Scranton between 1951 and 2005. As Act 111 was made effective in 1968, salaries began a steep climb over the next decade.

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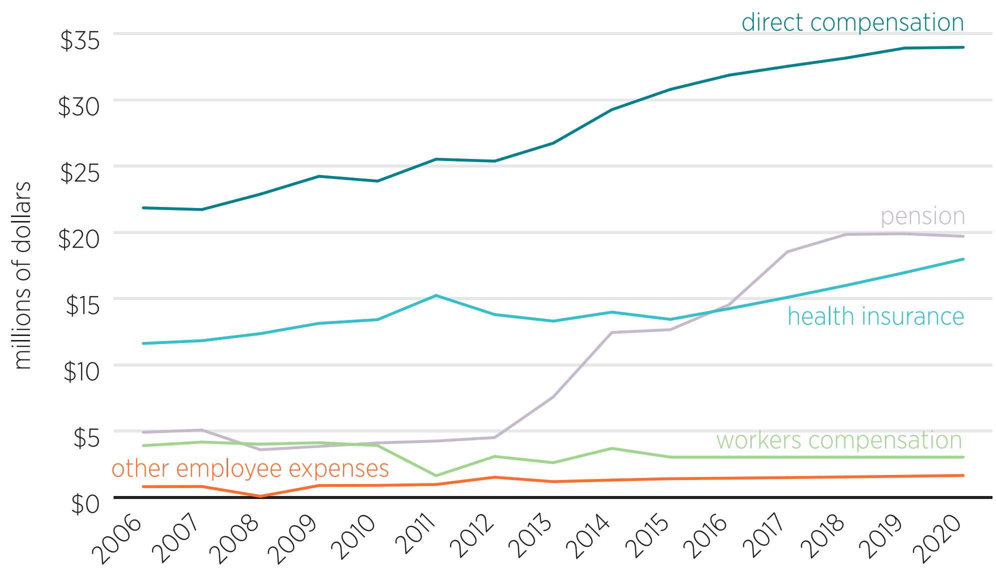
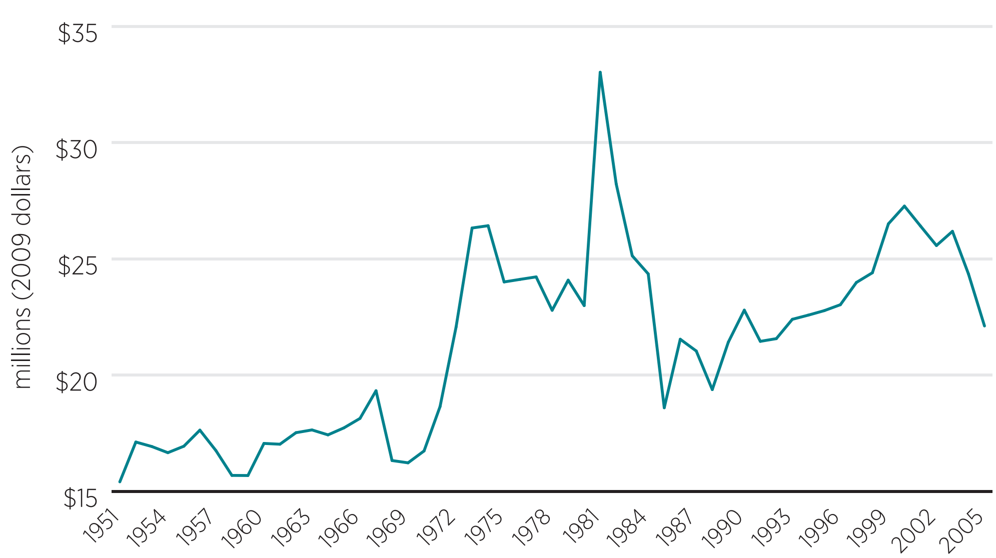
39. Pennsylvania Economy League, *Revised and Updated Act 47 Recovery Plan, City of Scranton*, February 2015.
40. Borys Krawczeniuk, "In Region's Tough Times, It Pays to Be in a Municipal Union," *Scranton Times-Tribune*, March 30, 2014.
41. Ibid.
42. Romy Varghese, "Scranton Stalked by Bankruptcy Mulls Selling Sewers: Muni Credit," Bloomberg.com, September 14, 2014.

FIGURE 7. CITY OF SCRANTON EMPLOYEE EXPENDITURES, 2006–2014 ACTUAL, PROJECTED TO 2020



Sources: Pennsylvania Economy League, *Revised and Updated Act 47 Recovery Plan for the City of Scranton*, August 24, 2013, A-8; Pennsylvania Economy League, *Revised and Updated Act 47 Recovery Plan for the City of Scranton*, February 2015, 3-5.

FIGURE 8. SCRANTON'S SALARIES AND WAGES



Note: Dataset ends in 2005. Because this is a time series, we chose not to augment it with another data source in order to maintain its coherence.

Source: US Census Bureau, *Annual Survey of Local Government Finances and Census of Governments*, 1951–2005.

TABLE 1. ANNUAL BASE SALARY FOR SCRANTON'S CITY EMPLOYEES AND MEDIAN HOUSEHOLD INCOME, 2011–2014

Position	2011 (dollars)	2012 (dollars)	2013 (dollars)	2014 (dollars)	Growth (%)
Administrative average	38,221	39,170	39,170	39,170	2.5
Business administrator	59,500	53,550	53,550	53,550	−10.0
Clerical average	33,425	33,700	34,964	36,188	8.3
Clerk to council	45,800	41,220	41,220	41,220	−10.0
Firefighter	57,574	61,402	64,133	66,986	16.3
Police patrolman	51,357	56,961	59,495	62,141	21.0
Public works average	38,539	39,829	41,379	41,379	7.4
Household median income	36,968	37,099	38,463	37,551	1.6

Source: Pennsylvania Economy League, *Revised and Updated Act 47 Recovery Plan for the City of Scranton*, August 24, 2012. Household income data are from the American Community Survey five-year estimates.

Public-sector salaries in Scranton generally exceed—and have been growing faster than—median household income. Table 1 shows the annual base salary for city employees in various occupations and Scranton's household median income from 2011 to 2014. Every salary except for that of clerical employees is higher than the median household income in Scranton, and only two, clerk to council and business administration, grew slower than median household income over this period.

Median household income is a measure of taxpayers' ability to pay. Public-sector salaries that grow faster than taxpayer income—assuming a constant workforce ratio between the two—are a sign that taxpayers are allocating more and more of their income to government, leaving them less to spend on the other goods and services they desire.

Tax Structure, Debt, and the Use of Special Authorities

Scranton's primary sources of revenue are local taxes, also known as Act 511 taxes. Act 511 of 1965 allows localities to choose among 10 types of activities to tax (table 2).[43] These Act 511 taxes accounted for 24.1 percent of revenues in 2014. Real estate taxes are the second-largest source of local revenues, at 21.4 percent.

Scranton has also relied heavily on debt issued by both the city government and its special authorities to cover operating expenses, pursue development

43. These types of activities include the Amusement Tax, Business Gross Receipts Tax, Business Privilege Tax, Earned Income Tax, Mechanical Devices Tax, Mercantile Tax, Occupational Privilege Tax, Occupation Tax, Per Capita Tax, and Real Estate Transfer Tax. See Local Tax Enabling Act, P.L. 1257, No. 511 (1965).

projects, and pay for court-mandated employee compensation. The reliance on debt finance to exit fiscal distress has compounded Scranton's fiscal difficulties and has contributed to the loss of its credit rating. In June 2016, Standard & Poor's (S&P) assigned Scranton a rating of BB for an upcoming bond issuance of $40 million that will be mainly applied to the back-pay settlement for police and firefighters. S&P noted that the city faces a number of ongoing difficulties related to high debt and pensions.[44]

In FY 2015 the city held $218 million in debt, representing 200 percent of Scranton's total revenues that year (see figure 9).[45] Scranton's large amount of debt is a result of the recurring habit of issuing bonds to cover both operating expenses and the cost of employee compensation. Of this total, $132.8 million represents bonds issued by the city from 2002 to 2013 to refinance earlier debts and to fund ongoing pension and benefits commitments.

In 2003, four bonds totaling $72.3 million were issued to re-fund 1997 and 2001 bonds, which were supposed to fund capital projects, bond insurance costs, pension contributions, and a workers' compensation insurance reserve.[46] In 2012 Scranton issued $11.3 million to cover the unfunded debts of the city and to pay the remaining principal and interest on the 2003 bonds.[47] The following year, the city issued $4.9 million in notes to fund unfunded debts and to re-fund the 2003 bond issuances.[48]

Three of the twelve issuances relate to the use of sale-leasebacks with two of Scranton's special authorities: the Redevelopment Authority and the Sewer Authority.[49] Sale-leasebacks are used to bring revenues into the city's coffers without being counted toward the debt limit.[50] In a sale-leaseback, the city sells

44. Jim Lockwood, "Scranton Gets a Bond Rating, but Rating Agency Critique Is Stark," *Scranton Times-Tribune*, June 17, 2016 .
45. Pennsylvania Economy League, *Revised and Updated Act 47 Recovery Plan, City of Scranton*, February 2015, B-2.
46. For additional information, see the official statement at http://emma.msrb.org/MS210019-MS185327-MD359541.pdf.
47. For more information, see http://emma.msrb.org/EP703224-EP546320-EP947433.pdf.
48. For more information, see the supplement at http://emma.msrb.org/EA494953-EA384787-EA781636.pdf.
49. Jim Lockwood, "Scranton to Borrow $22 Million through Arcane Financing Mechanism," *Scranton Times-Tribun*e, January 27, 2013.
50. Scranton's borrowing limit is calculated as a percentage of the city's borrowing base. The borrowing base is the average of total revenue for the three fiscal years preceding the date of the issuance of new debt. New nonelectoral debt may not be incurred if its issuance leads the total nonelectoral debt to exceed 250 percent of the borrowing base. New nonelectoral debt and lease rental debt may not cause the total of nonelectoral debt and lease rental debt to exceed 350 percent of the borrowing base. See Local Government Unit Debt Act, Part VII of Act 177, P.L. 1158, No. 177 § 8022 (1996).

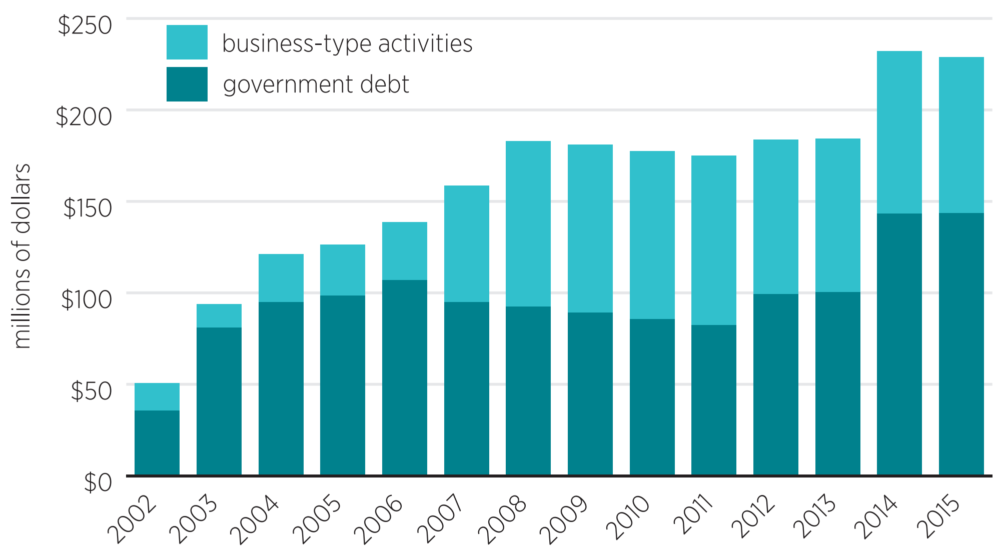
TABLE 2. REVENUE BREAKDOWN BY SOURCE

	Total (dollars)	Percentage of revenue
Real estate	27,943,903	21.41
Landfill and refuse fees	7,000,000	5.36
Local taxes (Act 511)	31,454,064	24.10
Utility tax	61,000	0.05
Nonresident wage tax	500,000	0.38
Penalties, licenses, and fines	5,210,500	3.99
Tax anticipation notes	16,000,000	12.26
Miscellaneous revenues and cable TV	31,776,500	24.34
Other revenues	10,591,031	8.11
Total revenue	130,536,998	

Note: Other revenues include interest earnings, rents and concessions, intergovernmental reimbursements, payments in lieu of taxes, departmental earnings, recreational departments, and interfund transfers.

Source: *City of Scranton 2014 Operating Budget*, November 2013, http://www.scrantonpa.gov/business_admin_docs/2014%20Operating%20Budget.pdf.

FIGURE 9. CITY OF SCRANTON TOTAL DEBT, 2002–2015



Sources: City of Scranton, Independent Auditor's Reports FY 2002–2014, http://www.scrantonpa.gov/business_admin.html; City of Scranton, "Better Know a Budget," PowerPoint presentation of the City Council, March 13, 2013; HJA Strategies, "Report on the Budget and Finances of the City of Scranton," July 2014.

an asset to a special authority, which then uses the property as collateral to issue a bond. The proceeds of the bond are for use by the city government. The city then agrees to lease the property and make rental payments to the agency. Those payments are used for funding the debt that the agency issued. When the lease is finished, the city regains ownership of the property.

In 2004, the Scranton Sewer Authority issued a $4 million bond to purchase the Department of Public Works, which the Sewer Authority leased back to the city.[51] The city used the proceeds to purchase its Department of Public Works Complex.[52] The lease ends in December 2016, and the city will repurchase the Department of Public Works for $1.00. Scranton engaged in two more sale-leasebacks in 2006 and 2008 for $10 million and $5.9 million, respectively, with the Scranton Redevelopment Authority. Those leases expire 18 years from the dates of issuance.[53]

In addition to using special authorities as pass-through entities to issue debt, the city of Scranton is responsible for guaranteeing the debts of the Scranton Parking Authority (SPA). Of the $218 million in debt currently held by the city, $85.4 million is held by the SPA, which defaulted on its obligations in 2012.[54] The SPA and other authorities figure prominently in Scranton's fiscal maneuvers and economic redevelopment plans, which have not helped the city's recovery but instead have contributed to a legacy of debt.

The broad goal of building parking garages to attract business has been financed through various debt issuances since the authority's incorporation in 1953. In 2004, the Scranton Redevelopment Authority issued $12,295,000 in revenue bonds to fund the construction of a parking facility that is operated by the SPA.[55] The SPA issued additional bonds in 2004, 2006, and 2007 so it could construct new facilities and re-fund earlier debt issuances.[56]

Unable to generate sufficient revenues, the SPA borrowed $2.9 million from Landmark Bank in 2011 and used its 10 percent share of the city's parking meter revenue as collateral. In 2012, the city of Scranton canceled its 1995 agreement with the SPA to share parking meter revenue, leading the SPA to default on its debt.[57]

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51. See also the official statement at http://emma.msrb.org/MS255229-MS230537-MD449376.pdf.
52. Lockwood, "Scranton to Borrow $22 Million."
53. Ibid.
54. Pennsylvania Economy League, *Revised and Updated Act 47 Recovery Plan, City of Scranton*, February 2015, B-3.
55. See the official statement at http://emma.msrb.org/MS220295-MS195603-MD379763.pdf.
56. See also the official statement at http://emma.msrb.org/MS246880-MS222188-MD432540.pdf.
57. See the supplement at http://emma.msrb.org/EA494953-EA384787-EA781636.pdf.

The decades-long, debt-financed expansion of the city's underused parking garages has generated an ongoing liability for Scranton. As of 2016, the city is seeking to sell the five SPA garages. In addition, the city has moved to sell the Sewer Authority to a private company, which should generate $96 million in revenues.

The move to privatize city assets, which is part of the most recent recovery plan's recommendations, is an important step toward Scranton's recovery. The sales should bring revenue and close off the temptation to leverage authorities for debt and budget gimmicks. For decades, Scranton's authorities served as mechanisms to evade debt limits and to pursue unsuccessful development projects, leaving the city further in debt.

"The move to privatize city assets, which is part of the most recent recovery plan's recommendations, is an important step toward Scranton's recovery."

Pension Plans

Scranton administers three single-employer, defined-benefit pension plans covering all full-time employees: the police, firefighters, and nonuniformed pension plans. Those plans are governed by Pennsylvania Act 205 and by the city's Home Rule Charter, along with 15 additional laws covering municipal pension policy. Pensions are included in collective bargaining negotiations under Act 111.

Designated as severely underfunded by the Commonwealth of Pennsylvania, the pension plans had a combined shortfall of $150 million as of January 2013.[58] Pennsylvania Auditor General Eugene DePasquale estimates that the funds could run out of money in three to five years, leaving

58. Those already alarming figures are understated as a result of actuarial assumptions that have come under sustained criticism by economists. Actuarial assumptions allow plans to measure the present value of plan liabilities using a discount rate that is based on the expected return on plan assets, which are invested in a mix of risky assets and lower-risk bonds. Instead, most economists believe that the discount rate selected to calculate the present value of the liability should reflect the legal guarantee and timing of payment. Pensions are similar in risk to government bonds. When valued on a "guaranteed-to-be-paid basis," the total unfunded liability for those three plans is $397 million.

the system on a pay-as-you-go basis.[59] Scranton's plans are among 3,200 local government plans in Pennsylvania. Act 205 was intended to standardize actuarial and financial practices among the state's rapidly proliferating local plans. The law established a minimum employer contribution, revised the state pension aid formula, and provided for additional "distressed plan" funding.

The funding of Pennsylvania's local pensions raises questions about the extent to which these plans are truly local in nature. Pensions are collectively bargained at the local level. But plans are funded by a combination of local dollars and a state subsidy, which weakens the incentive for localities to monitor and control costs.[60]

Municipalities calculate the mandatory minimum obligation (MMO), which is the municipality's requirement to fund the pension minus a funding adjustment and member contributions. The state provides a pension subsidy to municipalities on the basis of a state-levied tax on premiums affecting casualty and fire insurance policies sold in Pennsylvania by out-of-state companies. A portion of those revenues is directed to a General Municipal Pension System State Aid program. Municipalities receive an award based on a formula, which may not exceed 100 percent of the municipality's pension costs.[61]

One critique of this approach is that where local tax revenues have not been used to fund local plans, "municipal officials became more willing to grant increased pension benefits [because] pension benefits could be increased at no cost to the municipality."[62] The pension-funding pattern in Scranton highlights another hazard of this approach: as costs rise, the municipality may find itself responsible for higher payments than it anticipated if the subsidy remains constant or is unexpectedly reduced or eliminated.

Between FY 2004 and FY 2015, the employee contribution to Scranton's police and firefighter pensions averaged 10 percent of the total. The state's subsidy to Scranton has been relatively steady, with a median value of $2.7 million between FY 2004 and FY 2016. But as the total funding amount required rises,

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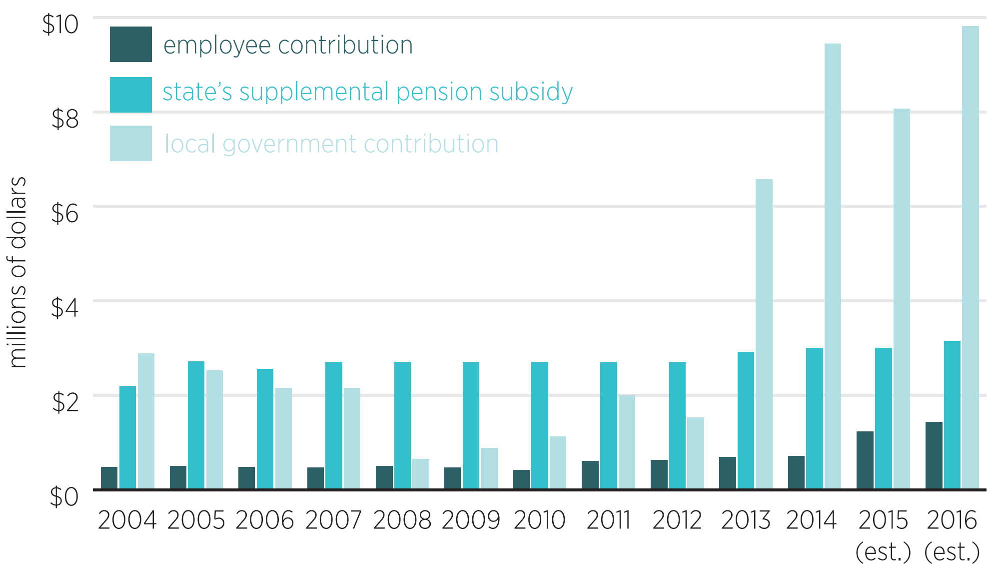
59. Pennsylvania Department of the Auditor General, "Auditor General DePasquale Says within Five Years Scranton Municipal Pension Funds Could Run Out of Money for Retirees," news release, August 27, 2014.
60. University of Pittsburgh Institute of Politics, Pensions Subcommittee, *What to Do about Municipal Pensions* (Pittsburgh: April 2009), 6.
61. Public Employee Retirement Commission, *Special Report: Funding and Reforming Public Employee Retirement Systems* (Harrisburg, PA: January 2013), 31.
62. Public Employee Retirement Commission, *Status Report on Local Government Pension Plans: A Summary and Analysis of 2011 Municipal Pension Plan Data Submitted Pursuant to Act 205 of 1984 and 2010 County Pension Plan Data Submitted Pursuant to Act 293 of 1972* (Harrisburg, PA: December 2012), 25.

FIGURE 10. COMPOSITION OF SCRANTON'S PENSION CONTRIBUTIONS, FY 2004–2016



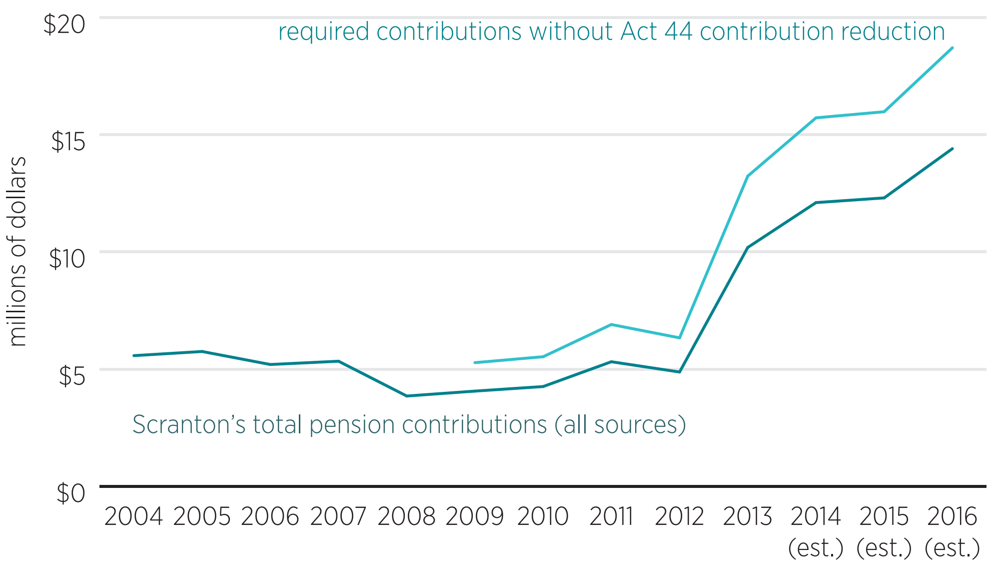
Sources: City of Scranton, Independent Auditor's Reports FY 2004–2014; City of Scranton, Operating Budgets FY 2004–2014, accessed October 10, 2016, http://www.scrantonpa.gov/business_admin.html. Calculations are by the authors.

the state's subsidy accounts for a smaller share of the total funding obligation. In FY 2004, the city's contribution was 53 percent of the total; in FY 2016, it is 68 percent. As figure 10 shows, Scranton's own-source contributions have increased steeply since 2013.

In addition, Scranton has not been contributing enough to fund the system, choosing instead to defer payments with the help of a state law aimed at helping distressed cities. After the market crash of 2008, Scranton elected to reduce the annual MMO by approximately 25 percent between 2009 and 2016 under the provisions of Act 44.[63] This reduced total annual contribution has served only to push costs into the future. Figure 11 shows the difference between the reduced MMO that the city recognized and paid between 2009 and 2016 and the actual MMO calculated by city actuaries between 2008 and 2016. The law permits

63. Act 44 of 2009 permits distressed cities to reduce the MMO by paying 75 percent of the amortization contribution requirements for six years, along with other measures, including increasing the asset-smoothing corridor from 20 percent to 30 percent for a longer period. See Municipal Pension Plan Funding Standard and Recovery Act—Omnibus Amendments, P.L. 396, No. 44 § 606(c) (2009).

FIGURE 11. SCRANTON'S TOTAL PENSION CONTRIBUTIONS VS. REQUIRED CONTRIBUTIONS



Source: City of Scranton, Operating Budgets FY 2004–2014.

reduced amortization for only six years.[64] In FY 2017, Scranton must confront the full MMO, which is estimated to be $18 million.[65]

The effects of state aid and Act 44 raise questions about how state legislation may weaken local fiscal discipline and pension-plan funding. Does the presence of state aid gradually lead to a lack of commitment on the part of city officials and unions to control employee costs?

There are calls to increase state pension aid to help cities such as Scranton meet their growing burdens. However, absent collective-bargaining and pension reforms, increased aid is only a bandage on a structural problem. A recent proposal by Governor Tom Wolf's task force on municipal pensions includes removing pensions from collective bargaining and reforming pension formulas to control costs. The report recognizes that "there is little or no annual growth foreseen in the revenue stream [the Foreign Casualty Insurance Premium Tax] that produces the Municipal Pension Aid Fund," suggesting that rather than relying on increased state revenues, localities will have to do more to control local costs.[66]

64. Ibid.
65. Terrie Morgan-Besecker, "Scranton Pension Contribution Increases $2 Million for 2016," *Scranton Times-Tribune*, September 25, 2015.
66. Eugene A. DePasquale et al., "Pennsylvania's Municipal Pension Challenges," June 30, 2015.

Tying the cost of pensions to the localities where the pensions are negotiated and earned is the best means of establishing spending accountability and better financial stewardship of local plans. Other measures include ending accounting gimmicks that lower the annual pension payment, such as the provision contained in Act 44, and ending the practice of bonding for the annual contribution, which also pushes the funding burden into the future while often adding costs. In addition to ensuring accurate measurement, accounting, and funding of the current defined benefit plans, the city should consider allowing employees to switch to a defined contribution plan.

SCRANTON'S ECONOMY IN A REGIONAL CONTEXT

In the previous section, we argue that institutional and policy reforms are essential to Scranton's recovery. However, those measures must be evaluated in the context of Scranton's regional economy because reforms will alter Scranton's relative attractiveness as a place to live and work. Thus, the ultimate effects of any reforms will depend on how Scranton compares to its neighbors, as well as on secular population and economic trends. To get a better sense of which reforms will help Scranton, we compare Scranton to several nearby cities in order to place it in a broader regional context.

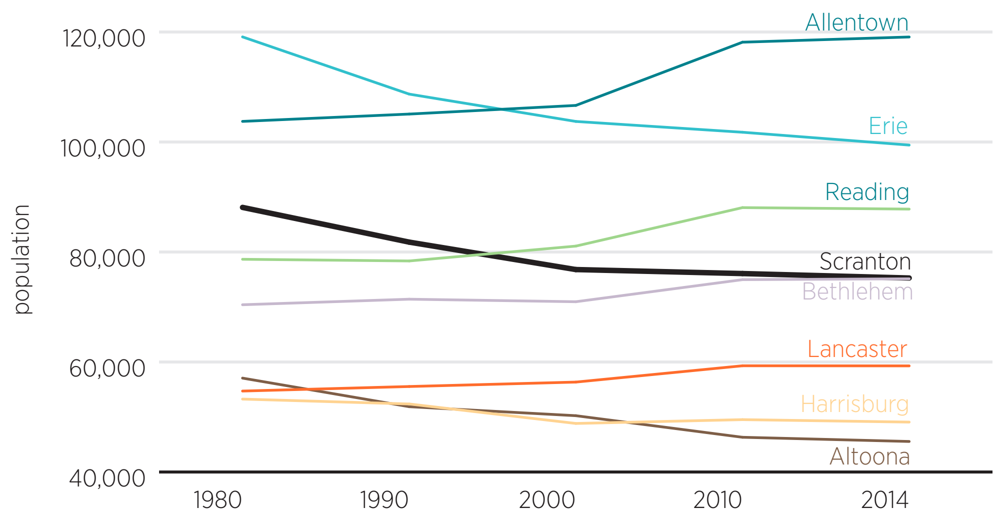
The three most common indicators to measure the health of a city are population, wages, and house prices. Relative to its neighbors, Scranton fares poorly in all three areas. Figure 12 shows population trends of the third- to tenth-largest cities in Pennsylvania from 1980 to 2014.[67]

Four of the cities—Allentown, Reading, Bethlehem, and Lancaster—gained population during the period.[68] The remaining four—Erie, Scranton, Harrisburg, and Altoona—lost population.[69] During this time, the overall population of Pennsylvania grew by 8 percent and urbanization was increasing, yet only some cities grew. So why did Scranton and others shrink?

To begin with, the growth cities are all relatively close (about 68 miles by car) to Philadelphia. Table 3 shows the distances between the growing cities (left group) and the shrinking cities (right group) to New York City, Philadelphia, and Pittsburgh.

67. Philadelphia and Pittsburgh are first and second, respectively, but they are omitted because they are both much larger than the next eight cities portrayed in the graph.
68. Ranked 3rd, 5th, 7th, and 8th, respectively, in 2014.
69. Ranked 4th, 6th, 9th, and 10th, respectively, in 2014.

FIGURE 12. PENNSYLVANIA CITY POPULATIONS, 1980–2014



Sources: US Census Bureau; City Population, "USA: Pennsylvania," May 22, 2016, http://www.citypopulation.de/USA-Pennsylvania.html.

TABLE 3. DISTANCE OF POPULOUS PENNSYLVANIA CITIES TO NEW YORK CITY, PHILADELPHIA, AND PITTSBURGH

	Distance (miles)				Distance (miles)		
City	To NYC	To Phil.	To Pitt.	City	To NYC	To Phil.	To Pitt.
Allentown	93	61	290	Erie	432	420	129
Bethlehem	82	69	298	Scranton	121	125	296
Reading	128	64	270	Harrisburg	170	107	212
Lancaster	163	79	246	Altoona	278	237	98
Average	117	68	276	Average	250	222	184

Source: Google Maps Trip Calculator.

The shrinking cities are on average 222 miles from Philadelphia, while the growing cities are only 68 miles away.[70] The growing cities are also closer to New York City on average than are the shrinking cities (117 miles vs. 250 miles).[71] The shrinking cities are too far from Pennsylvania's growth region to reap the benefits of a resurgent Philadelphia[72] and New York City.

There is evidence that small and medium-sized cities can "borrow functions" from larger cities and thus gain some benefits from being in close proximity to major metropolitan areas.[73] Residents of smaller cities can take advantage of the specialized products and services and the greater employment opportunities offered by nearby major cities.[74] This borrowing function helps explain why Allentown, Bethlehem, and Reading are doing better than Scranton. The former can borrow functions from Philadelphia, while Scranton—like Harrisburg and Altoona—is largely on its own as the central city of an independent and somewhat isolated MSA.

In addition to a declining population, Scranton also has relatively low wages. The Scranton MSA has the second-lowest average wage of Pennsylvania's major MSAs. Figure 13 shows the ratio of the average wage of each MSA to the average wage in the metropolitan portion of Pennsylvania from 1969 to 2013.

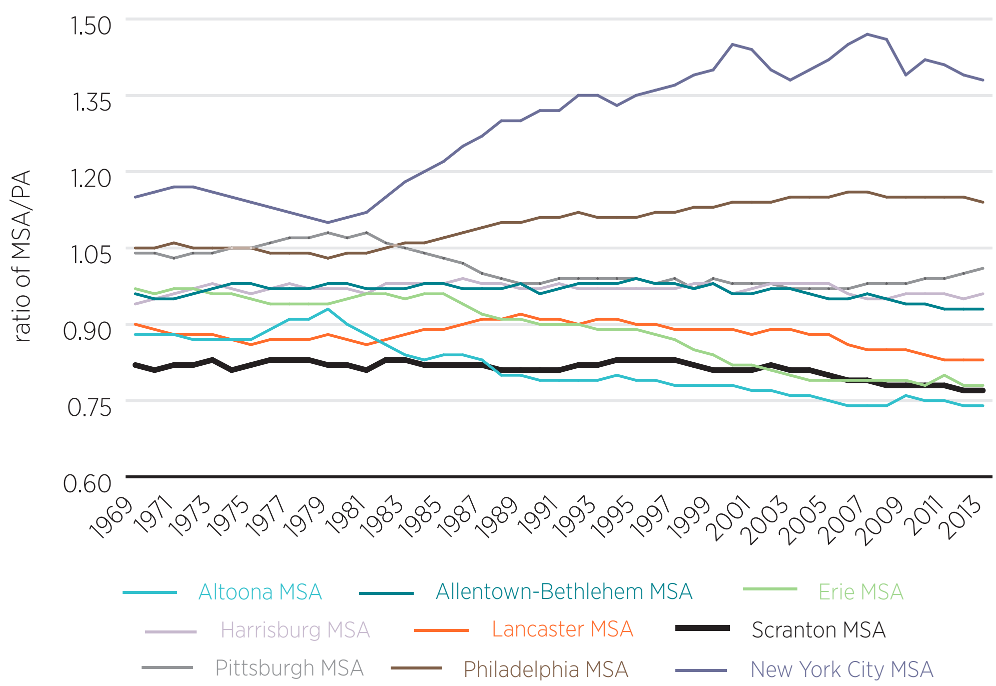
Figure 13 shows three distinct groups: cities with the lowest wages (Lancaster, Erie, Scranton, and Altoona), cities in the middle (Pittsburgh, Harrisburg, and Allentown-Bethlehem), and the top two cities, Philadelphia and New York City. The lowest-wage group closely correlates with cities that experienced population decline.

The Scranton MSA has experienced a declining population and declining wages (and thus low productivity). Therefore, according to the first two measures of a city's health—population and wages—Scranton fares poorly relative to its neighbors and has done so for some time.

The third criterion used to evaluate cities is housing prices. The median home value for the city of Scranton was 82 percent of the median home value for the Scranton–Wilkes-Barre MSA in 2012, down from 88 percent in 2005. This trend holds at the state level, where Scranton's median home price relative to

70. Excluding Erie, the cities are on average 156 miles from Philadelphia.
71. Excluding Erie, the cities are on average 190 miles from New York.
72. The population of Philadelphia grew by 3 percent from 2000 to 2014, while the Philadelphia MSA grew by a robust 19 percent during the same period.
73. Roberto Camagni, Roberta Capello, and Andrea Caragliu, "Static vs. Dynamic Agglomeration Economies: Spatial Context and Structural Evolution behind Urban Growth," *Papers in Regional Science* 95, no. 1 (2016).
74. Ibid.

FIGURE 13. AVERAGE WAGE RATIO BY METROPOLITAN STATISTICAL AREA (MSA), 1969–2013



Note: The wage ratio is the MSA's average wage divided by Pennsylvania's average wage for all MSAs. It shows how the average wage in the MSA compares to the average wage in the metropolitan portion of the commonwealth as a whole. The rural portions of the commonwealth are omitted because we are interested in urban wages.

Source: US Department of Commerce, Bureau of Economic Analysis, "Local Wage and Employment Statistics."

the median for Pennsylvania fell from 69 percent in 2005 to 67 percent in 2012.[75] Those figures are not surprising, considering Scranton's long-term population decline and the effect that a decrease in demand has on prices.

Scranton's Labor Force and the Role of Highly Skilled Workers

In his book titled *Triumph of the City: How Our Greatest Invention Makes Us Richer, Smarter, Greener, Healthier, and Happier*, economist Edward Glaeser notes, "All successful cities do have something in common. To thrive, cities must attract smart people and enable them to work collaboratively. There is no such

75. Median home values are from American FactFinder 1-year ACS data, table B25077, 2005–12.

thing as a successful city without human capital."[76] The data support this statement. Cities that contain educated people have fared much better since the mid-20th century.

In figure 14, the x-axis shows the proportion of adults age 25 and over with at least a bachelor's degree that lived in the city in 1967, and the y-axis shows the city's population growth from 1970 to 2013 for 30 large US cities.

Cold cities—those with an average January temperature below 40 degrees Fahrenheit—are labeled with light blue squares. There is a strong positive correlation between education and population growth in cities, even in those with cold weather. There is also a large literature in economics that shows that high-skilled workers contribute to economic and population growth, when controlling for other factors.[77]

Scranton's lackluster economic measures match the relatively low proportion of residents who have a bachelor's degree and who live within the city limits. From 2009 to 2013, Scranton experienced a slight increase in the percentage of residents ages 25 and over who have a bachelor's degree or more—19 percent to 22 percent.[78] The percentage of residents ages 25 to 34 with a bachelor's degree or more also increased from 28 percent to 31 percent. But despite this growth, Scranton lagged behind Lackawanna County in both measures. In 2013, 27 percent of Lackawanna County's population ages 25 and over had a bachelor's degree or higher, and 36 percent of its population ages 25 to 34 did also.

Moreover, Scranton lags behind most nearby cities. Erie, Harrisburg, Philadelphia, and New York City all have a larger proportion of high-human-capital residents than does Scranton, as shown in figure 15.

MSAs with relatively more college-educated residents generate more entrepreneurs, which in turn increases employment growth and diversifies the local economy, making it less susceptible to industry-specific economic shocks.

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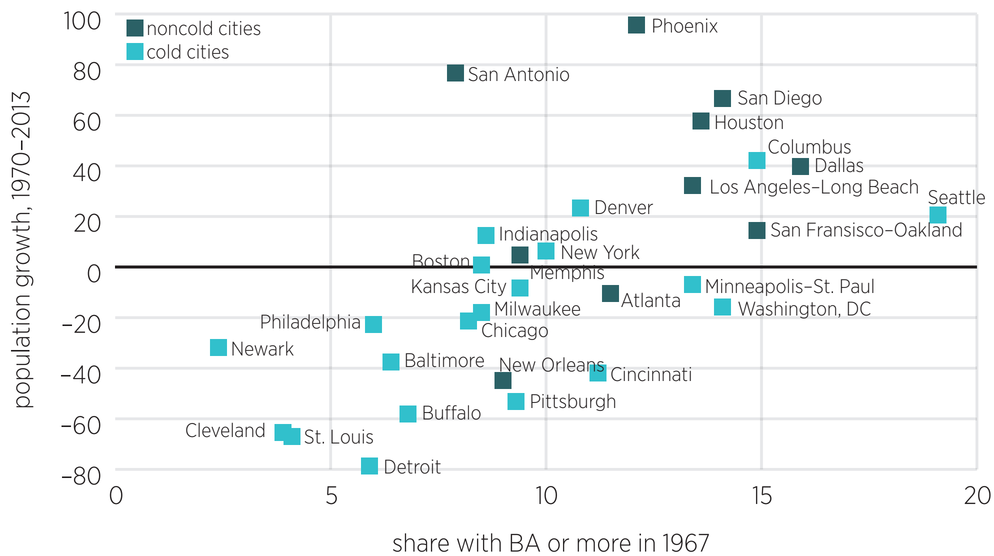
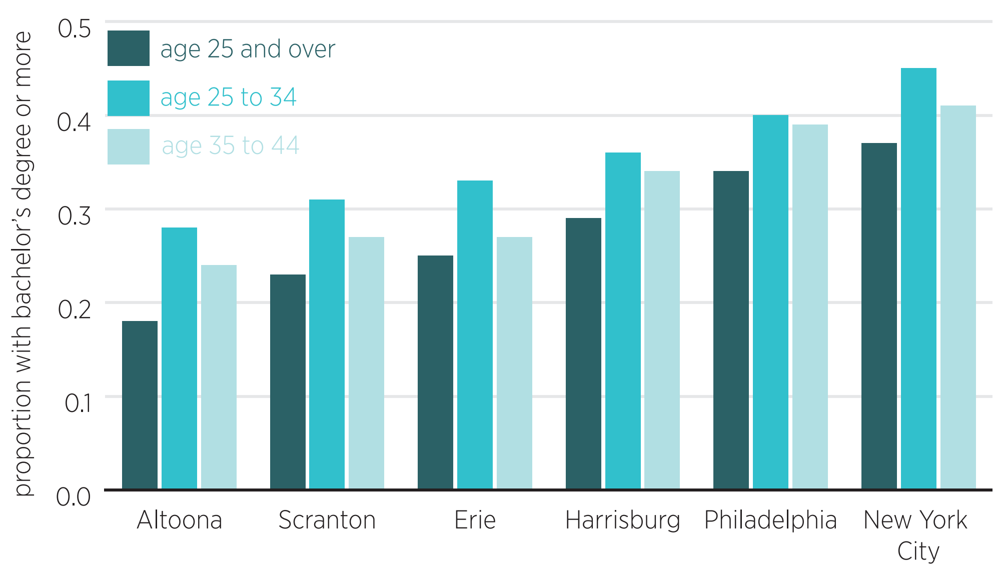
76. Edward Glaeser, *Triumph of the City: How Our Greatest Invention Makes Us Richer, Smarter, Greener, Healthier, and Happier* (London: Pan Macmillan, 2012).
77. Duncan Black and Vernon Henderson, "A Theory of Urban Growth," *Journal of Political Economy* 107, no. 2 (1999): 252–84; Edward L. Glaeser, Giacomo A. M. Ponzetto, and Kristina Tobio, "Cities, Skills, and Regional Change," *Regional Studies* 48, no. 1 (2014): 7–43; C. Nardinelli and C. J. Simon, "The Talk of the Town: Human Capital, Information, and the Growth of English Cities, 1861 to 1961," *Explorations in Economic History* 33, no. 3 (1996): 384–413; C. Nardinelli and C. J. Simon, "Human Capital and the Rise of American Cities, 1900–1990," *Regional Science and Urban Economics* 32, no. 1 (2002): 59–96.
78. These data are for the actual political city of Scranton, not the MSA, and are from the American Community Survey via the American FactFinder website, table S1501.

FIGURE 14. POPULATION SHARE WITH BACHELOR'S DEGREE OR MORE AND CITY POPULATION GROWTH, 1970–2013



Source: US Census Bureau, "Table 1. Percent Distribution by Years of School Completed for Persons 25 Years Old and Over, by Race, for 30 Selected Standard Metropolitan Statistical Areas: 1967," http://www.census.gov/hhes/socdemo/education/data/cps/1967/p20-209_tab-01.pdf.

FIGURE 15. PROPORTION OF ADULTS WITH BACHELOR'S DEGREE OR MORE, VARIOUS AGE GROUPS, 2013



Source: American FactFinder, "Educational Attainment: 2013 American Community Survey 1-Year Estimates," accessed October 10, 2016, http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmk.

This finding is important because cities need to reinvent themselves from time to time in order to overcome economic shocks outside their control.[79]

The Effect of Government and the Local Business Environment on Growth

As mentioned previously, America's shift from a manufacturing economy to a service economy has altered the location choices of both people and firms. Climate and government, rather than proximity to natural resources, are the main determinants of successful cities.

For Scranton and other similar cities to thrive, it is important for them to have control over their business environment. Where key policies such as tax rates, government spending, zoning regulations, and licensing requirements are controlled by the state, cities are differentiated only by their geographic location. In such cases, factors such as climate and proximity to other cities, ports, and desirable geographical features such as lakes or mountains will largely determine where people and firms locate.

Scranton, with its relatively isolated location and poor weather, can effectively compete with other cities only by offering residents and firms a better collection of public goods and services and a better business environment.

Yong Chen and Stuart Rosenthal provide evidence that cities with better business environments attract more workers—in particular, young, educated workers. Young couples in their 20s with a bachelor's degree or more are drawn to areas with good business environments.[80] As the couples age, they migrate to areas with a higher quality of life, such as those with nice weather and cultural amenities. Such locational patterns help explain why smaller and medium-sized cities in the Midwest and upstate New York have struggled to attract people.

According to Chen and Rosenthal's index, the cities with the best business environment include those in Silicon Valley, the New York City metropolitan area, Boston, Seattle, and Washington, DC. Of the 346 cities ranked, the Scranton MSA is 248th for quality of business and 176th for quality of life. As a comparison, the Altoona MSA and Erie MSA do not fare much better for quality of business (299th and 232nd, respectively) or quality of life (239th and 266th, respectively).

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79. Edward L. Glaeser et al., "The Rise of the Skilled City [with comments]," *Brookings-Wharton Papers on Urban Affairs* (2004): 47–105; Edward L. Glaeser, "Reinventing Boston: 1630–2003," *Journal of Economic Geography* 5, no. 2 (2005): 119–53.
80. Yong Chen and Stuart S. Rosenthal, "Local Amenities and Life-Cycle Migration: Do People Move for Jobs or Fun?," *Journal of Urban Economics* 64, no. 3 (2008): 519–37.

“Scranton can change its business environment. Policies that make Scranton a better place to work will help it attract highly skilled workers, which may halt or at least slow its population decline.”

All three cities are relatively unattractive to both younger workers and retirees.

Contrast those cities’ rankings with that of Philadelphia, which ranks 340th out of 346 on quality of life but 61st out of 346 on quality of business. If young, educated workers who are moving within or to Pennsylvania want to live in a place with a good business environment, they are going to choose places near Philadelphia and New York City (14th in quality of business), not near Scranton. As these workers age, many will migrate from Philadelphia and New York City to places with better weather, skipping over places such as Scranton entirely.

As in other cities, many political and civic leaders in Scranton are focusing on Richard Florida’s creative class strategy and are trying to make Scranton a “cool” place to live.[81] Although there is nothing wrong with wanting to improve a city’s cultural amenities, the limitations of this strategy need to be recognized. The multimillion-dollar projects of the early 1990s—a convention center, two museums, a downtown mall—have failed to generate any population growth. Other local quality-of-life investments such as schools and nice public spaces may do a better job of generating population and economic growth, but they require significant resources. As we showed earlier, Scranton’s financial situation is bleak, so it is not clear where the necessary resources would come from.

Given Scranton’s dismal financial situation and the fact that quality of life is largely a function of weather and geographic features such as proximity to the coast, Scranton is unlikely to improve its relative position along this margin. But Scranton can change its business environment. Policies that make Scranton a better place to work will help it attract highly skilled workers, which may halt or at least slow its population decline.

The focus of policymakers’ efforts should be to improve the city’s business environment. But because of its

81. Rich, “‘From Coal to Cool.’”

TABLE 4. REGIONAL AND NATIONAL ECONOMIC FREEDOM RANKINGS FOR PENNSYLVANIA CITIES

	Regional rank (national rank)			
MSA/MD, state	Overall	Taxation	Size of govt.	Labor market
Lancaster, PA	1 (138)	3 (142)	1 (179)	3 (141)
Harrisburg-Carlisle, PA	2 (165)	6 (183)	5 (218)	2 (135)
Altoona, PA	3 (179)	1 (76)	2 (202)	9 (270)
Scranton–Wilkes-Barre, PA	4 (182)	4 (156)	3 (206)	5 (195)
Pittsburgh, PA	5 (187)	5 (177)	6 (232)	4 (164)
Erie, PA	6 (202)	2 (123)	7 (236)	8 (214)
Philadelphia, PA	7 (213)	9 (263)	9 (253)	1 (123)
Reading, PA	8 (222)	7 (250)	4 (215)	6 (202)
Allentown-Bethlehem-Easton, PA-NJ	9 (234)	8 (251)	8 (241)	7 (211)
New York City–White Plains–Wayne, NY-NJ	10 (378)	10 (380)	10 (368)	10 (334)

Source: Dean B. Stansel, "An Economic Freedom Index for U.S. Metropolitan Areas," *Journal of Regional Analysis and Policy* 43, no. 1 (2013): 3–20.

climate and geographic disadvantages, Scranton cannot just have a marginally better business environment; it needs a substantially better business environment and greater economic freedom.

Economic freedom is correlated with several positive outcomes at the country level, and this correlation holds at the local level as well.[82] An article by economist Dean Stansel used state and local data to create an economic freedom index for US metropolitan areas that can be used to examine the relationship between economic freedom and economic outcomes.[83] Each MSA is ranked according to (1) overall economic freedom, (2) takings and discriminatory taxation, (3) size of government, and (4) labor market freedom. Stansel finds evidence that higher levels of economic freedom are correlated with lower unemployment rates and higher per capita incomes at the MSA level.

Table 4 provides the rankings produced by Stansel for the large Pennsylvania MSAs and New York City. The rank in parentheses is each city's national rank out of 384 cities.

Overall, Scranton is in the middle of the pack in the region, ahead of Pittsburgh but behind Lancaster, Harrisburg, and Altoona. As a larger city, Pittsburgh is better able to cope with a poor ranking because its economic disadvantages

82. James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Washington, DC: Cato Institute, 2014).
83. Dean B. Stansel, "An Economic Freedom Index for U.S. Metropolitan Areas," *Journal of Regional Analysis and Policy* 43, no. 1 (2013): 3–20.

are offset by other quality-of-life amenities such as museums, professional sports teams, and two large universities. Such amenities also exist in Philadelphia and New York City. Smaller cities such as Scranton generally lack such compensating amenities.

In general, Pennsylvania's MSAs are clustered in the high 100s and low 200s and thus are relatively unfree according to this index.[84] This cluster is a discouraging sign for Scranton because it implies that state-level policies that are common to all Pennsylvania cities and that are largely out of each city's immediate control are having an impact on local economic freedom.

However, Lancaster, with an MSA similar to Scranton's, performs better in the rankings overall and on size of government. And as shown earlier, it has a higher average wage than does Scranton and has gained population since 1980. Thus, although Scranton may have little control over state-level policies that affect its economic condition, there is room for improvement. This possibility is borne out by the performance of other cities: Altoona has a higher level of tax freedom, and Philadelphia has greater labor-market freedom. All these cities are also bound by Pennsylvania state-level policies, yet they are relatively freer than Scranton in at least one category.

In addition, the Redevelopment Assistance Capital Program—a state-level government program in Pennsylvania that awards grants to businesses—disproportionately awards grants to businesses in Allegheny and Philadelphia counties, where Pittsburgh and Philadelphia are located.[85] Such grants, which are funded by statewide taxes, help offset some costs of doing business in those counties, giving them a government-sponsored advantage over Scranton and other medium-sized cities in the commonwealth.

As we mentioned previously, cities that want to thrive in the long run need to be able to reinvent themselves. The ability to adapt is severely hampered by policies that favor particular industries and excessive regulation that restricts innovation. Broadly speaking, too much regulation deters the formation of new products and businesses. A complicated or confiscatory tax system not only reduces the profit motive of businesses but also requires businesses to spend more resources on compliance and fewer on serving their customers.

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84. It should be noted that some state-level data were used to construct these rankings, so it is not surprising to see MSAs in the same state clustered together.
85. Adam A. Millsap, "Does Pennsylvania's Redevelopment Assistance Capital Program Develop Its Economy?" (Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, September 2015).

Regulations can also discourage entrepreneurs from opening a business. Devin Bunten and his coauthors show that business births and deaths provide information about local business environments to future entrepreneurs, including local product demand, availability of supply networks, access to financing, and business–government relations.[86] A regulatory and tax environment that discourages entrepreneurs from trying to open a new business decreases the amount of information available to other entrepreneurs and harms economic growth in the long run.

POLICY RECOMMENDATIONS

Scranton has spent several decades as a "distressed city" under Pennsylvania law. This analysis attempts to unravel the major factors that contribute to the city's ongoing economic and fiscal problems. Three themes emerge.

First, Scranton's history as a former industrial city points to the difficulty of shifting from a growing city with a booming economy to one with a shrinking population and declining economic output. Unlike some other cold-weather cities, Scranton's residents have been unable to adapt after the decline of coal mining and steel. In comparison to Boston, an innovative city, economist Ed Glaeser writes, "In the coal towns of central Pennsylvania, exodus, not innovation, was a more common response."[87] Related to this finding is the city's general unwillingness to adapt to this reality. Local policies designed for a larger, thriving industrial city can remain in place long after their need or appropriateness declines.

This finding leads to the second theme: the unsustainability of Scranton's fiscal institutions. Scranton's government continued to spend at a level higher than it was ultimately able to sustain. An inability to control employee costs through collective bargaining or to adequately fund pensions, a reliance on debt, and a complex local tax and state aid structure contributed to poor fiscal management and ongoing structural deficits. Those poor fiscal institutions are compounded—and partially created—by the role that Pennsylvania state policies have played in the realm of collective bargaining laws, pension funding policies, and taxation.

Third and last, Scranton's economy lags behind those of many of its neighbors and comparable cities. Because the location of Scranton cannot be changed, the best hope officials and residents have for improvement is to focus reform

86. Devin Bunten et al., "Entrepreneurship, Information, and Growth," *Journal of Regional Science* 55, no. 4 (2015): 560–84.
87. Glaeser, "Reinventing Boston," 122.

efforts on what is under their control: the city's fiscal, economic, regulatory, and governmental institutions. Improving these policies may transform Scranton into a better a place to live and start a business. An influx of educated workers and entrepreneurs will diversify the local economy, make it more resilient to future shocks, and expand the tax base.

Spending Reform: Employee Compensation

Employee costs are rising faster than the ability of residents to pay without significant tax hikes, program cuts, state or federal aid (or both), or debt. Reforming employee compensation can be achieved only by limiting collective bargaining and introducing competition to the provision of local government goods and services. The cost of services must be brought in line with the city's ability to pay.

One way to achieve this change is through privatization. Scranton has made progress on this front. In March 2016, the city finalized a deal, pending approval, to sell the Sewer Authority to Pennsylvania American Water for $150 million, which will help the city meet a $140 million federal environmental mandate.[88] The Scranton Parking Authority remains a financial risk for the city. In June 2016, the SPA entered into a lease agreement for $28 million to assist with its debts and deferred maintenance.[89] The city should also consider privatizing this asset.

The most recent recovery plan also recommends subcontracting for refuse collection and divesting the city of assets that are not vital to the provision of necessary public services. This change would curtail rising labor costs and would remove such burdens from the budget, thereby enabling Scranton to improve its fiscal health.

Tax Reform

Scranton's latest recovery plan[90] suggests that officials should eliminate or drastically reduce the business privilege and mercantile business taxes.[91] A tax levied

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88. Mayor William L. Courtright, letter to the editor, *Scranton Times-Tribune*, April 14, 2016.
89. Jim Lockwood, "Scranton to Get $28 Million from Lease of Parking Garages to Nonprofit," *Scranton Times-Tribun*e, June 16, 2016.
90. Pennsylvania Economy League, *Revised and Updated Act 47 Recovery Plan, City of Scranton* (2015), 8.
91. See The Scranton Plan, "State Taxes," 2015, http://scrantonplan.com/taxes.html. Currently, a retail business in Scranton pays local taxes of $7.81 per $1,000 in gross sales ($6.13 + $1.68), and a wholesale business pays $7.56 ($6.13 + $1.43). This tax is in addition to a state corporate net income tax of 9.99 percent and a local earned income tax on net profits of 3.4 percent, of which 2.4 percent is levied by the city of Scranton and 1 percent is levied by the Scranton school district.

on a business is really a tax levied on some person or group of people. If the mercantile and business privilege taxes are not completely passed on to the consumer, then the taxes increase the cost of doing business in Scranton relative to other places.[92] In an area that is already losing jobs, it is unwise to levy taxes that discourage firms from forming or locating in Scranton.

In April 2015, the city approved an increase in the Local Services Tax from $52 per year to $156 per year for anyone earning over $156,000 per year. This increase is estimated to generate $4.2 million in revenue.[93] On the margin, this tax increase will make Scranton a less attractive place to work. If employers and jobs continue to move out of the city, the tax will generate less revenue over time. The Local Services Tax should be reduced to the previous level or eliminated once Scranton's fiscal situation has improved. If this reduction occurs quickly, any negative long-run effects from the tax may be attenuated.

In 2014, approximately 35 percent of the property in Scranton was classified as belonging to a "purely public charity" and as such was tax exempt.[94] A report released by the Pennsylvania Department of the Auditor General showed that tax-exempt properties in Lackawanna County were exempted from paying $13.8 million to municipalities in the county in 2014 and $33.3 million to school districts within the county that same year.[95] Entities that are not truly "purely public charities" should have their tax exemption status revoked, thereby broadening the property tax base and dampening the tax distortions. A broader tax base should allow Scranton to lower property tax rates in the future, which will benefit all Scranton's residents.

The inadequacy of the property tax to pay for local services has been raised many times in the context of service regionalization.[96] This critique misses the fact that over time, local revenues have actually increased, but so has

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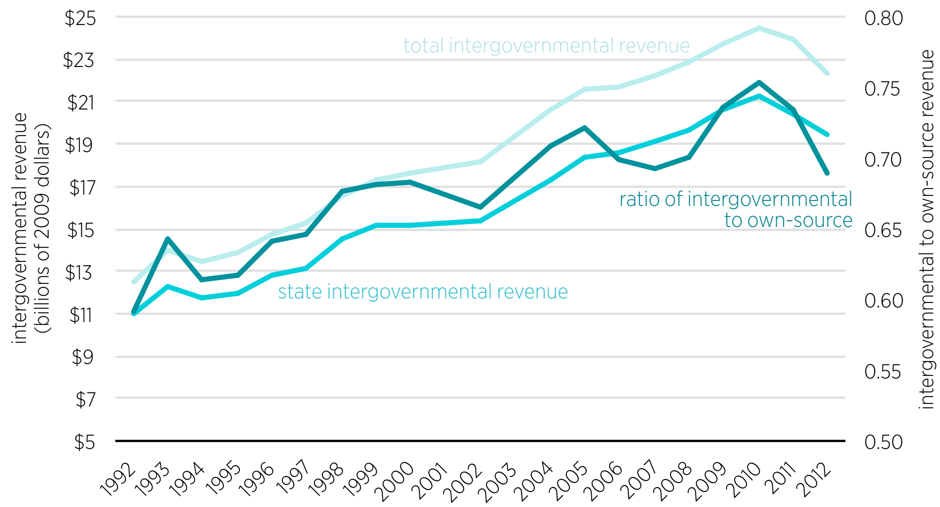
92. For the tax to be completely borne by consumers, the demand for the firm's product needs to be perfectly inelastic in the price-plus-tax portion of the demand curve. Because nearly all products have some substitutes, especially in the long run, this scenario is highly unlikely.
93. Jim Lockwood, "Judge Lets Scranton Triple the Local Services Tax," *Scranton Times-Tribune*, April 24, 2015.
94. "Change Coming for Defining Tax Exempt Properties?," PA Homepage, March 19, 2015, http://www.pahomepage.com/news/change-coming-for-defining-tax-exempt-properties.
95. Pennsylvania Department of the Auditor General, *A Review of Potential Lost Revenue Due to Property Tax Exemptions* (Harrisburg, PA: December 2014).
96. According to the Pennsylvania Economy League, local government's method of raising revenues is inadequate for municipalities. That organization promotes a regional service delivery model that maintains municipal boundaries. In addition to a "dizzying array of taxes," localities face skyrocketing personnel costs, tax base erosion, outdated assessments, and millage rate restrictions, thus making it difficult to keep up with escalating expenses. Many city governments turn to one-time strategies such as asset sales, borrowing, or creative financing. See Gerald Cross,

FIGURE 16. PENNSYLVANIA INTERGOVERNMENTAL REVENUE TO LOCAL GOVERNMENTS



Source: US Census Bureau, "State & Local Government Finance," multiple years, http://www.census.gov/govs/local.

spending. Although the real estate tax does raise less revenue in real terms than it did in 1970, as discussed previously, this reduction is partly local governments' own doing.

Pension Reform

Municipal pension plans in Pennsylvania contain a number of paradoxes. They are designed by parameters set in state legislation, but the size of the benefit is determined by local collective bargaining. The costs of the resulting plans are partially covered by state aid raised through revenue that is based on a state-levied tax on "foreign" insurance companies. This approach leads to a system governed by fiscal illusion. Promises are made at the local level and subsidized by state taxpayers.

The broad increase in state and federal assistance to Pennsylvania municipalities can be seen in figure 16, which shows the increase in intergovernmental revenue in Pennsylvania from 1992 to 2012.

During this period, intergovernmental revenue increased both in dollars and as a percentage of locally raised (own-source) revenue. In 1992, intergovern-

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"Broken in the Box: A Case for Local Government Reform in Pennsylvania" (Wilkes-Barre, PA: Pennsylvania Economy League, February 2013).

mental revenue was 59 percent of total own-source revenue; by 2012, it was 69 percent. This increase indicates a greater reliance on higher-level governments to fund local spending. Where locally negotiated spending, such as pension benefits, is subsidized by state funding, local officials have less incentive to monitor costs. Other rules in need of reform allow distressed municipalities to defer full payment into the pension fund, thereby pushing costs into the future.

Recent reforms proposed by Governor Wolf's task force on pensions include capping total compensation used to calculate benefits and ending the practice of collective bargaining and binding arbitration to enhance pensions. Those measures will help in the long run but are not enough to tackle the size of the present unfunded liability. The current pensions should be capped, the plans closed, and the employees given the option to enter a new defined contribution system.

State-Level Reforms

For many third-class Pennsylvania cities, "municipal coffers can no longer afford the increasing related health care and pension costs, as well as the normal expected increases in wages."[97] State laws, mandatory arbitration awards, and court decisions have created systemic fiscal problems across the state. Rising costs and insufficient revenues led officials to pension underfunding, habitual borrowing, and other measures to fill budget gaps.

Act 47 has helped identify and diagnose municipal fiscal distress but has not given municipalities all the tools needed to clamp down and control costs. As of July 2016, twelve cities are designated as distressed under Act 47, five of which have been so since before 1996.[98] And in the nearly 30-year history of the act, only two of 14 cities—Clairton and Nanticoke—have been declared recovered. It is clear that new tools are needed.

These tools must include a review of state laws that have contributed to rising municipal expenses. Further, reforms of Act 47 should consider how municipal laws interact with state laws to produce the institutional framework in which local governments create budgets and negotiate with employees. Lawmakers should consider the following two institutional reforms.

97. Pennsylvania Economy League, Central PA Division, *Structuring Healthy Communities: Municipal Case Studies*, 1-3.

98. Pennsylvania Department of Community and Economic Development, "Act 47 Financial Distress: A Timeline of Financially Distressed Municipalities and Recovery Plans," accessed September 29, 2016, http://www.newpa.com/local-government/act-47-financial-distress.

“[The] arbitration process is asymmetrical, is detached from fiscal reality, and results in agreements that harm municipalities and workers with unsustainable promises.”

Collective bargaining reform. First, the state should reform collective bargaining. Act 111 of 1968 governs collective bargaining and binding arbitration rules between union employees and their government employers. According to the Pennsylvania Economy League, the arbitration process is insulated from the market conditions that other workers must live with and leads to a “leap-frog” effect where arbitrators point to cities with higher police and firefighter salaries to justify raises.[99] Municipalities currently pay the full cost of arbitration. Ability to pay is not considered. The municipality has limited ability to appeal in court. The arbitration panel is limited to three people. This arbitration process is asymmetrical, is detached from fiscal reality, and results in agreements that harm municipalities and workers with unsustainable promises. Act 111 is the key driver of distress in many municipalities.

Pensions and other post-employment benefits. In addition to enhancing transparency and accountability of the collective bargaining process, reform should limit what Act 111 permits to be negotiated by removing pensions and other postemployment benefits from bargaining. Act 111 states that police and firefighters “have the right to bargain collectively with their public employers concerning the terms and conditions of their employment, including compensation, working hours, working conditions, retirement, pension, and other benefits.”[100]

Benefits have been enhanced without regard for the locality’s ability to pay. The city cannot control those costs. State aid has increased the incentive to promise unsustainable benefits and to shift the cost to state taxpayers. State-granted funding deferrals have shifted the burden to future generations. Rising costs have also affected other

99. Pennsylvania Economy League, “Public Safety Arbitration Award Reform Needed,” April 2, 2014, http://pelcentral.org/public-safety-arbitration-award-reform-needed.
100. Policemen and Firemen Collective Bargaining Act, P.L. 237, No. 111 (1968).

budget choices and have encouraged municipalities to issue debt. It is ultimately in the employees' interest that benefits be removed from negotiations so that plans may be stabilized, better accounting and transparency measures may be instituted, and plans may be fully funded by municipal sponsors. But as long as pensions are subject to municipal negotiations under the current flawed accounting, it is likely that plans will become even more underfunded, thus harming workers' retirements and municipal financial health.

CONCLUSION

Scranton is at a crossroads. The magnitude and scope of the city's problems preclude easy solutions, but the problems are not unsolvable. The fiscal and regulatory reforms suggested here and in the most recent recovery plan will help the city get back on track and ensure it can continue to provide the basic city services that residents rely on.

Demographic and economic trends make it unlikely that Scranton will return to its former place as one of America's 40 largest cities. But Scranton can improve its business environment in an effort to attract young, highly skilled workers. A city filled with entrepreneurial workers who are free to experiment does not guarantee economic success, but it increases the chances. It is up to Scranton officials and residents to make the tough choices needed to remove barriers to entrepreneurship and to impose discipline on city finances in order to position the city for future economic success.

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