

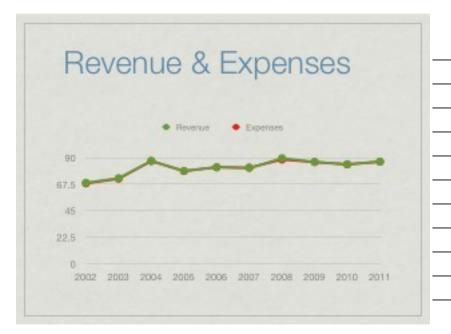
# Lackawanna County's Financial Challenges

# **Budget Deficit**

- The county faced a \$12.87 million budget deficit going into the Administration (2009). The following items accounted for the deficit:
  - \$3 million Increased 2009 Debt Service Payment;
  - \$2.4 million Deferred 2008 Debt Service Payment;
  - \$800,000 Expended Debt Reserve Funds;
  - . \$1.3 million Expended Debt Escrow Funds; and
  - \$5.37 million Cost of Living Adjustments (less State/Federal Reimbursements).

#### Debt Service Spikes

- The county faced significant debt service spikes going into the Administration (2008). The following items accounted for the spikes:
  - \$15.3 million Debt Service Spike in 2008(escalating to \$19.44 million in 2014);
  - \$35 million Auction Rate Market Collapse; and
  - \$350,000 in periodic payments on five SWAP transactions.



Response to Financial Challenges

# Response to Financial Challenges

- In 2008, the Administration launched an aggressive Government Efficiency Program, which looked for savings in all areas of government and revenue opportunities. As a result of those efforts, the Administration:
  - · Reduced expenditures by \$18.6 million;
  - · Reduced workforce by 32%;
  - · Increased Revenue Sources; and
  - Utilized One-Time Revenue Sources, as a last resort to maintain a balanced budget and not raise taxes.

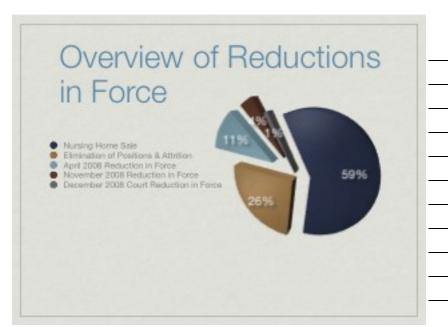
#### Reduced Expenditures

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# Office Supplies' Savings Office Supply Expenses (Down more than \$617,667 from 2008) 1300000 975000 650000 325000 0







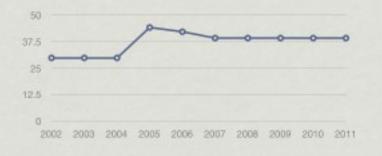
# One-Time Revenue Sources

- Utilized One-Time Revenue Sources to Avoid Tax Increase:
  - Termination of constant maturity SWAPs resulted in a \$1.1 million one-time revenue source; and
  - Sale of the Lackawanna County Health Care Center resulted in a \$5.1 million one-time revenue source.

### Results of Government Efficiency Program

- The Government Efficiency program resulted in:
  - No Tax Increase: and
  - Smaller County Budget.

# Six Straight Years (No Tax Increase)



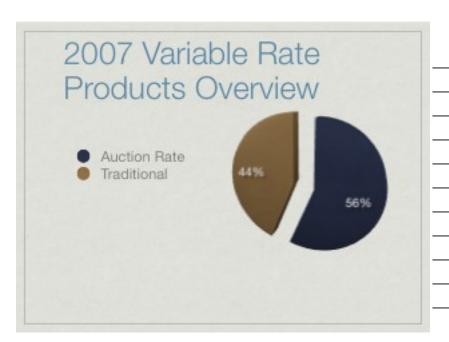


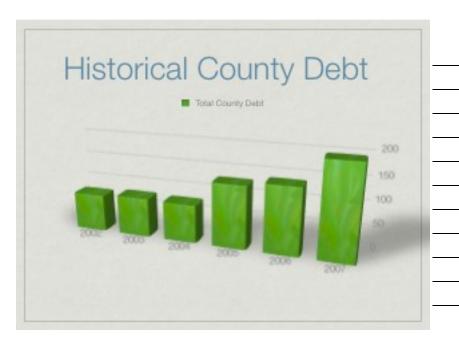
#### Result of Savings Avoided 33% Tax Increase

- If we had not reduced expenses dramatically by refinancing debt, instituting the
  reductions in force, selling the nursing home, invested in hybrid vehicles,
  reducing office supply expenses, among other expenses, initiated the judicial
  sales and reducing the workers' compensation expense, we would have been
  forced to raise taxes by 33%.
- The taxes would have increased by 13.5 mills, which means:
  - The average homeowner with property assessed at \$10,000 would have seen a \$135 tax increase.

# Understanding the County's Debt Position









## Debt Restructuring

- Since taking office, the Administration has taken a conservative approach to managing debt service and exposure to variable rate debt.
  - 2008 Refinanced auction rate debt to combat skyrocketing interest rates; terminated three SWAPS (derivative instruments) to turn a \$1.1 million profit.
  - 2008/2009 Refinanced debt to smooth out anticipated long-term debt service spikes, as a result debt service was reduced from approximately \$20 million annually to \$15 million annually.
  - 2010A Refinanced \$3.5 million to save almost \$200,000 per year by taking advantage of a low interest rate environment.
  - 2010B Refinanced \$58 million to reduce variable rate exposure and volatility of a SWAP with SWAP termination.
  - 2011 Re-marketing variable rate debt to fix rate debt to eliminate variable rate exposure. Upon completion of this transaction, the county will have eliminated all of its variable rate debt.

# Debt by Administration Lugar/Factinato Cordare/Mundrak Cordare/Mundrak Cordare/Mundrak 150 112.5 75 37.5 1983 1984 - 2003 2004 - 2007 2008-2011

#### Debt Breakdown Since 2008

The Administration has taken a conservative approach to increasing the county's debt load. Other than funding previously obligated funds under Cordaro-Munchak, the Administration has limited the county's borrowing to important county needs summarized below:

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Coefficient Renovation Coeff Christian Specificity Contain-Munchale	1	5,000,000,10		
Azimutation Busing Bleston Expendite or January 7, 2008	1	400,000,00		
Separa Parking Garage Contribution Previously Disligated by Divolant Stundent	1	\$100,000.00		
DPW Suiting Replacement after OPM Building Sold by Contain-Munchale	4	0.500,000.00		
Time & Attentionics System Implemental Linder Contain Hundries	4	100,000,00		
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County Soverment Exportmental Capital Requests			5	155,000,0
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Parks & Recession Schaptschutze, Science Corps, Placarscrick, Fine Park & Std Poblis				1,000,888.8
Food and Binige Repairs			E .	3,500,300,3
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New Hoteld Doors for EOLT'S (8th), provided by Neteral governments			6	400,000,0
Startlinoung Kintahil Is Alternation		20,107,000,00	E.	T,860,860.30
Total Revision on Green Street	6	29,750,000,00		





## 2011 Financial Challenges



#### 2011 Revenue Shortfall

- The county faces a revenue shortfall for 2011 as described below:
  - \$3.2 million Federal Government Cuts (Federal Prisoners)
  - \$1.23 million State Government Cuts (Human Services & Emergency Services)
  - \$1.21 million Previous Administration Policies (Debt Service, Dexia & Baseball)
  - . \$250,000 State of the Economy (Construction Market)
- TOTAL 2011 REVENUE SHORTFALL = \$5.89 Million

# 2012 Financial Challenges & Beyond

## 2012 & Beyond

- The county faces a revenue shortfall for 2012 and beyond as described below:
  - \$5.1 million Structural Deficit (elimination of one-time revenue acuroes)
  - \$3 million Federal Government Cuts (Federal Prisoners)
  - \$1.8 million Aging Infrastructure (Traffic Mitigation, Technology, Facilities & Maintenance Libraries)
  - 80 Recessessment
  - \$1.5 million Cost of Living Adjustments (Health Case, etc.)
  - \$1.4 million State Government Cuts (Human Services & Emergency Services)
  - 8750,000 Previous Administration Policies (Debt Service)
  - . St. Unfunded Person Obligation
  - TOTAL 2012 REVENUE SHORTFALL = \$13.55 Million

**Management Philosophy** 

#### Managing Government

- As county commissioners, it has been our philosophy to hear from as many experts as possible in given fields prior to making important and lasting decisions.
- We understand that the decisions that we make today will have a lasting impact on the residents of Lackawanna County.
- For example, prior to selling the nursing home, engaging in the process of selling the baseball franchise and making long-term space decisions, we held commissioners' hearings where we would have an opportunity to hear from experts in those fields.
- Therefore, consistent with our approach to managing county government, we intend to solicit the opinions of finance, business and government experts to assist us in evaluating the options available to us to overcome our financial challenges.

#### Advisory Board on County Finances

### Establishment of Advisory Board

- Prior to making a decision on what approach the Commissioners should pursue to overcome these financial challenges, the Commissioners intend to establish an Advisory Board on County Finances to review the county's financial position and provide recommendations to assist the Commissioners in finalizing the county's budget process.
- The Commissioners intend to present a 2012 county budget in October as required by the Home Rule Charter, but such budget may be revised after receipt of the Advisory Board's recommendations.
- The Advisory Board will be comprised of individuals, all having significant experience in business and finance.
- The Advisory Board's recommendations are due on Wednesday, November 9, 2011 to avoid politicizing the Advisory Board's recommendations.

#### Mission of the Advisory Board

- . The mission of the Advisory Board is to:
  - Understand the services that county government is responsible to provide and the Administration's long-term goals;
  - Consistent with this understanding, review all aspects of county government that have a material impact on the county's general fund budget; and
  - Suggest ways that the county government can successfully meet its mission in a fiscally responsible way through creative revenue generation, among other possible suggestions.

#### Long-Term County Goals

- Lackawanna County governments long-term goals are to:
  - Provide efficient, county government services in a respectful, responsible and effective manner to the taxpayers of Lackawanna County;
  - Promote job creation by encouraging companies to employ Lackawanna County residents;
  - Create the environment to aid the private sector in creating jobs through investment in transportation, physical and technology infrastructure; and
  - Continue to improve the quality of life for all county residents.

#### Keith W. Eckel



- Keith W. Eckel is a board member of Nationwide, one of the largest diversified insurance and financial services companies in the world. He was first elected to the board in 1996 and has served as board chairman of Nationwide Mutual Insurance Company, the parent company of the Nationwide organization, since April 2008. Mr. Eckel is former board chairman of Gartmore Global Asset Management Trust and Allied Group, Inc., and former director of Nationwide Financial Services, Inc.
- Mr. Eckel is owner of Fred W. Eckel Sons and president of Eckel Farms, Inc., in northeast Pennsylvania.
- Mr. Eckel serves on the Board for International Food and Agricultural
  Development, a board that advises the U.S. Agency for International
  Development on agricultural priorities and issues. He is a trustee of
  Pennsylvania State University. He is a former president of the Pennsylvania
  Farm Bureau, a position he held for 15 years, and the Lackawanna County
  Cooperative Extension Association.

#### Thomas Karam



- Thomas Karam is the president of Delphi Midstream Partners and a member of the Board of Trustees at The Commonwealth Medical College.
- Before establishing Delphi Midstream Partners, Thomas was president, chief operating officer and director of Southern Union Company. Prior to Southern Union, he was the president and CEO of Pennsylvania Enterprises, Inc. (PEI) and PE Energy, Inc. PEI was a NYSE-listed company which owned gas and water utility operations in Pennsylvania.
- While at Southern Union, Thomas successfully completed \$4.25 billion in midstream acquisitions and implemented strategies incrementally increasing earnings by approximately 13% annually. He serves on the Board of Directors of the Boys and Girls Club of Northeastern Pennsylvania and The Commonwealth Medical Education Corporation.

#### Elizabeth Burns



- Originally from Archbeld, Elizabeth Burns left the region to pursue a distinguished career in finance and investment banking.
- After working for Time, Inc., Elizabeth Burns became a Senior Vice President for Capital Guardian, representing investment banking clients around the world.
- As a member of the Fordham University Board of Trustees, she provides critical strategic planning advice to senior management.
- Never forgetting her roots in Northeastern Pennsylvania, Elizabeth also serves on the Board of Directors for The Wright Center and United Neighborhood Centers.

#### Austin Burke



- · Austin is the President of the Greater Scranton Chamber of Commerce.
- He has worked with the area's leaders to craft responses to community needs: Skills in Scranton; Business-Education Partnerships; Work & Play in Northeast PA; The Great Valley Technology Alliance; MetroAction, Inc. Microloans; Leadership Lackawanna; and The Scranton Ptan. He was an incorporator of Montage Mountain, Inc. and worked to bring the Steamtown National Historic Site to Scranton.
- Austin served in Pennsylvania Governor Ed Rendell's cabinet as Secretary for Community & Economic Development.
- Other current Pennsylvania appointments include the Commonwealth Financing Authority and the Ben Franklin Technology Development Authority. He served prior administrations on the IMPACCT Pennsylvania. Commission and the Technology Transfer Task Force.

# Advisory Board Access to Professionals

- The Advisory Board will have immediate access to the County's chief financial officer, budget director, chief of staff, deputy director for human resources, deputy director for insurance, county solicitor and any other professional staff members, as the Advisory Board deems necessary, to conduct its important work.
- The Advisory Board will also have immediate access to the County's financial advisor, PNC Bank, RBC Dain Rausher, county government finance experts and labor counsel.
- The Advisory Board may also consult with other professionals that they may have personal or professional relationships to obtain additional input or information.

#### **Planning Schedule**

# Planning Schedule

- July 21, 2011 Commissioners' Hearing on Finances
- July August 2011 Brief Commissioner and Controller Candidates on County Finances
- September 1, 2011 County Prepares 2012 Draft Budget
- No Later Than October 15, 2011 Commissioners Present Draft Budget
- November 9, 2011 Commissioners Receive Advisory Board Recommendations
- No Later Than November 15, 2011 Commissioners Hold Four Public Hearings on the Onit Budget
- Mid/Late November 2011 Brief Commissioners-Elect and Controller-Elect on County Finances and Commissioners Decide on Budget Approach
- ADOPT BUDGET