



Commissioners' Hearing

Fiscal Challenges Facing Lackawanna County
July 21, 2011

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.

Revenue & Expenses



Response to Financial Challenges

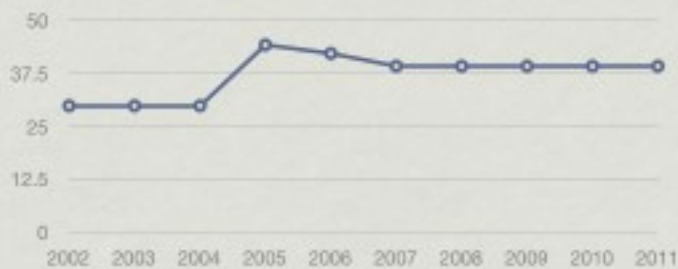
One-Time Revenue Sources

- 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

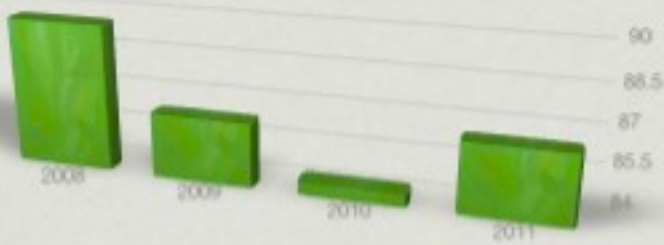
- The Government Efficiency program resulted in:
 - No Tax Increase; and
 - Smaller County Budget.

Six Straight Years (No Tax Increase)



Budget Snapshot

■ County General Fund Budget



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

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 sources)
- \$3 million - Federal Government Cuts (Federal Prisoners)
- \$1.8 million - Aging Infrastructure (Traffic Mitigation, Technology, Facilities & Maintenance, Libraries)
- \$0 - Reassessment
- \$1.5 million - Cost of Living Adjustments (Health Care, etc.)
- \$1.4 million - State Government Cuts (Human Services & Emergency Services)
- \$750,000 - Previous Administration Policies (Debt Service)
- \$0 - Unfunded Pension 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 2006. 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 Archbald, 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 Plan. 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 Draft Budget
- Mid/Late November 2011 - Brief Commissioners-Elect and Controller-Elect on County Finances and Commissioners Decide on Budget Approach
- **ADOPT BUDGET**
