

---

## Lackawanna County's defenses down, may consider calling in a 'small army' paid by the state

Lackawanna County's financial status continues to decline, according to several metrics, suggesting the distressed county may be a candidate for some type of state intervention.

The county hasn't released a comprehensive audited financial report since December 2011 for the fiscal year that ended 31 December, 2010, and was not able to answer questions about its financial status.

Austin Burke, president of the Greater Scranton Chamber of Commerce, and a member of a task force that submitted recommendations to the county board of commissioners in November 2011 said he was "not in a position to be able to judge" whether the county had made any progress since those recommendations were issued.

"Lackawanna County's financial position is at crisis stage," the task force report reads. "The recent loss of the county's 'Investment Grade Rating' as a result of Moody's downgrade, has caused related financings to be in technical default. This is a very serious situation which requires immediate and decisive action to cure."

Among the recommendations the task force made were the adoption of a balanced budget, delivery of an unqualified audit for FY10, refunding of then-outstanding Tax Anticipation Notes, and issuance of USD 21m in unfunded debt by 31 December 2011.

As previously reported, the county did close on the unfunded debt, adopt a balanced budget, and deliver the audit. It is not clear whether the refunding happened. But as Burke pointed out, it won't be clear how optimistic the county's budget was for several more weeks, as the county starts to craft its FY13 budget. "It's not typical here to see mid-year statements on tax collections," he said.

According to the FY10 CAFR, the county ended with a general fund deficit of USD 11.3m on expenditures of USD 100.3m, compared with a deficit of USD 9.5m on expenditures of USD 102.1m in FY09. In January, Moody's followed Standard & Poor's and Fitch in withdrawing its rating, citing "a lack of sufficient and accurate financial information".

But another challenge for the county, Burke said, is going to be new rules adopted by the state requiring increased contributions to municipal pension funds. He said he hopes the county commissioners are open to considering additional taxation. Taxes in the county went up last year (by 38%) for the first time in at least four years, as previously reported.

John Filan, vice president with DSI Civic, pointed out that in general, municipalities are often burdened with funding mandates they can't meet, such as pensions and health care. "There are so many restrictions in state law on what they can and cannot do, in terms of mandates they have to fund, and they're very restricted on what they can do on the revenue side," he said.

But Filan acknowledged that local governments have made mistakes, and there can be times when state intervention can be helpful.

In Pennsylvania, counties are eligible for Act 47, but only for the "technical assistance" portion of the program – not financial help, said a spokesperson for the Department of Community and Economic

---

Development (DCED). Even without financial assistance, Filan said, Act 47 could be helpful for a distressed municipality such as Lackawanna County. “It does bring a small army of trained, experienced professionals in the area of operations and law and finance to the government,” he said. “Most governments in stress can’t afford professionals because they’re trying to pay the police and firefighters. That team with the state people, the state is actively involved, in it, with that team assembled and paid for -- you now have tremendous focus on the issue. A lot of times financial problems drift for a while.”

The DCED also offers an Early Intervention Program for counties, and several counties, including Luzerne, Adams, and York have participated. Burke said that at the time when his task force was making its recommendations, it had considered the program. Ultimately, though, since the board of commissioners had two new members out of three, the task force “felt we needed to give them a chance to get their arms around what needed to be done”.

A USD 40,000 tranche of Series 2009B general obligation notes maturing in 2034 last traded on 14 December at 109.70, yielding 4.5%, according to Electronic Municipal Market Access. Bondholders include **Legg Mason’s** Western Asset Municipal High Income Fund, according to fund disclosures. The trustee is **First Liberty Bank & Trust**.

by Andrea Riquier