

November 2, 2012

To: Advisory Committee on Lackawanna County Finances

On the anniversary of the release of the 2011 Finance Advisory Board recommendations, we wanted to provide the Board and the residents of Lackawanna County with an update on our progress in implementing several of your recommendations. While we may not agree with every recommendation, we are confident that you will find that we have made great progress in implementation of the lion-share of your recommendations. For example, we have completed or are in the process of completing twenty-eight (28) of the thirty (30) recommendations or 94%.

GOVERNMENT RESTRUCTURING

A. General Management Principles:

1. Establish clear objectives, targeted benefits, costs, alternatives and funding sources for all non-mandated current services and outside consulting contracts; eliminate under-performing services.

*County Response: **Completed.** Our administration was proactive during the development of the 2013 budget and asked all department heads to look at and evaluate all programs and contracts within their own departments.*

2. Implement zero-based budgeting and eliminate non-essential programs and personnel.

*County Response: **Completed.** The 2012 and 2013 budget process did include a zero based budgeting approach. The 2013 budget process even went a step further with our administration, asking each and every department head to look at their 2012 budgets and cut an additional 5% for their 2013 budget. We continually evaluate what the advisory committee considers non-essential programs and personnel. We are implementing a further reduction in force of non-essential personnel.*

3. Utilize best practices and best technologies in all County operations; centralize and consolidate where possible.

*County Response: **Completed.** In planning and development since 2009, the Lackawanna County Wireless Information Technology Infrastructure Initiative*

will position first responders, municipal governments, medical organizations, businesses, schools, and business development organizations with superior connectivity and networking resources through a robust network. Lackawanna County's 911 dispatch system, center for public safety, courts, prison, and government operations all require secure, high capacity network technology. By developing this network, Lackawanna County will have the security, speed, and capacity required to meet the demands of today's services, and have the technology and capabilities to meet the needs of tomorrow. Within the overall capacity of the network, the Lackawanna County government operations footprint is small; therefore, excess network resources will serve many other users and needs throughout the County and beyond.

4. Take immediate action to undertake a comprehensive County reassessment.

County Response: In process. Our administration believes that Commonwealth of Pennsylvania intervention would be the best solution for our re-assessment needs, since we are unable to budget the eight million dollars necessary to complete this project.

5. Initiate audit protocols for hotel tax.

County Response: Completed. A cooperative effort between the County Controller and the Tax Claim Bureau has resulted in an increase of hotel tax audits. We believe the County will receive the accurate amount of hotel tax due going forward.

6. Establish new and more aggressive practices to collect delinquent tax payments.

County Response: Completed. The County's delinquent property taxes are returned to the Tax Claim Bureau on January 31st of the following year that they were not paid. On February 1st of that following year, the Tax Claim Bureau begins assessing a 9% annual interest charge. If the property taxes are delinquent for two (2) years, the property owner is then sent an additional notice explaining that the property is up for tax sale and it is posted by a sheriff deputy or a constable in accordance with the Real Estate Tax Law of 1947 – Act 542. The Tax Claim Bureau then has the right to sell the tax delinquent property. The sales are upset sale, private sale, judicial sale and then repository list.

B. County Government Restructuring Actions

1. Evaluate the consolidation of all County Row offices.

County Response: In process. Our administration has been reviewing the potential savings associated with the consolidation of the County Row Offices.

2. Consolidate GIS/mapping functions of the Assessor's Office, 9-1-1 Center and Planning and Economic Development Department.

County Response: Completed. Through cooperation of these departments, we are making better use of our internal GIS resources. The use of these resources will ultimately allow us to reduce the need of outside vendors.

3. Amend the Home Rule Charter to allow up to ten year auditing contracts.

County Response: Completed. It is not necessary to amend the Home Rule Charter. According to the Home Rule Charter section 1.16-1604, an annual audit needs to be completed once every four years. To not violate this section, an independent auditor can be selected to complete two (2) successive Home Rule Charter audits.

4. Eliminate redundant services through intergovernmental integration and consolidation.

County Response: In process. As of January 1, 2013, the County's Coordinated Transportation department will be completely absorbed by COLTS (County of Lackawanna Transportation System). No services will be cut as a result, but savings to the County will be considerable.

The County is also involved in an intergovernmental purchasing consortium. Another instance is: in 2012 our Veterans Affairs department took advantage of this program when buying flags and grave markers for a great deal of savings.

COST REDUCTION ACTIONS

1. Review all County real estate; develop a space utilization report to support required space only. Get out of the real estate business.

County Response: Completed. The County has completed a space study that began in 2008. As a result of the space study, the County has moved certain departments which allows for easier access for the public as well as more efficient use of existing space. The Jefferson Avenue building will hold all land records offices as well as the County Controller's and Treasurer's offices. Currently, we are looking into purchasing a building that would help solve some of our storage needs and actual facility shortages. The purchase of this building will be funded through the offset of expiring leases. We are trying to utilize the space we currently own or lease in a much more efficient manner.

2. Negotiate employee benefits to the levels and practices of private industry; explore combining plans with other governmental bodies to gain pricing power.

County Response: In process. Currently we are negotiating with our unions, trying to consolidate the existing health-care plans. The County is currently a self-funded health-care plan. It is impractical to consolidate with other outside governmental bodies.

3. Convert employee retirement programs to a Defined Contribution Plan or a statewide county/municipal pension plan. See D. Below.

County Response: Completed. The County pension plan in its current form is statutorily required; to modify the plan state action is required.

4. Coordinate prison employment levels and practices to reflect inmate population changes. Sell the prison, if possible, or explore a joint prison with other counties.

County Response: Completed. Current staffing levels are based on Federal and State minimum mandated standards. Our staff's sound security practices take into consideration public safety and the safety of our inmates. State law may not permit prison privatization.

5. Consider judicial alternatives to internment to reduce the prison population.

County Response: In process. Our administration has been meeting regularly with County Judicial officials, trying to create viable solutions to this problem by keeping non-violent offenders out of the County prison system.

6. Expand the successful Children and Youth Agency programs that reduce placement expenses.

County Response: In process. The County Children and Youth Agency is now a model for the Commonwealth. Through efforts between our administration, CYS management and our Judicial system, we have continued to manage costs by focusing on juvenile placement.

REQUESTS TO THE STATE LEGISLATURE

1. Reform county pension rules to enable adoption of a Defined Contribution Plan or the establishment of a statewide county/municipal pension plan.

County Response: Completed. According to Act 96 of 1971 the County Pension Law provided for the creation, maintenance and operation of this plan and assigns the authority to establish and amend the contribution requirements and the benefit provisions of this plan to the General Assembly of the Commonwealth of Pennsylvania. We would need approval from the General Assembly.

2. Seek legislation to increase the hotel tax in Lackawanna County from 4% to 7%. Eliminate Section A-8 to recover tax revenues from long-term stays.

County Response: Completed. Our administration has taken this suggestion very seriously. We lobbied the Commonwealth to allow us the opportunity to raise the hotel

tax rate and on September 7, 2012, the new tax rate of 7% went into effect. We are also currently asking for the Commonwealth to look at the length of stay issue as well.

REVENUE ACTIONS

1. Increase real estate taxes and other revenue sources to cover unfunded debt payments and the 2012 operating deficit.

County Response: Completed.

2. Implement a strict policy to accelerate collection of taxes, commissions and penalties.

County Response: In process. Please refer to previous response of the collection of taxes. See A. General Management Principles.

3. Create revenue opportunities from County assets that have capacity and unique value for private sector purchase or lease

County Response: In process. Our administration was able to complete the sale of the baseball franchise. We were also able to enter into a long-time lease agreement with the caveat of the tenant assuming basic maintenance expenses.

Evaluate the cost/benefit of the following:

- a. Wireless broadband connectivity

County Response: In process. Please refer to the above response in section A, under best technologies used.

- b. Retail incubator subleases

County Response: In process. The 2013 budget includes \$1.25 million to be used for economic development issues. In this budget allocation, our administration intends to focus on job creation incentives, a life sciences technology corridor, community reinvestment, high-tech innovation, merchant revitalization and infrastructure improvements.

- c. Advertising placement on County locations, equipment, publications and websites

County Response: In process. This is a suggestion our administration is still considering at this time.

- d. 9-1-1 Center audio visual training capabilities

*County Response: **Completed.** The County regularly utilizes 9-1-1 training facilities for departmental training opportunities.*

- e. Hold additional events at the Toyota Pavilion and/or County parks.

*County Response: **Completed.** Additional events at the pavilion are up to the discretion of the promoter. County parks and recreation personnel constantly develop programs and events to use the facilities more efficiently.*

- f. Paid sponsorships for County parks.

*County Response: **Under review.** Our administration is considering this option.*

- g. Position cell towers and other non-intrusive facilities on County properties.

*County Response: **Under review.** Our administration has investigated this option and there are limited opportunities for placement of non-intrusive devices on County property.*

- h. Seek federal inmate opportunities to populate surplus County prison space.

*County Response: **In process.** Our administration continues to pursue additional federal inmates. The number of federal inmates has recently been reduced and there are no opportunities for additional federal inmates at this time. We are adjusting staffing levels to become compliant with federal and state mandates in hopes of taking advantage of future federal inmate opportunities.*

- 4. Consult with Lackawanna County cities and municipalities about a County-wide sales tax; this will likely need state approval.

*County Response: **In process.** We not only discussed a County-wide sales tax with our cities and municipalities, but also our surrounding counties. This is a much more important issue for us to tackle with our neighboring counties. This will ensure that no neighboring county gain an unfair advantage in relation to the sales tax. This, too, is in the hands of the General Assembly of the Commonwealth of Pennsylvania.*

Respectfully submitted:



Corey D. O'Brien



Jim Wansacz

November 2, 2011

TO: Board of Commissioners, Lackawanna County

The Advisory Committee on Lackawanna County Finances is pleased to submit our report and recommendations.

Lackawanna County's financial position is at crisis stage. 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 other things, the County MUST:

- A. Adopt a balanced budget by December 1, 2011.
- B. Deliver an unqualified audit for the year ended December 31, 2010, by December 31, 2011.
- C. The County must refund its current outstanding Tax Anticipation Note by December 31, 2011.
- D. The County must issue unfunded debt in the amount of \$21,000,000 by December 31, 2011.

Moody's Investors Service took the serious step to downgrade the County's bond rating below investment grade because of the "significant and rapid deterioration in the County's financial position – following several years of persistent deficits." Due to the downgrade, more than \$11,000,000 of debt is now "callable," which means immediate repayment may be demanded. The above listed actions can avoid such a demand. These actions must be taken as a prerequisite for all additional recommendations to be valid.

Achieving a balanced budget for 2012 will require a substantial real estate tax increase and, as a policy, the County must avoid additional borrowings.

The Committee reviewed financial and operating data for almost all areas of county government. We had access to and met with the professionals from each area listed below, as well as outside consultants, including the Financial Advisor to the County, pension consultants and the auditors from Parente Beard. The Committee reviewed, specifically: the prison; pension and benefits; mandated and non-mandated services; each of the Row offices; delinquent taxes; delinquent tax collection; staffing; insurances; hotel tax; reassessment; Moody's Investor Services Analysis; and, relevant state legislation.

The Committee is very appreciative for the significant support from and unfettered access to the professionals in the administration and their staffs. We are also grateful for the cooperation of the commissioners in assisting us, while allowing us complete autonomy to develop this report.

DISCUSSION

Lackawanna County's ability to respond to its financial and operational challenges is somewhat constrained by state and federal mandates, labor-management agreements and anachronistic organization and practices.

It became apparent very quickly that the issues facing the County are substantial, long in the making and are not able to be resolved quickly or painlessly. There are no magic fixes.

Balancing subsequent years' budgets will require the on-going discipline to manage the significant expenditure pressures the County will face. Going forward, even the best managed operations will face annual cost increases; contractual cost increases must be matched with revenues.

Our recommendations focus on several parallel paths to financial stability and efficient delivery of government services. Several areas, which clearly need priority action, are the County's bond rating, the prison, pension and benefit costs, administrative consolidations, revenues, and an immediate and sincere effort for intergovernmental consolidation. Each of the municipalities within the County have an obligation to their constituents to explore in earnest any and all opportunities to deliver services more efficiently and cost effectively through appropriate consolidation. The County must lead this effort.

While certain immediate steps must be taken, our recommendations advocate multi-year initiatives which will better position the County to deliver essential and desired services in an efficient and cost-effective manner.

We also recommend that a timetable for each action and date-specific public progress reports be established. Transparency in all these matters is key to gaining the trust and support of Lackawanna County's citizens.

GOVERNMENT RESTRUCTURING

A. General Management Principles

- 1. Establish clear objectives, targeted benefits, costs, alternatives and funding sources for all non-mandated current services and outside consulting contracts. Eliminate under-performing services.**
- 2. Implement zero-based budgeting and eliminate non-essential programs and personnel.**
- 3. Utilize best practices and best technologies in all County operations. Centralize and consolidate where possible.**
- 4. Take immediate action to undertake a comprehensive County reassessment.**
- 5. Initiate audit protocols for hotel tax.**
- 6. Establish new and more aggressive practices to collect delinquent tax payments.**

B. County Government Restructuring Actions

- 1. Evaluate the consolidation of all County Row offices.**
- 2. Consolidate GIS/mapping functions of the Assessor's Office, 9-1-1 Center and Planning and Economic Development Department.**
- 3. Amend the Home Rule Charter to allow up to ten year auditing contracts.**
- 4. Eliminate redundant services through intergovernmental integration and consolidation.**

COST REDUCTION ACTIONS

- 1. Review all County real estate; develop a space utilization report to support required space only. Get out of the real estate business.**
- 2. Negotiate employee benefits to the levels and practices of private industry, explore combining plans with other governmental bodies to gain pricing power.**
- 3. Convert employee retirement programs to a Defined Contribution Plan or a statewide county/municipal pension plan. (See below)**
- 4. Coordinate prison employment levels and practices to reflect inmate population changes. Sell the prison, if possible, or explore a joint prison with other counties.**
- 5. Consider judicial alternatives to internment to reduce the prison population.**
- 6. Expand the successful Children & Youth Agency programs that reduce placement expenses.**

REQUESTS TO THE STATE LEGISLATURE

- 1. Reform county pension rules to enable adoption of a Defined Contribution Plan or the establishment of a statewide county/municipal pension plan.**
- 2. Seek legislation to increase the hotel tax rate in Lackawanna County from 4% to 7%. Eliminate Section A, 8 to recover tax revenues from long-term stays.**

REVENUE ACTIONS

- 1. Increase real estate taxes and other revenue sources to cover unfunded debt payments and the 2012 operating deficit.**
- 2. Implement a strict policy to accelerate collection of taxes, commissions and penalties.**
- 3. Create revenue opportunities from County assets that have capacity and unique value for private sector purchase or lease.**

Evaluate the cost/benefit of the following:

- a. Wireless broadband connectivity**
- b. Retail incubator subleases**
- c. Advertising placements on County locations, equipment, publications and websites.**
- d. 9-1-1 Center audio visual training capabilities.**
- e. Additional events at the Toyota Pavilion and/or County parks.**

- f. **Paid sponsorships for County parks.**
 - g. **Position cell towers and other non-intrusive facilities on County properties.**
 - h. **Seek federal inmate opportunities to populate surplus County prison space.**
4. **Consult with Lackawanna County cities and municipalities about a County-wide sales tax; this will likely need state approval.**

Respectfully submitted,

Keith Eckel

Austin Burke

Betty Burns

Thomas F. Karam