

JOINT Urban Studies CENTER



REGIONAL IMPLICATIONS OF BOND RATING METHODOLOGY

JOINT URBAN STUDIES CENTER
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The Joint Urban Studies Center

The Joint Urban Studies Center was established to provide essential research, analysis, and consultation to small and mid-size cities aiming for full participation in the new economy of the 21st century. The Center mobilizes the resources of regional institutions of higher education to engage communities in planning that is informed by research, energized by broad participation from stakeholders in the community, and validated by successful implementation. As the managing partner in the Center, Wilkes University is joined by King's College, College Misericordia, Luzerne County Community College, Penn State Wilkes-Barre, and the University of Scranton.

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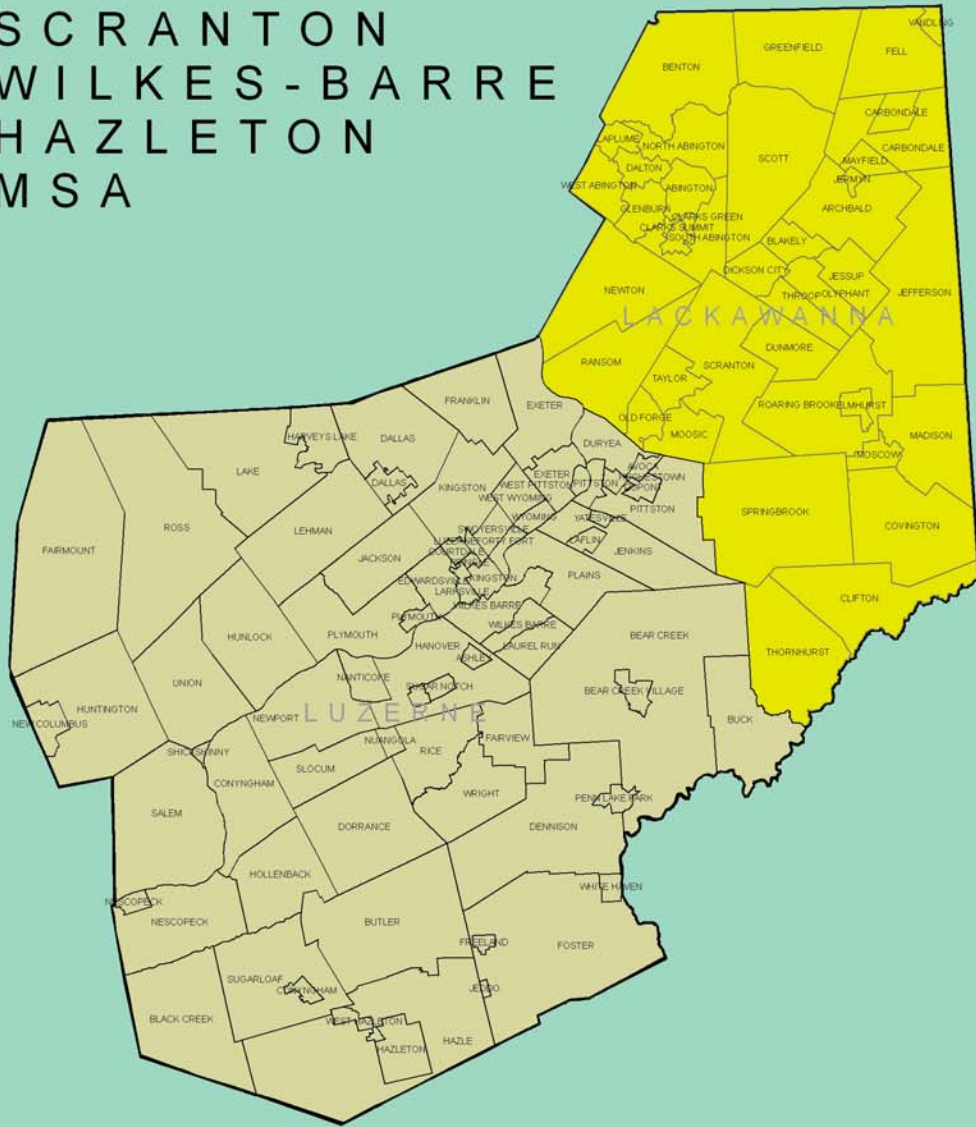
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SCRANTON WILKES-BARRE HAZLETON MSA



Prepared by:
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03/30/05

Graphic includes only portion of MSA



Table Of Contents

| | |
|--|----|
| Executive Summary | 6 |
| Municipal Bonds | 8 |
| Bond Rating Methodology for General Obligation Bonds | 9 |
| History & Trends | 12 |
| Comparison of Data | 17 |
| Conclusion | 19 |
| Appendix | 20 |
| Endnotes | 21 |

EXECUTIVE SUMMARY

The purpose of this report is to demonstrate the economic interdependence within this region by understanding the methodology of the major bond rating agencies and the similarities facing the communities in our region. We will not analyze every bond issue by Lackawanna and Luzerne counties, and the cities of Scranton and Wilkes-Barre. Background on the purpose of municipal bonds and bond insurance is provided to set the context of the discussion.

Municipal bonds are used for many purposes such as infrastructure, capital improvement projects, funding budget shortfalls, refinancing existing debt; and delivery of unfunded mandates. Because of a declining tax base (population decrease, lack of employment growth, and increasing elderly population), municipal revenue does not meet adequate levels to maintain and rebuild our communities. In order to operate, our region has been primarily using this debt financing to cover the shortfall.

JUSC's report, "Why Aren't We Average?" identifies historical issues and trends that permeate the entire Metropolitan Statistical Area (MSA) demonstrating, that the demographic changes during the past 50 years are quite similar. This explains why the cities of northeastern Pennsylvania are facing similar problems today. The region is seeing a declining population overall, less per capita and household income than the state average, and low job and business growth. All these factors contribute to lower revenue for local government to carry out its required functions. Combined, the impact is severe.

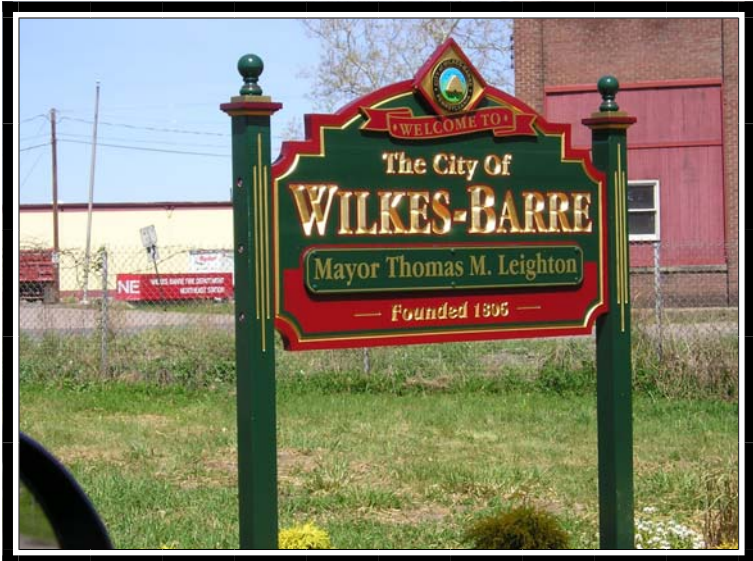
There are four main criteria used to rate bonds: economy, financial performance and flexibility; debt burden, and management. Each of the four main criteria has several determining factors within its category. These will be discussed in greater detail.

There are several ways to secure a rating: either through insuring a bond, securing an underlying rating, or having the fiscal strength to secure their own investment grade rating. Each local government undergoes the same credit analysis.

A strong example in proving our case is that Moody's considers the role that an issuer's local economy plays in its regional economy. Understanding a municipality's economic profile relative to its neighbors enables analysts to develop a context for economic indicators.¹ This clearly states that the condition, fiscal or otherwise of one community, has an effect on a neighboring community and, therefore, makes it part of a regional economy. Thus, it is proven that as part of a regional economy, the bottom line of the public sector is affected by the circumstance of other public sector entities.



Further, Moody's also studies commuting patterns to gain insight to a locality's role in the regional economy and the vibrancy of the employment market.ⁱⁱ One need only stand on Route 81 between Scranton and Wilkes-Barre, north or south during the early morning or late afternoon-evening rush hour, to see the number of commuters moving back and forth through Luzerne & Lackawanna counties.



This alone should be enough to demonstrate that the credit quality of a local government extends beyond the issuing jurisdiction's boundaries. Therefore, no jurisdiction in an economic region should act as an island. Parochialism is warranted in certain situations; however, collaboration to enhance assets, limit gaps; and mitigate challenges are most productive for a win-win situation.

The next logical question should be: is Lackawanna and Luzerne County an economic region? In JUSC's prior studies, there was strong analysis demonstrating Lackawanna and Luzerne counties are indeed, economically interdependent.

Despite this overwhelming evidence, JUSC will use the remainder of this report to further examine the rating methodology and compare the counties and county seats in northeastern Pennsylvania.

I. MUNICIPAL BONDS

Municipal bonds are used by local governments as a means of financing public works, redevelopment, and infrastructure projects within a particular city, county, state, or authority. Bonds can be used for the installation of street lights, establishment of libraries, construction and maintenance of roads, and to supplement other forms of public revenue used in the delivery of programs or services. Other sources of revenue are taxes, grants, and fees for different privileges. Since the bonds are a form of debt for an entity, regular interest payments are due to the issuer. Failure to pay either the interest or the principal amount of a municipal bond when due may lead to legal action. Late payment and/or defaulting on a bond has the same affect as an individual or business not paying their bills. Credit worthiness is reduced, making future borrowing more difficult and more expensive, plus the borrower incurs a variety of fees and penalties.

There are many companies which rate the bonds on a bond rating scale. These bond ratings carry with them immense power in the financial marketplace and help determine both cost and rate of return on the bonds. Many money-lending agencies use these ratings to determine the percentage of interest they will charge others to borrow money. Low bond ratings make the cost of bonds more expensive and can put them out of reach as a tool for government. Low bond ratings signify instability, thus making them less attractive to bond issuers and investors. Determinations of bond ratings and credit worthiness are discussed in more detail later in this report.

The following are the most pertinent rating agencies: Moody's Investment Service, Standard & Poor's, A.M. Best, Duff & Phelps, and Fitch Investors Service. The two largest rating agencies, Moody's Investment Service and Standard and Poor's, are regarded as the paragons of the bond rating business.

Bond Insurance and Bond Rating Guide

Issuers that meet certain criteria can purchase municipal bond insurance from private insurance companies. This insurance guarantees interest and principal payment if the issuer defaults. The ratings on these bonds are usually that of the insurer rather than the issuer.ⁱⁱⁱ Insured bonds do not automatically receive these ratings. However, if the issuer, can secure an underlying rating from one of the major bond rating agencies, and it is favorable, it allows the issuer to pursue the insurance from a higher rated insurer. This further reduces the cost of the bonds for the obligor. Insurers do not normally require ratings from any particular rating agency.

As a result of bond insurance, interest rates may be lower for the issuer — resulting in a cost savings. This is the primary reason many issuers now seek insurance. It should be noted that before bond insurance is approved, issuers are rated using the same criteria as the rating agency to determine if they are a good risk.

Insurers of bonds don't normally require ratings on bonds. However, the issuer has the option of purchasing ratings from a rating agency or agencies. A rating fee does apply. The ratings help make the bonds more appealing to investors.

The highest bond rating is: Aaa/AAA/AAA. There are several companies that carry this rating: Ambac Assurance Corporation, Financial Guaranty Insurance Company (FGIC), Financial Security Assurance (FSA), MBIA Insurance Corporation, and XL Capital.^{iv}

II. BOND RATING METHODOLOGY FOR GENERAL OBLIGATION BONDS

The four factors used by Moody's and Standard and Poor's to rate the credit of municipalities are local economic conditions, finances, debt levels, and management. These factors provide insight into a municipality's ability to repay debt. Moody's evaluates eight separate categories under the economy category alone.

Economy:

The economic vitality of the geographic area covered by the municipality is the foundation on which to base debt-repayment ability. The local economy is considered, along with the regional and national economy, in determining overall conditions. To gauge the current and future strength of the municipality, several economic indicators are examined. Key indicators include retail sales, building permits, employment levels, workforce, growth trends, and wages, among others. Proximity to major cities and transportation arteries are important in assessing the future growth prospects of an area, as these two factors often are prerequisites for economic expansion.

Demographic characteristics, including education, age, wealth, and income levels, are all important factors to economic vitality. Particularly, wealth and income levels assess potential tax revenue generation and the debt-repayment capacity of the municipality. One formula to assert community wealth is value per capita: the full value of taxable property divided by the population. Per capita income and median family income should be analyzed and compared to a cost of living index to determine relative position.

Tax-base composition analysis will lead to a greater understanding of potential vulnerabilities in the revenue stream. Tax rolls from residential, commercial, and industrial sources—including their relative concentration—can determine imbalance or healthy diversification. If a few employers typically provide work for the majority of the labor force in one sector, this typically reveals economic inflexibility and revenue volatility. Governments with higher income, low unemployment, and industry diversity have greater debt-repayment capabilities, as well as less vulnerability to economic downturns.^v Take tourism for example. It is a multi-billion dollar industry for many destinations. Lackawanna and Luzerne counties cannot be considered a tier one city for tourism. Yet, as a region, there are many attributes that will attract people to visit the area. It is unlikely visitors will take part in recreation, venues, arts, culture, shopping, dining, and hoteling in one community or even one county. Thus in northeastern Pennsylvania, tourism is a regional industry. A negative impact in one community will affect the other.

Moody's studies historical trends as a basis for future growth. Moody's also looks at "channeling assets and resources to promote future growth and development. Strategy and planning are indications that a locality is managing its resources to support growth." Moody's places emphasis on economic development strategies. In doing so, the strengths and weaknesses of the economic region are evaluated in much the same way that a company looking to relocate studies the broader region relative to workforce availability, transportation, and quality of life.

Strategy and planning have been mentioned as indicators. Therefore, the role of management is key in whether or not a community succeeds. As part of this management review, Moody's specifically identifies regional collaboration as a benchmark, "reflecting the increasingly regionalized approach to economic development."^{vi}

Workforce is another indicator of the health of a community. Workforce is also a regional benchmark. The percentages decrease annually for those who live and work in one community or live and work within one county.

Finance:

Several facets of financial operations are examined in order to determine prudent and effective practices. The accounting and financial reporting methodology is reviewed, and adherence to the Governmental Accounting Standards Bureau's (GASB) reporting standards is regarded favorably. Moreover, the ability to meet Government Finance Officers Association's (GFOA) Certificate of Conformance reporting statutes will solidify the fiscal integrity of the municipality. Financial reports should contain all necessary information, be provided in a timely manner, and prepared by a Certified Public Accountant (CPA). Independent auditing of financial documents will have a positive impact on credit rating considerations as well. In addition, should events occur that could materially impact the ability to repay debt, government officials should contact credit rating agencies, regardless if the events happen outside of a bond sale calendar.^{vii}

Diverse revenue streams allow a municipality to increase flexibility in meeting debt payments and reduced exposure to adverse economic trends. For example, revenue from fees on capital projects (sewage treatment plants, airports, parking decks) and special taxes, such as excise and sales tax, enhance revenue diversification.

Expenditure patterns are also reviewed and compared relative to revenue to determine if potential problems exist. High-ticket items whose expenditure growth is disproportionate to revenue growth may place strain on the municipality. If certain expenditures are truly non-recurring or out of the ordinary, their impact on debt-repayment capability can be discounted.

Pension liabilities are quite often a significant burden for municipalities, and the funding status is a telltale sign of how effective a government manages expenses. On the aggregate level, pension funding by governments has seen significant strides. In the 1970s, public pension funds covered only 50% of the liability. In 2000, funding levels were at 102.7%, signaling complete funding of pension liabilities. The gains in pension funding can be attributed to a pension-investing strategic shift toward equities. These equities have seen atypical returns, mainly during the 1990s, when they averaged double-digit returns on investment (ROI). Gains realized in the equity markets during the 1990s, however, cannot reasonably be expected in the future. Therefore, reduction in pension funding levels is expected.^{viii}

An analysis of the entity's insurance risk is a pertinent analysis. This is especially important for any municipality that is self-insured. Particular emphasis is paid to the reserves or set-asides for claims on the self-insured.

A community's capability in budgeting and financial planning is a clear indication of a community's strengths and weaknesses as well as its ability to manage regardless of market forces and politics.

Debt:

Policies should be in place regarding debt levels, identifying a target level as well as a maximum debt load. For example, 2.5% could be considered a target level with a maximum burden of 4%, above which a community would not indenture itself. Typically, debt levels range between three to four percent of total valuation of the tax base, though proper debt burden is considered on a case-by-case scenario, and takes many variables into account. Long-term debt planning helps to keep current issues in perspective and assures that continuous capital needs will be met. Plans and policies must be regularly updated to reflect changes in debt levels and required financing.

Public infrastructure investments are seen as a stimulus for business growth. Deferred maintenance of existing capital, as well as neglect in the construction of new capital, can lead to stunted economic growth and reduced future tax rolls. Additionally, deferred maintenance can create an inventory of projects that must be carried out, placing stress on future taxpayers. When capital projects are financed, the debt service schedule should cover the life of the asset. A typical debt structure is one in which 25% of the debt is paid in five years and 50% in 10 years. Debt service is often measured as a percent of operating expenditures, and anywhere from five to 15% is common. Again, ideal debt service levels as a percent of expenses are calculated on a case-by-case basis, taking many variables into consideration.^{ix}

Management:

Determining the competency of management is considered the most difficult of the four factors to assess, as it cannot be easily quantified and is the most subjective. However, it is critical to address management. Municipal credit ratings usually do not adhere to the repeated movements of the economy. This is due to management's ability to take a long-term view on fiscal planning and policies that negate the short-term impact of temporary economic conditions. Long-range planning should be documented to the extent that outsiders can gain a complete view of management's past performance as well as future intentions. A high degree of accuracy in making short-term forecasts is essential in order to have sufficient funds for seasonal demands. Operating and capital budgets are required for the credit rating process, and the ability of the entity to implement budgets that closely mirror actual requirements is considered a visible sign of management competence.^x Furthermore, budgets are examined along with actual results to determine discrepancies and hence the accuracy of budgets. Budgets should be implemented in a timely fashion; budgets that take longer than expected for approval signal possible political and administrative difficulties.

III. History & Trends

Lackawanna & Luzerne counties

Each county is a legal subdivision of the commonwealth. All counties administer the sheriff's office, courts, jails, welfare aid, park and recreation services, health services, road and bridge construction and maintenance, and other functions. Offices of the county are established in the Pennsylvania Constitution and include the clerk of the court, auditor, recorder, treasurer, sheriff, coroner, and surveyor. Officers of the county established by statute include the council members, commissioners, and assessor.

County revenue comes from property taxes, fee-based services, intergovernmental grants, and some other sources. There are eight major areas in which counties spend their revenue:

1. Roads and transportation;
2. Mental health, mental retardation, and development disabilities;
3. Public safety and legal services;
4. Non-program expenditures;
5. Administration;
6. Physical health and social services;
7. Environment and education; and
8. Governmental services to residents (county finances).

Lackawanna County

In recent years, most of Lackawanna County's bond issuances have been used primarily to pay back or refinance existing bonds, support unfunded debt, and finance new capital projects. The county had two issuances in 2004 totaling \$43.59 million in new bonds in order to refinance a 1994 bond issuance, satisfy an unfunded pension liability, and several major capital projects to enhance the county.^{xi}

The following is a list of bonds rated by S&P. These Lackawanna County bonds total \$184.35 million.

Table 1: Lackawanna County Bonds Rated by Standard & Poor's

| Issue Name | S&P Rating | Rating Date | Security Code | Muni Category Code |
|--|------------|-------------|--------------------------------|---------------------|
| RFDG Serial 92 A & B Dated 6-15-92 Due 4-1-93-2012 - \$10.665 m | AAA | 6/30/1992 | General Obligation or GO bonds | Tax secured/Insured |
| Serial 89 Dated 2-1-89 Due 4-1-90-2009—\$8.175 m | AAA | 1/31/1989 | GO | Tax secured/Insured |
| Serial 90 Dated 6-15-90 Due 6-15-91-2001 2003 2005 - \$3.345 m | AAA | 6/15/1990 | GO | Tax secured/Insured |
| Serial 94 Dated 2-15-94 Due 12-1-94-2009 2011 - \$19.305 m | AAA | 3/25/1994 | GO | Tax secured/Insured |
| Serial 2004 A \$14.32 m | AAA | 11/23/2004 | GO | Tax secured/Insured |
| Serial 1999A dated 04/15/1999 due 01/01/2000-2015 2017 2022 - \$27.865 m | AAA | 4/28/1999 | GO | Tax secured/Insured |
| Serial 1997A dated 09/15/1997 due 09/15/1999-2014 2016 2020 - \$34.485 | AAA | 9/23/1997 | GO | Tax secured/Insured |
| Serial 2002A dated 01/15/2002 due 10/01/2002-2020 - \$19.54 m | AAA | 1/14/2002 | GO | Tax secured/Insured |
| Serial 1999B dated 04/15/1999 due 01/01/2004 2009 2014 2019 - \$5.225 m | AAA | 4/28/1999 | GO | Tax secured/Insured |
| Serial 2002B dated 01/15/2002 due 10/01/2002-2011 2015 2020 - \$4.425 m | AAA | 1/14/2002 | GO | Tax secured/Insured |
| Serial 1995B dated 10/01/1995 due 10/01/1996-2011 2014 - \$7.725 m | AAA | 10/30/1995 | GO | Tax secured/Insured |
| Serial 2004B dated 11/23/2004 due 10/15/2029 (FSA) - \$29.27 m | AAA/A-1+ | 11/22/2004 | INSLQDTY | PFSTRUCT |

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Luzerne County

The courts gave Luzerne County the “go ahead” to borrow \$17 million in order to cover 2004 unfunded debt as a result of unsuccessful debt restructuring, tax collection shortfalls, nursing home subsidies, lower fee revenue, and juvenile placement overruns and reimbursement delays.

The total of bonds rated in Luzerne County by S&P is equal to \$87.775 million.

Table 2: Luzerne County Bonds Rated by Standard & Poor's

| Issue Name | S&P Rating | Rating Date | Security Code | Muni Category Code |
|---|------------|-------------|--------------------------------|---------------------------|
| Variable rate bonds serial 2004 - \$17m | A/A-1 | 12/13/2004 | Line of Credit or LOC | Public Finance Structured |
| Serial 86 B dated 12-15-86 due 8-15-88-99 2006 - \$9.29 m | AAA | 12/29/1986 | General Obligation bonds or GO | Tax secured/Insured |
| Serial 86 dated 5-15-86 - \$3.25 m | AAA | 5/29/1986 | GO | Tax secured/Insured |
| Serial 91 dated 5-15-91 due 8-15-92-2003 2006 - \$13.92 m | AAA | 5/16/1991 | GO | Tax secured/Insured |
| rfdg bonds serial 1995A&B dated 12/15/1995 due 11/15/1996-2011 2020 - \$ \$16.170 m | AAA | 2/5/1996 | GO | Tax secured/Insured |
| Serial 1997 dated 02/01/1997 due 12/15/1997-2012 2016 2021 - \$13.39 m | AAA | 3/5/1997 | GO | Tax secured/Insured |
| Serial 2000A dated 07/15/2000 due 09/15/2001-2011 - \$11.225 m | AAA | 7/18/2000 | GO | Tax secured/Insured |
| Serial B dated 07/15/2000 due 01/15/2001-2007 - \$3.53 m | AAA | 7/18/2000 | GO | Tax secured/Insured |

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Scranton & Wilkes-Barre

Scranton

Scranton was officially designated as a financially distressed municipality in 1992 under the Municipalities Financial Recovery Act, better known as Act 47. Ratified in 1987, Act 47 was created to help distressed local governments with the formulation and implementation of financial recovery plans. The nonprofit, non-governmental Pennsylvania Economy League (PEL) was selected as the financial recovery coordinator for the City.

In 1998, Scranton was reported as having failed in implementing its financial recovery plan. The city wasn't able to control costs or develop realistic budgets. Scranton faced a budget of the same magnitude as when it entered Act 47 status. Punitive measures imposed by the commonwealth were initiated with the city. Moreover, city officials were to work with the Pennsylvania Economy League in developing a revised financial recovery plan that addressed the disparity between revenues and expenditures for year 2000 and beyond.

In 2002, Scranton Mayor Chris Doherty, along with the city's consultant (Public Financial Management), met with Standard & Poor's (S&P). A presentation was made to S&P officials detailing the financial recovery plan and Chris Doherty's vision for the city. The Mayor hoped to convince S&P that Scranton was indeed on its way to recovery. He sought an investment grade bond rating of Triple B or better. This rating would allow the city to secure the highest rated insurance so as to issue the bonds with a lower interest rate and cost. The money raised would help to refinance existing, higher interest rate debt, fund unfunded obligations, and finance several capital projects and infrastructure improvements.^{xiv}

There was a noticeable eight month delay in Standard & Poor's decision to provide the underlying rating. Sources closed to the project told JUSC that S&P, was watching Wilkes-Barre because of its defaults in 2002.

Table 3: City of Scranton Bonds Rated by Standard & Poor's

| Issue Name | S&P Rating | Rating Date | Security Code | Muni Category Code |
|--|------------|-------------|---------------|---------------------|
| Federally taxable pension fdg bonds serial 1998 dated 12/15/1998 due 11/15/2008 2018 2028 - \$29.9 m | AA | 12/30/1998 | GO | Tax secured/Insured |
| Serial 2003A&B & taxable serial 2003C&D dated 08/01/2003 due 09/01/2004-2018 2020 2023 2028 2031 2033 - \$72.3 m | AAA | 8/6/2003 | GO | Tax secured/Insured |

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Wilkes-Barre

Wilkes-Barre issued \$34.7 million in general obligation bonds in 1998 to fund its unfunded pension liability. The debt was poorly structured debt with 80% of property taxes collected three weeks after one semi-annual bond payment due. Debt was amortized through 2014, rather than extending the disbursement schedule to ease debt-service burden.^{xvi} In both 2002 and 2003, Wilkes-Barre used a tax anticipation note to meet the debt service obligation on those bonds. The city was sued by the lender, First National Community Bank, and required to incorporate the debt as a consideration in a January 2003, \$3.8 million note issuance.^{xvii}

In January of 2004, Mayor Tom Leighton, Finance Officer John Koval, and representatives from Public Financial Management met with Ambac Insurance to appeal for the bond insurer to secure a \$4.7 million bond that would allow the city to cover the portion of debt service payments on the pension and office building bonds due in 2004.^{xviii} Public Financial Management also serves as Wilkes-Barre's financial advisor and has been charged with helping the city draft a five-year fiscal plan.

In February 2004, Ambac insured the \$4.7 million bond, and in late July, the city won court approval to take on additional debt to restructure \$10.8 million in arrears, which according to Mayor Leighton is currently un-payable. "Court approval is required for a government body to take on additional debt to pay off unfunded debt, which occurs when a deficit is created without the necessary revenue to pay it off."^{xix}

Mayor Leighton has worked arduously to improve the city's fiscal position. His success can be seen in a February 2005 bond issuance that allowed for refinancing of bonds issued in 1998 and 2002 at a much lower cost.

Table 4: City of Wilkes-Barre Bonds Rated by Standard & Poor's

| Issue Name | S&P Rating | Rating Date | Security Code | Muni Category Code |
|--|------------|-------------|---------------|---------------------------|
| Wilkes-Barre variable rate dem bonds serial 2004B - \$10.8 m | A/A-1 | 9/27/2004 | LOC | Public Finance Structured |
| WILKES-BARRE serial 86 dated 8-15-86 due 9/15/2006 - \$3.69 m | AAA | 8/26/1986 | GO | Tax secured/Insured |
| Wilkes Barre serial 1993 due 9/15/2004- 2011 - \$5.866 m | AAA | 9/15/1993 | GO | Tax secured/Insured |
| Wilkes Barre serial 2004 dated 2/15/2004 due 11/15/2014- 2017 - \$4.615 m | AAA | 2/25/2004 | GO | Tax secured/Insured |
| Wilkes Barre serial 2005B due 11/15/2014-2017 - \$3.7 m | AAA | 2/18/2005 | GO | Tax secured/Insured |
| Wilkes-Barre federally taxable bonds serial 1998 dated 06/15/1998 due 03/01/1999-2009 2014 - \$34.725 m | AAA | 6/23/1998 | GO | Tax secured/Insured |
| Wilkes-Barre serial 2002A&B dated 06/01/2002 due 10/15/2002-2018 2021 - \$5.49 m | AAA | 6/11/2002 | GO | Tax secured/Insured |
| Wilkes-Barre unlimited tax util rfdg bonds serial 2003 dated 08/15/2003 due 11/15/2004-2020 2023 - \$4.695 | AAA | 8/22/2003 | GO | Tax secured/Insured |

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IV. Comparison of Data

The following figure provides recent census data to observe the similar demographic trends in both Luzerne and Lackawanna counties. More detailed information on county and city demographics and trends is available in a JUSC release entitled, "Why Aren't We Average?"

Figure 1: Basic County Demographics:

| | <u>Lackawanna</u> | <u>Luzerne</u> |
|---|-------------------|----------------|
| Population, 2003 estimate | 210,458 | 313,528 |
| Population, 2000 Census | 213,295 | 319,250 |
| Population, percent change, April 1, 2000 to July 1, 2003 | -1.3% | -1.8% |
| Persons under 5 years old, percent, 2000 | 5.3% | 5.0% |
| Persons under 18 years old, percent, 2000 | 21.8% | 21.0% |
| Persons 65 years old and older, percent, 2000 | 19.5% | 19.7% |
| High school graduates, percent of persons age 25+, 2000 | 82.0% | 81.1% |
| Bachelor's degree or higher, percent of persons age 25+, 2000 | 19.6% | 16.4% |
| Housing units, 2002 | 95,942 | 145,452 |
| Median value of owner-occupied housing units, 2000 | \$93,400 | \$84,800 |
| Per capita money income, 1999 | \$18,710 | \$18,228 |
| Persons below poverty, percent, 1999 | 10.6% | 11.1% |
| Federal funds and grants, 2002 (\$1000) | 1,528,871 | 2,271,095 |

Source: www.census.gov

Despite Luzerne County having approximately 103,000 more people, the demographic breakdown is very similar. Both counties fail to meet the statewide averages on per capita income and higher education attainment. Income and education are dependent on one another; the bottom line is that there is limited wealth in the region. Therefore, there is less money flowing through local government coffers to provide services and improvements. Thus, the need for the counties, to continue debt financing as a source of revenue to maintain operations is present.

The declining population compounds the problem. The 2000 census and 2003 estimate show both counties losing population within .5% of each other, as noted in the chart above. Yet, even with the declining population, services must continue, and improvements need to be made. Even with budget cuts, the cost per capita increases, and any economy of scale is lost. This is another argument for a more regional approach to problem solving. Specifically, consolidation of services might be a more cost-effective way of delivering services. Taking it a step further, communities can band together and privatize the services.

It is important that the communities and the counties in this region continue to reinvest in infrastructure improvements, economic development, and housing. This will encourage outside investors to invest in projects in

the region. New wealth will come here by way of development, thus helping to improve our region. This will lead to job creation in various sectors, which also adds to the wealth.

Too often communities are forced to cut integral programs and services because of the shortfall of revenue. This redistribution of dollars is a short-term fix. It does nothing to solve the problem and it adds to the dilemma when things are neglected.

As demonstrated in the figure above, our counties and major communities are forced to borrow to cover revenue shortfalls in operating budgets and capital improvements. Our region is more highly leveraged than communities of similar size because of population decreases and lower incomes levels.

The counties and communities are more alike than not. These similarities help to define the counties and communities as an economic region where there is much interdependency.

The cities of Scranton and Wilkes-Barre are the largest cities in each county and serve as the county seat. The charts below clearly indicate that these cities are losing population — approximately 3% of population annually.

City of Scranton

| | 2003e | 2000 | Percent Change |
|------------|--------|--------|----------------|
| Population | 74,320 | 76,415 | -2.7% |

Source: U.S. Census Bureau, 2003 Population Estimates, Census 2000

City of Wilkes-Barre

| | 2003e | 2000 | Percent Change |
|------------|--------|--------|----------------|
| Population | 41,630 | 43,123 | -3.5% |

Source: U.S. Census Bureau, 2003 Population Estimates, Census 2000

V. Conclusion

Both counties and the county seats are experiencing a rising debt per capita. The primary reason is the continually declining population. This is only one common problem that they share. More information on this problem can be obtained in two other JUSC studies: “Why Aren’t We Average?” and “An Agenda for Renewing the Cities of Northeastern PA.”

“Why Aren’t We Average?”, in particular, demonstrates a shared, historical downward trend of the economies of northeastern Pennsylvania. The problems each county and the county seats face are the same. There is a declining population, lower than average income level, lower than average job and business growth, lack of a modern identity, local government fragmentation, urban sprawl, and outdated infrastructure.

We do, however, share many regional assets, including the airport, arena, sporting venues, major theatres, strong higher education infrastructure, diversity, housing affordability, new riverfront projects, several interstates, and history. This is a strong foundation to build on.

With so many overlapping opportunities and challenges, it makes no sense to operate as though each community or county is an island. There are some regional efforts underway that are effective, but there are many more strategies that can be employed to provide economic impact. One new initiative which has the potential to be groundbreaking in Luzerne county is the Luzerne County Cooperative Commission. This program, established by the Luzerne county commissioners, is designed to have communities work together to implement joint services and purchasing consortiums.

JUSC released several reports in April, May, and June 2005 that focus on some best practices that can be implemented here with positive results.

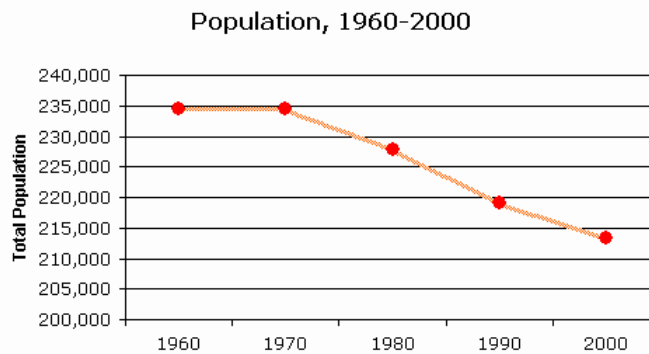
The timing and uses of bonds by local government in this area are very similar, and the bond insurance is needed to secure more competitive rates. It is clear that because of the methodology used, the broader economic region plays a role in the cost of credit, which ultimately affects the local government’s bottom line. For this reason, it becomes a clear necessity that we work together for the betterment of the region. The parochialism that prevails hurts all communities, companies, and residents.

JUSC concludes this paper with a quote from a respected local leader that clearly supports the case that bond ratings reflect the greater economic region and thus requires regional cooperation and collaboration to work toward the betterment of the region:

In a *Scranton Times* article dated January 30, 2003, Austin Burke, president of the Greater Scranton Chamber of Commerce, said, “We are part of a regional economy...It’ll put the burden on Scranton to point out the difference why we deserve a bond rating when Wilkes-Barre has been downgraded.” This was stated as Scranton was attempting to get a favorable bond rating on a new issue and Wilkes-Barre had recently defaulted on a tax anticipation note.^{xxi}

Appendix – County Population Fact Sheets

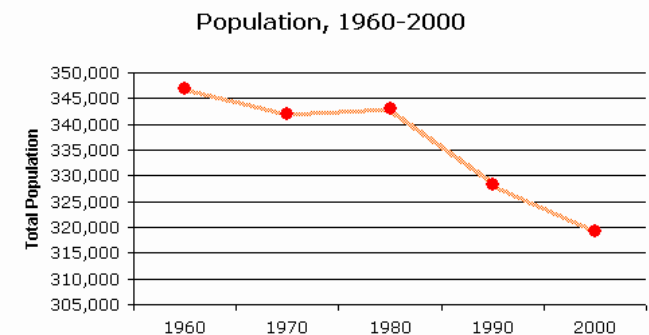
Lackawanna County



| Population, 1960-2000 | | | | | |
|------------------------------|-------------|-------------|-------------|-------------|-------------|
| | 1960 | 1970 | 1980 | 1990 | 2000 |
| Total | 234,531 | 234,504 | 227,908 | 219,039 | 213,295 |
| Change | | -27 | -6,596 | -8,869 | -5,744 |
| Percent Change | | -0.01% | -2.81% | -3.89% | -2.62% |

Source: Census 2000 analyzed by the Social Science Data Analysis Network (SSDAN). University of Michigan. www.ssdan.net.

Luzerne County



| Population, 1960-2000 | | | | | |
|------------------------------|-------------|-------------|-------------|-------------|-------------|
| | 1960 | 1970 | 1980 | 1990 | 2000 |
| Total | 346,972 | 341,956 | 343,079 | 328,149 | 319,250 |
| Change | | -5,016 | 1,123 | -14,930 | -8,899 |
| Percent Change | | -1.45% | 0.33% | -4.35% | -2.71% |

Source: Census 2000 analyzed by the Social Science Data Analysis Network (SSDAN).

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- v. Moody's Investor Services, "How Moody's Examines Economic Conditions As a Factor In Its Local Government Credit Analysis." July 2003, pp.1-8.
- vi. Moody's Investor Services, "How Moody's Examines Economic Conditions As a Factor In Its Local Government Credit Analysis." July 2003, pp. 1-8.
- vii. Murphy, Steve J., & Woodell, Colleen. Standard & Poor's, "Public Finance Criteria: GO Debt." November 2002, pp. 1-11.
- viii. Murphy, Steve J., & Woodell, Colleen. Standard & Poor's, "Public Finance Criteria: GO Debt." November 2002, pp. 1-11.
- ix. Murphy, Steve J., & Woodell, Colleen. Standard & Poor's, "Public Finance Criteria: GO Debt." November 2002, pp. 1-11.
- x. Murphy, Steve J., & Woodell, Colleen. Standard & Poor's, "Public Finance Criteria: GO Debt." November 2002, pp. 1-11.
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- xix. The Citizen's Voice. "City heads to court today to restructure unfunded debt." Heidi Ruckno, 07.26.2004.
- xx. <http://www.standardpoors.com>
- xxi. The Scranton Times. "W-B woes may sap Scranton." Lynne Slack Shedlock, 01.30.2003.



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