

# Text Comparison

## Documents Compared

Exec Summ I.pdf

Exec Summ II.pdf

## Summary

193 word(s) added

383 word(s) deleted

1823 word(s) matched

19 block(s) matched

To see where the changes are, scroll down.

## Executive Summary

The City of Harrisburg is facing a direct, immediate and grave financial crisis. The financial crisis is so severe that the City ~~teeters uncomfortably on the verge of bankruptcy that could be triggered at any moment by parties outside its control.~~ This crisis threatens the ability of the City to do what cities exist to do - provide for the health, safety and welfare of its residents. Failure to act and to achieve consensual solutions with parties of interest will produce catastrophic results for the City. It will also damage the reputation of the Keystone State at a national level should its Capital City be forced into bankruptcy.

The Mayor of Harrisburg asked the Commonwealth of Pennsylvania's Secretary of the Department of Community and Economic Development (DCED) to designate the City as financially distressed under Act 47. In October 2010, the Secretary approved the distress determination, concluding that the City has been unable to meet debt payments for bonded debt and judgments, has had a multi-year history of fiscal year-end structural deficits (four out of the six years), declining fund balances and significant cash flow difficulties. As a result of the determination, in January 2011 the Secretary appointed an Act 47 Coordinator led by The Novak Consulting Group to develop a financial Recovery Plan to address these serious deficiencies.

The Act 47 Coordinator's field work and analysis confirms that the City has a structural deficit in its operating budget that exceeded \$2 million in 2010; an additional \$3.4 million will be added to that deficit in 2011. The Act 47 Coordinator projects the City will be out of cash and unable to pay bills or make payroll by the fourth quarter of 2011.

The Act 47 Coordinator projects the deficit to grow to over \$10 million by 2015 as shown in the table below.

### General Fund Projections, 2011-2015

General Fund	Act 47 Coordinator Estimate 2011	Act 47 Coordinator Projected 2012	Act 47 Coordinator Projected 2013	Act 47 Coordinator Projected 2014	Act 47 Coordinator Projected 2015	% Growth
Revenues	\$54,629,104	\$53,538,500	\$53,644,122	\$53,348,643	\$53,451,888	(2.2%)
Expenditures	\$58,095,557	\$58,522,763	\$59,606,654	\$61,610,115	\$63,867,406	9.8%
Surplus/(Deficit)	(\$3,466,454)	(\$4,984,262)	(\$5,962,532)	(\$8,261,472)	(\$10,415,518)	200.5%

~~While the structural deficit alone creates a critical situation in a matter of months, the debt associated with the Harrisburg Resource Recovery Facility (RRF) could, by the stroke of a judge's pen, force the City to file for Chapter 9.~~

The annual debt service is in excess of \$18 million per year on the approximately \$220 million in principle bonds outstanding on the RRF. In addition, the City has accumulated significant debts to other parties who have acted on their own subordinate guarantees, insurance or loans and made payments for which the City is responsible. Specifically these debts, which are owed by the City and related to the RRF, exceed \$75 million, as shown in the table below.

## Executive Summary

The City of Harrisburg is facing a direct, immediate and grave financial crisis. The financial crisis is so severe that the City has been in default of certain debt payments since 2009 and will have insufficient cash to meet payroll and operating expenses by the fourth quarter of this year. This crisis threatens the ability of the City to do what cities exist to do - provide for the health, safety and welfare of its residents. Failure to act and to achieve consensual solutions with parties of interest will produce catastrophic results for the City. It will also damage the reputation of the Keystone State at a national level should its Capital City be forced into bankruptcy.

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## Debts Owed by the City Related to the Resource Recovery Facility

Due to	For	Amount
Dauphin County	Accrued interest and expenses	\$1,906,377
Dauphin County	Amounts paid under County guaranty	\$9,391,503
Dauphin County	Refinanced Series 2007 C and D Notes	\$34,685,000
AGM – Bond Insurer	Payments made under the insurance	\$6,166,345
Covanta	Loan	\$23,587,500
<b>TOTAL</b>		<b>\$75,736,725</b>

Avoiding bankruptcy requires:

- Continued patience and cooperation of Dauphin County (the County) and Assured Guaranty Municipal Corporation (AGM) as the City pulls together the resources necessary to repay the debts identified above;
- A consensual solution to the debt;
- Immediately reopening and renegotiating labor agreements with the City's three bargaining units; and
- A new spirit of cooperation by those who govern the City of Harrisburg – both internally as they interact with each other, and externally as they deal with regional partners, who can only be described as gracious and frustrated as they await action by the City.

Public confidence in the City's ability to conduct its affairs is extremely low. The community and elected officials are coming to terms with unwise decisions made by elected officials over the past several decades that have led to a structural deficit, staggering debt and deteriorating infrastructure throughout the City. The contentious relationship and lawsuits among the City's own elected officials frustrate a citizenry who want their local government to be responsible, refrain from placing blame and start taking affirmative action to restore fiscal stability and long-term viability of the City.

That is the goal of this Recovery Plan. American essayist, playwright and novelist James Arthur Baldwin said, *"Not everything that is faced can be changed. But nothing can be changed until it is faced."* This Recovery Plan faces the pending reality of doing nothing head-on and provides the path to change and a plan for recovery.

## Harrisburg's Recovery Plan

Unlike other recovery plans adopted throughout the Commonwealth, Harrisburg is not in control of its own destiny. While the structural deficit can be addressed through improved fiscal restraint, increasing fees and renegotiating agreements with the City's bargaining units, the crushing debt of the RRF guarantees is beyond the City's fiscal reach. Therefore, this Recovery Plan ~~requests~~ the continued patience and cooperation by other parties who have subordinate guarantees of the RRF debt, as the City ~~sells~~ assets to pay down the debt and refinances the stranded debt.

The ultimate debt solution includes the full participation of and significant concessions from the County, AGM and the Commonwealth.

This Recovery Plan also speaks to the future of the community by focusing on improved governance, targeted economic development and improving housing and vacant properties.

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The ultimate debt solution includes the full participation of and significant concessions from the County, AGM and the Commonwealth.

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### **Addressing the Structural Deficit**

The City cannot continue “business as usual” and still provide for the health, welfare and safety of its residents. Instead the City must strengthen its management infrastructure, improve internal coordination and look to improved methods of service delivery. This Recovery Plan includes initiatives to accomplish these objectives.

- The City must change service delivery through:
  - Requiring increased coordination between the Chief Executive (Mayor) and Legislative body (Council) by ~~co-locating and sharing staff resources;~~
  - Requiring increased coordination between the City Treasurer and Bureau of Financial Management by sharing staff;
  - Modernizing the approach to residential sanitation collection which will improve service and worker safety;
  - Outsourcing commercial sanitation collection;
  - ~~Outsourcing recreation to a community based non-profit organization;~~
  - Combining Park Maintenance in the Department of Public Works;
  - Modifying the work schedules of Public Safety employees; and
  - Eliminating the Park Ranger program.
- The City must improve its management infrastructure and accountability by:
  - Requiring more frequent communication and collaboration between the Mayor, City Council, City Treasurer, City Controller and Department of Administration;
  - Adding professional staff in the Bureau of Financial Management;
  - Consolidating fleet and facility maintenance under the leadership of a qualified manager;
  - Increasing the ~~compensation for the Business Manager,~~ thus making the position more attractive for seasoned professionals; and
  - Upgrading necessary information technology, both hardware and software.
- The City must contain fast growing employee compensation by:
  - Immediately ~~challenging~~ the extensions made by the previous Mayor immediately prior to his leaving office that increased compensation for employees despite the looming financial crisis;
  - Negotiating appropriate contracts with the bargaining units that freeze wages, restructure health benefits and reduce overtime pay; and
  - Freezing wages and restructuring health benefits for non-bargaining unit personnel.
- The City must focus on housing and long-term redevelopment by:
  - Updating the City’s Comprehensive Plan;
  - Contracting for the timely demolition of blighted structures;
  - Eliminating the backlog of inspections and systematically deploying code enforcement teams for improved enforcement and compliance;
  - Developing a comprehensive housing strategy;
  - Utilizing the Vacant Property Reinvestment Board; and
  - Developing a coordinated long-term economic development strategic plan.
- The City must do what it can to increase revenue by:
  - Implementing full cost recovery from fees for appropriate services;
  - Improving the real estate tax pay collection rate;
  - Pursuing payments in lieu of taxes (PILOTS) from non-profit entities who own approximately 50% of real property in Harrisburg;
  - Selling certain City assets; and

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  - Adding professional staff in the Bureau of Financial Management;
  - Consolidating fleet and facility maintenance under the leadership of a qualified manager;
  - Increasing the salary range for the Chief of Staff/Business Administrator, thus making the position more attractive for seasoned professionals; and
  - Upgrading necessary information technology, both hardware and software.
  
- The City must contain fast growing employee compensation by:
  - Immediately voiding the extensions made by the previous Mayor immediately prior to his leaving office that increased compensation for employees despite the looming financial crisis;
  - Negotiating appropriate contracts with the bargaining units that freeze wages, restructure health benefits and reduce overtime pay; and
  - Freezing wages and restructuring health benefits for non-bargaining unit personnel.
  
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  - Implementing full cost recovery from fees for appropriate services;
  - Improving the real estate tax pay collection rate;
  - Pursuing payments in lieu of taxes (PILOTS) from non-profit entities who own approximately 50% of real property in Harrisburg;
  - Selling certain City assets; and

- o Increasing Property and Earned Income Tax rates only when absolutely necessary to close any remaining gaps between revenues and expenditures.

Implementation of the initiatives included in this Recovery Plan to address the City's structural deficit will result in the elimination of ~~19~~ full time equivalent (FTE) positions, as detailed below.

### Positions Eliminated as Part of the Structural Deficit Solution

Initiative	Number of Positions Eliminated (FTEs)
<del>MCC03 - Implement shared staffing for the Offices of the Mayor, City Council and City Controller by co-locating offices and reducing total staffing</del>	<del>4.0</del>
ADMIN07 - Eliminate the bulk copy service in the City's Duplication Center and eliminate one position	1.0
FIRE01 - Change current shift schedule	5.0
<del>PRE01 - Transfer responsibility for recreation programming to a non profit entity</del>	<del>9.0</del>
PRE03 - Eliminate Park Ranger Corps	3.0
<b>TOTAL</b>	<b><del>19.0</del></b>

These changes will require political courage and professional expertise to implement. This Recovery Plan is designed to provide expert assistance to the City as it works to implement these sweeping changes.

#### **Addressing the Resource Recovery Facility Debt**

Dealing with the RRF debt requires its own strategy. For the City to meet its obligations on the guaranty of the Harrisburg Authority (THA) debt, it must sell the RRF and sell or lease the assets of the Harrisburg Parking Authority (HPA) to reduce the debt burden and then refinance stranded debt. This is only possible with the cooperation of Dauphin County and AGM, and their willingness to waive certain fees and penalties as well as guarantee and insure any new debt issuance by the City. They have indicated to the Coordinator a willingness to ~~do~~.

As a result of addressing the debt, the City is forced to reduce its existing operating budget by a minimum of \$2.5 million to pay for debt service and compensate for lost revenue previously transferred from the Coordinated Parking Fund. The Coordinator's goal is to accomplish this through additional revenues - including requesting funding from Dauphin County from Gaming Funds and increasing property tax ~~a single mill equivalent of a total of 0.8 mills~~. Should the amount required to balance the budget exceed the revenue generated by these initiatives then the City is forced to ~~make cuts in personnel which are listed below, but only to the degree required~~.

- o Increasing Property and Earned Income Tax rates only when absolutely necessary to close any remaining gaps between revenues and expenditures.

Implementation of the initiatives included in this Recovery Plan to address the City's structural deficit will result in the elimination of nine full time equivalent (FTE) positions, as detailed below.

### **Positions Eliminated as Part of the Structural Deficit Solution**

<b>Initiative</b>	<b>Number of Positions Eliminated (FTEs)</b>
ADMIN07 - Eliminate the bulk copy service in the City's Duplication Center and eliminate one position	1.0
FIRE01 - Change current shift schedule	5.0
PRE03 - Eliminate Park Ranger Corps	3.0
<b>TOTAL</b>	<b><u>9.0</u></b>

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As a result of addressing the debt, the City is forced to reduce its existing operating budget by a minimum of \$2.5 million to pay for debt service and compensate for lost revenue previously transferred from the Coordinated Parking Fund. The Coordinator's goal is to accomplish this through additional revenues - including requesting funding from Dauphin County from Gaming Funds and increasing property tax the equivalent of 8%. Should the amount required to balance the budget exceed the revenue generated by these initiatives then the City is forced to increase other sources of revenue or make additional cuts in personnel.

#### ***Addressing the Short Term Cash Need***

As previously stated, the City will be out of cash to pay current expenses in the fourth quarter of 2011. Contained within the projected sources and uses of funds as presented under the debt solution portion of this Recovery Plan is a deposit to a City escrow account for \$6 million in the first year. The escrow account funds will be from the ultimate disposition of City assets as proposed. Due to the immediate nature of the City's cash shortage, the escrow may be comprised of funds advanced to the City prior to the actual sale or lease of assets. The City has had conversations with HPA regarding the potential for financing assistance prior to the disposition of assets.

## ~~Additional Positions Eliminated, only as needed~~

<del>Initiative</del>	<del>Number of Positions Eliminated (FTEs)</del>
<del>DS04 Eliminate positions providing direct support to the Mayor and City Council</del>	<del>2</del>
<del>DS05 Eliminate two custodial positions in Department of Public Works</del>	<del>2</del>
<del>DS06 Eliminate the Foot Patrol Specialized unit in the Police Bureau</del>	<del>12</del>
<del>DS07 Reduce Fire Bureau staffing to 11 Firefighters and 1 Supervisor on duty at all times</del>	<del>12</del>
<del>DS08 Eliminate the Street Crimes Unit in the Police Bureau</del>	<del>6</del>
<del>DS09 Eliminate the Traffic Safety Unit in the Police Bureau</del>	<del>3</del>
<del>DS10 Eliminate the Special Services Unit in the Police Bureau</del>	<del>6</del>
<b>TOTAL</b>	<b>43</b>

~~Additional details regarding each of these initiatives are found in the Debt Solution chapter of this Recovery Plan.~~

### **Addressing the Short Term Cash Need**

As previously stated, the City will be out of cash to pay current expenses in the fourth quarter of 2011. ~~The consensual solution put forth by Dauphin County and AGM includes an escrow of \$6 million in the first year, those monies and monies from the immediate sale or lease of City parking assets shall be used to make up the projected \$5 million shortfall.~~

## **Conclusion**

Harrisburg cannot solve its own financial problems. The City is receiving ~~generous~~ support from AGM, the County, the region and the Commonwealth; now the City must demonstrate that their investment in Harrisburg's future is not misplaced. This requires a new posture for those who govern the Capital City. Hard lines must be drawn with bargaining units; bold action must be taken to restructure service; a commitment to fiscal prudence is required as is an attitude of conciliation and cooperation towards those who have the ability to ~~restore fiscal stability to the City or force it to bankruptcy.~~

This Recovery Plan is an opportunity to focus on a new future for the City, but requires the City to embrace accountability and cooperation as its new way of doing business. This is a plan to restore Harrisburg to the dynamic and prosperous hub of the Susquehanna Valley that it once was and can be again.

~~As part of the Act 47 process there will be a public meeting to receive comments on this Recovery Plan on Tuesday, June 28<sup>th</sup>. The Act 47 Coordinator encourages participation by all segments of the community.~~

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This Recovery Plan is an opportunity to focus on a new future for the City, but requires the City to embrace accountability and cooperation as its new way of doing business. This is a plan to restore Harrisburg to the dynamic and prosperous hub of the Susquehanna Valley that it once was and can be again.