

# Text Comparison

## Documents Compared

Introduction I.pdf

Inttroduction II.pdf

## Summary

455 word(s) added

97 word(s) deleted

7720 word(s) matched

30 block(s) matched

To see where the changes are, scroll down.

# Introduction

The City of Harrisburg is facing a direct, immediate and grave financial crisis. The financial crisis is of such magnitude it threatens the City's ability to provide for the health, safety and welfare of its citizens.

The crisis is the result of two separate but interrelated causes. First, the City, as one of the guarantors of The Harrisburg Authority's Resource Recovery Facility, has become liable to meet the debt obligations related to the facility due to the Authority's default. These obligations extend far beyond the City's ability to meet them.

Second, exclusive of meeting The Harrisburg Authority debt guarantees, the City has a structural deficit in the annual operating budget which will create a cash-crisis in late 2011 and will continue to increase unless immediate and dramatic corrective action is taken.

## Resource Recovery Facility Guaranteed Debt

The City of Harrisburg guarantees the debt of its component governmental units including: THA, HPA and the Harrisburg Redevelopment Authority (HRA). With respect to THA, these guarantees include debt related to the sewer operation, water operation and the RRF.

Beginning in 2007, THA failed to make its debt service payments. In partial fulfillment of its guarantee of the RRF, the City of Harrisburg paid approximately \$4.0 million (based on City audit reports) in both 2007 and 2008 and additional payments totaling about \$4.55 million in 2009.<sup>1</sup> The City has made no debt guarantee payments in 2010 or 2011. Both Dauphin County and AGM have made payments related to both debt service and SWAP agreements pursuant to their guarantees under various commitments for the RRF. Litigation has been initiated by various parties pursuant to THA's non-payments and the partial payments made by the City.

It is estimated that the total outstanding City guaranteed publically issued debt as it relates to the RRF is approximately \$220 million. This total outstanding debt is more than four times greater than the City's \$55.1 million 2011 General Fund budget. A full discussion of the RRF debt guarantee is provided in the Debt chapter of this Recovery Plan.

## Operating Budget Structural Deficit

### ***Accounting Methods***

Throughout the fiscal year, the City of Harrisburg budgets and accounts for its various funds on what it terms a "modified cash" basis. On this basis, revenues are recognized when received (as on a cash basis), but expenditures are recorded when they are incurred. Expenditures which are recorded but not paid at any point in time equal the amount of the accounts payable.

At the end of the year, the City adjusts the "modified cash" method to derive a modified accrual presentation in preparation for the City's independent audit. A modified accrual basis recognizes revenues when earned and available to meet current year expenditures; expenditures are recognized when they are incurred.

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<sup>1</sup> Cravath, Swain & Moore LLP report, March 31, 2011

## Introduction

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Generally Accepted Accounting Principles (GAAP) used in the U.S. requires a modified accrual method for governmental fund accounting.<sup>2</sup> It is the modified accrual basis upon which the independent auditor's opinion is given in the annual audit.

The difference between the two systems results in timing differences so that revenue and expenditures will not necessarily match on a yearly basis in account totals. Consequently the City's budget and year-end totals on the "modified cash" basis will not necessarily match those reflected in the City's audit on a modified accrual system.

### **Audit and Financial Results**

A summary of the City's General Fund audited financial results using the modified accrual system for the period 2006 through 2008 is presented below. The City has not yet completed preparation for the 2009 audit.

## **Audited Financial Results, 2006-2008**

General Fund	2006	2007	2008
Revenues as Reported in Audit	\$54,446,464	\$60,772,099	\$60,351,300
Other Financing Sources			
Proceeds Issuance of Debt	\$7,214,620	\$8,275,085	\$0
Proceeds Sale Assets	\$2,350	\$1,308,407	\$211,780
Transfer In	\$1,013,519	\$1,366,615	\$2,017,497
Total Revenue and Other Financing Sources	\$62,676,953	\$71,722,206	\$62,580,577
Expenditures as Report in Audit	\$56,880,442	\$50,526,762	\$48,240,187
Other Financing Uses			
Transfer Out	\$8,829,930	\$7,629,243	\$15,018,460
Total Expenditures and Other Financing Uses	\$65,710,372	\$58,156,005	\$63,258,647
Revenue and Sources over (under) Expenditures and Uses as Reported in Audit	(\$3,033,419)	\$13,566,201	(\$678,070)
Beginning of the Year Fund Balance	\$3,739,275	\$705,856	\$14,272,057
End of the Year Fund Balance	\$705,856	\$14,272,057	\$13,593,987
Unreserved (useable) Fund Balance	(\$1,939,764)	\$3,862,932	\$220,122

Source: City Audit 2006-2008

- Unreserved (usable) fund balance has fluctuated widely during the review period. As of 2008, the City's available fund balance was \$220,000.
- Debt proceeds and the sale of assets have become important components of total revenue and other sources.
- Revenue increased significantly beginning in 2007 because of an increase in the real estate tax rate.
- Expenditures decreased between 2006 and 2008. However, the \$56.9 million expenditure for 2006 includes a \$6.1 million accounting adjustment for unreimbursed RRF operating

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expenses. Therefore, the reported reduction in expenditures between 2006 and 2007 is skewed by the treatment of this item.

***Unaudited “Modified Basis” Basis Results (General Fund)***

The City provided to the Act 47 Coordinator detailed line item account data on a “modified cash” basis. A summary of General Fund Revenue and Expenditures for the years 2006 through 2010 shows a surplus of all revenue sources over expenditures and all uses for each year from 2006 through 2009. However, these surpluses were the result of including sources of revenues from the proceeds from debt and sale of assets. The results of including these sources can be misleading if one time revenues are treated as reliable and annually available revenues.

**General Fund Revenue and Expenditures, 2006-2010**

	<b>2006 Actual</b>	<b>2007 Actual</b>	<b>2008 Actual</b>	<b>2009 Actual</b>	<b>2010 Actual</b>	<b>% Change</b>
Revenue All Sources	\$61,295,760	\$58,731,056	\$60,191,622	\$60,194,749	\$56,537,954	(7.8%)
Expenditures	\$57,352,185	\$55,604,081	\$57,482,580	\$59,894,963	\$58,602,672	2.2%
<b>Surplus/(Deficit)</b>	<b>\$3,943,575</b>	<b>\$3,126,976</b>	<b>\$2,709,042</b>	<b>\$299,786</b>	<b>(\$2,064,718)</b>	<b>152.4%</b>

Source: Historical Data from City As Provided.

In the following table, all debt proceeds and the sale of assets have been eliminated from revenue sources. As a result, the 2006 surplus is now a deficit, and the downward trend of surplus between 2007 and 2009 is evident.

	<b>2006 Actual</b>	<b>2007 Actual</b>	<b>2008 Actual</b>	<b>2009 Actual</b>	<b>2010 Actual</b>	<b>% Change</b>
Revenue (excludes Debt Proceeds and Sale of Assets)	\$54,093,410	\$58,730,056	\$59,977,642	\$60,194,749	\$56,456,789	4.4%
Expenditures	\$57,352,185	\$55,604,081	\$57,482,580	\$59,894,963	\$58,602,672	2.2%
<b>Surplus/(Deficit)</b>	<b>(\$3,258,775)</b>	<b>\$3,125,976</b>	<b>\$2,495,062</b>	<b>\$299,786</b>	<b>(\$2,145,883)</b>	

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extraordinary dependency creates its own volatility for City finances and future revenues from these sources could be unfavorably changed exacerbating the annual structural deficit.

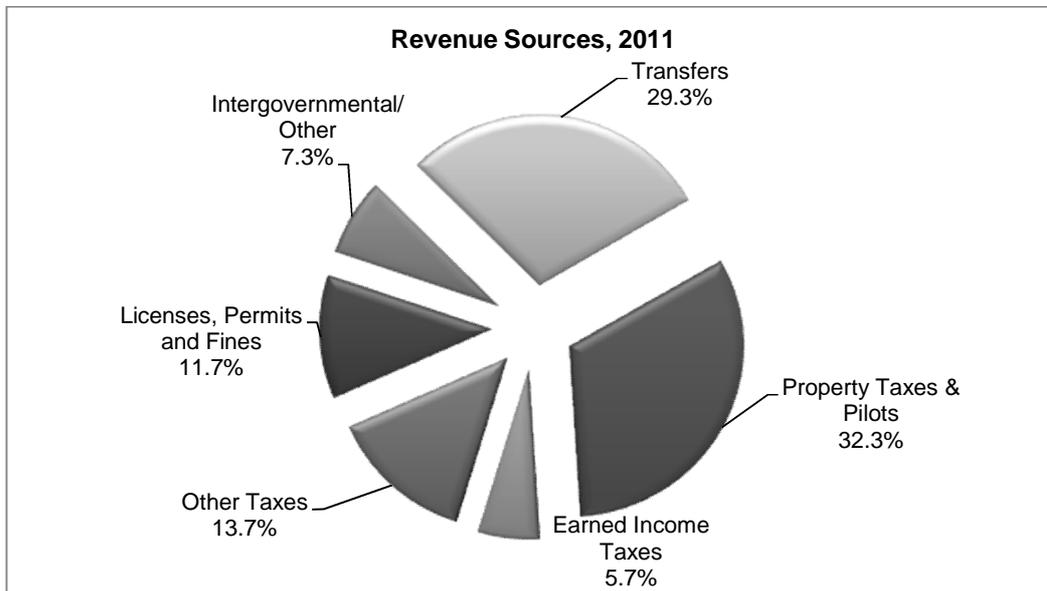
### Administrative Charges, Transfers and Parking Revenue, 2006-2010

	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	% Growth
Transfers and Administrative Charge Payments	\$12,852,316	\$13,861,260	\$14,800,394	\$18,590,844	\$16,157,932	25.7%
Parking Authority/ Coordinated Parking	\$3,524,893	\$4,005,000	\$4,750,000	\$4,050,000	\$2,664,000	(24.4%)
<b>Total Payments</b>	<b>\$16,377,209</b>	<b>\$17,866,260</b>	<b>\$19,550,394</b>	<b>\$22,640,844</b>	<b>\$18,821,932</b>	<b>14.9%</b>
% of Total Revenue	30.3%	30.4%	32.6%	37.6%	33.3%	

Source: Historical Data from City As Provided

~~These administrative charges, transfers and parking revenues~~ are dependent on whether the individual fund's operation has sufficient revenue to meet costs and produce a surplus so that a transfer to the City's General Fund is possible.

The figure below compares these total payments from transfers, administrative charges and parking authority payments with the City's real estate taxes during the review period. Clearly, without these administrative charges, transfers and parking revenues the City's General Fund would have a very significant deficit.



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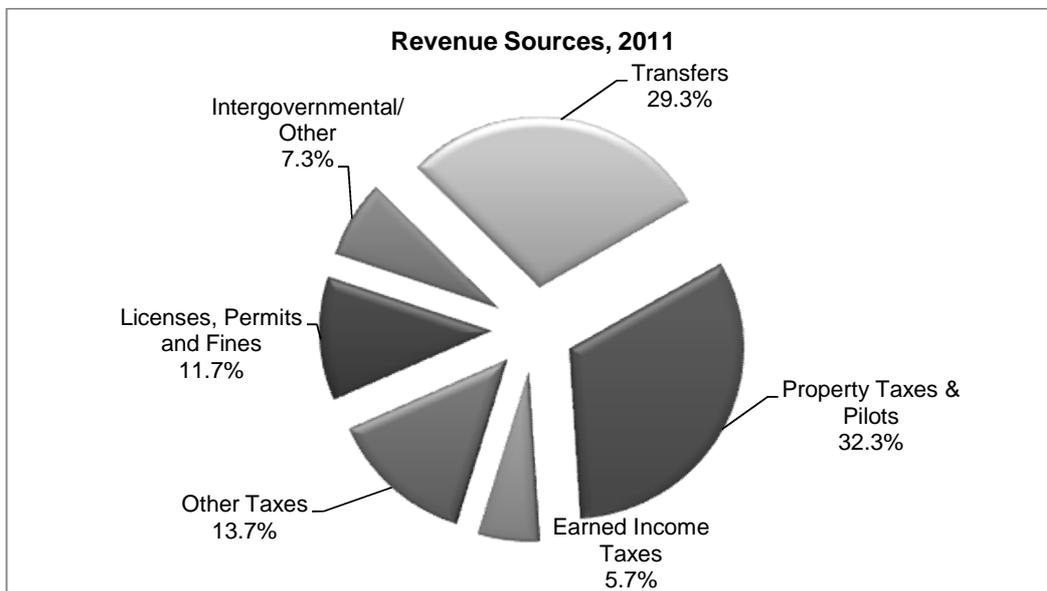
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Source: Historical Data from City As Provided

The City has traditionally included the Sewer administrative charge as an operating expense in its budget. Water and Parking Fund administrative charges and transfers are dependent on whether the individual fund's operation has sufficient revenue to meet costs and produce a surplus so that a transfer to the City's General Fund is possible.

The figure below compares these total payments from transfers, administrative charges and parking authority payments with the City's real estate taxes during the review period. Clearly, without these administrative charges, transfers and parking revenues the City's General Fund would have a very significant deficit.



The loss of population coupled with the high percent of families below the poverty level and the low education levels has a negative impact on the City's tax base and creates added stress on the City's ability to meet increasing demands for service. These statistics also demonstrate that the population cannot reasonably withstand increases in earned income, real estate or other taxes.

## **Process and Methodology for this Act 47 Recovery Plan**

Beginning in January 2011, extensive stakeholder outreach was held with elected officials, community and business leaders, residents, and City of Harrisburg employees to assist the Act 47 Coordinator in development of this Recovery Plan.

The Act 47 Team met with the Mayor and key managers and attended a City Council meeting to introduce the team members and discuss the process. Subsequent meetings were held with the Deputy City Treasurer and City Controller, and a status report was provided to the City Council at its April 26 meeting.

To solicit community input, two public input meetings were held. The first public meeting was held at the YWCA of Greater Harrisburg on February 28, 2011 and was attended by an estimated 100-110 people. The meeting began with a presentation of the issues and then public comment was taken in a hearing-style format. The Act 47 Team listened to the input and considered it as part of its data gathering. The second public meeting was held on March 7, 2011 at the Heinz-Menaker Senior Center with an estimated 70-80 people in attendance. This meeting was intentionally less formal and began with a presentation and a question and answer period. Attendees then engaged in small group discussion regarding ideas for the Act 47 Coordinator to consider.

Act 47 Team members met with elected and appointed officials from Dauphin County and the Commonwealth of Pennsylvania and board members and staffs of THA and the HPA. Business leaders were also a targeted stakeholder group and Act 47 Team members met with Harrisburg Development Corp., Debt Watch Harrisburg and members of the Harrisburg Regional Chamber of Commerce. Meetings were also held with Cravath, Swaine & Moore LLP, LambdaStar Infrastructure Partners, Ambac Financial Group, AGM and attorneys representing various parties in ongoing litigation against the City.

City staff input was collected in a number of ways. The Act 47 Team members interviewed the heads of the City departments and bureaus and other key management staff. Multiple meetings were held with City's three bargaining units – Fraternal Order of Police (FOP), Capital City Lodge 12; International Association of Fire Fighters (IAFF), Local No. 428; and the American Federation of State, County, and Municipal Employees (AFSCME), Local No. 521 – to solicit ideas and identify cost savings. In addition, two employee meetings were held to inform employees about the Act 47 process and solicit ideas. The first meeting was held at the Water Bureau on March 22, 2011. Between 30 and 40 employees attended. The second session was held in the City Government Center on March 23, 2011. Approximately 40 to 50 employees were in attendance.

In addition to this direct outreach, the Act 47 Coordinator requested and reviewed a significant amount of background materials from the City. Information reviewed included but is not limited to: budget documents; organizational charts; operational work plans; collective bargaining agreements; tables of organization; audited financial statements; revenue and expenditure history; staffing history; other audits; prior studies, including the City's Early Intervention Plan report; and DCED's Municipalities Financial Recovery Act Consultative Evaluation for the City of Harrisburg.

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On June 13, 2011, the Act 47 Coordinator filed a draft Act 47 Recovery Plan for public review and comment. In addition to the delivery of copies of the draft Plan to certain elected and appointed officials as designated under Act 47, the Coordinator made an electronic version of the draft Plan available for the City and local news media to post on their websites.

On June 28, 2011, the Act 47 Coordinator held a public hearing to receive comments on the draft Plan pursuant to the provisions of Act 47. Approximately 200 people attended the meeting, which was held in the auditorium at John Harris High School. As provided by the statute, the Coordinator

### **Budget Projection Methodology**

In order to adequately and correctly determine the scope of the City's financial situation, the Act 47 Coordinator began with a detailed assessment of the FY2011 General Fund budget to determine the estimated year-end balance. Based on a thorough understanding of the FY2011 revenue and expenditure picture, the Act 47 Coordinator then developed a multi-year budget projection model to determine the size and nature of the City's budget shortfall. The assumptions and process used to develop these projections are detailed below.

### **2011 General Fund Budget**

The City's 2011 General Fund budget as passed is balanced with revenues equal to expenditures in an amount of \$55,993,157. This amount compares to the 2010 budget figure of \$64,710,369.<sup>6</sup>

The 2011 General Fund budget provided for major cost reductions in an effort to correct the deficit as reflected in the 2010 actual financial results. However, the budget did not address debt guarantees for the RRF. As proposed by the Mayor, the Debt Service Fund budget provided for \$51.3 million to meet debt guarantees, the resources of which were to come from the sale of City assets. The City Council did not include this proposal in the adopted Debt Service Fund budget.

Based on the historical data as well as various collective bargaining provisions, the Act 47 Coordinator has estimated that 2011 year end will have a deficit of approximately \$3.5 million, as noted in the table below.

### **2011 Year End Projection**

	<b>2011 Budget</b>	<b>2011 Estimated</b>	<b>Estimated Budget</b>
Revenues	\$55,993,154	\$54,629,104	(\$1,364,050)
Expenditures	\$55,993,154	\$58,095,557	\$2,102,404
<b>Surplus/(Deficit)</b>	<b>\$0</b>	<b>(\$3,466,454)</b>	<b>(\$3,466,454)</b>

<sup>6</sup> 2010 Budget Ordinance City of Harrisburg

also received written comments on the draft Plan through June 28, 2011. Finally, the Coordinator has had numerous meetings about the draft Plan with the City's elected officials, community leaders, union leadership and interested individuals. In all comments received on the draft Plan, several common themes emerged, including requests to:

- Preserve the split tax rate in Harrisburg;
- Enact a commuter tax and/or a County-wide sales tax;
- If assets must be leased or sold, preserve flexibility for the City in any sale or lease agreements (e.g., to collect some portion of total revenue, to offer competing services, to terminate agreements at some future date);
- Ensure that Dauphin County, AGM, and bondholders play an equal part with the citizens of Harrisburg in any debt solution (i.e., "share the pain");
- Include bankruptcy as a possible debt solution in Plan;
- Ensure that the Commonwealth is adequately contributing to the City's operations (e.g., through PII OT agreements and sufficient Capital Fire Protection allocations); and
- Preserve current public safety staffing levels and services.

As noted in the transmittal memo, the extensive public input has led to several revisions since the draft Plan was released. A summary of public input received throughout the process is included as Appendix B.

In addition to this direct outreach, the Act 47 Coordinator requested and reviewed a significant amount of background materials from the City. Information reviewed included but is not limited to: budget documents; organizational charts; operational work plans; collective bargaining agreements; tables of organization; audited financial statements; revenue and expenditure history; staffing history; other audits; prior studies, including the City's Early Intervention Plan report; and DCED's Municipalities Financial Recovery Act Consultative Evaluation for the City of Harrisburg.

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<sup>6</sup> 2010 Budget Ordinance City of Harrisburg

With respect to revenue, the differences between various revenue items as budgeted and those estimated by the Act 47 Coordinator are shown in the following table.

### 2011 Projected Revenues

	2011 Budget	2011 Estimated	Estimated Budget
Real Estate Taxes	\$17,633,520	\$17,234,858	(\$398,662)
Other Taxes	\$10,819,552	\$10,555,275	(\$264,277)
Utility Payments, Transfers, Parking Authority	\$16,390,847	\$15,990,847	(\$400,000)
All Other Revenue	\$11,149,235	\$10,848,123	(\$301,112)
<b>Total</b>	<b>\$55,993,154</b>	<b>\$54,629,104</b>	<b>(\$1,364,050)</b>

Source: 2011 Budget from City; 2011 PEL Estimated

The following assumptions were used to determine the projected revenues:

- The City has budgeted \$1.42 million in revenue from the lien sale of delinquent real estate taxes. Also budgeted is an additional \$1.91 million to be received from delinquent real estate taxes. The Act 47 Coordinator estimates (assuming a lien sale does occur in November-December of 2011) proceeds will approximate \$1.3 million. Further, other delinquent collections will be \$1.8 million. Most importantly, given the static nature of the real estate assessment base, the Act 47 Coordinator estimates current real estate taxes at \$14.2 million, not the \$14.3 million budgeted.
- The other principal estimated tax revenue shortfalls include a decrease in the Business Privilege & Mercantile Tax estimated at \$115,000, the real estate transfer tax at \$45,000 under budget and parking taxes at approximately \$87,000 under budget. The first two items are the result of the slow economic recovery. The parking tax reduction assumes that the proposed increase in parking tax from 15% to 20% will not occur until the fall of 2011.
- The Act 47 Coordinator held Administrative Charges and Transfers at the 2011 budget level. However, the HPA budget provides for only \$3.6 million to the City, not the \$4.0 million in the City budget. In 2010, the City received only \$2.66 million. Therefore, the Act 47 Coordinator elected to use HPA's budgeted \$3.6 million for 2011.
- For All Other Revenue, the 2011 estimate is less than that budgeted by approximately \$300,000.

The differences between the adopted 2011 budget and the year-end estimates developed by the Act 47 Coordinator include overtime, severance pay, social security, medical insurance and motor vehicle fuel costs. They are summarized in the table below.

Based on the historical data as well as various collective bargaining provisions, the Act 47 Coordinator has estimated that 2011 year end will have a deficit of approximately \$3.5 million, as noted in the table below.

### 2011 Year End Projection

	2011 Budget	2011 Estimated	Estimated Budget
Revenues	\$55,993,154	\$54,629,104	(\$1,364,050)
Expenditures	\$55,993,154	\$58,095,557	\$2,102,404
<b>Surplus/(Deficit)</b>	<b>\$0</b>	<b>(\$3,466,454)</b>	<b>(\$3,466,454)</b>

With respect to revenue, the differences between various revenue items as budgeted and those estimated by the Act 47 Coordinator are shown in the following table.

### 2011 Projected Revenues

	2011 Budget	2011 Estimated	Estimated Budget
Real Estate Taxes	\$17,633,520	\$17,234,858	(\$398,662)
Other Taxes	\$10,819,552	\$10,555,275	(\$264,277)
Utility Payments, Transfers, Parking Authority	\$16,390,847	\$15,990,847	(\$400,000)
All Other Revenue	\$11,149,235	\$10,848,123	(\$301,112)
<b>Total</b>	<b>\$55,993,154</b>	<b>\$54,629,104</b>	<b>(\$1,364,050)</b>

Source: 2011 Budget from City; 2011 PEL Estimated

The following assumptions were used to determine the projected revenues:

- The City has budgeted \$1.42 million in revenue from the lien sale of delinquent real estate taxes. Also budgeted is an additional \$1.91 million to be received from delinquent real estate taxes. The Act 47 Coordinator estimates (assuming a lien sale does occur in November-December of 2011) proceeds will approximate \$1.3 million. Further, other delinquent collections will be \$1.8 million. Most importantly, given the static nature of the real estate assessment base, the Act 47 Coordinator estimates current real estate taxes at \$14.2 million, not the \$14.3 million budgeted.
- The other principal estimated tax revenue shortfalls include a decrease in the Business Privilege & Mercantile Tax estimated at \$115,000, the real estate transfer tax at \$45,000 under budget and parking taxes at approximately \$87,000 under budget. The first two items are the result of the slow economic recovery. The parking tax reduction assumes that the proposed increase in parking tax from 15% to 20% will not occur until the fall of 2011.
- The Act 47 Coordinator held Administrative Charges and Transfers at the 2011 budget level. However, the HPA budget provides for only \$3.6 million to the City, not the \$4.0 million in the

## 2011 Projected Expenditures

	2011 Budget	2011 Estimated	Estimated Budget
Overtime	\$1,030,100	\$2,380,100	\$1,350,000
Medical Insurance	\$7,250,306	\$7,900,306	\$650,000
Severance Pay	\$822,145	\$1,269,347	\$447,202
Social Security	\$1,413,114	\$922,411	(\$490,703)
Motor Fuel Lubricants	\$855,266	\$1,000,800	\$145,534
All Other	\$44,622,223	\$44,622,594	\$371
<b>Total</b>	<b>\$55,993,154</b>	<b>\$58,095,557</b>	<b>\$2,102,404</b>

Source: 2011 Budget from City; 2011 PEL Estimated

The following assumptions were used to determine the projected expenditures:

- The adopted 2011 City budget drastically reduced overtime expenses, especially overtime for the Fire Bureau. However, much of the overtime costs are related to existing contractual language and/or operational schedules. For example, IAFF Collective Bargaining Agreement requires that two hours per man per week (the last two hours of 42 hours per work week) be paid at time and one-half. There is also a minimum manning per shift requirement which appears to generate overtime hours. Unless there are significant changes in schedules, contracts or related procedures, substantive reduction in overtime, although a positive goal, seems unlikely. Actual overtime costs for 2010 were \$2.9 million. The Act 47 Coordinator's estimated overtime for all General Fund Departments for 2011 is \$2.4 million.
- The City's budget includes \$1.413 million for Social Security. The Act 47 Coordinator estimates the final expenses in this category will be \$922,000 million for 2011. The Act 47 Coordinator's 2011 estimate compares closely to the 2010 year-end actual expense.
- Medical insurance was reduced in the adopted 2011 budget to \$7.3 million from the 2010 actual amount of \$7.9 million. Even with a reduction of personnel in the 2011 General Fund budget to approximately 435 employees, the Act 47 Coordinator believes medical insurance is approximately \$650,000 under budget.
- The increase in severance pay expenditure is estimated by the Act 47 Coordinator to be \$447,000 more than the budgeted amount. The higher severance pay expenditure is included in 2011 budget amendments by the City.
- The increased cost in vehicle motor fuel lubricants is expected due to the escalation in the price of gasoline, diesel and related products.

City budget. In 2010, the City received only \$2.66 million. Therefore, the Act 47 Coordinator elected to use HPA's budgeted \$3.6 million for 2011.

- For All Other Revenue, the 2011 estimate is less than that budgeted by approximately \$300,000.

The differences between the adopted 2011 budget and the year-end estimates developed by the Act 47 Coordinator include overtime, severance pay, social security, medical insurance and motor vehicle fuel costs. They are summarized in the table below.

### 2011 Projected Expenditures

	2011 Budget	2011 Estimated	Estimated Budget
Overtime	\$1,030,100	\$2,380,100	\$1,350,000
Medical Insurance	\$7,250,306	\$7,900,306	\$650,000
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All Other	\$44,622,223	\$44,622,594	\$371
<b>Total</b>	<b>\$55,993,154</b>	<b>\$58,095,557</b>	<b>\$2,102,404</b>

Source: 2011 Budget from City; 2011 PEL Estimated

The following assumptions were used to determine the projected expenditures:

- The adopted 2011 City budget drastically reduced overtime expenses, especially overtime for the Fire Bureau. However, much of the overtime costs are related to existing contractual language and/or operational schedules. For example, IAFF Collective Bargaining Agreement requires that two hours per man per week (the last two hours of 42 hours per work week) be paid at time and one-half. There is also a minimum manning per shift requirement which appears to generate overtime hours. Unless there are significant changes in schedules, contracts or related procedures, substantive reduction in overtime, although a positive goal, seems unlikely. Actual overtime costs for 2010 were \$2.9 million. The Act 47 Coordinator's estimated overtime for all General Fund Departments for 2011 is \$2.4 million.
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### **2012 – 2015 General Fund Baseline Projections**

Based on the Act 47 Coordinator's 2011 year-end estimates, baseline projections for the General Fund were made for 2012 through 2015. These projections assume that no plan interventions are made to change either the existing revenue or expenditure trends. In developing these projections, a variety of assumptions were used.

The revenue assumptions used in the baseline projections were as follows:

- All tax and fee rates were held constant.
- Revenue from real estate taxes has been held constant over the period as assessed valuation growth is assumed to be minimal.
- The sale of tax liens has been included for years 2012 through 2015 assuming the sale occurs in the early part of each year. The Act 47 Coordinator's examination of the sale indicates that continuing the tax lien sale for a minimum of three consecutive years is necessary in order to maintain adequate cash flow.
- Other Taxes were reviewed on a line-by-line basis. Earned Income Tax was increased by 1% per year, the Business Privilege & Mercantile Tax by 1.75% per year and the real estate transfer tax by 3% per year over the 2011 estimated base. All other taxes were held constant.
- The American Recovery and Reinvestment Act (ARRA) Police Grant is expected to end in 2014.
- Vehicle Maintenance Reimbursements were increased at the same rate as related expenditures.
- State aid for pension expenses were held constant over the period. It is possible that the Commonwealth's payments may be less in future years depending on resources in the statewide pension pool. However, the City's reimbursement is less than the maximum available because municipal contributions are only required for the police pension fund. Therefore, barring a very large reduction in the Commonwealth's rate of payment or a large increase in actuarial unfunded liability and/or normal cost, the Commonwealth's pension payments should continue to offset pension costs. Consequently, the net pension cost less reimbursement should equal zero.<sup>7</sup>
- The Commonwealth's payment to the City for fire protection has been decreased to \$497,000 beginning in 2011 in line with the proposed state budget.
- Most other revenues are held constant over the period.
- Importantly, other fund administrative charges, transfer payments and parking authority payments are held constant through the period.

<sup>7</sup> The pension costs do not include pension benefit increases described in collective bargaining agreements. The pension benefit increases in the agreements were subject to City Council approval which did not occur.

- The increase in severance pay expenditure is estimated by the Act 47 Coordinator to be \$447,000 more than the budgeted amount. The higher severance pay expenditure is included in 2011 budget amendments by the City.
- The increased cost in vehicle motor fuel lubricants is expected due to the escalation in the price of gasoline, diesel and related products.

### **2012 – 2015 General Fund Baseline Projections**

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- The sale of tax liens has been included for years 2012 through 2015 assuming the sale occurs in the early part of each year. The Act 47 Coordinator's examination of the sale indicates that continuing the tax lien sale for a minimum of three consecutive years is necessary in order to maintain adequate cash flow.
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<sup>7</sup> The pension costs do not include pension benefit increases described in collective bargaining agreements. The pension benefit increases in the agreements were subject to City Council approval which did not occur

The expenditure assumptions used in the baseline projections were as follows:

- The number of personnel has been held constant at the 2011 budget level.
- Wages have been increased as specified in the respective collective bargaining agreements.
- Medical insurance has been increased at 12% per year in conformance with the City's most recent experience and observed increases for government employees.
- Other major insurance costs have been projected on a case-by-case basis.
- Transfers to the debt service fund are based on amortization schedules given in the latest City audit with estimates for the capital lease payments.
- No new debt is anticipated.
- No new capital expenditures are included.
- Municipal pension obligations are held constant over the period.
- No payments on the RRF debt obligations are included.
- Other expenditures were increased at various levels.

Based on the foregoing, the following table provides the estimated General Fund projections for the City of Harrisburg for 2011 through 2015.

### General Fund Projections, 2011-2015

General Fund	Act 47 Coordinator Estimate	Act 47 Coordinator Projected	Act 47 Coordinator Projected	Act 47 Coordinator Projected	Act 47 Coordinator Projected	%
	2011	2012	2013	2014	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	9.9%
<b>Surplus/(Deficit)</b>	<b>(\$3,466,454)</b>	<b>(\$4,984,262)</b>	<b>(\$5,962,532)</b>	<b>(\$8,261,472)</b>	<b>(\$10,415,519)</b>	<b>200.5%</b>

- Importantly, other fund administrative charges, transfer payments and parking authority payments are held constant through the period. It is possible that future annual administrative charges may be reduced from the projection amounts to maintain proper subsidiary operations and to keep rate increases to a minimum.

The expenditure assumptions used in the baseline projections were as follows:

- The number of personnel has been held constant at the 2011 budget level.
- Wages have been increased as specified in the respective collective bargaining agreements.
- Medical insurance has been increased at 12% per year in conformance with the City's most recent experience and observed increases for government employees.
- Other major insurance costs have been projected on a case-by-case basis.
- Transfers to the debt service fund are based on amortization schedules given in the latest City audit with estimates for the capital lease payments.
- No new debt is anticipated.
- No new capital expenditures are included.
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- Other expenditures were increased at various levels.

Based on the foregoing, the following table provides the estimated General Fund projections for the City of Harrisburg for 2011 through 2015.

### 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	9.9%
<b>Surplus/(Deficit)</b>	<b>(\$3,466,454)</b>	<b>(\$4,984,262)</b>	<b>(\$5,962,532)</b>	<b>(\$8,261,472)</b>	<b>(\$10,415,519)</b>	<b>200.5%</b>

## General Fund Expenditure Projections, 2011-2015

Category	2011 Estimated	2012 Projected	2013 Projected	2014 Projected	2015 Projected	Growth %
Wages	\$25,001,506	\$25,781,468	\$26,455,673	\$27,149,857	\$27,813,950	11.2%
Overtime	\$2,380,100	\$2,451,940	\$2,507,975	\$2,565,691	\$2,625,139	10.3%
Severance Pay	\$1,269,347	\$75,000	\$75,000	\$75,000	\$75,000	(94.1%)
Healthcare and Life Insurance	\$7,925,306	\$8,873,343	\$9,935,144	\$11,124,361	\$12,456,284	57.2%
Unemployment Compensation	\$107,322	\$107,322	\$107,322	\$107,322	\$107,322	0.0%
Pension	\$1,551,579	\$1,551,579	\$1,551,579	\$1,551,579	\$1,551,579	0.0%
Workers Compensation	\$1,194,116	\$1,194,116	\$1,194,116	\$1,194,116	\$1,194,116	0.0%
All Other Personnel	\$230,650	\$230,879	\$231,136	\$231,471	\$231,864	0.5%
Debt Service	\$11,208,129	\$11,548,690	\$10,711,921	\$10,605,917	\$10,605,917	(5.4%)
Lease Purchase	\$281,481	\$285,175	\$289,293	\$294,608	\$300,795	6.9%
Utilities and Street Lights	\$1,044,398	\$1,066,554	\$1,092,262	\$1,126,959	\$1,169,688	12.0%
Insurances	\$1,276,391	\$1,285,074	\$1,294,692	\$1,307,028	\$1,320,681	3.5%
Vehicle Fuels, Parts, Equipment	\$1,251,050	\$1,305,383	\$1,368,000	\$1,451,877	\$1,554,149	24.2%
All Other Non Personnel Expenditures	\$3,374,182	\$2,766,240	\$2,792,541	\$2,824,329	\$2,860,921	(15.2%)
<b>Total</b>	<b>\$58,095,557</b>	<b>\$58,522,763</b>	<b>\$59,606,654</b>	<b>\$61,610,115</b>	<b>\$63,867,406</b>	<b>9.9%</b>

### *Other Funds*

The analysis presented above assumes that administrative charge payments, transfers and HPA revenue will remain constant. It also assumes that there are sufficient revenues to maintain this flow of funds. On the expenditure side, transfers from the General Fund to meet debt service obligations depend on the funds required in the Debt Service Fund.

In short, the financial status of the City depends upon a number of operational funds in addition to the General Fund. The principal additional operational funds which must be considered are:

- Debt Service Fund – Accounts for transactions relating to City debt excluding any guaranteed debt;
- Sanitation Fund – Accounts for transactions dealing with the City's collection of refuse. Does not include RRF activities;
- Sewer Fund – Accounts for transactions dealing with City's operation in the collection and treatment of ~~sewage~~;
- ~~Liquid Fuels (Highway Aid) Funds – Accounts for Commonwealth funds to maintain streets and roads~~; and

## General Fund Expenditure Projections, 2011-2015

Category	2011 Estimated	2012 Projected	2013 Projected	2014 Projected	2015 Projected	Growth %
Wages	\$25,001,506	\$25,781,468	\$26,455,673	\$27,149,857	\$27,813,950	11.2%
Overtime	\$2,380,100	\$2,451,940	\$2,507,975	\$2,565,691	\$2,625,139	10.3%
Severance Pay	\$1,269,347	\$75,000	\$75,000	\$75,000	\$75,000	(94.1%)
Healthcare and Life Insurance	\$7,925,306	\$8,873,343	\$9,935,144	\$11,124,361	\$12,456,284	57.2%
Unemployment Compensation	\$107,322	\$107,322	\$107,322	\$107,322	\$107,322	0.0%
Pension	\$1,551,579	\$1,551,579	\$1,551,579	\$1,551,579	\$1,551,579	0.0%
Workers Compensation	\$1,194,116	\$1,194,116	\$1,194,116	\$1,194,116	\$1,194,116	0.0%
All Other Personnel	\$230,650	\$230,879	\$231,136	\$231,471	\$231,864	0.5%
Debt Service	\$11,208,129	\$11,548,690	\$10,711,921	\$10,605,917	\$10,605,917	(5.4%)
Lease Purchase	\$281,481	\$285,175	\$289,293	\$294,608	\$300,795	6.9%
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Insurances	\$1,276,391	\$1,285,074	\$1,294,692	\$1,307,028	\$1,320,681	3.5%
Vehicle Fuels, Parts, Equipment	\$1,251,050	\$1,305,383	\$1,368,000	\$1,451,877	\$1,554,149	24.2%
All Other Non Personnel Expenditures	\$3,374,182	\$2,766,240	\$2,792,541	\$2,824,329	\$2,860,921	(15.2%)
<b>Total</b>	<b>\$58,095,557</b>	<b>\$58,522,763</b>	<b>\$59,606,654</b>	<b>\$61,610,115</b>	<b>\$63,867,406</b>	<b>9.9%</b>

### *Other Funds*

The analysis presented above assumes that administrative charge payments, transfers and HPA revenue will remain constant. It also assumes that there are sufficient revenues to maintain this flow of funds. On the expenditure side, transfers from the General Fund to meet debt service obligations depend on the funds required in the Debt Service Fund.

In short, the financial status of the City depends upon a number of operational funds in addition to the General Fund. The principal additional operational funds which must be considered are:

- Debt Service Fund – Accounts for transactions relating to City debt excluding any guaranteed debt;
- Sanitation Fund – Accounts for transactions dealing with the City's collection of refuse. Does not include RRF activities;
- Sewer Fund – Accounts for certain transactions dealing with City's operation in the collection and treatment of sewage not covered in other City General Fund categories; and

- Water Fund – Accounts for transactions relating to the City's agreement with the Harrisburg Authority to operate the water system for Harrisburg and other contracting adjacent municipalities.

- **Water Fund – Accounts for transactions relating to the City's agreement with the Harrisburg Authority to operate the water system for Harrisburg and other contracting adjacent municipalities.**

The Act 47 Coordinator reviewed the historical revenue and expenditure for each of these funds over the period 2006 through 2010 as well as the City's budget for each for 2011.

Based on similar assumptions used for the City's General Fund, revenue and expenditure projections for each fund were developed. It is noteworthy that no new capital expenditures or new debt were included.

The following table provides the results of these projections in combination with the General Fund projections.

The Act 47 Coordinator reviewed the historical revenue and expenditure for each of these funds over the period 2006 through 2010 as well as the City's budget for each for 2011.

Based on similar assumptions used for the City's General Fund, revenue and expenditure projections for each fund were developed. It is noteworthy that no new capital expenditures or new debt were included.

The following table provides the results of these projections in combination with the General Fund projections.

## Projections for All Funds, 2011-2015

	Estimated 2011	Projected 2012	Projected 2013	Projected 2014	Projected 2015
<b>General Fund</b>					
Revenues	\$54,629,104	\$53,538,500	\$53,644,122	\$53,348,643	\$53,451,888
Expenditures	\$58,095,557	\$58,522,763	\$59,606,654	\$61,610,115	\$63,867,406
Surplus/(Deficit)	(\$3,466,454)	(\$4,984,262)	(\$5,962,532)	(\$8,261,472)	(\$10,415,519)
<b>Debt Service Fund</b>					
Revenues	\$12,218,229	\$12,058,790	\$11,222,021	\$11,116,017	\$10,479,586
Expenditures	\$12,218,229	\$12,058,790	\$11,222,021	\$11,116,017	\$10,479,586
Surplus/(Deficit)	\$0	\$0	\$0	\$0	\$0
<b>Sewer Fund</b>					
Revenues	\$14,089,600	\$14,164,600	\$14,240,350	\$14,316,858	\$14,394,130
Expenditures	\$17,018,022	\$14,931,916	\$15,128,191	\$15,351,409	\$15,586,071
Surplus/(Deficit)	(\$2,928,422)	(\$767,316)	(\$887,841)	(\$1,034,551)	(\$1,191,941)
<b>Sanitation Fund</b>					
Revenues	\$4,549,007	\$4,599,007	\$4,649,007	\$4,699,007	\$4,749,007
Expenditures	\$4,810,652	\$4,883,791	\$4,963,621	\$5,052,401	\$5,148,550
Surplus/(Deficit)	(\$261,645)	(\$284,784)	(\$314,614)	(\$353,394)	(\$399,543)
<b>Liquid Fuels</b>					
Revenues	<del>\$800,026</del>	<del>\$800,026</del>	<del>\$800,026</del>	<del>\$800,026</del>	<del>\$800,026</del>
Expenditures	<del>\$956,000</del>	<del>\$963,300</del>	<del>\$970,073</del>	<del>\$970,120</del>	<del>\$985,041</del>
Surplus/(Deficit)	<del>(\$65,174)</del>	<del>(\$72,474)</del>	<del>(\$79,847)</del>	<del>(\$87,294)</del>	<del>(\$94,815)</del>
<b>Water Fund</b>					
Revenues	<del>\$5,594,573</del>	<del>\$5,594,573</del>	<del>\$5,594,573</del>	<del>\$5,594,573</del>	<del>\$5,594,573</del>
Expenditures	\$5,594,573	\$5,720,890	\$5,859,343	\$6,014,669	\$6,171,829
Surplus/(Deficit)	\$0	<del>(\$126,317)</del>	<del>(\$264,770)</del>	<del>(\$420,096)</del>	<del>(\$577,256)</del>
<b>All Funds</b>					
Surplus/(Deficit)	<del>(\$6,721,603)</del>	<del>(\$6,408,836)</del>	<del>(\$7,244,834)</del>	<del>(\$8,736,711)</del>	<del>(\$12,000,003)</del>

In general, the revenues of each fund are essentially static assuming no increase in rates for the utility funds or increases by the Commonwealth for the Liquid Fuels payments.

Expenditures over the period generally increase for the utility funds because of the increase in contractual wage costs (personnel are City employees) and estimated increases in employee medical insurance at 12%. The very large decrease in the Sewer Fund of \$2 million between the 2011 budget and the 2012 projection is the result of the termination of lease rental payments to THA for sewer bonds.

When combining the General Fund projections with that of the other relevant funds the combined structural deficit trends from \$6.72 million estimated in 2011 to \$12.0 million projected in 2015.

## Projections for All Funds, 2011-2015

	Estimated 2011	Projected 2012	Projected 2013	Projected 2014	Projected 2015
<b>General Fund</b>					
Revenues	\$54,629,104	\$53,538,500	\$53,644,122	\$53,348,643	\$53,451,888
Expenditures	\$58,095,557	\$58,522,763	\$59,606,654	\$61,610,115	\$63,867,406
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<b>Debt Service Fund</b>					
Revenues	\$12,218,229	\$12,058,790	\$11,222,021	\$11,116,017	\$10,479,586
Expenditures	\$12,218,229	\$12,058,790	\$11,222,021	\$11,116,017	\$10,479,586
Surplus/(Deficit)	\$0	\$0	\$0	\$0	\$0
<b>Sewer Fund</b>					
Revenues	\$14,089,600	\$14,164,600	\$14,240,350	\$14,316,858	\$14,394,130
Expenditures	\$17,018,022	\$14,931,916	\$15,128,191	\$15,351,409	\$15,586,071
Surplus/(Deficit)	(\$2,928,422)	(\$767,316)	(\$887,841)	(\$1,034,551)	(\$1,191,941)
<b>Sanitation Fund</b>					
Revenues	\$4,549,007	\$4,599,007	\$4,649,007	\$4,699,007	\$4,749,007
Expenditures	\$4,810,652	\$4,883,791	\$4,963,621	\$5,052,401	\$5,148,550
Surplus/(Deficit)	(\$261,645)	(\$284,784)	(\$314,614)	(\$353,394)	(\$399,543)
<b>Water Fund</b>					
Revenues	<u>\$5,594,573</u>	<u>\$5,720,890</u>	<u>\$5,859,343</u>	<u>\$6,014,669</u>	<u>\$6,171,829</u>
Expenditures	\$5,594,573	\$5,720,890	\$5,859,343	\$6,014,669	\$6,171,829
Surplus/(Deficit)	\$0	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>All Funds</b>					
Surplus/(Deficit)	<u>(\$6,656,521)</u>	<u>(\$6,036,362)</u>	<u>(\$7,164,987)</u>	<u>(\$9,649,417)</u>	<u>(\$12,007,003)</u>

In general, the revenues of each fund are essentially static assuming no increase in rates for the utility funds or increases by the Commonwealth for the Liquid Fuels payments.

Expenditures over the period generally increase for the utility funds because of the increase in contractual wage costs (personnel are City employees) and estimated increases in employee medical insurance at 12%. The very large decrease in the Sewer Fund of \$2 million between the 2011 budget and the 2012 projection is the result of the termination of certain lease rental payments to THA for sewer bonds.

When combining the General Fund projections with that of the other relevant funds the combined structural deficit trends from \$6.72 million estimated in 2011 to \$12.0 million projected in 2015.

It should be noted that the projections of yearly surpluses and deficits do not include any carryover balance from 2010 and prior years.

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### **General Fund Carryover Fund/Cash Balance**

Because the City has not initiated the 2009 and 2010 audits there are no audited financial statements on a GAAP basis. In February 2011, City Administration provided a year end 2010 cash balance of approximately \$2.1 million. This estimate was based on a “Modified Cash” basis, which is essentially the year end difference between cash and accounts payable.<sup>9</sup> Therefore, combining the 2010 \$2.1 million carryover with the 2011 \$3.5 million projected General Fund deficit results in an estimated 2011 operating budget deficit of \$5.6 million.

In preparation of Recovery Plan, the Act 47 Coordinator has requested large quantities of financial and other data from the City of Harrisburg. Because of time and other practical constraints, the Act 47 Coordinator has not independently verified the accuracy and completeness of the data. In certain cases the data received seemed to be inconsistent or incomplete. In certain other cases, the data and information was either not available or readily available for the required analyses. Therefore, either secondary sources or best estimates were utilized.

## **Conclusion**

Significant changes in how Harrisburg operates and funds its services are required in order to return the City to a place of fiscal solvency. Separate solutions are required to address the City’s primary financial challenges: the overwhelming debt associated with the RRF and the structural budget deficit.

This Recovery Plan includes wide-ranging initiatives impacting all facets of Harrisburg City Government. Each initiative was developed with the express intention of providing the City with an opportunity to more effectively provide services in a financially sustainable and responsible manner. These changes will not be easy though they must be implemented expeditiously. However, with commitment, leadership and the involvement of all key stakeholders, Harrisburg can survive and prosper well into the future.

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<sup>9</sup> Analysis provided to the Act 47 Coordinator in February 2011.

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