

Municipal Financial Recovery Act

Recovery Plan

City of Harrisburg



Prepared on behalf of the
Commonwealth of Pennsylvania
Department of Community and Economic Development
Governor's Center for Local Government Services

As Filed with the City Clerk on July 8, 2011





July 8, 2011

Ladies and Gentlemen:

The purpose of this letter is to formally transmit the Recovery Plan for the City of Harrisburg and to describe key changes that have been made since the draft Plan was filed on June 13, 2011.

Since release of the draft Plan, numerous meetings have been held with elected and appointed officials and community stakeholders. A formal public hearing was held on June 28, 2011. These meetings provided the Act 47 Coordinator with the opportunity to listen to interested parties and, where deemed appropriate, make adjustments to the Recovery Plan.

With regards to the debt solution, the Act 47 Coordinator has received written confirmation from Assured Guaranty Municipal (AGM) and Dauphin County (the County) describing their participation in and commitment to the consensual debt solution described in this Recovery Plan. In addition, Lancaster County Solid Waste Management Authority (LCSWMA) has agreed to an earlier decrease in tipping fees to the City of Harrisburg. Both The Harrisburg Authority (THA) and the Harrisburg Parking Authority (HPA) have expressed their willingness to work with the City on the disposition of assets to make the debt solution possible. In addition, the goals of the sale or lease of assets have been clearly articulated, and the Act 47 Coordinator has clarified that the process used for the lease of parking facilities should be transparent. It will be important for the City to commence working with the Authorities immediately and move forward with the process to dispose of the assets as described in the Debt Chapter.

With regard to the City's structural deficit, the Act 47 Coordinator has made the following adjustments:

- Removed the requirement to implement a single tax rate and as such the existing two-tiered tax rate will be retained;
- Removed the requirement to implement a ten year tax abatement strategy and instead suggest that this strategy be evaluated and considered;
- Stressed the importance of improving collections on the City's Revolving Loan Fund;
- Removed the requirement to consolidate the Mayor and City Council offices and share staff, while still urging closer coordination and support where appropriate;
- Clearly articulated the Act 47 Coordinator's support for the forensic audit being conducted by THA;
- Removed the requirement to provide recreation services through a non-profit partnership and rather required that this be explored and studied and the department's budget be decreased;
- Removed the requirement to close a single fire station, but mandated that this be evaluated in the context of changing apparatus deployment to include four firefighters per engine;
- Clarified that post-retirement health care benefits are eliminated for future employees of the City, not for those employed as of the date of adoption of this Recovery Plan;

- Added a requirement for out-of-county landlords to have a local agent to facilitate improved interaction between the City and property owners as code violations are identified and addressed; and
- Added a requirement for the City to alter its trash pick-up schedule to allow for weekly bulk waste removal in the community.

In addition, the Act 47 Coordinator was informed on July 1 that the City's application for a grant from the Department of Homeland Security under the Staffing for Adequate Emergency Response (SAFER) Grant Program was approved. If this Recovery Plan is adopted, the City must work with the Coordinator to determine if the City can accept the grant and remain in compliance with the Plan.

These adjustments have been made and the Recovery Plan is now presented to the City for consideration. As the City deliberates on the Plan it is important to remember that the plan, while adopted by ordinance, is also a living document. The role of the Coordinator through implementation is to work with the City to review and make adjustments to changing conditions while the City remains in the Act 47 Program.

The fiscal integrity of the Act 47 Coordinator's Plan is intact and provides a solid game plan for restoring fiscal stability to the Capital City.

Regards,

A handwritten signature in black ink, appearing to read "J. D. Novak". The signature is fluid and cursive, with the first name "Julia" and last name "Novak" clearly distinguishable.

Julia D. Novak, President
The Novak Consulting Group
Act 47 Coordinator for the
City of Harrisburg

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.

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%

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.

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
TOTAL		\$75,736,725

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 relies on the continued patience and cooperation by other parties who have subordinate guarantees of the RRF debt, as the City disposes of 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.

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);
 - 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;
 - 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 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.
- 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

- 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

Initiative	Number of Positions Eliminated (FTEs)
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
TOTAL	9.0

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 so and have provided letters outlining their concessions which are included as Appendix A to this report.

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.

Conclusion

Harrisburg cannot solve its own financial problems. The City is receiving 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 participate in Harrisburg's fiscal recovery.

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.