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# **Municipalities Financial Recovery Act**

## **Financial Condition Report**

City of Harrisburg  
Dauphin County, Pennsylvania

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

As filed with the City Clerk on March 22, 2018

March 22, 2018

Eric Papenfuse  
Mayor  
City of Harrisburg  
MLK Jr. City Government Center  
10 N. 2nd St.  
Harrisburg, PA 17101

Wanda Williams  
Council President  
City of Harrisburg  
MLK Jr. City Government Center  
10 N. 2nd St Suite 305  
Harrisburg, PA 17101

Dear Mayor Papenfuse and Council President Williams:

Enclosed please find a copy of the City of Harrisburg's Act 47 Recovery Coordinator's Financial and Economic Condition Report for the City of Harrisburg. The Report was officially filed on Thursday, March 22, 2018, with the Mayor's Office and the Harrisburg City Clerk for the City of Harrisburg City Council. The City of Harrisburg's Recovery Coordinator will place a notice of the Report and related Public Meeting with the Dauphin County Reporter, the designated Legal Periodical of Dauphin County, on March 23, 2018. Further, the notice will be placed in a newspaper of general circulation, with the Central Penn Business Journal. The true and correct Report will be on file for public inspection at the City's offices, and I request that you also post the Report on the City's website. The Recovery Coordinator will permit fifteen 15 days for comment and at the close of those fifteen days the Coordinator will conduct a public meeting for discussion on April 10, 2018 at 5:00pm at the City of Harrisburg's City Council Chambers, 10 North 2<sup>nd</sup> Street, Harrisburg, PA 17101. The Recovery Coordinator respectfully requests that the Mayor and each member of City Council, Treasurer, Controller, the Business Administrator, and the City Finance Director be present at this meeting.

Respectfully,

Marita J. Kelley,   
City of Harrisburg's Recovery Coordinator

Enclosure (1)

# **CITY OF HARRISBURG FINANCIAL CONDITION REPORT**

## **Introduction**

Pursuant to the Commonwealth of Pennsylvania's Municipalities Financial Recovery Act, Act 47 of 1987, as amended, (Act 47) the City of Harrisburg (City) was declared a financially distressed municipality by order of the Secretary of the Department of Community and Economic Development (DCED) in December 2010. The City was placed under receivership following the Governor's declaration of a fiscal emergency in October 2011. In September 2013 the Harrisburg Strong Plan was confirmed by Commonwealth Court of Pennsylvania and continued under the direction of the Receiver and the Commonwealth Court. On January 16, 2014 in recognition of the end of the fiscal emergency in the City of Harrisburg, and pursuant to Section 608(a) of Act 47, the Secretary of the Department of Community and Economic Development certified that the economic conditions that led to the Declaration of Fiscal Emergency had been alleviated and the statutory criteria prerequisite to the existence of a fiscal emergency were abated. He further requested that the Court terminate the Receivership effective March 1, 2014, acknowledged that the City shall continue to be subject to the provisions of Act 47 and requested approval of his appointment of a Department of Community and Economic Development official as Coordinator to oversee the continued implementation of the Harrisburg Strong Plan. The Strong Plan was last modified on November 25, 2015. Act 199 of 2014 (Act 199) amended Act 47 requiring, among other provisions, a limit to the amount of time a municipality may be declared a financially distressed municipality. Because the City was operating under the 2013 confirmed Strong Plan on the effective date of Act 199, it is subject to a termination date five years from the effective date of its then most recent recovery plan, i.e., five years from September 23, 2013. As part of the Act 199 process, the Coordinator is required to complete a report stating the financial condition of the municipality no later than 180 days after the beginning of the final year of distressed status. The report is required to include one of the following findings based on the conditions within the municipality: (1) termination of distressed status; (2) municipal disincorporation; (3) fiscal emergency; or (4) a three-year exit plan. The Coordinator has prepared this Report Stating the Financial Condition of the City of Harrisburg (Report), and accordingly files this Report with the DCED and City representatives.

## **Financial Condition**

### **Background**

As stated in the 2013 Strong Plan:

The challenges Harrisburg faced when it entered Act 47 in December 2010 were overwhelming and the threat of municipal bankruptcy loomed as a dark cloud over Pennsylvania's capitol city. The path Harrisburg followed in the ensuing years was difficult, yet through the perseverance of elected officials, the active engagement and participation of numerous key stakeholders, extremely hard work and willingness to make difficult decisions, Harrisburg was able to emerge from the fiscal emergency declaration issued by the Governor in October 2011 and move along a path towards sustainability. Indeed, Harrisburg has made great strides since the confirmation of the Harrisburg Strong Plan in September 2013 and has been viewed on a national platform as a model of how to effectively address what seem like overwhelming fiscal challenges. However, more needs to be done and it is now up to the elected officials of the City to ensure a stable and healthy future.

The City has resolved the oppressive debt it faced in 2010. It has broken the string of consecutive years with annual operating deficits and growing structural deficits and with the help of the Strong Plan built a very modest cash reserve while also improving day-to-day financial management. The City finished 2014 with its annual revenues balanced against its annual expenditures, and with a resolution of the Commonwealth's budget and receipt of the \$5 million public safety appropriation should be very close to being balanced for 2015. Harrisburg, as with all cities in Pennsylvania, faces fiscal pressures in addressing its ongoing operational budget and providing quality services to its residents. The limited growth of its tax base, deferred capital needs and the pressure to strengthen municipal services especially in the public safety area all remain to be more fully addressed for the City to have a sustainable future. Crumbling infrastructure, outdated or inadequate technology, and aging equipment and vehicles, all make the job of recovery more difficult. Moreover, the City's financial condition forced the City to trim services and to meet service demands with limited front-line staff and management capacity. Since 2009, the City has eliminated 100 positions from the City budget, representing a 17% decrease over the 2009 budgeted staffing levels.

With the above history in mind, this report will review the City's current financial condition and provide a finding to DCED as required under Act 199.

### **Operating Budget Review**

The City has experienced operating budget surpluses since it adopted the 2013 Strong Plan. The City's audits indicate that the City incurred operating budget surpluses in 2014 through 2016. The City's 2017 unaudited financial statements indicate that the City completed 2017 with a \$2,939,571 operating budget surplus.

**Revenues, Expenditures, and Balances  
2012 - 2017**

	<b>Audited 2012</b>	<b>Audited 2013</b>	<b>Audited 2014</b>	<b>Audited 2015</b>	<b>Audited 2016</b>	<b>Reported 2017</b>
Revenue	49,541,137	60,352,410	61,624,809	57,634,038	64,980,744	66,299,496
Expenditures	<u>73,110,274</u>	<u>81,022,979</u>	<u>57,523,007</u>	<u>57,282,581</u>	<u>55,482,540</u>	<u>63,359,925</u>
Surplus/(Deficit)	-23,569,137	-20,670,569	4,101,802	351,457	9,498,204	2,939,571
<b>Fund Balance Jan 1</b>	-54,226,749	-77,795,886	23,434,870	26,761,992	27,113,449	36,611,653
<b>Special Items<sup>1/</sup></b>	0	121,901,325	-774,680	0	0	0
<b>Fund Balance Dec 31</b>	-77,795,886	23,434,870	26,761,992	27,113,449	36,611,653	39,551,224
<b>Unassigned Fund Balance</b>	-80,393,973	10,528,539	14,648,078	14,761,238	21,172,840	
<b>Ending Cash Balance</b>	1,717,878	6,866,399	12,601,819	6,286,854	19,255,289	20,980,423
<b>Ending Accounts Payable</b>	5,516,496	3,060,715	4,167,090	2,438,071	2,097,064	1,505,728

<sup>1/</sup>2013 Includes results of Strong Plan monetization of Incinerator and Parking assets.

## 2017 Financial Review

The City reported ending the 2017 fiscal year with an operating surplus of \$2,939,571.<sup>1</sup> For the 2017 fiscal year, the City's unaudited operating revenues were \$66.3 million exceeding the budget by \$4.9 million or 7.9%. Unaudited operating expenditures were at \$63.4 million or 3.6 percent under the approved budget by \$2.4 million. Accordingly, the City is expected to have a 2017 operating surplus of revenue over expenditures of approximately \$2.9 million.

### 2017 Actual vs. Budget

<b>Revenues</b>	<b>2017 Actual</b>	<b>2017 Budget</b>	<b>Variance</b>	
			<b>\$</b>	<b>%</b>
Real Estate Tax	17,594,052	16,631,432	962,620	5.8
EIT	11,446,980	10,816,927	630,053	5.8
LST	7,413,159	5,561,176	1,851,983	33.3
Other Taxes	4,289,519	4,905,208	-615,689	-12.6
Parking Revenues	7,128,580	7,318,225	-189,645	-2.6
Other Revenues	<u>18,427,206</u>	<u>16,194,013</u>	<u>2,233,193</u>	<u>13.8</u>
<b>Total Revenues</b>	<b>66,299,496</b>	<b>61,426,981</b>	<b>4,872,514</b>	<b>7.9</b>
<b><u>Expenditures</u></b>				
Personnel	35,432,355	38,993,797	-3,561,441	-9.1
Non Personnel				
Services	4,956,282	6,278,134	-1,321,852	-21.1
Supplies	2,918,343	4,025,069	-1,106,726	-27.5
Other	<u>20,052,945</u>	<u>16,414,843</u>	<u>3,638,102</u>	<u>22.2</u>
<b>Total Non Personnel</b>	<b>27,927,570</b>	<b>26,718,046</b>	<b>1,209,524</b>	<b>4.5</b>
<b>Total Expenditures</b>	<b>63,359,925</b>	<b>65,711,842</b>	<b>-2,351,918</b>	<b>-3.6</b>
<b>Surplus/(Deficit)</b>	<b>2,939,571</b>	<b>-4,284,861</b>		

<sup>1</sup> Based on the City of Harrisburg's reported financial numbers that have not been independently audited as of this Report.

## 2018 Financial Condition

The City adopted its 2018 operating budget on December 19, 2017. Revenues of \$63.6 million and a fund balance appropriation of \$9.2 million are slated to cover expenditures equal to \$72.8 million. The City anticipates using the fund balance to pay for capital improvements totaling more than \$7.4 million as well as other one-time expenditures including the \$1.0 million settlement to the Suburban Communities in the 2018 fiscal year. The Coordinator will continue to monitor the City's fiscal position and prepare monthly cash flow estimates for the City's use.

### Budgeted Revenues and Expenditures 2018

	2018		2018
<u>Revenues</u>	<u>Budget</u>	<u>Expenditures</u>	<u>Budget</u>
Property Taxes	\$17,404,870	Personnel	43,905,841
Earned Income Act 511	4,083,332	Services	8,126,324
Local Services Tax Act 511	2,300,000	Supplies	2,739,344
Earned Income Tax Act 47	7,346,665	Other	8,172,667
Local Services Tax Act 47	3,749,251	Debt Service	<u>9,866,020</u>
Parking Taxes	3,399,550		
Other Taxes	5,352,500		
Non-Tax Revenue	15,479,922		
Parking Revenue	3,000,391		
Transfers	<u>1,481,063</u>		
<b>Total Revenues</b>	<b>\$63,597,544</b>	<b>Total Expenditures</b>	<b>\$72,810,195</b>

As of the date of this Report the City has a typical amount of accounts payable with none known to be over thirty days due and a sufficient cash balance to meet anticipated costs. The City ended 2017 with \$20.98 million in cash and \$1.5 million in accounts payable. The City is estimated to end 2018 with \$11.7 million in cash and \$1.5 million in payables.

### 2018 Estimated Cash Flow

	Estimated 1st Quarter	Estimated 2nd Quarter	Estimated 3rd Quarter	Estimated 4th Quarter	Total
<b>Revenues, Expenditures, Surplus/(Deficit)</b>					
<b>Revenues</b>	19,129,139	13,775,540	15,675,497	15,017,367	63,597,544
<b>Expenditures</b>	18,261,846	15,533,577	18,287,418	20,727,354	72,810,195
<b>Operating Surplus/(Deficit)</b>	<b>867,293</b>	<b>-1,758,037</b>	<b>-2,611,920</b>	<b>-5,709,987</b>	<b>-9,212,651</b>
<b>Unrestricted Cash Balance Beginning of Quarter</b>	<b>20,980,423</b>	<b>21,341,988</b>	<b>19,583,951</b>	<b>16,972,031</b>	
Surplus/(Deficit)	867,293	-1,758,037	-2,611,920	-5,709,987	
Change in Accounts Payable	-505,728	0	0	0	
Other items affecting Cash	0	0	0	0	
<b>Unrestricted Cash Balance End of Quarter</b>	<b>21,341,988</b>	<b>19,583,951</b>	<b>16,972,031</b>	<b>11,262,044</b>	



## Cost Centers

### Labor

The City currently has 454 budgeted employee positions. The City's managerial and confidential employees are "at will" employees. Most of the City's employees are represented by one of three unions and are subject to labor contracts with the City.

Union	Contract Expiration
FOP, Lodge No. 12	12/31/2020
IAFF, Local Union No. 428	12/31/2022 <sup>1/</sup>
AFSCME, Local 521	12/31/2018
1/Pending City Council approval.	

### Legacy Costs

The City's legacy costs include retiree healthcare, pension, and debt service. Although these ongoing legacy costs were incurred by the City in prior years, the City remains legally required to satisfy these commitments. The City presently commits current operating budget revenue and dedicated millage revenue to fulfill these legacy costs and the corresponding expenditures are included in the City's operating budget and debt service expenditures. During the 2014-2016 operating budget review period the City's legacy costs varied. In 2014, the City's legacy costs were \$19.1 million or 32.0 percent of the City's total 2014 operating expenditures. In 2015, the City's legacy costs increased to \$19.9 million or 34.0% percent of the City's total 2015 operating expenditures. For 2016 the costs increased to \$20.1 million, accounting for 32.4 percent of the budget. These legacy costs significantly impact the City's ability to provide current services to its residents from the revenue it receives from its annual operating tax revenues.

#### Legacy Costs by Type and Proportion of Total Expenditures 2014 - 2016

	2014 Reported	2015 Reported	2016 Reported
Retiree Healthcare	\$5,375,266	\$5,653,446	\$6,110,202
Pension MMO	2,428,193	2,972,450	2,906,315
Annual Debt Service	<u>11,338,871</u>	<u>11,275,518</u>	<u>11,045,746</u>
<b>Total Legacy Costs</b>	<b>\$19,142,331</b>	<b>\$19,901,414</b>	<b>\$20,062,262</b>
<b>Total General Fund Expenditures</b>	<b>\$59,894,963</b>	<b>\$58,602,672</b>	<b>\$61,977,753</b>
<b>% of Total Expenditures</b>	<b>32.0%</b>	<b>34.0%</b>	<b>32.4%</b>

## Debt

The City's outstanding principal long-term debt as of December 31, 2017, was \$77,289,455. The City is currently expected to make \$8,095,370 in long-term debt service payments of principal and interest in 2018.

### Summary Schedule of Future Debt Service Amounts 2018 through 2027

<u>Debt Description</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total 2021 thru 2027</u>	<u>Total 2018 thru 2027</u>
PA Infrastructure Bank loan	297,742	0	0	0	297,742
HRA Revenue Bonds-Series A of 1998 (specified minimum City contribution)	500,000	700,000	940,000	8,525,000	10,665,000
HRA Revenue Bonds-Series A-2 of 2005 (stadium improvement bonds-FNB Park)	229,350	231,778	228,181	1,597,481	2,286,790
1997 GO Debt - Series D & F Refunding Bonds (assuming full advance taken each year)	6,682,138	6,747,498	6,747,498	40,417,489	60,594,625
M&T Bank - streetlight LED project	386,140	386,140	386,140	1,061,884	2,220,303
<b>Totals</b>	<b>8,095,370</b>	<b>8,065,416</b>	<b>8,301,819</b>	<b>51,601,854</b>	<b>76,064,460</b>

## Pensions

The City participates in three single employer pension plans. As of December 31, 2016, the Non Uniform Pension Plan funding ratio was 115.51 percent with a Net Pension Asset of \$9,368,867; the Fireman's Pension Plan funding ratio was 102.85 percent with a Net Pension Asset of \$1,918,068 and the Police Pension Plan funding ratio was 80.78 percent (Distress Level I) with a Net Pension Liability of \$17,860,075. The City's annual minimum pension obligation in 2018 is estimated to be \$3,935,858. State aid for pensions is anticipated to cover \$2,629,069 of the obligation.

<b>Employees Covered</b>	<b>Primary Retirement Plan</b>	<b>Plan Name</b>	<b>Funding Status as of 12/31/2016</b>
Non-Uniformed	Defined Benefit Plan	Non-Uniformed Employee	115.51%
Police Employee	Defined Benefit Plan	City of Harrisburg Police	80.78%
Fire Employees	Defined Benefit Plan	City of Harrisburg	102.85%



## **Retiree Healthcare**

The City's retiree healthcare contribution in 2016 was \$6,110,202. The Strong Plan included an initial deposit of \$3.6 million to pre fund an OPEB Trust and the Receiver and Coordinator have encouraged the City to complete the trust agreement and fund the trust, but the City has not done so during the preceding four years. The City does budget an amount to prefund some portion of this legacy cost similar to its pension liabilities but instead finances these costs on a pay-as-you-go basis. As of January 1, 2016, the City's unfunded actuarial liability for retiree healthcare was \$155,120,287.

## **Extraordinary Revenue Authorizations**

As a Third Class city governed by the Optional Third Class City Charter Law, the City of Harrisburg has the power, within prescribed constitutional and statutory limitations, to levy taxes on: the taxable value of land and real estate improvements; the earned income and net profits of individual residents, workers (both resident and nonresident), operations and gross receipts of businesses doing business in the City; occupations of residents; parking receipts; and transfers of real estate. By action of Dauphin County, the City receives a portion of revenues from the County Hotel Excise Tax for designated tourism-related purposes. By action of the Commonwealth, the City receives a portion of the Public Utility Realty Tax based on the assessed value of taxable utility realty. With few exceptions, the City maximizes the taxing powers authorized by the Commonwealth.

As a designated distressed municipality, the City also has the ability to increase certain tax rates as authorized under Act 47 above the limits set under the Third Class City Code. The City has sought and received from Commonwealth Court authority to levy an additional one percent (1%) on earned income from residents and non-residents (for a total of two percent) and to levy a \$104 increase to the Local Services tax rate on employees in the City. This extraordinary taxing ability has provided significant additional revenue for the City of more than \$11.0 million per year.

### Act 47 Extraordinary Taxes

	Projected 2018	Projected 2019	Projected 2020	Projected 2021
<b>Earned Income Tax</b>				
Total Current EIT Revenue	11,600,000	11,716,000	11,833,160	11,951,492
Non-Resident estimate	410,000	414,100	418,241	422,423
Resident	11,190,000	11,301,900	11,414,919	11,529,068
<b>Act 47 Tax Revenue</b>	<b>7,460,000</b>	<b>7,534,600</b>	<b>7,609,946</b>	<b>7,686,045</b>
<b>Local Services Tax</b>				
Total Current LST	6,049,251	6,049,251	6,079,497	6,109,895
LST Estimated	2,300,000	2,300,000	2,300,000	2,300,000
<b>Act 47 Tax Revenue</b>	<b>3,749,251</b>	<b>3,749,251</b>	<b>3,779,497</b>	<b>3,809,895</b>
<b>Total Act 47 Tax Revenue</b>	<b>11,209,251</b>	<b>11,283,851</b>	<b>11,389,443</b>	<b>11,495,940</b>

The increased revenue under Act 47 authorization would no longer be available to the City upon rescission of the distressed status and an exit from Act 47. The impact of a sudden removal of this revenue source would require the City to increase tax rates only as authorized under the Third Class City Code and the Local Tax Enabling Act. The City is at the statutory limit for tax rates for its primary revenue sources and would only have the ability to increase the real estate millage rate to replace the lost Act 47 revenue. A real estate millage increase of more than 74% over the 2018 levy would be required.

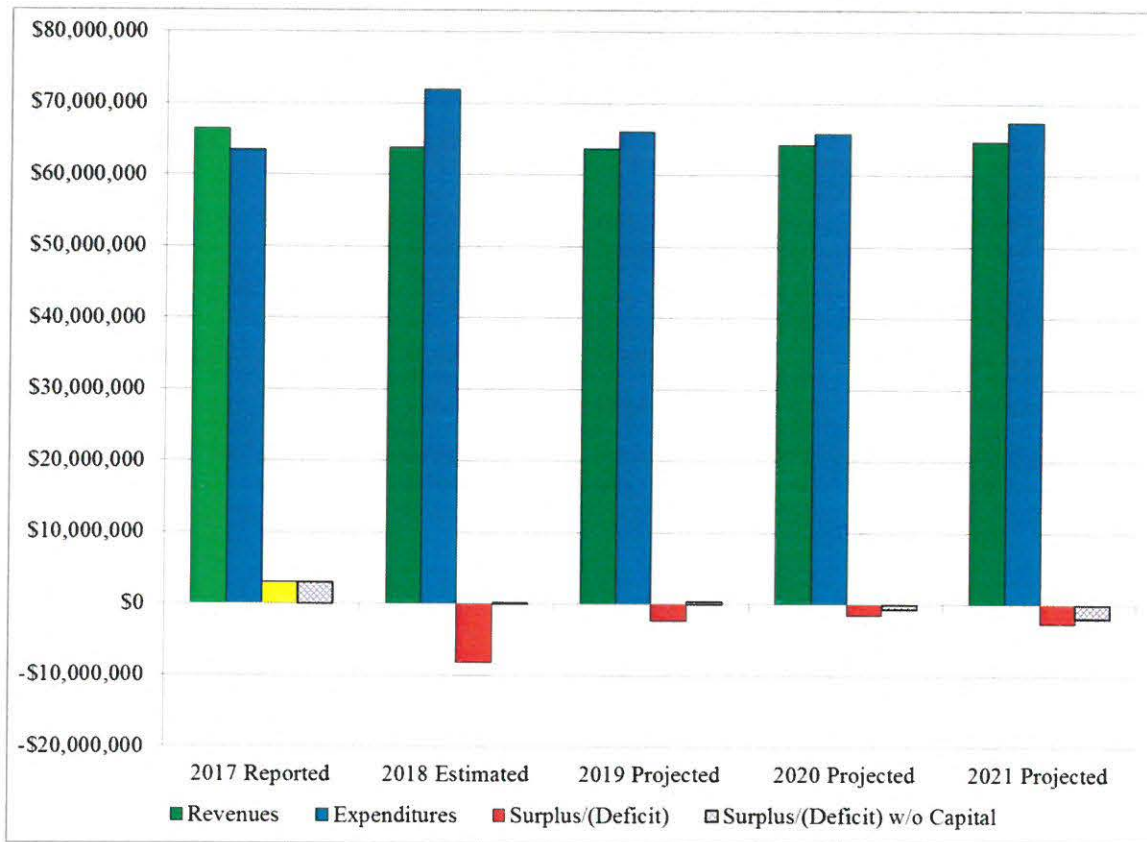
### Financial Baseline

The Coordinator has reviewed the City's financial history and developed financial projections for 2019 through 2021, using the City's 2018 budget as the projection baseline. Investment in much needed capital improvements produces deficits in 2018-2021. Normal expenditure growth assumptions indicate that the City will incur a general fund operating deficit in 2019 of \$696,755 in 2020 growing to \$1.9 million in 2020 absent increases in revenue or decreases in expenditures. It is important to note that these projections include the extraordinary taxes noted above.

**Projected Baseline Revenues, Expenditures, Surplus (Deficit)  
2018 – 2021**

	<b>Estimated 2018</b>	<b>Projected 2019</b>	<b>Projected 2020</b>	<b>Projected 2021</b>
Revenue	63,712,329	63,652,182	64,211,174	64,595,510
Expenditures	<u>71,880,049</u>	<u>66,041,652</u>	<u>65,737,507</u>	<u>67,304,043</u>
<b>Surplus/(Deficit)</b>	<b>-8,167,720</b>	<b>-2,389,470</b>	<b>-1,526,333</b>	<b>-2,708,533</b>
Capital Improvement Program	7,065,800	2,518,236	829,579	837,170
Other One - Time Expenditures	<u>1,223,000</u>	<u>225,000</u>	<u>0</u>	<u>0</u>
<b>Surplus/(Deficit) without Capital Improvements</b>	<b>121,080</b>	<b>353,766</b>	<b>-696,755</b>	<b>-1,871,363</b>
Fund Balance Jan 1	39,551,224	31,383,504	28,994,035	27,467,701
Special Items	0	0	0	0
Fund Balance Dec 31	31,383,504	28,994,035	27,467,701	24,759,168
<b>Cash Balance</b>	<b>12,812,703</b>	<b>10,423,234</b>	<b>8,896,900</b>	<b>6,188,367</b>

**Projected Baseline Revenues, Expenditures, Surplus (Deficit)  
2017 – 2021**



## Neighborhood Services Fund

In 2014, the City established the Neighborhood Services fund for Public Works related functions. Revenues from collection and disposal fees are tracked in this fund, as well as expenditures related to sanitation. Contracted payment to the Lancaster County Solid Waste Authority is recorded here. As of December 31, 2017 this fund had an estimated cash balance of approximately \$6.3 million. The 2018 Budget includes \$2.7 million for the acquisition of the Public Works site, necessitated with the disposition of the incinerator and another \$1.0 million in other Capital. For 2019 – 2021, Operations revenues are anticipated to grow at 1.5% annually. Expenditures increase based on contracted amounts and are anticipated to increase 5% in the period (excluding site acquisition.) Ongoing deficits will eliminate the fund's cash balance by 2021.

### Neighbor Services Fund Revenues, Expenditures, and Balance 2018 – 2021

	2018	2019	2020	2021
Revenue	Estimated	Projected	Projected	Projected
Operations	14,390,500	14,669,500	14,954,080	15,244,352
Miscellaneous	308,300	120,199	122,293	124,429
Transfers	<u>1,710</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Revenue</b>	<b>14,700,510</b>	<b>14,789,699</b>	<b>15,076,373</b>	<b>15,368,781</b>
<b>Expenditures</b>				
Personnel	5,304,278	5,377,718	5,517,629	5,662,900
Services	8,682,990	8,846,148	8,973,411	9,103,219
Supplies	729,360	729,360	729,360	729,360
Lease Purchase	644,993	644,993	644,993	644,993
Capital	<u>3,682,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Expenditures</b>	<b>19,043,620</b>	<b>15,598,218</b>	<b>15,865,393</b>	<b>16,140,472</b>
<b>Surplus/(Deficit)</b>	<b>-4,343,111</b>	<b>-807,482</b>	<b>-787,962</b>	<b>-770,612</b>
<b>Cash Balance BOY</b>	<b>6,309,909</b>	<b>1,966,799</b>	<b>1,159,316</b>	<b>371,354</b>
<b>Cash Balance EOY</b>	<b>1,966,799</b>	<b>1,159,316</b>	<b>371,354</b>	<b>-399,258</b>

## **Finding**

It is the Coordinator's finding that although the City has made noteworthy progress on a number of fronts, the burden of its very limited tax base, increasing costs for collective bargaining contracts, increasing costs for supplies, and legacy cost obligations continues to stress the City's annual finances and hinders its ability to achieve long-term financial sustainability under the five year period required under Act 47 as amended. Therefore, the Coordinator recommends that a three-year exit plan shall be prepared for the City that will include the initial stages of a strategy designed to moderate the impact of the City's burden on its annual operating budgets and improve the City's ability to achieve long-term financial sustainability.

The Coordinator's baseline operating budget projections for the next four years projects the City's baseline operating expenditures increase slightly by 5.0 percent while the City's baseline operating revenue over the next five years is projected to increase only slightly (1.3 percent). Consequently, the City is projected to incur baseline operating budget deficits by 2020 in the absence of a financial plan. It is also important to note that the operating revenues used in the baseline include the extraordinary revenues provided through Act 47 of \$11 million. The City would immediately return to "Fiscal Emergency" status if these revenues streams are eliminated as the \$353,766 surplus in 2019 would become a \$10 million deficit. Therefore the City needs the additional time available under an Exit Plan to address this through the exploration of Home Rule or to bring about legislative change.

The Coordinator will be providing recommendations to the City to eliminate these projected operating deficits in the recommended exit plan.

