pennsylvania
DEPARTMENT OF COMMUNITY
AND ECONOMIC DEVELOPMENT

August 8, 2018

The Honorable Eric R. Papenfuse, Mayor
City of Harrisburg
Dr. MLK Jr. Government Center
10 North Second Street, Suite 202
Harrisburg, PA 17101-1681

The Honorable Wanda Williams, Council
President
Office of City Clerk & Council
Dr. MLK Jr. Government Center
10 North Second Street, Suite One
Harrisburg, PA 17101-1681

Dear Mayor Papenfuse and Council President Williams:

The Recovery Coordinator for the City of Harrisburg has filed copies of the Revised Act 47 Exit Plan for the City of Harrisburg with the City of Harrisburg and appropriate parties on August 8, 2018.

The Recovery Coordinator is required to file the final Exit Plan within ten days of the public meeting. The City is required by Act 47 of 1987, as amended, to enact an ordinance adopting this revised Exit Plan no later than 45 days following the public meeting. If you have any questions regarding this letter, please contact me at (717)-720-7301.

Sincerely,

Marita J. Kelley/awm

Marita J. Kelley
Recovery Coordinator for the City of Harrisburg

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PREAMBLE

Coordinator's Response Based Upon Comments Received Regarding the Filed Exit Plan.

The City of Harrisburg's Act 47 Coordinator appreciates the time and thought that went into the comments received during the comment period for the Exit Plan. The Coordinator has taken the comments it has received into consideration within the confines of the current applicable laws as prescribed by the Pennsylvania State Legislature. Most of the comments objected to raising property taxes precipitously. None of the comments proposed significant expense reductions or tax revenue increases not already incorporated into the Exit Plan. It is important to reiterate that the current law requires the Coordinator to include in the Exit Plan, "such elements as may be necessary to ensure termination of distressed status after three years."

If the State Legislature expands the City's power to enable it to retain: i. the extraordinary LST, ii. the extraordinary EIT, or both after the distress status is terminated; or, iii. if the City's voters approve a Government Study Commission (Home Rule) and the City enacts a Home Rule Charter, then, under the Exit Plan the amount of property taxes that must be raised can be adjusted downward and the remaining amounts necessary to ensure termination of distressed status will be reflective of the needs of other third-class cities whose revenues must keep pace with rising expenditures. The Coordinator supports both of the foregoing legislative solutions for the City and will take the appropriate steps in order to revise the Exit Plan, as necessary to reflect such alternative revenue sources in the latter stages of the three-year Exit Plan.

Extending the extraordinary taxes. The Coordinator understands that Legislative attention will be focused on proposals that would permit an extension of the extraordinary tax provisions provided under Act 47. These taxes are the Resident Earned Income Tax (EIT) and the Local Services Tax (LST). If this post-exit tax authorization is approved, it would obviously stabilize the City's Balance Sheet and Income Statement and modify the need for the increased property taxes illustrated in the budget strategy included in the revisions to the filed Exit Plan. Again, if this occurs, the Coordinator will work cooperatively with the City to revise the Exit Plan as necessary to reflect such alternative revenue sources during the latter stages of the three-year Exit Plan.

Consideration of Home Rule. The Coordinator suggests within this Exit Plan that the City's decision makers seriously consider the process of a Government Study Commission referendum with the eventual enactment of a Home Rule Charter that will allow for tax base structure more suitable to the City's revenue needs. If the City forms a Home Rule Study Commission and enacts Home Rule, then the City may only need to increase the real estate taxes consistent with non-distressed third-class cities. Home Rule will allow the City the flexibility to determine the allocations between tax sources to generate this necessary revenue.

Initiatives largely within the City's Control. The Exit Plan contains several initiatives, proposals, recommendations, and suggestions which are largely under the control of the City and do not adversely impact the City's delivery of essential government services. For instance, the Strong Plan provided at least $3.4 million dollars to the City on December 23, 2013 which is supposed to be invested in a Trust under the watchful eyes of a Board of Trustees on a long-term basis and will serve to defray a portion of the City's long-term post-employment health care costs.

Another initiative in the Exit Plan is for the City along with the Coordinator to renegotiate the terms of the Ambac Settlement Agreement and perhaps the Ambac-secured stadium bonds. For the past two years, the City has been making all payments on its general obligation bonds evidencing the City's desire to be a good partner with Ambac. The City has also hired a financial advisor to assist with the negotiations with Ambac. These negotiations may result in millions of dollars of reduced debt repayment obligations commencing in 2023.

The City of Harrisburg utilizes a split-rate property tax system. Based on a recent count, Harrisburg is one of 18 municipalities in Pennsylvania to utilize a split-rate system. Under this system, the majority of the burden of the real estate tax is borne by landowners. This system generally benefits homesteads. The system is intended to encourage improvements and renovations, while discouraging land speculation. However, the economic development advantage of the split-rate system is diminished when the combined millage rates of the School District and County (neither of which utilize a split-rate system) are included. As revitalization and property improvements continue within the City, the City's split rate millage is not fully capitalizing on the growth -the County and School District are. We recommend that the City study the impact of its tax structure and consider moving to a single rate system, if appropriate.

It may also be possible to replace some of the lost revenue stream with a combination of real estate tax revenue increases and/or expenditure reductions, the balance of which can be left to the City's discretion and determined through the established budget development process over the next three years. This path would require discipline and could put the City in a perilous position if the hard decisions are deferred to the third-year of the Exit Plan. As a result, the Coordinator believes it would be prudent for the City to begin the process of reducing expenditures through the upcoming budget process. Based on the potential outcomes, it is recommended that the City initially identify, through the 2019 budget development process, approximately 1.5% -1.75% in General Fund expenditure reductions. This approach offers some notable advantages. Should the estimated financial impact associated with other initiatives be realized, then the difficult work of achieving expenditure reductions will be accomplished. Equally important, it provides the City's elected officials with the flexibility to determine the ratio of expenditure reductions and revenue increases within the context of the City's budget process, public input processes, and their policy priorities.

The Coordinator believes that the total dollar amount of payments in lieu of taxes (PILOTs) the City receives is relatively low. The City should put more effort into and perhaps delegate senior staff toward efforts aimed at expanding the existing PILOTs and negotiating new PILOTS. Non-profits provide many benefits to the City including valuable services and jobs for residents. They also require the services of police and fire, street maintenance and other public works. Some of the non-profits that had been approached previously are now in a better financial position to provide more to the City. It will be important for the City to communicate with the not for profit community the need for financial partnerships to improve the City's infrastructure and enhance vital public services provided regardless of taxable status.

Commuter Tax. The Coordinator has examined the revenue efficacy of an increase of the non-resident earned income tax rate (Commuter Tax). Based on historic information and paying careful attention to the fact that commuters are entitled to a credit for the amount of tax paid to their resident jurisdiction, we have found that the Commuter Tax would not yield significantly more than the currently levied Local Services Tax (LST). The Coordinator will keep an open mind as to the potential for a Commuter Tax but cannot now support an increase unless it has an overall beneficial financial impact for the City.

Next Steps. The next step is for the City Council and Mayor to approve or disapprove the Exit Plan. We certainly recognize that knowing whether the Legislature will extend one or both of the extraordinary Act 47 taxes for the City after termination of distressed status and knowing the outcome of certain key negotiations that are underway will have a material impact on the City's finances and greatly inform which direction the City will be considering during the latter stages of the three-year exit. Unfortunately, the statute as written appears to require the Coordinator to provide a plan under a statutory schedule that requires the plan to be delivered prior to the City and the Coordinator having the benefit of this critical additional information.

The Coordinator recognizes that the City's elected leadership needs time to pursue a fiscal strategy within the Exit Plan's statutory time period under Act 47. Therefore, the Coordinator has revised the Exit Plan to allow the City time to actively pursue this fiscal strategy. If the City is successful the Coordinator, in cooperation with the City, will amend the proposed budget strategy to reflect those changes. Likewise, if it becomes evident at any time during the City's 2018, 2019 or 2020 fiscal year that the City's efforts are unsuccessful, then the Coordinator, in cooperation with the City, shall promptly review the operating budget strategy contained in this Exit Plan and make any necessary amendments to the operating budget strategy to ensure the City's termination of distressed status in 2021.

Thus far the elected representatives of the City have made wise and judicious decisions to place the City on a track to financial stability. Much has been accomplished through the Receiver's Plan and the Coordinator's Plan in collaboration with the Mayor and City Council. On the final leg of this financial journey the policy makers will be tasked with many more complex and difficult decisions. The Coordinator and City's goal is to provide a path towards economic stability (including a strong fund balance) that will be used to keep the City fiscally healthy for years to come.

CHAPTER ONE
EXECUTIVE SUMMARY
RECOVERY COORDINATOR'S ACT 47 EXIT PLAN

Since 2010, the City of Harrisburg has effectively used the Commonwealth's Act 47 Municipalities Financial Recovery Program to make considerable operational and fiscal progress. The City has monetized assets, eliminated significant debt, increased service levels, accumulated a significant fund balance and overall returned to normalcy. However, challenges remain. Over the past six years, the City has been relying on approximately \$12 million per year of increased rates on Earned Income and Local Service taxes, both of which are currently slated to go away once the City exits Act 47. Property tax rates have not been increased during the same six-year period.

Act 199 of 2014, which amended Act 47, provides a timeline and process for municipalities to Exit the financial recovery program. In the case of Harrisburg, the five-year, Act 199 timeline began with the issuance of the 2013 Act 47 Recovery Plan. In March 2018, the Financial Condition Report prepared by the Coordinator addressed the end of the five-year timeline by recommending that the City remain in Act 47 for an additional three years. The Coordinator has prepared this three-year Exit Plan (the "Plan") that considers revenue and expenditure levels, debt, operations, and labor strategies in order to strengthen the City so that it is able to leave the Act 47 program in three years as a sustainable municipality.

The greatest challenge facing the Mayor and City Council under the Plan is that Harrisburg will lose Act 47's extraordinary taxes when the City exits its Act 47 status on September 23, 2021. The Plan outlines a multi-faceted strategy to handle this loss of revenue through potential reductions in operating expenses, possible legislative changes to enable the extension of the Act 47 extraordinary taxes, consideration of home rule status to lift statutory caps on certain taxes, restoration of an investment grade rating in order to fund needed capital expenditures through long-term debt, and reduction of debt service and other long-term obligations. Lastly, and to the extent that those strategies are insufficient, the City will need to generate additional revenue through real estate tax increases.

The Plan also reviewed the financial options over which the City has control and makes appropriate recommendations. This requires an examination of the current tax structure for the City, a close look at available cash, and a thorough review of possible spending cuts.

To replace the extraordinary taxes, the City will need to make serious decisions regarding its long-term future. The most viable and stable revenue source available to replace the Act 47 extraordinary tax revenue is from the City's real estate tax assessments as authorized under the Third-Class City Code. The City has at least two other options to pursue other than simply raising existing real estate taxes. The City can consider a home rule charter process that will give it options including restructuring taxes. The City has also requested that the State Legislature grant the City authorization to continue the Act 47 extraordinary tax revenues after the City exits the program. The City will discuss those options with the Legislature during hearings scheduled for this fall.

Meanwhile, to assist the City in managing the transition out of Act 47, the Plan had recommended that the City gradually restructure its tax revenue sources by steadily decreasing its earned income and local services tax rates over the Plan's three-year term, while concurrently increasing its real estate tax millage rate to provide sufficient revenue and eliminate each fiscal year's projected operating deficit. To ameliorate the impact of the recommended property tax increases, the Plan allows the City to use a portion of its General Fund balance to reduce the projected operating deficit in each fiscal year but only to the extent necessary after taking into account the benefits of other initiatives set forth in this Plan. The Coordinator highly recommends that the City maintain its Fund Balance at a level of at least 8% of its annual expenditures to assure there are sufficient cash reserves to cover possible critical needs during an emergency. Other options for Fund Balance revenue include reduction of debt and capital spending. The foregoing is still deemed to be a prudent approach but, the City has made clear that it is not an approach it supports. Accordingly, the Coordinator has included in Chapter 7, a more flexible, four-year operating budget strategy that is aimed at allowing the City time to actively pursue the various legislative initiatives that it is pursuing or may pursue while maintaining flexibility about when to implement real estate tax increases and the extent to which such tax increases may be necessary.

The potential for tempering the real estate tax millage percentage increases that may be necessary exists through the City's active implementation of the numerous initiatives contained in this Exit Plan, the City's continued diligence in monitoring and controlling future expenditures, and/or the use of fund balance. It is important to recall that no property tax increases have occurred in the City since 2011, and that eventually some property tax increases will be necessary, as is the case with any municipality that spends the majority of its budget on personnel costs and funds wages, health care benefits and pension obligations, all of which increase each year.

The Plan also examines cost saving measures for all departments. Cutting costs while maintaining the same service level will be a challenge; however, it will help to reduce the increases in taxes. Finding the correct balance between raising taxes and cutting costs will be of paramount importance.

The City must also improve management and financing of its capital program. Capital spending is currently funded on a pay as you go basis, and the City is utilizing its fund balance at an unsustainable rate to provide necessary capital needs. The Plan anticipates that the Exit initiatives will improve the City's financial position, thus allowing it to return to the capital markets with an investment grade rating and borrow for a portion of its long-term capital improvements instead of using fund balance exclusively. The City's Finance Bureau is also developing a Capital Improvement Planning process that could assist in managing these important resources and investments.

New revenues, coupled with expenditure reductions, are vital in order for the City to achieve sustainable operations. As the City evaluates its options regarding the projected General Fund operating deficits due to loss of the $12 million dollars of Act 47 extraordinary tax revenues, the Coordinator stands ready to evaluate any proposal set forth during the comment period.

CHAPTER TWO
BACKGROUND

The challenges the City of Harrisburg (City) 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 (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.

The Strong Plan was designed to accomplish the following objectives:

1. Eliminate all obligations (debt, swaps, investments, licenses and contractual obligations to vendors) related to the Resource Recovery Facility (approximately $360,000,000).
2. Eliminate all debt obligations of the Harrisburg Parking Authority and the City including those that were cannibalizing City general fund revenues (approximately $100,000,000)
3. Deposit nearly $36 million to the benefit of the City to pay off obligations, reduce accounts payable, balance 2013 budget, leave the City with a positive fund balance for the first time in many years and provide seed money for infrastructure and economic development projects.
4. Increase net revenues to the general fund to enable the City to operate with a balanced and sustainable budget (approximately $10 million per year of new revenue coming from parking transaction and increased EIT, and a reduction in debt service expenses of between $15-$20 million per year for a total general fund improvement of in excess of $25 million per year).

The Strong Plan accomplished the foregoing goals. It resolved the oppressive debt burden faced by the City from 2008 - 2013. It also succeeded in breaking the string of consecutive years with larger annual structural operating deficits. With the help of the Strong Plan, the City has built a modest cash reserve while also improving transparency in day-to-day financial management. The City finished 2014 with its annual revenues balanced against its annual expenditures for the first time in many years.

Harrisburg, as with all cities in Pennsylvania, confronts fiscal pressures in addressing its ongoing operational budget and providing quality services to its residents. Approximately 70% of Harrisburg's budget is made up of personnel costs (salaries, health care benefits and pensions) and these costs have increased historically and continue to increase each year. Of course, other expenses increase each year as well; therefore, corresponding revenue increases are needed. Additionally, the City has determined to build up its internal capacity to provide, among other things, better "neighborhood services" and in so doing has committed to increase its full time equivalent complement and wean the General Fund off inter-fund transfers from the Sanitation Fund much more quickly than contemplated by the original Strong Plan. The City's limited growth of its tax base, deferred capital needs, and the pressure to strengthen municipal services, especially in the public safety area, must be more fully addressed for the City to have a sustainable future. Deteriorating infrastructure, outdated or inadequate technology, and aging equipment and vehicles, all make the job of financial recovery more difficult. Moreover, the City's dire financial condition in 2009 forced the City to trim public services and to meet service demands with limited front-line staff and reduced management capacity.

An important element of the Court appointed Coordinator's role in providing oversight to the City's recovery process is the need to periodically revisit the Strong Plan to survey and assess what has been accomplished and to evaluate, from a holistic perspective, how best to respond to evolving conditions, challenges, and successes and make modifications every few years based on the City's actual performance. Further, significant amendments to Act 47 were enacted at the end of 2014, (known as Act 199 which was signed into law after the Strong Plan was confirmed), that required the Strong Plan to provide financial projections through 2018 (representing the initial five-year term for the City to be under the provisions of the Act). Act 199 now prescribes a firmer date for the City to leave Act 47 status. During the fifth year (2018) a financial condition review was undertaken by the Coordinator and recommendations made as to whether: the distressed designation should be rescinded, the Receivership provisions of the Act invoked; a dissolution process undertaken (in limited instances), or a three-year exit plan be prepared.

It was the Coordinator's finding in the Financial Condition Review that although the City has made noteworthy progress on several fronts. Yet 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 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 prepared this Exit Plan and filed the same with the appropriate parties on July 9, 2018.

CHAPTER THREE
BASELINE GENERAL FUND PROJECTIONS
2018 – 2021

As part of the City's 2018 Exit Plan process, the Coordinator has developed baseline General Fund projections for the period 2018 – 2021. The baseline General Fund projections illustrate the City's projected financial condition based on past and current City revenue and expenditure trends. Thus, they do not take into account the implementation of the various initiatives recommended in this Exit Plan.

In order to develop the baseline General Fund projections, the Coordinator first conducted a review of the City's historical financial data to determine the City's revenue and expenditure baseline.[1] The historical financial review was completed using financial data independently maintained by the Coordinator, the City's annual audits through 2016, and City supplied data for 2013 – 2017 (subjected to monthly review and analysis by the Coordinator). In addition to the historical financial review, the Coordinator utilized the City's adopted 2018 General Fund operating budget and independent trend analysis, where appropriate. The revenue and expenditure assumptions that follow were used by the Coordinator to develop the City's baseline General Fund projections.

Revenues

The revenue assumptions that follow were used by the Coordinator to develop baseline General Fund revenue projections.

- All 2018 rates for taxes and fees were held constant through 2021.
    - Earned Income Tax at Act 47 Rate of 1.5%
    - Local Services Tax at Act 47 Rate of $156
- Real Estate tax revenue was increased annually by one half of one (0.5) percent.
- Earned Income Tax (EIT) revenue was increased annually by one (1.0) percent.
- Local Services Tax (LST) revenue was increased annually by one half of one (0.5) percent. The LST is projected at a base level of employment of approximately 49,000 taxpayers at

[1] See Appendix A, *Report Stating the Financial Condition of the City of Harrisburg.*

the higher income exemption approved by City Council. The base LST $52/employee rate is subject to five dollars sharing with the Harrisburg School District for a net to the City of $47/employee.

- Business Privilege and Mercantile Tax revenue and Parking Tax revenue was increased annually by one half of one (0.5) percent.
- Real Estate Transfer revenue was held at the budget level for 2018.
- The Public Safety Allocation from the Commonwealth was held constant at $5.0 million.
- Supplemental State Aid for pension was increased 3.0 percent annually.
- Grant Revenues were decreased after 2018 to reflect historic levels.
- Ground Lease and Priority Parking Revenues assume scheduled amounts can be paid.
- Other revenues and transfers are held constant over the period based upon the Act 47 Coordinator's historical data and trend analysis.

General Fund Revenue Projections

General Fund Revenue Projections—2018 – 2021

The City's General Fund operating revenues are projected to increase by $996,053 or 1.5 percent from $66.18 million in 2018 to $67.2 million in 2021. Total tax revenue is projected to increase from $45.9 million in 2018 to $47.0 million in 2021, an increase of $1.1 million or 2.3 percent. Total non-tax revenue, which is projected to account for about one third of total City revenues in 2018, is also projected to decline over the projection period, decreasing by $78,826 or 0.4 percent. The largest non-tax revenue decrease is attributed to an anticipated reduction in Grant revenues beginning in 2019.

General Fund Baseline Revenue Projections
2018 – 2021[2]

Revenue Group	Estimated 2018	Projected 2019	Projected 2020	Projected 2021	Change 2018 - 2021 $	Change 2018 - 2021 %
Real Estate Taxes Current	17,763,374	17,867,860	17,957,199	18,046,985	283,610	1.6
Realty Transfer Tax	599,145	599,145	599,145	599,145	0	0.0
EIT Act 511	4,366,757	4,410,424	4,454,528	4,499,074	132,317	3.0
EIT Act 47	7,913,513	7,992,648	8,072,575	8,153,301	239,787	3.0
EMS/LST Act 511	2,300,000	2,311,500	2,323,058	2,334,673	34,673	1.5
LST Act 47	4,774,713	4,995,696	5,020,668	5,045,765	271,052	5.7
Mercantile Business Privilege	3,499,681	3,517,790	3,535,998	3,554,304	54,623	1.6
Parking Taxes	3,901,559	3,921,067	3,940,672	3,960,376	58,816	1.5
Hotel Tax	840,000	840,000	840,000	840,000	0	0.0
Total Taxes	**45,958,743**	**46,456,131**	**46,743,843**	**47,033,622**	**1,074,879**	**2.3**
State Aid Pension	2,629,069	2,681,651	2,735,284	2,789,989	160,920	6.1
Public Safety Allocation	5,000,000	5,000,000	5,000,000	5,000,000	0	0.0
Fees/Permits/Licenses	2,482,755	2,524,204	2,531,265	2,538,407	55,652	2.2
Grants	635,413	109,710	109,710	109,710	-525,703	-82.7
Vehicle Maintenance Charges	333,874	340,526	347,312	354,233	20,360	6.1
PILOTS	676,752	676,752	676,752	676,752	0	0.0
Parking Revenue	553,321	562,474	573,457	586,636	33,316	6.0
Ground Lease Payments	1,237,939	1,250,319	1,262,822	1,275,450	37,511	3.0
Priority Parking Distribution	1,761,730	1,779,347	1,797,141	1,815,112	53,382	3.0
Transfers from Other Funds	1,481,063	1,481,063	1,481,063	1,481,063	0	0.0
Other Non-Tax Revenue	3,428,088	3,360,508	3,532,054	3,513,824	85,737	2.5
Total Non-Tax Revenue	**20,220,003**	**19,766,553**	**20,046,859**	**20,141,177**	**-78,826**	**-0.4**
Total	**66,178,746**	**66,222,684**	**66,790,702**	**67,174,799**	**996,053**	**1.5**

[2] The total revenues estimated and projected differs from the Coordinator's Financial Condition Report due to changes in actual receipts and other adjustments.

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 operating within 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 an Act 47 designated distressed municipality, the City also has the ability to increase certain tax rates above limits set under the Third-Class City Code or other applicable state law. The City sought and received from Commonwealth Court authority to levy an additional one percent (1%) on earned income from residents (for a total of two percent) effective January 1, 2013 and to levy a $104 increase to the Local Services Tax (for a total of $156) on individuals working within the City effective fiscal year 2016. The extraordinary taxing ability provided by Act 47 is an integral tool of the City's financial recovery providing significant additional revenue for the City of more than $11.0 million per year.

Expenditures

The expenditure assumptions that follow were used by the Coordinator to develop baseline General Fund expenditure projections.

- The number of employed City personnel was held constant at the adopted 2018 General Fund operating budget workforce level.
- Current wages are increased as specified in current collective bargaining agreements, interest arbitration awards or court orders. At the conclusion of a current collective bargaining agreement or arbitration award during the 2018 – 2021 period, annual wage increases are projected to increase at two percent. Salaries for non-represented City employees are increased two percent annually.

Employee Group	Covered Positions	Contract Expiration
Non-represented	Executive, management, confidential	N/A
FOP	All sworn Police Officers	December 31,2020
AFSCME	All non-executive, non-management, non-confidential employees not otherwise covered in FOP or IAFF	December 31,2018
IAFF	All firefighters, lieutenants, captains, battalion chiefs, and deputy chiefs	December 31, 2022*

*Pending City Council approval.

- Employee/retiree medical insurance expenditures were increased annually by six percent from 2019 through 2021 in conformance with recently observed City experience and similar annual increases projected for other local government entities.
- Other major insurance costs have been projected on a line-by-line basis.
- Capital expenditures are included per the City's Capital Budget.
- Minimum Municipal Obligations (pension) for 2018 are at the City's budgeted level. For 2018 – 2021 the projected MMO is increased annually based on increases in wages for the respective bargaining group and does not take into account future investment earnings, or other factors that by their nature cannot be ascertained at this time.
- Other expenditures were increased at various levels based on the Coordinator's historical data, trend analysis and City input.
- No further increases in the costs of any other benefits were included.

General Fund Baseline Expenditure Projections—2018 - 2021

As illustrated in the table below, the City's total operating expenditures are projected to decrease from $71.4 million in 2018 to $70.4 million in 2021. The decrease in Capital expenditures of $5.0 million are partially offset by increases in Personnel costs of $4.1 million. Significant one-time capital expenditures included in the 2018 estimate are not expected to continue.

General Fund Baseline Expenditure Projections
2018 - 2021[3]

	Estimated	Projected	Projected	Projected	Change 2018 - 2022	
Category	2018	2019	2020	2021	$	%
Personnel	42,377,450	43,704,057	45,102,971	46,462,821	4,085,371	9.6
Services	8,319,890	8,083,280	8,037,419	8,153,339	-166,550	-2.0
Supplies	2,900,873	2,873,711	2,822,823	2,833,658	-67,215	-2.3
Other	1,357,467	1,165,486	1,186,806	1,209,037	-148,430	-10.9
Sub Total Operating	**54,955,680**	**55,826,534**	**57,150,019**	**58,658,856**	**3,703,176**	**6.7**
Capital	6,533,126	3,198,431	1,520,515	1,539,542	-4,993,583	-76.4
Debt Service	9,881,678	9,977,918	10,214,321	10,229,526	347,848	3.5
Total GF	**71,370,483**	**69,002,883**	**68,884,855**	**70,427,924**	**-942,560**	**-1.3**

General Fund Projections—2018 – 2021

As based upon the above revenue and expenditure assumptions, the following table illustrates that without implementation of the recommendations included in this Exit Plan, the City will encounter General Fund operating deficits throughout the projection period.

Baseline General Fund Projections
2018 – 2021
Includes Act 47 Extraordinary Revenues
(**Without** Implementation of 2018 Exit Plan)

	Estimated 2018	Projected 2019	Projected 2020	Projected 2021
Revenue	66,178,746	66,222,684	66,790,702	67,174,799
Expenditures	71,370,483	69,002,883	68,884,855	70,427,924
Surplus/(Deficit)	-5,191,737	-2,780,199	-2,094,154	-3,253,125

Conclusion

[3] The total expenditures estimated and projected differs from the Coordinator's Financial Condition Report due to changes in actual expenditures and other adjustments.

The Coordinator's baseline General Fund projections for the period 2018 – 2021 project that the City will have operating budget deficits throughout the period. Although the City's General Fund operating expenditures are projected to decrease over the projection period, the City's General Fund operating revenues are also projected to decrease. The Coordinator has included initiatives in this Exit Plan to eliminate the projected operating deficits and provide the City with balanced General Fund operating budgets going forward that will assist the City in achieving long-term financial sustainability.

CHAPTER FOUR
LONG-TERM LIABILITIES
DEBT, OPEB, PENSIONS

The City's outstanding principle long-term debt as of December 31, 2017, was $77,289,455. The City is currently expected to make $10,073,232 in long-term debt service payments of principal and interest in 2018.

Summary Schedule of Future Debt Service Amounts

2018 through 2021

Debt Description	2018	2019	2020	2021
PA Infrastructure Bank Loan	297,742	0	0	0
HRA Revenue Bonds-Series A of 1998 (the "Verizon Bonds")	500,000	700,000	940,000	950,000
HRA Revenue Bonds-Series A-2 of 2005 (the Stadium Bonds)	229,350	231,778	228,181	228,386
1997 GO Debt – Series D & F (the Ambac-Insured GO Bonds)	8,660,000	8,660,000	8,660,000	8,665,000
M&T Bank - Streetlight LED project	386,140	386,140	386,140	386,140
Totals	10,073,232	9,977,918	10,214,321	10,229,526

The City currently has a vastly improved liquidity position compared to the period prior to the Strong Plan. However, if the City does not replace the extraordinary tax revenues available under Act 47, the City will find it very difficult to provide vital and necessary services. The Coordinator recommends the City attempt to reduce expenses along with necessary revenue increase to mitigate the impact.

AMBAC Insured – General Obligation Bonds

Due to severe liquidity crisis in the City, the City defaulted on payment of these bonds in 2012 and 2013. As part of the Strong Plan, Ambac and the City entered into a forbearance agreement and liquidity arrangement. If, the City continued to experience liquidity problems Ambac would advance a portion of the debt service owed. Borrowings under this arrangement are supposed to be repaid at a negotiated interest rate of approximately 6.07%. If the City utilizes all of the advances offered by Ambac between 2014 and 2022, the City would have a $5.387 million per year annual obligation to Ambac from 2023 through 2033.

The Coordinator has encouraged the City to repay the GO Bonds with its own revenues in lieu of borrowing from Ambac, when feasible, and to consider using a portion of its accumulated fund balance to reduce the obligations to Ambac that commence repayment in 2023. Because the City was unable to make payments on its General Obligation Bonds in 2012 and 2013 and utilized advances in 2014 and 2015 (the aggregate of all advances and missed payments have been accruing interest), the amount owed to Ambac under the Settlement Agreement exceeds the amount of the fund balance that would be prudent to apply to this bond issue at this time. As suggested elsewhere in this Exit Plan, the City does not have control over whether the Enhanced LST and Enhanced EIT are extended. It also does not know whether the electorate will approve a Home Rule Government Study Commission. Until the City either raises real estate taxes sufficiently to cover potential lost revenues, statutorily is granted those revenues, or becomes a Home Rule Charter municipality, the Coordinator recommends the City adopt a multi-tiered strategy consisting of:

i. continuing to pay the full debt service on the GO Bonds during 2018-2022, ii. applying a relatively small portion of the City's fund balance to payments to Ambac while maintaining a reasonable fund balance, and iii. negotiating with Ambac relating to pre-2014 defaults. The City should attempt to reduce the amount owed to Ambac beginning in 2023 (from $5.38 million per year to as close to zero as possible).

Because advance refunding's have been eliminated by the new Federal Tax Law, the only other potential source - outside using limited fund balance - available to the City to implement this strategy, would be proceeds of taxable bonds.

The Coordinator encourages the City and Ambac to negotiate a reduction to the largest extent possible, all amounts not paid by the City relating to pre-2014 defaults (and accrued interest thereon).

Ambac Insured – Senator's Stadium Bonds

The debt service on the Harrisburg Redevelopment Authority's 2005 Federally Taxable Guaranteed Revenue Bonds (Stadium Project) is paid for by a combination of revenues relating to operation of the stadium and parking and amounts currently payable by the City under its Guaranty. The City is projecting that its guaranty obligations will be between $200,000 and $300,000 per year during the three-year exit plan. The City has been working with management of the Harrisburg Senators and the City Islanders with an aim towards increasing revenues and reducing or eliminating the City's guaranty obligations. The City had also retained outside counsel to reform the stadium Park Permit.

Verizon Bonds

Verizon's lease was expiring just as the debt service guaranteed by the City would be have required the City to increase its annual debt obligations from $1.88 million in 2016 per year to $7.35 million upon maturity). The Commonwealth of Pennsylvania agreed to move approximately 800 employees that had been working at the Old State Hospital Building to the Verizon Tower and a complicated repayment arrangement was put into place. It would be difficult to overstate the value of the Commonwealth of Pennsylvania's efforts to help the City resolve this very significant debt problem. The Commonwealth is paying rent and conditional rent is also now being paid in connection with the leasing of the building reducing the City's liability by tens of millions of dollars. Additional local service taxes, additional parking taxes, and the benefits associated with having an additional 800-900 employees located downtown continue to be realized in the City.

In terms of the payment streams pledged to pay debt service on the 1998A Bonds issued by the Redevelopment Authority and guaranteed by the City (the "1998A Verizon Bonds"), the City's economic obligations have decreased due in large part to efforts by the Harristown Development Corporation to reduce energy costs, taxes and other expenses related to building operations. AGM had entered into a Settlement Agreement with the City in connection with repayment of the 1998A Verizon Bonds, to extend some liquidity to the City (expected to be during 2018 through 2022), however the combination of improving economics on the building (resulting in additional conditional rent payments being made and corresponding reduction in the City's obligations) and the City's improving liquidity position, puts the City in a position to not borrow from AGM under the Settlement Agreement. By not borrowing from AGM the City avoids having to repay approximately 6.07% interest on borrowings of up to $2.1 million.

The following table illustrates the projected Conditional Rent payable based upon facts and circumstances known in 2013-14 as compared with the updated projections relating to Conditional Rent subsequent to completion of the energy savings projects and tax assessment appeal.

Year	1998A Debt Service	DGS Rent Allocated	City Guaranty Payment	DGS Option	Conditional Rent City's Split (est. 2014)	Conditional Rent City's Split (est. 2017)	DSF Release $2,404,606	Total Revenues	Ending DSF Balance	Refund to HRA/City
									$ 2,404,606	$ -
2016	$ 930,000	$ 450,000	$ -	$ -	$ 2,148	$ -	$ 480,000	$ 930,000	$ 1,924,606	$ -
2017	$ 1,880,000	$ 600,000	$ 500,000	$ -	$ 3,765	$ -	$ 780,000	$ 1,880,000	$ 1,144,606	$ -
2018	$ 1,910,000	$ 600,000	$ 500,000	$ -	$ 8,643	$ 477,181	$ 332,819	$ 1,910,000	$ 811,787	$ -
2019	$ 1,930,000	$ 600,000	$ 700,000	$ -	$ 13,711	$ 275,000	$ 355,000	$ 1,930,000	$ 456,787	$ -
2020	$ 1,960,000	$ 600,000	$ 940,000	$ -	$ 18,928	$ 275,000	$ 145,000	$ 1,960,000	$ 311,787	$ -
2021	$ 1,990,000	$ 600,000	$ 950,000	$ -	$ 24,300	$ 275,000	$ 165,000	$ 1,990,000	$ 146,787	$ -
2022	$ 2,010,000	$ 600,000	$ 950,000	$ -	$ 29,829	$ 275,000	$ 146,787	$ 1,971,787		$ (38,213)
2023	$ 2,040,000	$ 600,000	$ 1,250,000	$ -	$ 35,521	$ 275,000	$ -	$ 2,125,000	$ -	$ 85,000
2024	$ 2,070,000	$ 600,000	$ 1,250,000	$ -	$ 41,382	$ 275,000		$ 2,125,000	$ -	$ 55,000
2025	$ 2,090,000	$ 687,500	$ 1,250,000	$ -	$ 128,964	$ 182,215		$ 2,119,715	$ -	$ 29,715
2026	$ 2,120,000	$ 750,000	$ 1,430,000	$ -	$ 184,388	$ 182,215		$ 2,362,215	$ -	$ 242,215
2027	$ 2,150,000	$ 750,000	$ 1,445,000	$ -	$ 180,834	$ 182,215		$ 2,377,215	$ -	$ 227,215
2028	$ 2,180,000	$ 750,000	$ 1,450,000	$ -	$ 177,363	$ 182,215		$ 2,382,215	$ -	$ 202,215
2029	$ 2,210,000	$ 750,000	$ 1,500,000	$ -	$ 173,975	$ 182,215		$ 2,432,215	$ -	$ 222,215
2030	$ 2,240,000	$ 750,000	$ 1,500,000	$ -	$ 170,668	$ 182,215		$ 2,432,215	$ -	$ 192,215
2031	$ 2,300,000	$ 750,000	$ 1,500,000	$ -	$ 167,440	$ 182,215		$ 2,432,215	$ -	$ 132,215
2032	$ 2,320,000	$ 750,000	$ 1,500,000	$ -	$ 164,291	$ 182,215		$ 2,432,215	$ -	$ 112,215
2033	$ 7,350,000	$ 187,500	$ 4,340,746	$4,863,765	$ 40,481	$ 182,215		$ 9,574,226	$ 0	$ 2,224,226
	$ 41,680,000		$22,955,746		$ 1,566,632	$ 3,767,116				$ 3,686,233

If the City were to terminate the Settlement Agreement, the amounts in the last column above, "Refund to HRA/City" would be simply subtracted from the City Guaranty Payment column, thereby further reducing the City's obligations under this bond issue. The difference between the totals in Conditional Rent column as originally projected and the total in the Conditional Rent in the updated column illustrates that the Conditional Rent increases should be able to backfill any needs for advances from AGM, and thus the interest on $2.1 million of advances repaid to AGM can likely be avoided.

It is believed that pursuant to the **<u>In Re Derivatives</u>** settlements, in excess of ten thousand dollars was paid in two separate installments to the Harrisburg Redevelopment Authority relating to these bonds and that such amounts should be transferred to the Trustee for these bonds which will defray some of the costs to the City under the Guaranty, in the year it is received.

Other Post-Employment Benefits (OPEB)

In December of 2013, proceeds from the parking monetization in an amount of approximately \$3.69 million were deposited with Metro Bank in anticipation of the City: i. authorizing the creation of an OPEB Trust, ii. appointing a Board of Trustees, iii. selecting an investment advisor, iv. adopting an investment policy statement and v. implementing a long-term strategy aimed at addressing an OPEB liability.

Amounts deposited for these purposes were invested in money market funds awaiting the establishment of the trust and appointment of professional investment advisors.

There are three additional, potential, funding mechanisms in the Strong Plan. First, if more than \$4.0 million is on deposit in Impact Harrisburg's Economic Development Fund after December 31, 2018, then, and not more frequently than once every three years, Impact Harrisburg may, in the discretion of its Board, and upon a determination that all such sums are not needed to further stimulate the economy of the City, transfer as much as fifty percent of the sums on hand to the Harrisburg OPEB Trust. Second, as and when money is released from the Escrow Agreement (PennDOT arrangement) with the County and AGM to the City, 23% of such amounts released to the City are required to be deposited into Harrisburg's OPEB Trust. Third, 30% of the sum received by the City from recoveries on Incinerator Claims shall be deposited in each of the three above-described entities on a pro rata basis as described in the Plan; and the remaining 10% shall be available for the City's use as the then Mayor and the City Council shall jointly agree and direct.

Ideally, once the City is able to manage a structurally balanced budget, the City should begin to appropriate amounts on an annual basis to supplement these cash infusions and to slowly increase the OPEB trust so that earnings could begin to address the OPEB liability. The Coordinator encourages the City to provide in its annual budget amounts to be deposited in the OPEB Trust. The sooner money is deposited and invested, the sooner the amounts in the OPEB Trust will begin to appreciate in value and begin to mitigate this liability.

As of the date of the preparation of this Exit Plan, the City has not acted on the creation of an OPEB trust. There is currently \$3.78 million in the OPEB fund because monies have been deposited in a money market fund earning 0.50 percent interest or less for the past four years. It is estimated that had the trust been established and the investment policy statement created, four years prior, assuming an investment allocation like the City's police pension fund, the Trust would likely have closer to $4.8 million, or $1,000,000 more than at this time. Below is a table with a pro forma estimate of the growth of the initial deposit using actual investment returns from the police pension fund since 2014.

	2013	**2014**	**2015**	**2016**	**2017**
Millions of Dollars ($)	$3.69	$3.92	$3.95	$4.20	$4.87
Investment Return (Police)		6.05%	1.01%	6.08%	16.1%

Exit Plan Initiatives

DS1. <u>Reduce Amount Owing to Ambac After GO Bonds Are Repaid.</u>

The City is encouraged to use a portion of its accumulated fund balance to reduce the obligations to Ambac beginning in 2023. The Coordinator recommends the City adopt a multi-tiered strategy consisting of: i. paying the full debt service on the bonds during 2018-2022, ii. applying a portion of the City's fund balance to payments to Ambac, and iii. negotiating with Ambac relating to pre-2014 defaults and negative carry in any advance refunding escrow.

Ambac is encouraged to negotiate appropriate reduction, to the largest extent possible, all amounts not paid by the City prior to December 22, 2013 (and accrued interest thereon), considering the fact Ambac was paid an insurance premium, and the City was in fact in severe financial distress when the insured event occurred.

DS2. <u>Avoid Borrowing from AGM Under Verizon Settlement Agreement.</u>

Due to improvements in the City's liquidity and fund balance, coupled with increases in Conditional Rent split with the City, the City should avoid borrowing from AGM at 6.07% under the applicable settlement agreement. The City should consider negotiating with AGM for consideration in return for terminating the Settlement Agreement.

DS3. <u>Finalize and Adopt Financial Management Policies</u>.

Drafts of these policies have been circulated through committee since 2014. A debt management policy, capital improvement plan policy, and a fund balance policy should be approved by City Council and the Mayor in 2018. The Fund Balance policy shall be viewed together with the Capital Improvement Plan to ascertain how much if any of the Fund Balance should be used during the next three years to pay for priorities under the five-year capital improvement program of the City. The more quickly the City finalizes and adopts these financial management policies and regains its investment grade credit rating, the more quickly the City will be able to undertake modest borrowings for its capital needs, spread the costs through the useful life of the capital asset and preserve the fund balance for other important purposes.

DS4. Seek to Regain Investment Grade Credit Rating.

The largest impediment to obtaining an investment grade rating for the City is the risk relating to reliance on legislative changes that the City has no control over. Reductions in expenses and increases in Real Estate tax rates should be pursued as long as the legislative changes (or adoption of Home Rule status) have not occurred. If the City is fortunate enough to have one or more of the changes promulgated into law, it can then mitigate the real estate tax increases.

DS5. Authorize OPEB Trust, Retain Investment Advisor and Invest OPEB Trust Monies.

The City shall establish a Board of Trustees and approve OPEB Trust documents during 2018. An investment advisor shall be selected by the Board, an investment policy shall be developed and approved, a custodian selected, and the funds invested on a long-term basis.

The City shall take actions necessary to ensure that all supplemental amounts are deposited into the OPEB Trust, including amounts released from the Escrow Agreement and any Incinerator Litigation proceeds. A long-term return on investment coupled with a spending rule that enables some of the earnings to be distributed to retirees could result in a six-figure reduction in the City's retiree health benefits.

DS6. Reduce Assumed Rate of Return on the Police Pension.

The City should consider reducing the assumed rate of return on its police pension currently at 8.0 percent. At this assumed rate of return, any year that the fund does not achieve this target rate of return may require additional funding to the Minimum Municipal Obligation (MMO) and prevent the police pension fund from keeping pace with its liability growth rates. Reducing the assumed rate of return will mitigate this funding gap over the long term. However, absent other funding changes, a lower assumed rate of return will increase both the police plan's unfunded liabilities and annual MMO cost. The Coordinator has received an estimate that each drop of 0.5 percent in the assumed rate of return will increase the City's annual MMO by approximately $670,000 (for example, from 8.0 percent to 7.5 percent). Alternatively, the City may avoid this annual MMO increase by increasing the asset value of the Plan through a direct cash deposit of $4,500,000 into the Police pension fund. Further reductions of the assumed rate of return will follow a similar financial choice unless the pension's rate of return exceeds the 8 percent assumed rate over the measurement period, in which case the City can gradually use such excess earnings to reduce the assumed rate of return.

DS 7. Reduce or Eliminate amounts owing by City under Guaranty of Stadium Bonds.

The City should continue to negotiate with management of the Senators and City Islanders, utilize legal counsel to reform the Park Permit and consider bringing Ambac in to negotiations aimed at restructuring this bond issue in a way that reduces the City's obligations with respect to capital contributions and its debt service.

DS8 Cause HRA to transfer proceeds of In Re Derivatives Settlement to Bond Trustees.

To the extent the HRA is holding on to proceeds of settlements that could be used to defray City expenses, the City should cause HRA to transfer such amounts to the appropriate bond trustees so that the City's debt service obligations can be reduced commensurately.

CHAPTER FIVE
OPERATIONS AND ADMINISTRATION

The Exit Plan outlines a multi-faceted strategy that relies on: i.) legislative changes to enable extension of the extraordinary EIT and LST taxes after exit from Act 47, ii.) consideration of Home Rule status, which could enable the City to maintain some or all of the extraordinary tax revenues, iii.) restoration of investment grade rating so that capital can be funded through the incurrence of long-term debt, iv.) reduction of debt service obligations, v.) reduction in operating expenses, and vi.) to the extent the foregoing is insufficient, generating additional revenue through real estate tax increases This Chapter will focus on consideration of any viable expenditure reductions that can be achieved to help bridge the gap.

In the process of developing this Exit Plan, the Act 47 Coordinator's Team met with department directors and staff from each of the City's operating and administrative departments to clarify operating challenges and identify opportunities for potential expenditure reductions in the City. Those conversations indicate that though the City has made progress in many operating areas, there are still fundamental challenges and investment needs that must be considered as Act 47 exit is considered. It is also evident that there are no clear opportunities to close the Act 47 revenue and expenditure gap through immediate, major expenditure reductions, without reductions in vital and necessary services. Further, there are a number of areas that will require dedicated investment into the future.

For example, the City's Information Technology (IT) infrastructure is in need of major investment. The City is operating on an antiquated mainframe infrastructure that is so old that programmers can no longer be found in the labor market place. The City's Storage Area Network (SAN) infrastructure requires major upgrades to ensure that sufficient memory is available to operate core public safety and administrative business applications. And the City's phone system is no longer supported and requires a complete upgrade.

The City is also facing a number of facility infrastructure needs. Deferred maintenance due to limited financial resources has resulted in facility investment needs at fire stations, police headquarters, and the City Government Center. In addition, the City is confronted with the need to develop a new or renovated public works facility. The City has begun investing in addressing these issues but will not be able to continue this effort without maintaining or enhancing General Fund revenue levels.

These issues, and others, illustrate that though the City has made progress in a number of important areas, there continue to be significant investment needs. As a result, compensating for Act 47 revenue loss through expenditure reductions cannot reasonably be considered a path to a sustainable exit. However, there are a number of immediate measures and studies that the City should undertake to limit the growth of expenditures and pursue efficiencies during the three-year exit period.

Hiring Process

OA1. <u>Implement a hiring review board process.</u>

In 2018, personnel expenses represent approximately 61% of the City's total General Fund operating budget. One of the most significant mechanisms that can be implemented to control expenditure growth is to control the addition of new personnel and accumulate position vacancy savings where possible, position vacancy savings is actual savings, compared to budgeted expenses, realized through a delay in filling positions that are vacated through retirement or some other means.

As summarized above, there continue to be investment needs in the City. This applies to staffing as well. The City has made strides in restoring some stability to departmental staffing levels, especially in key public safety areas. At the time of this report, the Fire Bureau was close to full staffing. The Police Bureau was operating with 12 total vacancies, including 11 sworn officer positions, but has worked closely with the Human Resources (HR) Bureau to develop active hiring lists to ensure that vacancies are filled as quickly as possible. Ultimately, the City's operational and financial recovery cannot be sustainably secured without considering basic staffing needs required to deliver core services.

As a result, it is not recommended that the City enact a total hiring freeze. However, it will be important for the City and the Act 47 Coordinator to apply a more stringent level of scrutiny for all new hires and position vacancy refills. As a result, it is recommended that the City and the Act 47 Coordinator initiate a monthly vacancy review board process whereby the Business Administrator, Finance Director, and Act 47 Coordinator review all position vacancies and make a joint determination about which should be filled. To fill a vacant position, the case must be made by the hiring department that not filling the position would dramatically impede the City's ability to deliver vital and necessary public services.

Financial Polices

OA2. <u>Develop Comprehensive City-wide Financial Policies.</u>

The 2013 Strong Plan called for the development and adoption of comprehensive financial policies. Such policies are looked upon favorably by rating agencies and are another important step in the City regaining credibility in the financial marketplace. In 2015, the Act 47 Coordinator developed a draft debt and fund balance policy for prospective review and adoption by the City. With guidance and support from the Act 47 Coordinator, the City shall establish formal financial policies.

These policies shall be developed in accordance with GFOA best practices. Specific policies that shall be developed include, but are not limited to:

- Debt Policy – The City shall proceed with the review of the Debt Policy that was advanced and enact said policy in early 2016.
- Fund Balance – The City shall establish a fund balance policy that identifies the appropriate size of unreserved fund balance, the process by which resources are set aside for unreserved fund balance, and the methods by which unreserved fund balance resources may be utilized.
- Process for Departmental Budget Charge Backs – The City shall establish a policy to identify internal operations that necessitate departmental charge backs (e.g., the Bureau of Information Technology charging City departments and bureaus for network administration services) and create an internal service fund structure within the chart of accounts in order to document and monitor chargebacks as needed.
- Process for Preparation, Coordination and Response to Comprehensive Annual Financial

Audits – The City shall formally establish a policy outlining the necessary preparations for the annual audit, the roles and responsibilities of City staff in coordinating the completion of the annual audit, and the process by which the City will respond to any corrective actions outlined in the external audit upon its completion.

Capital Planning Process

OA 3. <u>Develop a Five-Year Capital Improvement Plan (CIP) and Process.</u>

The City of Harrisburg has made significant strides in refining and improving its operating budget process by establishing a recurring budget calendar and rigorous operating budget request evaluation process. In addition, the City developed a separate 3-year capital budget development process for FY2018. This was a positive step toward implementing a widely recognized best practice in municipal budgeting. However, the City has opted not to include a separate long-term CIP process in its 2019 budget development process. Instead, capital requests will be considered as line items in each department's operating budget request. This decision is largely based on the fact that the City does not anticipate that it will have access to significant capital funding in 2019. Though this challenge is evident, it will also be important for the City to institutionalize the practice of long-term capital plan development as a requirement of its eventual exit from Act 47.

The CIP is a long-term planning tool for prioritization, financing and technical design, execution, and timely completion of all capital projects. Generally, these capital projects will have a significant impact on the City's infrastructure and protect the health and safety of the public. Additional benefits include:

- Establishing a system of examining and prioritizing the needs of the City ensures that the most essential capital improvements are provided first;
- Providing a mechanism for coordinating and consolidating all City departmental requests prevents duplication of projects and equipment purchases; and
- Coordinating physical/infrastructure planning with long-range financial planning allows maximum benefits from limited funding sources.

The CIP document represents a five-year period of the City's ongoing capital improvements. Each year, the document is updated to represent the next five-year window. In each annual update, completed projects, as well as projects scheduled to be completed before the end of the fiscal year, will be removed from the document, new projects will be added, and other previously-programmed projects may be re-prioritized.

CIP planning is a dynamic process that will include changes over time. These changes may be necessitated by organizational changes, funding uncertainties, unforeseen emergencies, project delays or plans by other entities that can impact the CIP.

The CIP is a planning document to be used as a companion to the City's annual operating budget. Each year, the funding included in the first year of the five-year CIP is allocated and approved by the City Council as part of the annual budget adoption process. In addition to the up-front funding requirements associated with CIP projects, the City's annual operating budget must also absorb the cost of maintaining and operating new facilities or equipment that are constructed or procured under the City's capital plan. Capital projects are economic activities that lead to the acquisition, construction, or extension of the useful life of capital assets. Capital assets include land, facilities, parks, playgrounds and outdoor structures, streets, bridges, pedestrian and bicycle systems, water and sewer infrastructure, technology systems and equipment, traffic control devices and other items of value from which the community derives benefit for a significant number of years.

OA 4. <u>Complete and Implement Comprehensive Plan and Housing Strategy.</u>

With the Commonwealth Court's approval to allocate up to $75,000 from the funds set aside for economic development in the Harrisburg Growth Fund, the City initiated a Comprehensive Plan update process in early 2015. In April 2015, the City awarded the contract to Office of Planning and Architecture (OPA) of Harrisburg to lead the process supported by 5 other firms (K&W Engineers & Consultants, Good Land Collaborative, ARUP Americas, CSPM Group and AB3 Development). Following a public contest, "BeHBG" was selected as the "brand" name for the update. A "BeHBG" website was established to provide the community with ongoing updates and allow further community input.

The process included extensive public engagement with numerous stakeholder meetings and community workshops. Staff also participated in 24 community events to gather further input on how the City should evolve and develop over the next twenty years and to obtain a sense of the priority of City issues. The consultants met with PennDOT to coordinate transportation issues and with Harrisburg Housing Authority representatives to discuss housing issues. A day-long community workshop was held in December 2015 at the Capitol View Commerce Center to summarize the results. The entire consulting team presented information regarding the status of the plan, including specific presentations on housing and transportation to about 150 people who attended throughout the day.

2016 focused on retooling the Plan based on the public input received. The Planning Director spent considerable time reviewing and editing the consultant's draft, though the process was slowed due to staff limitations in the Planning Office. The process has been stymied since late 2016 due to a contract dispute between the City and the Office of Planning and Architecture, resulting in the City's termination of the contract in early 2017. The City is actively working to advance the plan and has engaged two of the sub- contractors to assist in completing a final draft and expedite the presentation of a final plan for public review and consideration.

The Comprehensive Plan is a critical economic and community development tool for the City and, as a result, it will be important for the City to complete the process as soon as possible.

POLICE STAFFING

The Bureau of Police has made strides in implementing many of the initiatives outlined in the Strong Plan. The Bureau has consolidated the use of specialized units in the Bureau in favor of assigning additional personnel to the patrol function. It has reduced civilian staffing in the parking enforcement function as a result of the monetization of parking assets to Standard Parking. In addition, the Bureau has decreased the number of captain positions from three to two. However, the most pressing issue confronting the Bureau is sworn staffing shortages. Given the limited financial resources available through the exit process, it is unlikely that additional personnel can be hired. As a result, the City should fully evaluate opportunities available to more efficiently deploy existing personnel.

OA 5. Complete A Staffing and Shift Schedule Study for The Uniformed Patrol Division to Mitigate the Impact of Staffing Shortages.

The most significant operational and financial challenge confronting the Bureau of Police relates to sworn staffing, especially in the Uniformed Patrol Division, which is the largest sworn police function. According to interviews with the senior executive officers of the Bureau, the Uniformed Patrol Division targets daily shift staffing goal of 15 patrol officers per shift to meet its calls for service demand and adequately engage in the proactive policing activities, such as foot and bicycle patrols. This is based on Bureau's existing patrol beat and response structure. Though the target for the daily shift staffing is 15 patrol officers, the Department maintains a minimum required staffing level of 10 officers per shift. If staffing falls below the 10-officer minimum, officers are called in on overtime to meet minimum staffing targets. According to Bureau estimates, each of the platoons requires a target staffing of 25 officers to consistently meet the patrol officer staffing goal of 15 officers per shift; the current patrol officer staffing level per platoon ranges from 20 to 23 patrol officers. There are currently 11 sworn officer vacancies in the department.

The Unfirmed Patrol Division currently operates under an 8-hour shift schedule. Police officers who are assigned to uniformed patrol perform steady tours of either 7:00 a.m. to 3:00 p.m., 3:00 p.m. to 11:00 p.m. or 11:00 p.m. to 7:00 a.m., with steady days off. Although a steady tour schedule provides a welcome measure of regularity for the workforce, there are a number of other schedule alternatives that can be evaluated to determine if deployment and schedule changes can mitigate the impact of staffing shortages. For example, implementation of 12-hour schedule deployment models has demonstrated value in decreasing the incidence of unexpected time off, which impacts staffing availability and potentially overtime usage. It is also typically a much more cost-effective shift schedule to maintain, typically requiring fewer officers per patrol team to meet shift staffing targets.

Effective scheduling requires analysis of operational and financial efficiencies, the unique needs of the Bureau and the community, and the impact of the schedule on the agency's employees. There are literally dozens of possible alternatives, and the evaluation of those alternatives must be made to ensure that they result in a more efficient use of resources that will enhance police service without creating undue stress on the members of the Police Bureau.

Therefore, before a new duty schedule is implemented, an in-depth study should be conducted to ensure that the nuances of the Bureau are explored and addressed. Therefore, a committee consisting of the Chief of Police and/or designees, representative(s) of the Fraternal Order of Police, and the Act 47 Coordinator shall be created to implement this initiative and make the final determination on a new schedule that meets the operational needs of the Bureau, enhances efficiency and reduces expense to the greatest degree possible

OA 6. Initiate Discussions with The District Attorney's Office to Develop an Approach to Utilize the Dauphin County Forensic Investigation Team for City of Harrisburg Forensic Investigations.

The Bureau of Police currently does not participate in the Dauphin County Forensics Team, instead opting to maintain a staff of three in-house Forensics Investigators. The Bureau of Police has maintained this internal capacity for two primary reasons. First, the Department wishes to maintain internal capacity to avoid the possibility that forensics personnel will be unavailable when needed. The Bureau of Police has expressed concern that since the Dauphin County Forensics Team is responsible for providing services across Dauphin County, the team may not be promptly available to provide service at Harrisburg crime scenes. Second, the Bureau of Police maintains considerable pride in the quality of its forensic investigations, the expertise of its investigators, and the level of training provided to personnel. Given the importance of forensic investigation as a major investigative tool, the Bureau of Police is reluctant to pursue a shared service model for fear that the loss of direct day- to-day control may impact the ultimate quality of forensic investigations.

These are important considerations; however, they must be considered and prioritized within the broader issues that the Department is facing relating to staffing levels. These staffing shortages ultimately result in having fewer officers on the street at a given time.

The City currently dedicates three officers to forensic investigations. By participating in the Dauphin County Forensics Team, the City may have the opportunity to dedicate only one officer to forensics investigations full time, which would allow the Department to redeploy the other two Forensic Investigators to other units, such as Patrol, where sworn staff are needed.

Moreover, the City will be able to capitalize on the regional resources provided by the Dauphin County Forensics Team. In other words, depending on the agreement reached with the District Attorney's Office, the Bureau of Police could realize an increase in street strength and also increase forensic investigation resources.

REGIONALIZATION

Prior to and since the City's entrance into the Act 47 program, the City has engaged in collaborative work with a variety of intergovernmental agencies. For example, The City produces and distributes property tax bills on behalf of the School District and also collects the payments.

The City and Dauphin County collaborate in the provision of public safety services. The Harrisburg Police Bureau participates in the Dauphin County Special Weapons and Tactics Team (SWAT) and works closely with the Dauphin County District Attorney's Office in criminal investigations. In June 2011, the Dauphin County Communication Center began providing 911 and dispatch operations for the City of Harrisburg, at no charge to the City.

Dauphin County, through its Department of Community and Economic Development, directly assists businesses and municipalities within the County in undertaking economic development projects. The Dauphin County Economic Development Corporation, a non-profit development entity, has partnered with the City in ongoing efforts to retain and grow existing businesses as well as attract new ones through business resource networks and calling programs.

Following a Strong Plan recommendation, the City also became a member of the Capital Region Council of Governments (CRCOG) in 2014. CRCOG is a voluntary association of 40-member boroughs and townships from Cumberland, Dauphin, Perry and York Counties, formed to promote intergovernmental communication and cooperation. It offers a joint purchasing program and an auction for surplus property and equipment. The City is also a member of the Dauphin County Tax Collection Committee which administers the collection of the Earned Income Tax for all municipalities and school districts in the County.

While there are specific instances of cooperation between and among the City of

Harrisburg, the Commonwealth of Pennsylvania, Dauphin County, the Harrisburg School District and other neighboring municipalities, there is no mechanism or body that facilitates discussion of issues of mutual interest or concern. It is therefore important for the City to take a proactive role in pursuing intergovernmental cooperation opportunities.

As the City considers Act 47 exit within the next three years, there are two key opportunities to pursue regionalization as a means to generate efficiencies, generate revenue, or reduce expenses which will mitigate the impact of other revenue generating measures. The first opportunity relates to the outcome of the regional policing study completed in 2015. The Police Research Executive Research Forum (PERF) identified multiple opportunities for intergovernmental service sharing and cooperation in the policing area. It will be important for the City to pursue those opportunities to determine where costs savings and/or service improvements can be achieved within controlling statutory limitations.

The second public safety opportunity relates to the fire service. As staffing in the Bureau of Fire has stabilized and volunteer firefighter availability in surrounding communities' declines, the City may be in a position to offer fire service to its neighbors. The deployment approach, service impact, and financial implications of such opportunities must be fully vetted, but they potentially serve as an opportunity to enhance service levels and secure valuable revenue for the City, while potentially enhancing fire service quality in neighboring communities. However, these opportunities should be aggressively pursued as part of the City's recovery effort.

OA 7. Pursue Regional Policing Opportunities Detailed in the 2015 Dauphin County Regional Policing Initiative.

In 2015, Dauphin County and the District Attorney's Office, with support from the Act 47 program, contracted with the Police Executive Research Forum (PERF) to assess opportunities for regional police initiatives in the County. The City of Harrisburg Bureau of Police, as the largest police department in the County, was included as an important participant in that assessment. Both the Harrisburg Police Chief and the City's FOP representative participated as members of the study Task Force.

A final report with recommendations for service and cost sharing was issued in December

2015. The report details a number of large scale regional policing/consolidation initiatives. The major consolidation options are summarized below:

- **Option 1: Dauphin Metropolitan Police Department** – 12 police departments that make up the central urban- suburban core of Dauphin County around Harrisburg would form a single metropolitan police department (Derry Township, Highspire Borough, Hummelstown Borough, Lower Paxton Township, Lower Swatara Township, Middletown Borough, Paxtang Borough, Penbrook Borough, Royalton Borough, Steelton Borough, Susquehanna Township, and Swatara Township). This option could provide an approximate 39% cost savings.
- **Option 2: Harrisburg Metropolitan Police Department** – This agency would be comprised of the 12 departments that make up the central core of the County as described in Option 1, plus the City of Harrisburg. This option was estimated to provide an approximate 33% cost savings. Several statutory and financial hurdles must be cleared prior to this option becoming possible.
- **Option 3: Southern Dauphin Merger** – Seven smaller agencies (Highspire Borough, Hummelstown Borough, Lower Swatara Township, Middletown Borough, Paxtang Borough, Royalton Borough and Steelton Borough) would be merged with Swatara to reduce redundancy and improve efficiency. This option could provide an approximate 26% cost savings.
- **Option 4: Southern Dauphin Regional Police Department** – This option would combine five small agencies (Highspire Borough, Lower Swatara Township, Middletown Borough, Royalton Borough and Steelton Borough) into a single department with a focus on less redundancy and more effective policing. This option could provide an approximate 9% cost savings.
- **Option 5: Derry Regional Police Department** – Hummelstown Borough would be merged with Derry Township under a contract arrangement to provide a more efficient approach to policing in these adjacent jurisdictions. This option could provide an approximate 32% cost savings.

- **Option 6: Northern Regional Police Department** – This option would combine four small agencies (Halifax Borough, Lykens Borough, Millersburg Borough and Wiconisco Township) north of the mountains to provide expanded coverage to this area. At least two officers would be on patrol around the clock. This option would include a 363% plus cost increase but is included to demonstrate what would be required to provide full-time policing in the north part of the county.

- **Option 7: Countywide Police Department** – Although a change in state law would be required to enact this scenario, PERF was asked to examine the parameters for one police department that would serve the entire county. This agency would be comprised of four police districts and a substation to maintain a focus on the localities involved. This option could provide an approximate 29% cost savings.

Of the large-scale consolidation options summarized above, the Harrisburg Metropolitan Police Department (option 2) and the creation of a countywide police department (option 7), are the two options that would directly involve the City of Harrisburg. Both options would require significant legislative action, cross-community buy-in and detailed analysis to move forward.

The other five options identified in the analysis would not directly impact the City, though they would create some indirect impacts. These options, which are smaller in scale than creating a county-wide department, offer two substantive benefits. First, they are more likely to be implemented because they involve fewer political jurisdictions and are more manageable to implement than a central county-wide department. Second, they will potentially increase the scale, size, and scope of operation for Harrisburg's regional neighboring departments, many of which are currently small departments. As these departments increase in size through consolidation or merger, they will be better equipped to provide specialty services and act as partners with the City of Harrisburg on regional initiatives. This may provide an opportunity for the City to utilize these neighboring departments for specialty services which will allow the Harrisburg police department to redeploy personnel to other priority areas ofoperation.

It is important to note, however, that these consolidation options have only been discussed at the conceptual level and the potential fruit of consolidation efforts is not certain. Regardless, it will be important for the City to continue to engage as a member of the Task Force and seek opportunities, as the largest police department in the County, to add value and benefit from the regional initiatives.

OA 8. Partner with Dauphin County and the Act 47 Coordinator to conduct a study to evaluate regional fire service delivery opportunities.

In the 2013 Harrisburg Strong Plan, the Bureau of Fire had a total of 13 initiatives that were the direct responsibility of the Bureau of Fire. The Bureau has made significant progress toward implementing many of those initiatives. Notably, through collective bargaining negotiations, the Department closed one fire station and adjusted its company staffing level to 14 firefighter/ lieutenants and one command officer per shift. This has in turn allowed the Bureau to significantly reduce its overtime expenses and added significant value from both a public safety and firefighter safety and response perspective.

With changes to the deployment model and the addition of personnel to the Bureau of Fire, staffing and deployment has stabilized in the Bureau. The Bureau provides a high level of service to residents, businesses and visitors, and maintains a complement of highly trained firefighters and command staff.

Given the level of service provided by the Bureau and the Bureau's proximity to other boroughs and townships, there are opportunities in the coming years to develop regional partnerships or contracting models whereby the City of Harrisburg could provide fire suppression, special rescue, and fire prevention services to neighboring communities. This is especially true given the loss of volunteers across the Commonwealth. Such initiatives have the potential to serve the purpose of improving fire services in neighboring communities while also serving as a potential revenue source for the City of Harrisburg.

The Bureau of Fire has begun evaluating these opportunities. However, full evaluation of options available will require detailed deployment and staffing analysis, cost estimates, and extensive conversations with neighboring communities and their elected officials. It is therefore recommended that the City seek to partner with Dauphin County and the Act 47 Coordinator to conduct a fire regionalization and service sharing study to identify and prioritize opportunities.

REFUSE AND RECYLING

With Act 47 funding and support from the Act 47 Coordinator, a comprehensive sanitation program evaluation was completed in mid-2015 by Barton & Loguidice. The study concluded that the sanitation system was broken and unsustainable without significant change and provided a plan to modernize the sanitation operation, which built on recommendations from the 2013 Strong Plan. Recommendations focused on obtaining new or refurbished collection vehicles, purchasing and deploying new trash and recycling containers, increasing recycling through educational efforts, enforcing current ordinances, and validating all commercial and residential billing information.

In response to the study, the City has restructured the sanitation and public works operations through the creation of the Bureau of Neighborhood Services (BNS). This restructuring added staffing resources to the sanitation operation, thereby allowing street maintenance personnel to be fully dedicated to their assigned tasks. This restructuring addressed both operational and financial needs and has enhanced the City's ability to provide more efficient sanitation and street-related services to its residents. Since that time, the BNS has worked to fundamentally improve refuse and recycling operations.

The City has completely taken over the front-load commercial refuse collection business in the City. This was accomplished by purchasing the necessary front-loader equipment and working over the past several years to transition all commercial accounts to the City. The only commercial accounts that are not currently being serviced by the City are downtown high rises and facilities that have trash compactors. However, the City is developing a plan to purchase the necessary roll-off containers and equipment to take over these accounts in 2019.

The City is also making progress in its effort to develop and manage a composting facility in Susquehanna Township. The City and Act 47 Coordinator's team developed a revised PADEP permit application that includes the City and the School District as program participants. The development of a composting site will serve two important goals. First, it will enhance the City's yard waste collection and composting program, which will in turn decrease the number of tons of waste disposed of at the Harrisburg incinerator (thus reducing disposal expenses). Second, it will advance intergovernmental cooperation in the Harrisburg metropolitan area. Although at this time it is only the City and School District, the potential exists for other municipalities to utilize the site thus sharing resources.

The City has also made substantive progress in the area of recycling. In the Fall of 2017, the City began the process of collecting glass recyclables from bars and restaurants in the City's downtown. This program has been successful and in the second quarter the City established a residential glass recycling drop off area so that the program can continue to be expanded. In addition, the City has established a cardboard recycling program targeted toward commercial businesses. This program generates revenue for the City and offsets fluctuations and losses in other areas of the recycling commodity market. The City is currently collecting approximately 100 tons of cardboard per month. The City is currently estimating a diversion rate due to recycling of approximately 16%, which is a dramatic improvement over the 4% rate in 2013.

The City also continues to meet its commitment to the Lancaster County Solid Waste Management Authority, (LCSWMA) to deliver at least 35,000 tons per year of solid waste to the Susquehanna Resource Management Center (SRMC). In 2016 the City delivered 35,953 tons of waste to the facility. In 2017, the City delivered 37,427 tons to the SRMC. It has largely accomplished this task through the reabsorption of commercial accounts into the City's sanitation operation and has also accomplished this measure while also significantly improving its recycling rate. These are important advances for the City's sanitation operation. However, the City continues to face challenges relating to the refuse and recycling collection operation.

The City is currently facing a lawsuit from several commercial customers in the City challenging the City's refuse and recycling rate structure. This lawsuit offers the potential to substantially impact the City's ability to generate sufficient revenue to fund refuse and recycling services and other related BNS operations. Furthermore, the City's effort to restore sanitation operations also represents a cost. This cost should be compared against other opportunities in the market place to ensure that the City residents and business owners are receiving the most efficient and effective service available.

OA 9. Complete an Assessment of The Sanitation System Improvements.

In 2014, the Act 47 Coordinator leveraged Act 47 funding and with the support of the new City administration contracted with a sanitation services consultant to complete an assessment of the sanitation operation and develop an approach for improvement in the City's operation. It was determined early in the reevaluation process that the current system of waste and recyclables collection and related services in Harrisburg was, in simple terms, "broken and unsustainable" without major improvements. The status quo, do nothing alternative, was not an option for the City's waste and recyclables collection program. However, the shortfalls in the 2013 RFP process dictated a more focused look at developing consensus and exploring alternatives to a straight privatized bid for waste and recyclables collection services.

The City has made significant strides toward improving its sanitation operation. However, there are still several outstanding issues that could serve to significantly disrupt the financial and operational sustainability of the program. For example, the City has not developed a capital improvement plan and funding stream that demonstrates its ability to sustainably maintain and fund the regular replacement of sanitation packers, recycling trucks, dumpsters and carts on an ongoing basis. Perhaps more importantly, the City has been operating under a heavily disputed commercial refuse collection rate structure. This structure may require revision which could potentially impact sanitation revenue. In addition, the operations improvement highlighted in the previous sanitation related initiatives must be effectively implemented to reach sustainable improvement.

Given these unknowns, it will important to complete a full assessment of the proposed sanitation operating improvements, revenue and expenditure history and projections, and plans for maintaining a sustainable operation going forward. If sufficient improvement can be achieved, the City should continue with further implementation of the evaluations recommendations. However, if improvement cannot be achieved, it is recommended that the City re-initiate a bid process to effectively compare the new sanitation operation to the services that can be offered by private sector contractors. This will allow policy makers to make an informed policy and budgetary determination regarding the prudence of maintaining a public-sector sanitation operation versus contracting the service out.

OA 10. <u>Initiate Discussions with LCSWMA To Release A Portion of The Tipping Fee Security Held in Escrow.</u>

The City has approximately $1.35 million in an escrow account securing its obligations to LCSWMA to pay ongoing tipping fees. It has several options relating to liquidating this account in whole or in part and providing alternative security. Transfer of these amounts could help the City pay for new equipment or other necessary capital items or help the City restructure debt as a mechanism to drive down operating expenses. It is recommended that the City work cooperatively with LCSWMA and consider taking appropriate actions to satisfy LCSWMA so that some or all of these funds can be released to the City.

PARKING

The City and Harrisburg Parking Authority ("HPA") sold the City's parking assets including garages and meters in the Business District to Pennsylvania Economic Development Authority (PEFDA) in December of 2013 for $267,479,162. The system is currently managed by a third-party asset manager and a third-party operator and provides annual revenue to the City in the form of Ground Lease and Priority Parking payments of approximately $3.0 million. Additionally, the City collects almost $4.0 million in parking taxes.

Even though the City has sold most of its parking assets, there are a few areas outside of the parking garages and meters that the City can and should focus on to improve revenues and parking within the City.

OA 11. <u>Develop a Master Parking Plan for Residential and Commercial Parking Permits.</u>

Parking Ordinances relating to permits for on-street parking (commercial and residential) and relating to public safety issues should be reviewed periodically. Now that the PEDFA has owned the parking garages for more than four years, the City should review the remaining aspects of parking management responsibilities that reside with the City. With revenue from parking fees and permit fees declining over the past four years, and complaints by residents and businesses regarding on-street parking, the City should consider retaining the services of a national parking consultant to work with City officials to review, and where appropriate amend, certain parking permit related ordinances and determine the appropriate level of permit and parking fees. The sale of the parking system to PEDFA was structured so that the better the garages and meters performed, the more money the City would receive and the sooner the bonds would be paid off. It is possible for a consultant to undertake a review of City ordinances, demand and management by the City of permits, and come up with a solution that is better for residents and commercial property owners, and helps the City realize additional revenues.

OA 12. Ongoing Discussions with Parking Advisory Committee Aimed at Improving the System.

City Council members, the Mayor's office and administration officials on the ground will be in the best position to provide ideas to the Parking Advisory Committee as to how to improve parking in the City, and how to increase revenues without necessarily increasing parking rates. Adding additional revenues through increased utilization will take some of the pressure off the need to increase rates every year or two. The debt service on bonds issued to fund the plan must be satisfied and the assets must be maintained to continue servicing the bonds, in order to continue providing the City $7 million +/- per year. The City must recognize the foregoing when providing ideas as to how to increase revenues.

GENERAL FUND EXPENDITURE REDUCTION TARGET

OA 13. Reduce General Fund Expenses by 1.50 % to 1.75% 2019 to 2020 operating budget

There are a number of options and initiatives that the City must pursue to account for the range of potential revenue reductions associated with an exit from Act 47. Many of these initiatives, such as the potential to extend access to Act 47 enabled EIT revenue, obtain additional PILOT revenue, or achieve reductions in annual debt service expense through Ambac debt restructuring, will require time to explore and realize. The outcome of these initiatives will determine the amount of Act 47 revenue loss that must be offset by additional revenue increases and/or real estate tax increases. However, even if all of the initiatives outlined in tis exit plan are realized, there will still be a minimum need to generate additional resources through expenditure reductions or revenue increases within the three-year exit period. To that end, it is recommended that the City incorporate a 1.50% to1.75% reduction in General Fund expenditures in the 2019 budget. This will provide an initial and manageable first step toward closing the revenue gap created through an Act 47 exit. It will also allow the City to explore the impact of other initiatives. Depending on the outcome of those efforts, the City will also may need to consider further expenditure reductions or revenue increases in the remaining two years of the exit period. This need shall be evaluated as an element of the 2020 budget development process so that specific revenue or expenditure targets designed to close the revenue gap cam be reflected in the City's adopted budget. This will allow the City the flexibility to determine how best to offset the revenue loss within the context of broader budget and policy priorities

CHAPTER SIX
WORKFORCE CHAPTER

As with most local governments, Harrisburg's personnel costs represent the majority of the City's actual expenditures. The City requires a substantial workforce to prevent and investigate crime and enforce laws, maintain safe and clean streets, ensure public safety and deliver other important municipal government services.

Since the Strong Plan was confirmed on September 23, 2013, and subsequently amended in July 2016 (the "Amended Strong Plan"), Harrisburg has made significant progress toward establishing a more stable and sustainable fiscal structure, a major piece of which involves a remodeled plan for workforce expenditures.

The substantial majority of Harrisburg employees are represented by one of its three unions: the Fraternal Order of Police Capital City Lodge No. 12 ("FOP"), the American Federation of State County and Municipal Employees District Council 90, Local 521 ("AFSCME"), and the International Association of Firefighters, Local No. 428 ("IAFF"). Each of the City's three unions voluntarily entered into mid-term negotiations to amend their collective bargaining agreements in connection with the filing of the initial Strong Plan in August 2013. The amendments to the prior collective bargaining agreements, as well as savings initiatives for the City's non-union employees, were implemented, and cost reductions resulting from these changes began to be realized and continue to be monitored. Since the Amended Strong Plan was approved by the Commonwealth Court on July 20, 2016, the City has re-negotiated successor agreements with all three of its Unions. Specifically, the City has a contract in place with the FOP through December 31, 2020, and the City has agreed upon terms for a successor contract with the IAFF through December 31, 2022. While the City also has a contract in place with AFSCME through December 31, 2018, negotiations for a new successor contract are already starting.

Given the significant impact that workforce expenditures have on the overall budget, Harrisburg must continue to be vigilant in managing employee compensation (including both wages and benefits) in order to ensure the City remains fiscally healthy. Even with the improvements in certain revenues that have been achieved since the Strong Plan was initially implemented and subsequently modified, there remains a continuing need to contain workforce expenditures in light of Harrisburg's still sluggish revenue growth. This is particularly true given how the costs of healthcare, pensions and other post-employment benefits will continue to grow beyond the fiscal year in which they are expended

This Chapter of the Exit Plan provides an overview of issues pertaining to the City's represented workforce, including headcount, compensation, healthcare cost, and post-employment expenses such as pensions and other post-employment benefits, and then identifies several initiatives that the City must follow when entering into new labor agreements with its unions, in order to ensure continued compliance with the strictures of Act 47.

EMPLOYEE OVERVIEW

HEADCOUNT

For 2018, Harrisburg is budgeted to employ approximately 454 full-time employees. Approximately 375 of the 454 full-time employees are budgeted to be paid out of the General Fund, while approximately 75 are budgeted to be paid out of the Neighborhood Services Fund with four paid from the Host Fee fund.

The following chart demonstrates the number of full time employees that the City is budgeted to employ in 2018 within each of the collective bargaining units as well as non-represented employees.

Employee Group	Covered Positions	2018 Budgeted Total FTEs	Contract Expiration
Non-represented	Executive, management, confidential	87.95	N/A
FOP	All sworn Police Officers	149.00	December 31, 2020
AFSCME	All non-executive, non-management, non-confidential employees not otherwise covered in FOP or IAFF	134.94	December 31, 2018

Employee Group	Covered Positions	2018 Budgeted Total FTEs	Contract Expiration
IAFF	All firefighters, lieutenants, captains, battalion chiefs, and deputy chiefs	82.00	December 31,2022[4]
Total		**453.89**	

Compensation

By far, Harrisburg's largest workforce expenditure is employee salaries. For example, in 2017, salary expenditures cost the City $22,353,917. In addition to salaries, overall compensation includes a wide variety of components, including, without limitation, longevity pay, shift pay, special assignment pay, other cash premiums and bonuses, employer-portion of applicable payroll taxes, vacation, holidays, paid leave, active employee life insurance, and other miscellaneous fringe benefits.

After the Amended Strong Plan was confirmed in July 2016, the City had to renegotiate its CBAs with the both the FOP and AFSCME, which were set to expire later that year. The negotiations for the FOP and AFSCME successor agreements were the first time since the City entered into Act 47 that the unions were obligated to negotiate all terms with the City and that the City had the right to renegotiate employment terms with the unions.

A. FOP

The City negotiated with the FOP throughout the fourth quarter of 2016 and the first two quarters of 2017. While negotiations with the FOP did not result in a successor contract being reached before the then-current contract expired, and the parties were prepared to move forward with interest arbitration, they eventually reached an agreement between themselves in March 2017. That agreement has since been executed and ratified by the FOP membership and City Council has passed a resolution approving its terms (the "2017 FOP CBA").

[4] Pending City Council approval.

By way of background, in 2013, the FOP had agreed to a wage freeze during the years 2013 and 2014, followed by 1% raises in the years 2015 and 2016. The 2017 FOP CBA provides for a 1% increase in base salary in each year from 2017 through 2020. The 2017 FOP CBA also provides for longevity pay at the rate of 1% of the employee's base pay for each year of service after the employee's third year, up to a maximum of 13% for eligible employees; however, employees hired after January 1, 2013 are not eligible for longevity pay.

B. AFSCME

While negotiations with AFSCME started more slowly in the fourth quarter of 2016, the City quickly reached a successor agreement with that union as well (the "2017 AFSCME CBA"). On January 10, 2017, City Council passed a resolution approving the terms of a CBA with AFSCME to cover the years 2017 and 2018; however, at this juncture, the parties do not yet have an executed version of the final contract. Execution of the CBA was stalled originally because the parties required a study from the Pennsylvania Municipal Retirement System ("PMRS") regarding the actuarial information on the impact of certain provisions in the new CBA. Thereafter, typographical errors were identified in that final contract, which has further delayed execution. Nonetheless, the City has already implemented all other aspects of the CBA as amended and hopes that it will have a contract executed in short order.

By way of background, in its prior CBA, AFSCME agreed to freeze wages in 2013 and 2014, followed by 1% increases in base salary for the years 2015 and 2016. The 2017 AFSCME CBA provides for 1% increases in base salary in 2017 and 2018 as well as lump sum payments of $1,000.00 per year per employee. The 2017 AFSCME CBA permits employees hired before September 16, 2013 to continue receive longevity pay at frozen rates; however, employees hired on or after September 16, 2013 will not be eligible for longevity pay.

C. IAFF

Meanwhile, the CBA with the IAFF expired on December 31, 2017. The City and IAFF reached an agreement for a successor CBA as a result of negotiations (the "Tentative IAFF CBA").

IAFF ratified the terms of this agreement on or about February 8, 2018. After the agreed-upon terms are integrated into a new CBA, it will be presented to City Council to vote to approve it.

By way of background, IAFF had agreed to a wage freeze for its members in 2013 and 2014, followed by a 1% raise in 2015 and 2016, and a 2% raise in 2017. Additionally, employees receive longevity pay at the rate of 1% of the employee's base pay for each year of service after the employee's third year, up to a maximum of 13%; however, employees hired on or after April 7, 2014 will not be eligible for longevity pay. The Tentative IAFF CBA provides for 2% increases in base salary in each year from 2018 through 2022.

In addition to salary and longevity pay, the City provides other forms of cash compensation in the form of shift differentials, holiday premium pay, unused sick leave, overtime, and premium pay. The following chart, based on the Bureau of Labor Statistics' National Compensation Survey from March 2017, demonstrates that the City of Harrisburg's paid leave benefits remain more generous than private sector norms and are competitive with those of other state and local governments.

Employee Group	**Annual Holidays**	**Personal Leave**	**Vacation after 1 year**	**Vacation after 5 years**	**Vacation after 10**	**Vacation after 20 years**
AFSCME 7.5 hours/day	13 days per year	3 days per year	6.88 hours per month *6.88 hours per month*	10.63 hours per month 10.63 *hours per month*	15 hours per month *13.74 hours per month*	18.75 hours per month *13.74 hours per month*
AFSCME 8-12 hours/day	13 days per year	3 days per year	7.34 hours per month *7.34 hours per month*	11.34 hours per month *11.34 hours per month*	16 hours per month *14.67 hours per month*	20 hours per month *14.67 hours per month*
FOP	14 days per year	3 days per year	16 days per year	19 days per year	22 days per year	30 days per year *(22) days per year*
IAFF	11 days per year	1 days per year	12 days per year *(8) days per year*	16 days per year *(12) days per year*	16 days per year *(12) days per year*	20 days per year *(16) days per year*
Private Sector Median	7 days per year	n/a	10 days per year	15 days per year	15 days per year	20 days per year
State and Local Government Median	11 days per year	n/a	12 days per year	15 days per year	18 days per year	22 days per year

Numbers in italics apply to those union employees hired after the date of the ratification of collective bargaining agreement amendments negotiated after the City entered into Act 47. Further, as a result of those negotiated amendments, all AFSCME, FOP, and IAFF employees were moved to the Basic Health Plan that, previously, had only been mandatory for non-represented City employees, providing an additional avenue for cost savings. In addition, all of the unions agreed to begin to have their members contribute towards the cost of health care premiums, as set forth below.

FOP	
Tier of Coverage	**Percentage of base salary effective 2017-2020**
Single coverage	2.5%
2 person coverage	4.5%
3 person coverage	5.5%
4 or more person coverage	6.5%
AFSCME	
Tier of Coverage	**Percentage of base salary effective 2017-2020**
Single coverage	2.0%
2 person coverage	4.0%
3 person coverage	5.0%
4 or more person coverage	6.0%

Beginning February 1, 2014, IAFF employees began contributing towards the premium costs of their health insurance coverage at the rate of $40 per biweekly pay for single coverage, and $90 per biweekly pay for two or more-person coverage.

In addition to health care offered for active employees, the City also provides for certain post-retirement health benefits for its represented employees. Although the City could not change the plan design for employees who had already retired as of the date of the amendments, all of the bargaining units agreed to change entitlements with respect to active employees and future (yet-to-be-hired) employees. All units agreed that future employees of the City (who had yet to be hired) would not be entitled to receive post-retirement health care at the City's cost. As to benefits provided to active employees upon their eventual retirement, all units also agreed that the coverages would be provided at levels that are the same as active employees, and that such retiree coverages may be modified from time to time if similarly modified for active employees. All units also agreed that retirees would contribute a portion of their pension towards the premium costs for healthcare coverage, though the IAFF carved out this obligation with respect to certain active employees.

Since the revised plan was confirmed in 2016, the City prevailed in a grievance proceeding that could have potentially adversely impacted the budget for years to come. On August 19, 2016, an arbitrator denied the IAFF's class action grievance on behalf of a group of firefighters who entered the Fire Academy in March 2014 but did not graduate and become members of the Fire Bureau until June 2014. The IAFF alleged that the City breached the CBA by denying certain vacation benefits to this new group of firefighters based on the amendment to the CBA ratified by City Council in April 2014 – while these firefighters were still cadets in training. The IAFF alleged that this group should have received vacation benefits consistent with those in effect prior to April 2014, since they were "employees" of the City as of March 2014 when they received their conditional appointment letters and began their training. The City disagreed, asserting that the cadets, even though they were City employees receiving some wages and benefits, were not qualified to be firefighters at the time of the April 2014 amendment and, therefore, were not members of the Fire Bureau afforded the benefits existing under the then-current collective bargaining agreement. The City also argued that, prior to ratification by City Council, the IAFF and the City all understood that this new group of firefighters would not be eligible for benefits under the then-existing scheme and would be given a reduced level of benefits following graduation. The arbitrator agreed with the City's position, finding that the term "employees" in the CBA and its April 2014 Amendment did not include the cadets who were in training at the time of the amendment, as they did not become "employees" for the purposes of the CBA until after they graduated from the Fire Academy in June 2014 and were appointed as probationary firefighters. The time for appeal of this award has long since expired, so this decision is now final. The Coordinator is extraordinarily pleased with this outcome, since an adverse result could have spiraled into providing a series of additional expensive benefits for this newer group of firefighters, which would have put further strain on the City's ability to implement a balanced budget.

OTHER POST EMPLOYMENT BENEFITS

Harrisburg OPEB Trust Fund

Prior to the adoption of the contract amendments with the three collective bargaining units, the City provided post-retirement health care benefits to all employees. The actuarial report delivered at the beginning of 2013 estimated that the City had an unfunded accrued actuarial liability relating to these benefits of more than $177 million. Taking into account some of the contract provisions that were both administratively expensive and added to this unfunded liability of the City, some of the contract amendments were tailored to reduce both the stress on the administration and cost of the benefits. As of January 1, 2014, the City's unfunded accrued actuarial liability for post-retirement health care benefits was reduced to $133,006,585 (approximately $44 million less than reported prior to consummation of the Strong Plan). Further, this benefit has now been eliminated for all employees hired after the adoption date of the respective collective bargaining agreement amendments and as well as for non-represented employees hired after September 18, 2013. The benefits to the City's General Fund budget will take some time to be realized and, in the interim, the City should carefully manage this liability.

Employees who were hired prior to the amendments, as well as current retirees, are still entitled to post-retirement health care benefits. As of January 1, 2016, the unfunded accrued actuarial liability rose again, up to $155,120,287. Accordingly, the City should monitor and take steps necessary to control both the annual required contribution and the unfunded accrued actuarial liability in order to reduce pressure on the General Fund to pay the benefits included in the liability.

PENSIONS

Based on the Comprehensive Annual Financial Report of the City of Harrisburg for the year ended December 31, 2014 and the Certification of the City of Harrisburg's Minimum Municipal Obligation ("MMO") under Act 205 of 1984 for 2016, the City was required to pay a net amount of approximately $1 million, after receipt of aid from the Commonwealth, to satisfy its obligations with respect to the Combined Police Officers' Pension Plan (the "Police Plan"), the Combined Non-Uniformed Employees' Pension Plan (the "Non-Uniformed Plan") and Combined Firefighters' Pension Plan (the "Firefighters Plan") (collectively, the "Pension Plans").

The modifications to the funding of the Pension Plans on account of changes regarding the Pension Plans in the most recent amendments to the respective collective bargaining agreements may impact the City's financial obligations. In particular, collectively bargained changes may affect the City's progress in reducing the underfunding of the Police Plan, which is a single-employer pension plan controlled by an independent board of trustees. Diligent efforts should be undertaken to monitor the Police Plan's funded status and reduce the potential for increased underfunding of the Police Plan. The Non-Uniformed Plan (for AFSCME employees) and the Firefighters' Plan, both of which are part of the Pennsylvania Municipal Retirement System (PMRS), are presently fully funded. However, the funded status of the Non-Uniformed Plan and Firefighters' Plan should also be carefully monitored to ensure that they remain fully funded to reduce the likelihood of materially increased future calculations by the City.

Actuarial assumptions for Non-Uniformed and Firefighters' Plans are set by PMRS and use a return on investment ("ROI") of 5.5% and wage growth of 4.1%. The Police Plan, which is locally administered, uses an ROI of 8% and wage growth of 5%. For 2015, the Police Plan had an ROI of 1.01%, which is 7% below the actuarial assumed rate. For 2016, the Police Plan had an ROI of 6.08%, which is 2% below the actuarial assumed rate. Given this disparity, the City may, as a long-term goal, seek to move the Police Pension Fund to PMRS. While doing so would require an additional initial cash infusion or cause a significant impact on the annual payment of MMO, it would allow the City to address the growing disparity between the 8% actuarial assumption and the actual ROI – which disparity is likely to continue to grow if not addressed.

The following chart demonstrates the unfunded liability of the Police Plan in comparison to the Firefighters' Plan and the Non-Uniformed Plan:

Non-Uniformed	Jan-09	Jan-11	Jan-13	Jan-15	Jan-17
Active Members	307	270	229	145	189
Retired Members			179	216	213
Unfunded Liability	($19,077,693)	($21,568,647)	($21,788,396)	($15,860,225)	($9,368,867)
Fund Ratio	135%	139%	136%	126%	116%
IAFF	**Jan-09**	**Jan-11**	**Jan-13**	**Jan-15**	**Jan-17**
Active Members	93	83	72	75	72
Retired Members			123	134	135
Unfunded Liability	($12,009,756)	($13,201,626)	($10,008,099)	($8,924,323)	($1,918,068)
Fund Ratio	123%	124%	116%	114%	103%
FOP	**Jan-09**	**Jan-11**	**Jan-13**	**Jan-15**	**Jan-17**
Active Members	161	165	146	139	139
Retired Members			176	201	201
Unfunded Liability	$1,992,355	$8,543,570	$13,526,580	$8,529,789	$17,860,075
Fund Ratio	97%	88%	83%	89%	81%

INITIATIVES

As with many municipal governments, workforce expenditures represent the majority of the City's general fund expenditures. Restoration of Harrisburg's financial health is dependent upon controlling workforce compensation. The initiatives outlined below are intended to move the City toward a more stable and balanced budget so that the City can focus on improving the City's financial recovery, rather than merely limping on as a struggling municipality.

As a result of a Pennsylvania Supreme Court decision involving collective bargaining and interest arbitration issues in Scranton, significant amendments were made to Act 47, commonly referred to as the Act 133 Amendments of 2012 ("Act 133 Amendments"). As amended, Act 47 now requires the coordinator to project revenues and expenditures for the current and next three fiscal years and develop a capped amount for each city bargaining unit to be available for total compensation for employees in that unit. For that reason, this Plan separates the costs related to each of the City's collective bargaining units included in the overall cost projections in the Plan so that each bargaining unit can have an active role in collectively bargaining for those terms of compensation that are most important to the employees in such unit. With limited exceptions, arbitration awards under Act 111 are subject to this amendment of Act 47 and preclude arbitrators from imposing financial terms on the City that would require it to pay overall compensation to its employees that exceeds the amounts set forth in this Plan. Although the Act 133 Amendments had been passed prior to the filing of the Strong Plan, the City was not able to impose those obligations on the bargaining units because none of their contracts had yet expired. However, those unit caps were imposed during collective bargaining negotiations for contracts to take effect in 2017 and thereafter.

WF1. <u>Maximum Compensation Allocations and Costing Analysis</u>

Pursuant to the Act 133 Amendments, this Plan will set the maximum amounts of funds that are available to each bargaining unit and non-represented employees for each of the next three years. The maximum expenditures for each employee group show the "baseline" costs – prior to any adjustments through upcoming negotiations or arbitration – as well as any allowances for collective bargaining. Compensation components impacted by negotiations include, but are not limited to: wages/salaries, longevity, shift pay, special assignment pay, other cash premiums and bonuses, applicable payroll taxes, vacation, holidays, paid leave, active employee health care, active employee life insurance, and other miscellaneous fringe benefits. Included in the maximum allocations for each year are the costs carried forward from recurring increases in prior contract years.

Projected costs for the FOP unit are set forth in the chart below. These projections are based on the current CBA that is in place, assuming a 2% wage increase for the year 2021 – since that is beyond the duration of the 2017 FOP CBA. Further, the projections for extra duty, overtime, sick leave buyback and severance are based on a 2% increase in base pay and anticipated step movement. The projections for the uniform allowance are based on a cost of $625 per employee for 3 years, and there is no estimated increase in this cost. The total medical costs are limited to a 6% increase.

FOP	2018	2019	2020	2021
	Estimated	Projected	Projected	Projected
Salary & Wages	10,025,536	10,233,617	10,515,379	10,874,434
Signing Bonus	199,500	200,000	200,000	200,000
Extra Duty	769,502	785,473	807,099	834,658
Overtime	568,500	580,299	596,277	616,637
Sick Leave Buy Back	79,998	81,658	83,906	86,771
Severance	210,000	214,359	220,260	227,781
Total	**11,853,036**	**12,095,406**	**12,422,922**	**12,840,282**
FICA	171,869	175,383	180,132	186,184
Medical	2,246,410	2,381,195	2,524,066	2,675,510
Uniform	73,375	73,375	73,375	73,375
Total FOP	**14,344,690**	**14,725,359**	**15,200,496**	**15,775,351**

Projected costs for the IAFF unit are set forth in the following chart. These projections are based on the Tentative IAFF CBA to which the parties have agreed. Pursuant to the Tentative IAFF CBA, employees will receive a base wage increase of 2% each year for 2018 through 2022. Longevity projections have been calculated pursuant to the rates agreed to in the collective bargaining agreement, which is an increase of 1% of base pay for every year of service over three (3) years, up to a maximum of 13%. The increases shown for premium pay is based on the anticipated increase in base salary per year. There is no estimated increase in overtime, sick leave buy-back, severance, clothing allowance, clothing maintenance allowance, or college credits so the projected increase in base salary rates may have to be adjusted if there is to be any changes to these items. The total medical costs are limited to a 6% increase.

IAFF	2018	2019	2020	2021
	Estimated	Projected	Projected	Projected
Salary & Wages	4,793,947	4,922,675	5,054,213	5,214,506
Overtime	675,000	675,000	675,000	675,000
Premium	355,000	362,100	369,342	376,729
Sick Leave Buy Back	150,000	150,000	150,000	150,000
Severance	110,000	110,000	110,000	110,000
Total	**6,083,947**	**6,219,775**	**6,358,555**	**6,526,235**
FICA	88,217	90,187	92,199	94,630
Medical	1,411,601	1,496,297	1,586,075	1,681,240
Uniform	96,050	96,050	96,050	96,050
Total IAFF	**7,679,815**	**7,902,309**	**8,132,879**	**8,398,155**

Projected costs for the AFSCME unit are set forth in the chart below. These projections are based on the 2017 AFSCME CBA currently in place, assuming a 2% wage increase for the years beyond its term. These projections are based on longevity being frozen at current rates for those employees receiving longevity payments. The increases shown for social security are based on the anticipated increase in base salary per year and are calculated at 7.65% of wages. There is no estimated increase in overtime, sick leave buy-back, or clothing allowance, so the projected increase in base salary rates may have to be adjusted if there is to be any changes to these items. The total medical costs are limited to a 6% increase based on what we anticipate will be reflected in any successor AFSCME collective bargaining agreement.

AFSCME	2018	2019	2020	2021
	Estimated	Projected	Projected	Projected
Salary & Wages	4,939,232	5,038,016	5,138,777	5,241,552
Signing Bonus	112,650	80,500	23,500	0
Overtime	321,000	318,000	318,000	318,000
FICA	409,414	414,263	417,597	423,638
Medical	1,564,833	1,658,723	1,758,246	1,863,741
Uniform	40,000	42,400	44,944	47,641
Total AFSCME	**7,387,128**	**7,551,902**	**7,701,064**	**7,894,572**

For those employees represented by a union, the City and the respective bargaining units may agree to spend the allocation on various compensation components so long as they mutually determine that such an allocation is appropriate. This is subject to the specific limitations laid out in this Exit Plan. The City and the unions shall not exceed the annual allocations in the above charts. The City shall avoid any compensation adjustments that result in disproportionate long-term costs.

The City must ensure that future collective bargaining agreements continue to remain compliant with the Exit Plan. To that end, no person or entity, including (without limitation) the City, any union representing City employees and any arbitrator appointed pursuant to Act 111 or otherwise, shall continue in effect past the stated expiration date of any current labor agreement the wages, benefits or other terms and conditions of the existing labor agreement if such wages, benefits or other terms or conditions are inconsistent with the initiatives made in this Exit Plan.

If any existing collective bargaining agreements and/or amendments or extensions are void or voidable, no person or entity, including (without limitation) the City, any union representing City employees and any arbitrator appointed pursuant to Act 111 or otherwise, shall continue in effect past the stated original expiration date of the prior collective bargaining agreement the wages, benefits or other terms and conditions of the prior existing labor agreement if such wages, benefits or other terms or conditions are inconsistent with the initiatives made in this Exit Plan.

All collective bargaining agreements, interest arbitration awards, settlements, memoranda and agreements of any kind issued or entered into after the approval of this Exit Plan must be effective at the earliest possible date, and no later than the expiration of the then-current and legally binding collective bargaining agreements and interest arbitration awards. This shall apply even if the agreement is entered into or the arbitration award is executed subsequent to the effective dates, thus requiring that the agreements or awards be retroactive. No collective bargaining agreements, interest arbitration awards, settlements, memoranda and agreements of any kind issued or entered into after the approval of the Plan may extend the current expiration dates of the existing agreements and awards, nor the expiration dates of the prior un-extended and un-amended agreements and awards if such extensions are void or voidable.

Prior to the expiration of any of the collective bargaining agreements, the City shall take steps to promptly bargain new collective bargaining agreements with each of these units and shall follow all time limits for interest arbitration so that any interest arbitration award shall be issued prior to the expiration of the collective bargaining agreement. This shall also equally apply if any or all of the existing amendments to the collective bargaining agreements are void or voidable. The timelines contained in Act 111 shall be adhered to strictly and may not be waived. If an arbitration award is not issued prior to the expiration of the collective bargaining agreement, then the City shall implement all of the provisions and initiatives of the Plan to the maximum extent legally consistent with applicable law.

Unless and until this Exit Plan is confirmed, any new labor agreement between the City and any union representing City employees (whether resulting from collective bargaining, interest arbitration pursuant to Act 111 or otherwise) must comport with the Initiatives set forth in the Amended Strong Plan, without regard to the period of agreement specified in any such Initiative. Once this Exit Plan is confirmed, any new labor agreement between the City and any union representing City employees must comport with the Initiatives as set out in this Exit Plan.

For any proposed changes to the Compensation Components in place at the expiration of the current collective bargaining agreement or any new Compensation Components proposed, the City shall conduct a full cost analysis of those changes for each year of the proposed collective bargaining agreement (or annually for non-represented employees) to determine and assure that the maximum allocations shown above are not exceeded. The City shall provide the full cost analysis information to the Act 47 Coordinator in form and content acceptable to the Coordinator as soon as possible for the Coordinators' review and approval. If the Act 47 Coordinator determines that the proposals exceed the maximum allocated amounts, the proposals shall be returned to the bargaining units or employees and the City for modification. The Act 47 Coordinator will not approve any cost analysis if the Coordinator determines that inadequate information is provided to verify the cost analysis or if the analysis is not provided in a timely manner. The intent of this provision is that the Act 47 Coordinator is the final decision maker as to the cost of any proposed change to a compensation component, whether those proposed changes occur during labor agreement negotiations or during arbitration of any such agreement or at any other time.

In providing this costing analysis the City shall include the following information for each Compensation Component for which there is a proposed change, or any new Compensation Component proposed:

- Current rate, formula, leave allocation structure, or other standards that are in place for that Component and the proposed changes to the Component.
- Number of employees in the bargaining unit who currently receive the Component, those who will become eligible for the Component during the term of the agreement under the status quo and those who would become eligible for the Component during the term of the agreement under the proposed change (*e.g.*, X employees receive shift differential in 2018, Y will receive shift differential in 2019 under the status quo, Z will receive shift differential in 2019 under the proposed change). This data should be provided on an annual basis for each year of the collective bargaining agreement where appropriate.
- Average salary of the employees who currently receive the Component and the average salary of the employees who would receive that Component under the proposal. This information shall be provided at the bargaining unit, position or whatever other level of detail is appropriate to the proposed change.
- The number of hours per shift and, if applicable, shifts per 24-hour period.
- Any applicable minimum staffing requirements or assumptions. If the proposed change affects overtime, the costing shall include an estimate on how the proposed change will impact overtime.
- Actuarial analysis, as applicable, of any modifications to retiree benefits.

The above list is provided to guide the City in providing adequate costing analysis and is not a comprehensive list of the information that the Act 47 Coordinators may request to verify costing analysis. All items may not apply depending on the change proposed. If the City does not provide additional information requested by the Coordinators, the Coordinators reserve the right to return the analysis for modification.

WF2. Retain Experienced Public Labor Relations Counsel to Negotiate with Unions and/or timely Initiate Process to Pursue Interest Arbitration

Throughout the period in which this Exit Plan is in effect (as well as during all periods prior to the confirmation of this Exit Plan), the City shall retain and continue to retain experienced public employment labor counsel to negotiate successor collective bargaining agreements to take effect following the expiration of the collective bargaining agreements. The City shall select and use qualified counsel as an active participant in the review and development of negotiations and as the chief spokesperson for all contract negotiations and interest arbitrations.

Having an experienced public employment labor counsel will allow the City to address past practices that unnecessarily increase the cost of operations and are permissive subjects of bargaining. After ascertaining such past practices, the City shall provide a list of such practices to the Act 47 coordinator prior to the initiation of collective bargaining negotiations with each union.

The City shall make every good faith effort to achieve negotiated labor agreements consistent with this Exit Plan (or, pending confirmation of this Exit Plan, the Amended Strong Plan). If negotiations do not result new agreements with one or more of the three unions, then counsel shall initiate the process to pursue interest arbitration in a timely manner with respect to the units where an agreement could not be reached.

WF3. Establish and Participate in Labor-Management Committee Meetings for Each Bargaining Unit

Experienced public labor relations counsel should also be engaged to facilitate developing a plan and schedule for joint labor-management committee meetings for each of the bargaining units. The purpose of such meetings would be to identify issues, problems and grievances within the respective unit and identify potential solutions that can be reached through collaboration. The committees could also be used to identify new services for the City to offer, improved methodologies for delivery of services, and creative cost-savings opportunities for the City to consider, such as the use of volunteers or non-City workers as may be appropriate. This practice of regular meetings between labor and management for each unit should improve morale and communication within the unit while also reducing the filing of formal grievances and arbitrations – the latter of which results in an overall cost savings for the City.

WF4. Monitor Pension Plan Funding and Take Steps to Avoid Underfunding Issues.

While the Pension Plans for IAFF and AFSCME employees are fully funded at present, the City should take steps to monitor its practices to ensure funding levels continue to be sufficient for projected retirees. Because the Pension Plan for the FOP is presently underfunded, the City should take steps to address this underfunding through regular monitoring, ensuring consistent and timely contributions are being made, and taking proactive steps to reduce the underfunding levels. In connection with this Initiative, and those set forth elsewhere in this revised Plan, collective bargaining agreements entered into with the City's unions must not provide any enhancements to or increase the level of pension benefits to future retirees.

WF5. Affordable Care Act Study.

The ongoing implementation of the Patient Protection and Affordable Care Act ("ACA") may likely create both challenges and opportunities for the City in the future. Beginning in 2022, the ACA is expected to impose a 40 percent excise tax on the value of health insurance benefits exceeding certain thresholds – often referred to as the "Cadillac tax." The current threshold estimates are $10,200 for individual premiums and $27,500 for family premiums, and both will be indexed to inflation. The thresholds will likely be higher for plans covering high-risk professions such as police and firefighters, and employers will not be able to pass the excise tax along to employees.

The creation of healthcare exchanges to provide greater access to coverage may provide opportunities to develop alternative, more affordable approaches for retiree healthcare for those Harrisburg employees still eligible during the years prior to Medicare coverage. For example, some employers are moving toward a stipend approach that better aligns with the Federal program.

Given the above and other potential impacts, it will be important for the City to actively study the projected impacts and potential opportunities created by the ACA, as it has already begun. This will likely require expert support and would also benefit from early and active labor-management communications and collaboration.

WF6. Establish the OPEB Trust Fund and Provide Subsequent Funding to The Extent Possible Through Funds Received as a Result of The Pursuit of The Forensic Claims, from the Harrisburg Supplemental Growth Fund with Respect to The Escrow Agreement Between the City, AGM And Dauphin County and to the Extent Funds are Available from The City's Budget.

The Strong Plan and Amended Strong Plan provided for the establishment of an OPEB Trust Fund after plan consummation. The City is currently working with counsel and other professionals to draft the documents necessary to establish the OPEB Trust. The City shall continue to proceed with those actions required to establish the OPEB Trust Fund and to see that the funds provided are transferred to the Trust Fund and invested pursuant to the Trust Fund's investment policy. The City is encouraged to annually contribute towards reducing its unfunded actuarial accrued liability for OPEB, in addition to any amounts that may be transferred to the OPEB Trust Fund from the Harrisburg Supplemental Growth Fund under provisions of the Escrow Agreement and/or pursuit of forensic claims.

Although prefunding the OPEB Trust will result in higher initial costs than if the City continues each year to only pay its current OPEB liabilities on a "pay-as-you-go" basis, the additional contributions will yield significant cash flow savings in later years, better secure funding of OPEB liabilities for current and future retirees and lower the burden that increased OPEB liabilities will have on future taxpayers.

WF7. Limit Enhancements to OPEB in Future Collective Bargaining Negotiations

In the negotiations with the City's three unions that took place after the City entered Act 47, all unions agreed that future employees (defined as those employees hired after the ratification of the respective collective bargaining agreement amendments) of each bargaining unit would not be entitled to post-retirement health care provided by the City. This freeze of post-employment benefits for future employees helps to curb costs and places the City in a more financially stable position moving forward, given that it limits uncertain future liabilities. Fortunately, all three units have continued to freeze the availability of post-employment benefits in each of their successor contracts entered in 2017 and 2018.

Therefore, unless the City is required by law to change any wages, benefits, terms, provisions, or conditions enumerated here in, all new collective bargaining agreements (which phrase shall include but not be limited to new agreements, extensions, amendments, side agreements, memoranda of understanding and settlements) between the City and the unions representing its employees (whether resulting from collective bargaining between the parties or interest arbitration pursuant to Act 111 as applicable or otherwise) covering calendar years 2018 through 2021 and subsequent years (or any portion thereof) **must not** contain, require or provide for (1) any new benefits for retirees or other inactive employees (*e.g.,* those in layoff or disability status), or (2) any improvements in existing benefits for retirees or other inactive employees, nor the continuation of existing benefits that were modified by the Strong Plan or the Amended Strong Plan.

CHAPTER SEVEN
CONCLUSION
ACHIEVING BALANCED GENERAL FUND BUDGETS 2018 – 2021

It was the Coordinator's finding in the Financial Condition Report that the City made noteworthy progress addressing the issues that lead to the City's financial distress determination. Since the determination that the City was financially distressed, the City has resolved its oppressive debt burden, ended the string of consecutive years with growing structural deficits and with the help of the extraordinary taxing authority provided by Act 47 in the Strong Plan, it has accumulated a cash reserve while also improving day-to-day financial and operational management. However, the City's tax base remains limited while the City continues to confront increasing costs related to its collective bargaining contracts, increasing costs for materials and supplies and the long-term burden of legacy cost obligations all of which hinders the City's ability to achieve long-term financial sustainability. In fact, the Coordinator's baseline General Fund projections illustrate that the City will incur annual General Fund operating budget deficits through 2021. Therefore, the Coordinator recommended that a three-year Exit plan be prepared for the City that will include a strategy designed to place the City in a position to terminate its Act 47 financial distress status at the end of the three-year Exit Plan and situate the City on a long-term path of financial sustainability.

As mentioned in the Baseline General Fund Projection chapter, the City will receive more than $12.0 million in 2018 from the extraordinary taxing authority provided under Act 47. However, at the end of this three-year Exit Plan — in the absence of a legislative change or a change to Home Rule form of government — the City will no longer have at its disposal this extraordinary taxing authority. The City will be required to revert to the tax rate limits contained in the Local Tax Enabling Act for its earned income tax and the local service tax. Thus, the City will need to replace the revenue produced pursuant to Act 47, to reduce its level of expenditures for both operating and non-operating budget items, or do some of each.

At the time of composing this Exit Plan, the most viable and stable revenue source available to the City to replace the extraordinary tax revenue provided by Act 47 is the City real estate tax millage as authorized under the Third-Class City Code. To replace the more than $13.0 million tax revenue under Act 47 in 2021 *solely* with increased real estate tax millage, the Coordinator estimates that —absent any future legislative revenue authorizations, an adoption of a Home Rule

Charter form of City government, reduction in long term debt, or a significant reduction in the municipal services provided to its citizens — the City would have to increase its real estate tax millage significantly.

However, as listed elsewhere in this Exit Plan, the City has the options available to reduce its future reliance on property tax revenue. These options include:

1. If the State Legislature expands the City's power to enable it to retain the extraordinary LST or the extraordinary EIT, or both after the distress status is terminated;
2. Initiate the process to allow the City's voters to approve a Government Study Commission (Home Rule) and the City enacts a Home Rule Charter,
3. Negotiate debt restructuring and a reduction in long term debt obligations,
4. Prudent application of fund balance.

The Coordinator recognizes that the foregoing options will require time for the City's elected leadership to accomplish within the Exit Plan's statutory time period under Act 47. Therefore, the Coordinator has developed the following four year operating budget strategy to allow the City time to actively pursue the above options while maintaining its extraordinary tax revenue. If the City achieves any of the foregoing options or any other initiative that may materially impact the financial projections contained in this Exit Plan, the Coordinator, in cooperation with the City, will amend the proposed budget strategy to reflect those changes. Likewise, if it becomes evident at any time during the City's 2018, 2019 or 2020 fiscal year that the City's efforts to implement any of the foregoing options is unsuccessful, then the Coordinator, in cooperation with the City, shall promptly review the operating budget strategy contained in this Exit Plan and make any necessary amendments to the operating budget strategy to ensure the City's termination of distressed status in 2021.

<u>For Fiscal Years 2019 and 2020.</u> Maintain the Act 47 EIT and LST rate levy taxes at the same level as in 2018. The City may use available fund balance and/or expenditure reductions to eliminate any budget deficit that remains.

<u>For Fiscal Year 2021.</u> Absent the City's accomplishment of any options or initiatives in this Exit Plan, the City will reduce the Earned Income tax rate to 1.5 percent (subject to sharing with the

School District) and effect expenditure reductions and revenue increases necessary to offset the loss of EIT revenue. The City may use a portion of the available fund balance and/or expenditure reductions to reduce any budget deficit that remains.

For Fiscal Year 2022. Absent the City's accomplishment of sufficient revenue increases, expense reductions or a combination of the two, the City will further reduce the Earned Income tax rate to 1.0 percent (subject to sharing with the School District) and reduce the Local Services Tax rate to $52 (subject to the $5 sharing with the School District). For the fiscal year 2021 the City will effect expenditure reductions and revenue increases necessary to offset the loss of EIT and LST revenue. The City may use a portion of available fund balance (but remaining at or above the minimum fund balance level specified in this Exit Plan) and/or expenditure reductions to reduce any necessary real estate tax increase required to eliminate any budget deficit that remains.

General Fund Balanced Operating Budget Strategy
2018-2022

	Estimated 2018	**Projected 2019**	**Projected 2020**	**Projected 2021**	**Projected 2022**
Revenues	66,178,746	66,222,684	66,790,702	67,174,799	67,571,355
Expenditures	71,370,483	69,002,883	68,884,855	70,427,924	71,607,857
Surplus/(Deficit)	-5,191,737	-2,780,199	-2,094,154	-3,253,125	-4,036,503
Spending Reduction	2,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Act 47 EIT	0	0	0	-4,076,650	-8,234,834
Act 47 LST	0	0	0	0	-5,247,480
Tax increase	0	0	0	0	9,834,258
Net Surplus/(Deficit)	-3,191,737	-1,780,199	-1,094,154	-6,329,775	-6,684,557

	Estimated 2018	**Projected 2019**	**Projected 2020**	**Projected 2021**	**Projected 2022**
Cash Balance	20,980,423	17,788,686	16,008,486	14,914,333	8,584,557
Surplus/(Deficit)	-3,191,737	-1,780,199	-1,094,154	-6,329,775	-6,684,557
Net Balance	17,788,686	16,008,486	14,914,333	8,584,557	1,900,000

The City's deployment of this operating budget strategy will eliminate the projected General Fund operating budget deficits and will position the City to terminate its distressed status in 2021.

DE1. Use of Fund Balance

The City ended 2017 with $20.9 million in cash in the General Fund and current estimates show the City will end 2018 with over $17 million in cash in the General Fund. As the City weans itself off the extraordinary tax revenue afforded by Act 47, the City may use a portion of its General Fund cash balance to cover expenditures and to allow for the necessary time to pursue the options for revenue authorizations, debt reduction, or Home Rule form of government and to temper the necessary real estate tax increases during the next three fiscal years. The City should also use a portion of the General Fund balance to reduce its debt obligations in accordance with initiatives presented elsewhere in this Exit Plan; provided that in doing so it achieves sufficient expense reductions that further facilitate long-term fiscal stability. However, regardless of the purpose of General Fund balance utilization, it is the Coordinator's recommendation the General Fund balance at year end shall be maintained at 8 percent of its annual expenditures and in no event less than an amount equal to two payrolls throughout the period of this Exit Plan.

DE2. Reduce General Fund Expenses by 1.50 % to 1.75% for 2019-2020 operating budgets.

The City shall consider the implementation of the expenditure reduction initiatives outlined elsewhere in this Exit Plan. Continuous monitoring and evaluation of workforce, departmental and capital expenditures is imperative to temper the necessary real estate tax increases.

DE3. Consider Forming a Government Study Commission to Study the City's Current Form of Government.

The City is currently governed under the Third-Class City Code and Optional Third-Class City Charter Law and is therefore subject to limits on the rate of taxation on property included in the City Code. The City is also subject to other tax rate limits imposed on earned income, realty transfer, and other taxes levied pursuant to the Local Tax Enabling Act. Under Act 47, the City was enabled to exceed the LTEA tax rate limits on earned income and the local services tax. However, this legal authority to exceed these tax rate limits is only available to the City while it is in the Act 47 program. When the City's financially distressed status is rescinded the City will be forced to revert to the tax rate limitations of the Third-Class City Code and the Local Tax Enabling Act. This will most likely result in the City having trouble in generating the revenue to provide for the provision of essential services of public safety and health over the long term.

A legal alternative to avoid the possibility of reverting to these tax rate limitations would be for the City's residents to adopt a home rule charter pursuant to the Home Rule Charter and Optional Plans Law, Act 62 of 1972, as amended. Under a home rule charter form of government, the City's residents can design a form of government that provides for local control and local governance outside of the City Code. Becoming a home rule charter municipality would allow City Council to determine the City's tax rates on real estate, realty transfers and the earned income of residents without statutory limitations. However, this process begins with the formation of government study commission elected by the City's electorate. Thus, the Coordinator is recommending that City Council, in consultation with the Mayor and Coordinator, shall consider adopting an ordinance initiating the Home Rule Study process.

DE4. Legislative Authorization

The City shall continue discussions with its Legislative delegation and with the Pennsylvania Municipal League to extend the authorization of increased rates of taxes for the earned income and local services taxes beyond the municipality's tenure in Act 47. It is recognized that special legislation will be required to enact this change. The City should continue to pursue through its lobbyist, legislative changes related to its taxing ability.

APPENDIX

A. FINANCIAL CONDITION REPORT

B. IMPACT HARRISBURG REPORT AND UPDATE

APPENDIX A

Municipalities Financial Recovery Act

Financial Condition Report

City of Harrisburg
Dauphin County, Pennsylvania

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 2nd 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-today 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

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

[1/] 2013 Includes results of Strong Plan monetizaton of Incinerator and Parking assets.

2017 Financial Review

The City reported ending the 2017 fiscal year with an operating surplus of \$2,939,571.[5] 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

			Variance	
Revenues	**2017 Actual**	**2017 Budget**	**$**	**%**
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	18,427,206	16,194,013	2,233,193	13.8
Total Revenues	**66,299,496**	**61,426,981**	**4,872,514**	**7.9**
Expenditures				
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	20,052,945	16,414,843	3,638,102	22.2
Total Non Personnel	27,927,570	26,718,046	1,209,524	4.5
Total Expenditures	**63,359,925**	**65,711,842**	**-2,351,918**	**-3.6**
Surplus/(Deficit)	**2,939,571**	**-4,284,861**		

[5] 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

Revenues	2018 Budget	Expenditures	2018 Budget
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	9,866,020
Parking Taxes	3,399,550		
Other Taxes	5,352,500		
Non-Tax Revenue	15,479,922		
Parking Revenue	3,000,391		
Transfers	1,481,063		
Total Revenues	**$63,597,544**	**Total Expenditures**	**$72,810,195**

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

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

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 [1/]
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	11,338,871	11,275,518	11,045,746
Total Legacy Costs	**$19,142,331**	**$19,901,414**	**$20,062,262**
Total General Fund Expenditures	**$59,894,963**	**$58,602,672**	**$61,977,753**
% of Total Expenditures	**32.0%**	**34.0%**	**32.4%**

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

Debt Description	2018	2019	2020	Total 2021 thru 2027	Total 2018 thru 2027
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
Totals	**8,095,370**	**8,065,416**	**8,301,819**	**51,601,854**	**76,064,460**

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.

Employees Covered	Primary Retirement Plan	Plan Name	Funding Status as of 12/31/2016
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
Earned Income Tax				
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
Act 47 Tax Revenue	**7,460,000**	**7,534,600**	**7,609,946**	**7,686,045**
Local Services Tax				
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
Act 47 Tax Revenue	**3,749,251**	**3,749,251**	**3,779,497**	**3,809,895**
Total Act 47 Tax Revenue	**11,209,251**	**11,283,851**	**11,389,443**	**11,495,940**

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.

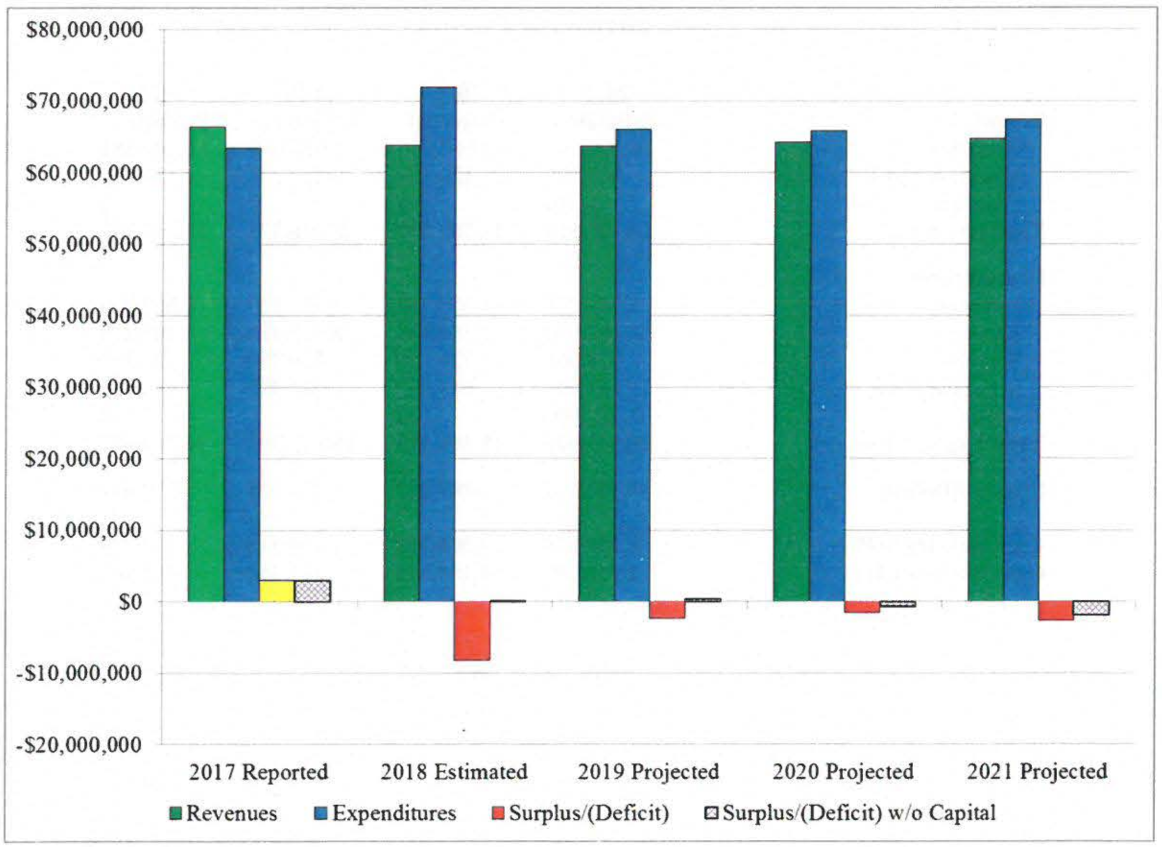
Financial Baseline

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

	Estimated 2018	Projected 2019	Projected 2020	Projected 2021
Revenue	63,712,329	63,652,182	64,211,174	64,595,510
Expenditures	71,880,049	66,041,652	65,737,507	67,304,043
Surplus/(Deficit)	**-8,167,720**	**-2,389,470**	**-1,526,333**	**-2,708,533**
Capital Improvement Program	7,065,800	2,518,236	829,579	837,170
Other One - Time Expenditures	1,223,000	225,000	0	0
Surplus/(Deficit) without Capital Improvements	**121,080**	**353,766**	**-696,755**	**-1,871,363**
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
Cash Balance	**12,812,703**	**10,423,234**	**8,896,900**	**6,188,367**

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 Estimated	2019 Projected	2020 Projected	2021 Projected
Revenue				
Operations	14,390,500	14,669,500	14,954,080	15,244,352
Miscellaneous	308,300	120,199	122,293	124,429
Transfers	1,710	0	0	0
Total Revenue	**14,700,510**	**14,789,699**	**15,076,373**	**15,368,781**
Expenditures				
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	3,682,000	0	0	0
Total Expenditures	**19,043,620**	**15,598,218**	**15,865,393**	**16,140,472**
Surplus/(Deficit)	**-4,343,111**	**-807,482**	**-787,962**	**-770,612**
Cash Balance BOY	**6,309,909**	**1,966,799**	**1,159,316**	**371,354**
Cash Balance EOY	**1,966,799**	**1,159,316**	**371,354**	**-399,258**

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.

APPENDIX B

Impact Harrisburg

The second quarter of 2018 Impact Harrisburg Board continued to move forward with Infrastructure and Economic Development project grants that the Board has awarded. The Board is responsible for the administration of the $12.3 million set aside as part of the parking transaction to fund both economic development and infrastructure initiatives to aid the City in strengthening its tax base and addressing critical infrastructure needs, thus enhancing the quality of life for City residents.

The nine-member, Impact Harrisburg Board, was appointed by the Coordinator in January 2015 following the receipt of recommendations from the Mayor, City Council, and Dauphin County. The Board historically has been meeting bi-weekly (beginning January 1, 2018 weekly) to address organizational activities and has made considerable progress to date. Officers include Neil Grover as Chair, Doug Hill as Vice Chair, Brian Hudson as Secretary and Brittany Brock as Treasurer. Sheila Dow-Ford serves as Executive Director. The Board had engaged Vance Antonacci of McNees Wallace & Nurick LLC as counsel to assist with its incorporation with the Department of State and establishment as a 501(c)(3) non-profit organization with the Internal Revenue Service. Articles of Incorporation were filed with the Department of State and approved on March 17. The 501(c)(3) application was also filed with the IRS in March and approved by the IRS on June 18, 2015.

From the period beginning January 2016 and through June 30, 2018 several significant activities occurred to advance the work of Impact Harrisburg. In early 2016 the organization retained both an accounting and an auditing firm, established a website presence and hired a web master. In addition, the organization entered into a lease arrangement with the Harrisburg Area Community College to rent office space at the HACC midtown campus, thus establishing a central and convenient location within the city.

As Coordinator, my office continues to provide administrative support to the Board of Directors and Sheila Dow-Ford, its Executive Director. I attend Board meetings along with my staff and I offer input, as appropriate. I continue to meet with Ms. Dow-Ford to provide guidance and historic perspective on the role of the Board. I have provided input on contracting, contract compliance issues, disbursements, and related matters. My Administrative Assistant continues to provide administrative support to the Board including the recording and preparation of the Board's meeting minutes. The Board's minutes are posted on the Department's website.

The Board has established the Pennsylvania Housing Finance Agency (PHFA) as its permanent meeting location. The organization has adopted a conflicts of interest policy, a records retention policy, an expense allocation policy; and a policy on Impact Harrisburg grant/reimbursement drawdowns. In 2017, the organization also underwent its first audit for the fiscal period ending in June 30, 2016; the organization received a "clean" report. The second annual Impact Harrisburg audit for the period ending June 30, 2017 has also been finalized this month.

Within the operational realm, working as a team, the Board of Directors and the Executive Director had finalized requirements for the three programs to be established and administered: 1) Economic Development; 2) Community Building, and 3: Infrastructure Contingency. Under the established criteria only two entities, the City of Harrisburg and Capital Region Water are eligible for participation in the Infrastructure Contingency program.

Thereafter, over approximately a one-month period the Executive Director convened and attended several formal and informal education sessions at which the Impact Harrisburg grant programs and application process were introduced and discussed with a broad diversity of community participants. In addition, print and television media were used to bring publicity to the grant program.

On July 15, 2016 twenty-five applications were filed seeking Impact Harrisburg funding. Over the course of several days, the board met as a committee of the whole to review the applications in detail, and thereafter determined that 14 projects met the established funding criteria. As of June 30, 2018, the total amount of the grant awards allotted by Impact Harrisburg to various grantees stands at $9,962,010.50. This amount represents a subsequent increase in the grant amount provided to one grantee, based upon a request for an amendment to the original grant agreement to accommodate an increase in the project scope due to unforeseen structural issues requiring remediation and other contingencies.

Projects Funded/Grant Amount/Project Status as of June 30, 2018:

Completed Projects:

1. City of Harrisburg Microsoft Office 365 ($250,000 grant)
2. TLC Construction and Renovations ($500,000 grant)
3. Webpage FX ($500,000 grant)
4. Paxton Street Home Benevolent Society ($100,000 grant)
5. Harrisburg River Rescue ($81,369 grant)

Outstanding Projects:

1. Capital Region Water/City of Harrisburg Multi-Modal Collaborative Facility ($5,487,290.50 grant)
2. East Shore YMCA ($138,592 grant)
3. Gamut Theatre ($250,000 grant)
4. Tri-County Community Action Commission ($204,759 grant)
5. Tri-County Housing Development Corporation ($350,000 grant)
6. City of Harrisburg Playground Resurfacing ($250,000 grant)
7. Harrisburg Redevelopment Authority ($500,000 grant)
8. YMCA Camp Curtin ($500,000 grant)
9. *Community First Fund ($350,000 grant) (This project is discussed in greater detail within this document.)

A uniform grant agreement was developed and has been entered into by all grantees with the exception of Community First Fund, with which Impact Harrisburg established a stand-alone agreement because of the unique nature of the purposes of the grant.

In addition, to ensure close adherence with all grant program requirements and any applicable state, local or federal laws, during fiscal-year 2017, the board developed a Request for Proposal under which the organization retained the services of two compliance professionals with extensive expertise in the grants management area. The two individuals work in close coordination with the Executive Director to provide oversight and technical assistance to grantees, as is necessary and appropriate. The team and Executive Director developed various program templates and processes for working with grantees in a uniform and consistent manner. To date, the compliance consulting team attends many board meetings and provides consistent updates on all projects through a shared drive electronic medium (accessible by grantees and board members) as well as via written reports. After serving in this capacity for one year the board deemed it prudent to extend the compliance contract for an additional six months, given the high quality and value of the work performed by the compliance consultants and the remaining number of grantees with future project start dates.

<u>The Harrisburg Business Opportunity Fund</u>

In March 2018 Impact Harrisburg announced the start of the Harrisburg Business Opportunity Fund (HBOF), a one million-dollar ($1,000,000) loan fund established to bring low interest funding opportunities to new and existing businesses within the City that traditionally have been excluded from more traditional lending outlets. The initial one-million-dollar capitalization for the HBOF was provided by a three hundred fifty thousand-dollar ($350,000) grant from Impact Harrisburg, and a six hundred fifty-thousand-dollar grant ($650,000) grant from the Commonwealth Cornerstone Group (CCG), a wholly-owned subsidiary of the Pennsylvania Housing Finance Agency (PHFA). The HBOF grant fund is administered by the Community First Fund (CFF), a Lancaster City-based community development financial institution, which has established an office in Harrisburg and dedicated support staff to build diversity in economic development opportunity within the region. Under the agreement between and among the parties, CFF will report on HBOF activity on a quarterly basis.

Impact Harrisburg has invited the City of Harrisburg to become an HBOF partner both through a contribution to the fund and through the active development of programs to bring greater financial education and opportunities to actual and potential borrowers in a manner that is consistent with the goals articulated under the Act 47 Harrisburg Strong Plan. As of June 2018, the City has declined to join as a financial partner to this initiative. Impact Harrisburg has partnered with the City and other local financial services entities including CREDC, the lending arm of the Capitol Region Chamber of Commerce; the Kutztown Small Business Development Center, M&T Bank, and the Harrisburg Young Professionals to establish a consortium that will bring expertise to building a more cohesive and diverse business community and to enhancing entrepreneurship within Harrisburg.

As of June 2018, the Impact Harrisburg Board continues to meet monthly and in accordance with its Bylaws, elected its board leaders at the Annual Meeting. Further, the Finance Committee meets on a regular basis, between meetings of the board, and all members are invited to attend and participate.

At the June 2018 meeting of the Board the organization's investment advisers, Wilmington Trust, provided an update on the organization's financial standing and reviewed with the Board the feasibility of continuing with the fund allocation policies previously established. The professional recommendation was to continue to adhere to the policy as established, with a continuation of regular reviews and updates, as required.

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