



The Intergovernmental Cooperation Authority
for Harrisburg
922 N 3rd Street
Harrisburg, PA 17102

December 12, 2022

The Honorable Wanda R.D. Williams
Mayor, City of Harrisburg
Dr. Martin Luther King, Jr., Government Center
10 N. Second Street
Harrisburg, PA 17101

Re: FY23 City of Harrisburg Budget

Dear Mayor Williams:

Pursuant to the Intergovernmental Cooperation Authorities Act for Cities of the Third Class (Act 124 of 2018), the Intergovernmental Cooperation Authority for Harrisburg (the “Authority”) is tasked to review and make recommendations concerning the budgetary and fiscal affairs of the City of Harrisburg.

The Authority received and reviewed the proposed 2023 budget and additional information provided by the City for conformance with the criteria set forth in Act 124. Additionally we have observed the City Council’s budget hearings and workshops. Three broad observations follow:

- The proposed 2023 budget includes significant differences from the City’s Five-Year Financial Plan, as approved by the Authority on September 28, 2022. Please note that pursuant to Act 124, after the budget is adopted, the City should submit the enacted budget to the Authority as a proposed revision to the Plan.
- The proposed 2023 budget funds several important initiatives which the Authority applauds and which are a credit to your Administration:
 - The final payoff of the Ambac forbearance liability;
 - Utilization of American Rescue Plan Act (ARPA) funding; and
 - A recent award of supplemental CARES Act funding for capital projects.
- The proposed 2023 budget includes a fund balance transfer for both the General Fund and for the Neighborhood Services Fund. The financial viability of the Neighborhood Services fund remains a major concern for the Authority.

The following is a general outline of the proposed budget as compared to the City’s current Five-Year Financial Plan:

<u>General Fund</u>	<u>Proposed 2023 Budget</u>	<u>Adopted Five-Year Plan (2023)</u>
Revenues	\$75,098,203	\$67,215,042
Expenditures	\$74,920,418	\$56,958,437
Use of ARPA Money	\$15,623,000	\$15,623,000
Fund Balance Appropriation	\$ 5,888,906	None
Capital Expenditures	\$ 3,439,936	\$1,961,902
 <u>Neighborhood Services Fund</u>		
Revenues	\$20,255,483	\$17,027,040
Expenditures	\$19,015,758	\$17,132,964
Fund Balance Appropriation	\$ 1,677,258	\$ 105,924
Capital Expenditures	\$ 1,469,251	\$ 746,000
 <u>Capital Projects Fund</u>		
Revenues	\$ 5,496,040	\$18,278,070
Expenditures	\$ 5,416,214	\$ 6,858,939
Fund Balance Appropriation	None	\$11,419,131
Capital Expenditures	\$ 5,416,214	\$ 6,858,939

We have had the opportunity to review the proposed budget with you and members of your Administration. With regard to the General Fund budget, we offer the following comments and observations:

- Actual revenues for 2022 have outpaced the projections in the Five-Year Plan. This is largely due to robust Earned Income Tax receipts (Resident and Non-Resident), improved Local Services Tax, Mercantile Tax, and Parking Revenue. Your Administration has worked hard to avoid overestimating revenues in the past, and continues to monitor closely receipts and conditions affecting the City’s revenue sources.
- Proposed expenditures for 2023 show significant increases due in part to the operational impacts of inflation and supply-chain constraints, including higher expenses for utilities, fuel, supplies, and other costs.
- Additional significant expenditures are not reflected in the Five-Year Plan for 2023. These costs are to be covered by a one-time general fund balance transfer. The City has incurred a significant, unanticipated cost which is associated with the Harrisburg Incinerator litigation;

it is further noted the City intends to petition the Court to recover this cost. The proposed budget also includes final payoff to Ambac, an important initiative which was included in the Five-Year Plan for 2022, and is now to be completed in 2023.

The Neighborhood Services Fund remains an area of concern for the Authority. With regard to the 2023 budget, we offer the following comments and observations:

- Actual revenues have exceeded the projections in the Five-Year Plan. The City has improved both regular and delinquent trash bill collections. The City anticipates the same success in 2023. The significance of this uptick after years of languishing is well noted, and the Authority wishes to applaud you and your Administration for your efforts which are quickly bearing fruit.
- Projected expenses significantly exceed those of the Five-Year Plan as the City contends with the expense of replacing major equipment as well as inflation, particularly in fuel costs.
- The Authority is very concerned by the continued reliance on fund balance for the Neighborhood Services Fund. We look forward to working with you and your Administration early in 2023 on solutions to stabilizing this major fund.

The Capital Projects Fund budget differs significantly from the FY23 figures in the Five-Year Financial Plan. We offer the following comments and observations:

- Revenue differences from the Five-Year Plan are largely explained by the timing of grants. The City applied for and anticipated award of Federal Transportation Grants and PennDOT Transportation Grants in 2023, but actually received them in 2022. In addition, a DEP Grant to replace a recycling truck was received in 2022, rather than 2023.
- The City is planning significant capital expenses for ADA upgrades and emergency vehicle purchases.

The anticipated ARPA funds to be disbursed equal the funds explained within the Five-Year Plan document.

As we move forward into 2023 and in summary:

- The Authority remains worried about the City's use of fund balance in both the General Fund and the Neighborhood Services fund. We acknowledge that the City supports and maintains a Fund Balance Policy and continue to urge the City to continue to take steps to maintain a structurally balanced budget across all funds at all times.
- We find that the significantly increased expenditures proposed for FY23 warrant further review especially as we move into future year projections. To that end, the Authority Board is requesting that the Administration submit, at a minimum, a supplemental update to the City's Five-Year Financial Plan, or in fact a revised annual submission, on or before the agreed-upon deadline of April 30, 2023. The Authority Board is happy to continue conversations as to amending the official annual date for final submission of an updated and revised Five-Year Financial Plan.

- As we have communicated in the past, the Authority applauds the City's efforts to pay off its Ambac debt as soon as possible. Please keep the Authority informed of all payments made in 2022 and plans for payments in 2023 as soon as they are contemplated.
- In your budget narrative, there is significant weight given to the importance of performance measurements. We believe implementing an effective system of performance measurement will enhance the efficient management and fiscal performance of the City.
- As previously stated, the Authority is interested in your approach to a comprehensive Community and Economic Development Plan, which we understand, is nearly complete. We look forward to reviewing it with members of your administration as soon as possible.

As a whole, the City's proposed 2023 budget meets the Authority's expectations for the proper financial management of the City of Harrisburg. We congratulate you and your Finance Department team on your efforts to build a foundation of stability for the City's financial future.

We look forward to working with you as we move forward in collaboration for the benefit of the citizens of Harrisburg.

Sincerely,



Audry Carter
Chair

cc: Authority Members
Honorable Danielle Bowers
Honorable Ausha Green
Honorable Charles DeBrunner
Honorable Dan Miller