


City of Harrisburg
Summary of Financial History

Presentation to
Intergovernmental Cooperation Authority

March 26, 2019

City of Harrisburg
100 Market Street
Harrisburg, PA 17101

CITY OF HARRISBURG, PENNSYLVANIA




Outline

- History of Fiscal Distress
- Corrective Actions/Accomplishments
- General Fund History
 - Five-Year Operating History
 - Key Revenues and Expenses
- Debt Profile
- Pension and Other Post-Employment Liabilities
- Local Government Benchmarks
- Summary Description of Major Funds
- Budget and Appropriations Process
- Statement of Net Position (Balance Sheet)

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History of Fiscal Distress

- *City's current financial conundrum is old – past is prologue*
- Challenges similar in many 3rd class cities
 - Hollowed out manufacturing base post WWII
 - Declining population via 'suburban flight' decade over decade
 - Population half of what it was in the 1950s
- Structural budget deficit
 - Macro economic environment and Act 511 caps lead to stagnant revenues
 - Limited ability to raise property taxes (low median income of remaining population, high school district/county taxes, 60% tax exempt property)
 - Rising operating costs (normal inflation; esp. public safety, health care, pension)
 - Legacy costs of built infrastructure (deferred maintenance)
- Resource Recovery Facility ('incinerator')
 - Debt issued to build in early 70s
 - Never profitable
 - Ref'd numerous times in subsequent decades
 - New debt issued by The Harrisburg Authority (THA) and guaranteed by the city to finance EPA required pollution control upgrades in 2003
 - By 2009, upgrade not completed, contractor had declared bankruptcy, debt on facility over \$300m

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History of Fiscal Distress

Structural deficit, extremely high debt levels, and lack of managerial capacity issues, exacerbated by the global economic crisis, came to a head in 2009

- No City audits completed for FYs 2009-2011 until 2012
 - 'Going concern' audit opinion issued in 2009 audit
- THA defaulted on its debt, leaving an overwhelming burden on the City as it simply did not have the capacity to take on the THA debt service payments
- Entered Commonwealth's Distressed Municipalities Program (Act 47) in 2010
 - PA legislature prohibits Harrisburg from filing for Chapter 9 bankruptcy protection
 - Act 47 plan rejected by city council
- Fiscal Emergency Declared in 2011 (Receivership)
 - Receiver directs city to default of outstanding GO Debt (2012)
 - Chapter 9 pros/cons debated
- Strong Plan created and approved in 2013, designed as a workout/restructuring outside of the federal bankruptcy code

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Corrective Actions

- *Main components of Strong Plan*
- Parking system monetization via new debt issuance by state secured by long term lease revenues ('Asset Transfer Agreement')
 - Commonwealth - owner
 - Standard Parking - operator
 - Trimont Capital - asset manager
 - Rates/covenants
 - Revenue waterfalls
 - Debt Service A
 - Debt Service B
 - Op-Ex
 - Debt Service C
 - Ground lease
 - City Payment
 - Others
 - Defeasance of old debt/working capital for City/silos for infrastructure spend by 3rd party NP (IMPACT HBG)
- Incinerator sale
 - LCSWMA
 - Guaranteed electric purchase
 - Put or pay (one of highest disposal rates in country)

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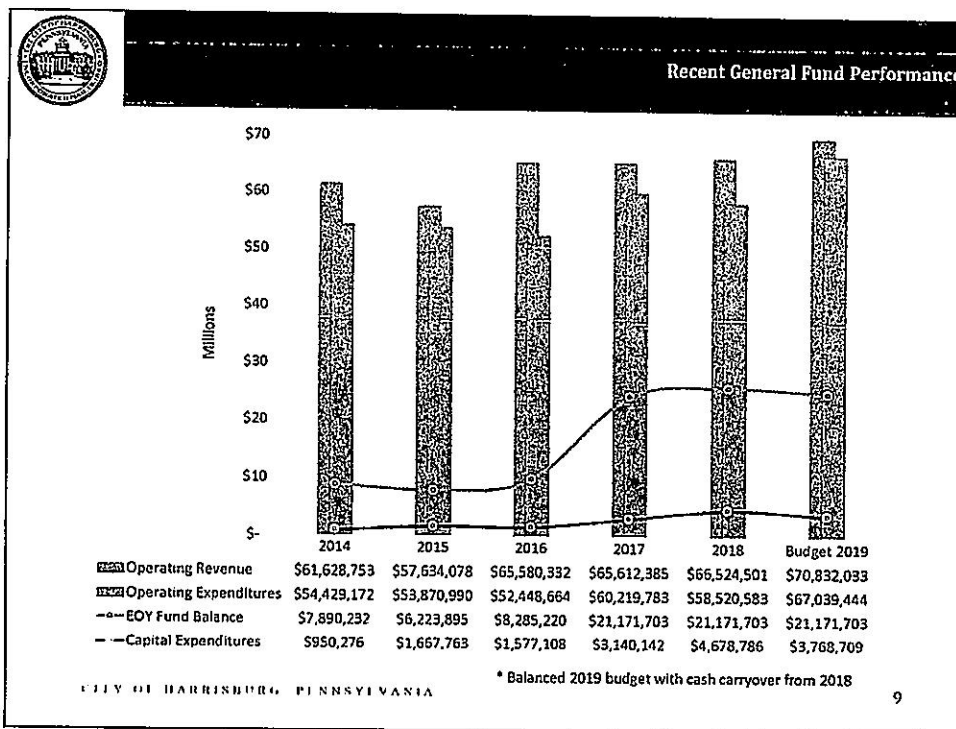


Corrective Actions

- Water and wastewater transfer to Capital Water Region (formerly The Harrisburg Authority)
 - Employees
 - Assets (& deferred maintenance/EPA consent decree liabilities)
 - Separation of consolidated sanitation, water, sewer billing
 - Shared Service Agreement
- Renegotiations w/ creditors
 - AMBAC (bond insurer)
 - Stretch repayment of GO debt via 'forbearance liability'
 - AGM/Dauphin County
 - Backend payments via parking monetization
 - Suburban municipalities
 - 5 year repayment plan
 - Others
- Reopened Collective Bargaining Agreement to secure operating savings
 - FOP - salary/longevity/OPEB/pension
 - IAFF - salary/copays/OPEB
 - AFSCME - salary/copays/OPEB
- Taxes
 - EIT (earned income tax) - 0.5% -> 2.0% (City and school district split initial 0.5%)
 - LST (local services tax) - \$47 -> \$156 (School district takes \$5 of initial \$52)

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Revenue Summary

	2014	2015	2016	2017	2018	Operating 2019 Budget ¹	Pct of Rev.
Real Estate Taxes	17,715,941	16,836,934	17,370,946	17,564,669	17,659,922	17,227,295	27%
EIT - Act 511	3,528,129	3,659,413	3,989,047	4,044,820	4,163,356	4,040,504	6%
EIT - Act 124 (est)	6,552,240	6,796,053	7,408,230	7,511,809	7,731,946	7,503,793	12%
LST - Act 511	1,995,814	2,219,721	2,231,687	2,326,616	2,354,177	2,236,977	3%
LST - Act 124 (est)			4,144,562	4,320,858	4,372,042	4,154,386	6%
Parking Taxes	3,020,628	3,366,629	3,827,545	3,979,598	3,961,779	3,962,000	6%
Mercantile Business Taxes	3,450,137	3,237,127	3,584,692	3,704,801	3,756,958	3,469,050	5%
Public Safety Allocation	96,034	46,708	50,343	51,423	5,040,000	5,054,832	8%
State Pension Aid	2,438,398	2,158,604	2,545,914	2,639,729	2,894,903	2,885,583	4%
Ground Lease	1,100,000	454,458	1,229,501	1,074,346	1,460,125	1,275,201	2%
Other	21,827,465	18,905,137	19,248,269	18,445,139	18,169,293	17,294,508	27%
Total	61,628,753	57,634,078	65,580,332	65,612,385	66,524,501	64,049,298	

- 31 of 153 revenue sources account for 95% of City's recurring revenue
- 2% average annual revenue growth and flat revenues since 2016 after accounting for fund balance transfers
- "Act 124" Earned Income and Local Services Tax revenue account for 18% (\$11.6 million) of the budget
- 4% average annual EIT growth since 2014
- Flat RE tax revenue growth since '14; reassessments and LERTA countering positive residential investment


CITY OF HARRISBURG, PENNSYLVANIA ¹ Does not include \$6.8 million cash carryover from 2018 10

Key Revenues							
Real Estate Taxes	<ul style="list-style-type: none"> \$17.5M in annual revenue (27% of revenues) Split rate tax – Assessed value of land and value of improvements (structures) Multiple components <table border="0" style="margin-left: 20px;"> <tr> <td>Land</td> <td style="text-align: right;">30.970 mills</td> </tr> <tr> <td>Improvement</td> <td style="text-align: right;">5.160 mills</td> </tr> <tr> <td>Blended Rate</td> <td style="text-align: right;">10.955 mills</td> </tr> </table> Current property tax collection rate 91% (98% within 3 years) Modest growth in market values in recent years Total combined land and value components almost 50% tax-exempt (60% is state property) 	Land	30.970 mills	Improvement	5.160 mills	Blended Rate	10.955 mills
Land	30.970 mills						
Improvement	5.160 mills						
Blended Rate	10.955 mills						
Earned Income Taxes	<ul style="list-style-type: none"> \$11.5M annually (18% of revenues) Resident and non-resident portions Resident EIT capped at 1% - split between city and school district Non-resident rate = 1% Act 47 allowed for an additional 1% on city residents, bringing total to 2% Act 124 allows the city to impose the additional 1% through 2024 Act 124 increment equals about \$7.5M 						

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Key Revenues	
Local Services Taxes	<ul style="list-style-type: none"> \$6.3M annually (9% of revenues) Limited to \$52 annually on most workers in the city Act 124 allows an increase to \$156/year through 2024 Act 124 increment equals about \$4.2M
Parking Taxes	<ul style="list-style-type: none"> \$3.9M annually (5.5% of revenues) 20% tax imposed on all revenues generated from off-street parking (lots and garages, not meters)
Mercantile Business Taxes	<ul style="list-style-type: none"> \$3.4M annually (5% of revenues) Gross receipts tax 2% average annual growth since 2014
Public Safety Allocation	<ul style="list-style-type: none"> \$5 million annual payment from the Commonwealth for fire service Not guaranteed and may be discontinued at any time
State Pension Aid	<ul style="list-style-type: none"> Commonwealth support for pension Funding level determined by headcount and function of workforce size, pension costs, and how much state takes in as foreign insurance tax revenue
Ground Lease/City Priority Payments	<ul style="list-style-type: none"> \$3.5million budgeted for 2019; reduced to \$2.3m in 2020 Fixed as determined by asset transfer agreement

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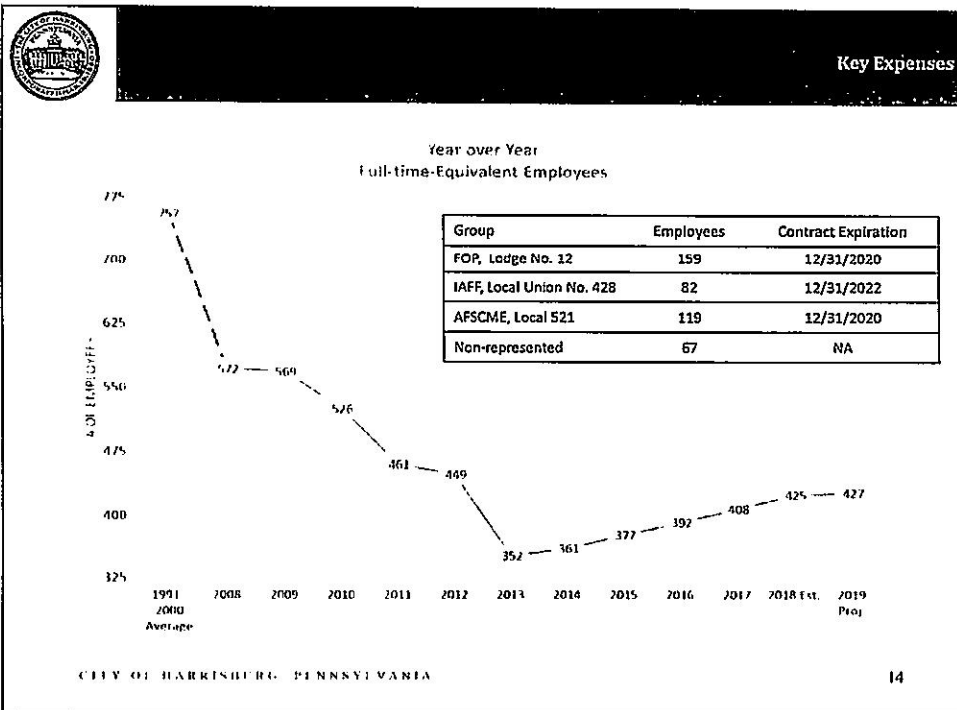
Expense Summary


	2014	2015	2016	2017	2018	2019 Budget	Pct of Budget
Salaries and Wages	20,419,515	21,020,828	19,754,262	21,329,601	22,245,780	24,702,637	37%
Overtime/Other Premium	2,499,035	1,841,355	1,800,586	1,902,594	1,765,431	1,668,216	2%
Medical (City is self-insured)	10,003,924	9,874,522	9,042,604	10,034,106	9,157,579	11,125,000	17%
Other (separation pay, loss time medical, uniform, etc)	2,162,690	1,276,614	1,559,209	1,726,564	1,570,868	2,174,678	3%
Pension	2,428,193	3,330,450	3,187,173	3,646,264	3,935,858	4,210,537	6%
Debt Service	8,779,391	8,958,230	9,217,206	9,699,834	9,858,806	9,833,698	15%
Other Operating	8,136,423	7,916,332	7,887,624	8,166,233	9,180,452	10,535,960	16%
Transfers	0	252,659	0	3,714,587	805,808	2,788,778	4%
Total Operating Exp	54,429,172	53,870,990	52,448,664	60,219,783	58,520,583	67,039,444	
Capital Expenses	950,276	1,667,763	1,577,108	3,140,142	4,678,786	3,768,709	
Total (incl transfers)	55,379,447	55,538,753	54,025,772	63,359,924	63,199,369	70,808,153	

- Personnel costs represent approximately 65% of the operating budget
- Combined personnel and debt service costs represent 80% of the operating budget, which limits flexibility in controlling expenses
- Of Other Operating, 1/3rd to 1/2 considered non-discretionary (insurance, stop-loss, utilities, etc)
- Transfers are to Capital Projects fund for road and engineering projects

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City of Harrisburg
Debt Profile, Series 1997 D&F

- In 1997, the City of Harrisburg issued its Series D and F Bonds (the "Bonds") to advance refund its Series 1997 B-1 Bonds and currently refund its Series 1995 Bonds
- The Bonds are Capital Appreciation Bonds and not subject to redemption prior to maturity
- Credit enhancement provided by Financial Guaranty Insurance (now Ambac)
- In 2012, facing severe financial distress, the City defaulted on the Bonds and the insurer agreed to make scheduled principal and interest payments on the Bonds
- Forbearance liability has been accruing interest on Ambac draws since 2012
 - Liability is callable monthly, once per year

Issue	Original Issue Amount	Amount Outstanding/ Accreted Value ¹	Purpose	Call Date	Maturity	Coupon Rate	Enhancement
Series 1997D (Capital Appreciation Bonds)	\$ 24,891,772	\$ 6,108,359	Advance refund Series 1997B-1	Non-Callable	2022	Zero Coupon	Ambac
Series 1997F (Capital Appreciation Notes)	\$ 26,632,303	\$ 20,427,709	Currently refund Series 1995; New money	Non-Callable	2022	Zero Coupon	Ambac
Series 1997D and F Forbearance Liability		Approx. \$22.5MM	Repay draws on enhancement facility	Any time	2032		

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City of Harrisburg
Debt Profile, City Guarantees

Guarantees

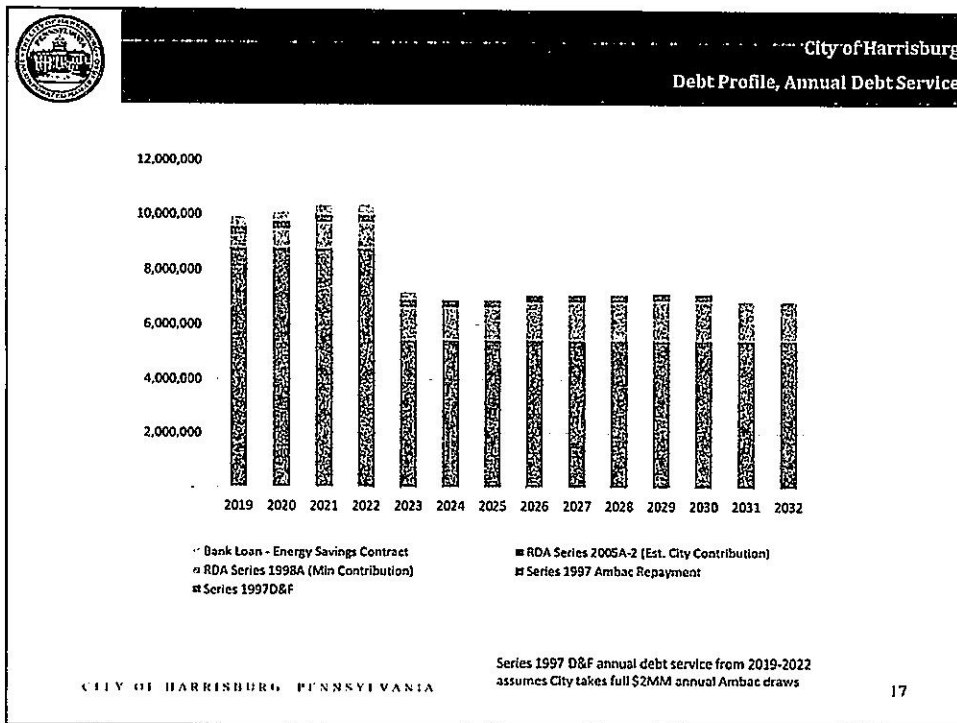
Issue	Original Issue Amount	Accreted Value ¹	Purpose	Call Date	Maturity	Coupon Rate	Enhancement
Harrisburg Redevelopment Authority Series 1998A (Verizon Bonds)	\$ 6,920,525	\$21,121,517	Acquire Strawberry Square Site	Non-Callable	2033	Zero Coupon (Taxable)	AGM

- Anticipating the need to rely on the City's GO guarantee for debt service payment that were scheduled to begin in 2016, in 2015, the City, the RDA, and AGM entered into a settlement agreement
- The settlement agreement outlined terms for annual debt service payments that provided assistance to the City, which was under financial distress and could not afford to make full scheduled debt service payments
- Under the settlement agreement, the City is required to make minimum contributions of between \$500,000 and \$1,500,000 annually from 2017 through 2032

Issue	Original Issue Amount	Amount Outstanding	Purpose	Call Date	Maturity	Coupon Rate	Enhancement
Harrisburg Redevelopment Authority Series 2005A-2 (Stadium Project)	\$ 9,000,000	\$ 6,125,000	Renovation and upgrade of Stadium facility	Non-Callable	2030	5.00-5.29% (Taxable)	Ambac

- City anticipates making approximately \$230,000 annual contributions from the General Fund to make up debt service shortfalls under its general obligation guarantee

CITY OF HARRISBURG, PENNSYLVANIA ¹ As of November 1, 2018 16




**Retirement Benefits Funding Status Summary
Pension and Other Post-Employment Benefits**

Pension Funding Status Summary as of January 1, 2018

	Police	Firefighters	Non-Uniformed
Unfunded Actuarially Accrued Liability	\$17,806,075	(\$1,918,066)	(\$9,368,867)
Funded Ratio	88%	103%	116%
Act 205 Minimum Municipal Obligation	\$3,714,804	\$495,773	\$0

Other Post Employment Benefits Liability Summary

- The City administers a single-employer post-employment benefit plan that covers certain health insurance for eligible retirees. There are four groups of employees with different types of benefits.
- Unfunded Actuarial Liability = \$155MM; Annual Required Contribution = \$11.0MM; Actual contribution = \$6.1MM
 - Annual required contribution is the normal cost for OPEB benefits attributable to the current year of service plus an amortization payment to catch-up for past service costs




Local Government Benchmarks
Moody's US Local Government General Obligation Debt Rating Scorecard

- Credit scorecard is just a starting point; other factors, including budget projections and structural budgetary imbalance, taken into account for final rating determination
- Rating scorecard is irrelevant without a plan to balance budgets into the future

Bond Rating Factors	Factor Weighting	Rating Sub-factors	Sub-factor Weighting	Baa (Investment Grade)	Harrisburg FY18 ¹
Economy/Tax Base	30%	Tax Base Size (full value)	10%	> \$120MM	\$2,285MM
		Full Value per Capita	10%	> \$20,000	\$46,378
		Wealth (median family income vs US)	10%	> 50% Median Income	49%
Finances	30%	Fund Balance (% of revenues)	10%	> 0%	32%
		Fund Balance Trend (5-year Change)	5%	> -10%	16%
		Cash Balance (% of revenues)	10%	> 0%	32%
		Cash Balance Trend (5-year change)	5%	> -10%	21%
Management	20%	Institutional Framework	10%	Limited	Strong
		Operating History	10%	> .95x	1.07
Debt/Pensions	20%	Net Direct Debt to Full Value	5%	< 10%	3.7%
		Net Direct Debt to Revenue	5%	< 5x	1.35x
		Moody's adjusted Net Pension Liability (3-year average) to Full Value	5%	n < 12%	3.7%
		Moody's adjusted Net Pension Liability (3-year average) to Revenue	5%	n < 6x	1.25x

¹ Preliminary, subject to review



Summary Description of Major Funds

- **Governmental (major)**— Funds that reflect the city's tax supported activities
 - **General Fund**- Accounts for all financial resources except those accounted for in another fund. Primary operating fund of the City.
 - **Debt Service Fund**— Accounts for the accumulation of resources, which are principally transfers from other funds, for the payment of general long-term obligation principal, interest, and related costs
- **Proprietary or Enterprise Funds**— Business-like funds
 - **Harrisburg Senators Fund** — Accounts for the revenues and expenses associated with the payment of debt on the financing of the Harrisburg Senators stadium
 - **Neighborhood Services Fund** — Created in 2016, fund accounts for the revenues and expenses associated with the provision of refuse collection and disposal services to residential, commercial, and industrial establishments of the City, as well as Parks and Recreation maintenance services and small road repair services, as those are related to the facilitation of refuse collection and disposal services, broadly defined

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Summary Description of Major Funds

– Component Units – Legally separate organization for which the elected officials are financially accountable or have legal control over ('impose its will'). Organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statement to be misleading due to close relations and financial integration with the primary government.

- Harrisburg Parking Authority
- Harrisburg Downtown Improvement District
- Redevelopment Authority of the City of Harrisburg

• Special Revenue Funds – Governmental Funds (minor)

- State Liquid Fuels
- Parks and Recreation



Budget and Appropriations Process

– Annual fiscal year budget preparation schedule:

- July: Departmental/budget unit expenditure operating, capital and personnel request sheets for all funds prepared and sent to directors
- August: Fund revenue projections commence and expenditure requests compiled
- September: Mayoral budget meetings and review process with department directors
- October: By the 15th, draft budget submitted to DECD for Act 47 review; end of year fund balance projected to determine availability of funds for cap-ex spend
- November: Revenue projections and expenditure requests are finalized; budget submitted to Council on 4th Tuesday
- December: City Council holds public hearings; final passage by Dec 31

– Appropriation process:

- Council must approve all fund budgetary expenditures ('power of the purse')
- Appropriation controls as detailed in annual budget resolution are by Fund → budget → major object category (personnel, supplies, services, other (transfers and capital))
- Specific line items are for encumbrances and budgetary transparency purposes



Statement of Net Position
Governmental Activities, 2014-2017

	2014	2015	2016	2017
Assets				
Cash and Investments	21,969,161	14,545,270	28,700,133	35,104,987
Receivables	22,948,499	31,046,361	27,043,742	28,172,484
Other assets	919,305	1,314,114	945,791	2,010,521
Restricted assets	24,078,830	13,990,595	11,617,081	10,756,795
Net pension asset	4,399,920	19,143,562	10,159,860	9,999,906
Capital assets	95,667,013	92,273,333	91,253,597	91,124,858
Total assets	169,982,728	172,313,236	169,720,204	177,169,551
Deferred outflows and resources	-	13,198,927	17,626,420	8,710,311
Liabilities				
A/P and other current liabilities	5,455,063	3,870,919	3,070,620	3,473,509
Other liabilities	22,131,601	9,350,831	10,160,073	11,333,215
Net pension liability	-	16,696,432	17,860,075	11,254,140
Other post-employment benefits	71,980,093	75,253,064	76,535,905	80,337,588
Other non-current	101,983,677	98,991,426	89,863,219	81,758,529
Total liabilities	201,550,434	204,162,672	197,489,892	188,156,981
Deferred inflows of resources for pensions	-	811,680	497,684	3,138,923
Net position				
Net investment in capital assets	26,922,301	27,613,046	31,676,658	38,466,843
Restricted	13,174,481	33,087,175	24,561,407	22,966,422
Unrestricted	(71,664,488)	(80,162,410)	(66,879,017)	(66,849,307)
Total net position	(31,567,706)	(19,462,189)	(10,640,952)	(5,416,042)

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