



The Intergovernmental Cooperation Authority  
for Harrisburg  
2205 Forest Hills Drive #10  
Harrisburg, PA 17112

December 18, 2019

Hon. Eric Papenfuse  
City of Harrisburg  
Dr. Martin Luther King Jr. Government Center  
10 N. 2nd Street  
Harrisburg, PA 17101

Dear Mayor Papenfuse:

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.

We have reviewed the City of Harrisburg's proposed 2020 operating and capital budget, and we have attended the City Council's budget hearings and workshops. We also received a copy of the Act 47 Coordinator's review letter. Additionally, we have met with you, and we have received additional explanations from the Director of Finance concerning the use and projection of the City's various fund balances in 2020. Our comments are as follows.

The following is a general outline of the proposed budget as compared to the City's initial Five-Year Financial Plan approved by the Authority on May 28, 2019 (the "Five-Year Plan").

- "Baseline Revenues" of \$64,959,105, compared to \$63,985,790 in the Five-Year Plan (an increase of \$973,315 or 1.52%).
- "Baseline Expenses" of \$62,958,478 compared to \$62,061,164 in the Five-Year Plan (an increase of \$897,314 or 1.45%).
- "Operating Surplus" of \$2,000,627 compared to \$1,924,626 in the Five-Year Plan (an increase of \$76,001 or 3.95%).
- "Capital Expenditures" of \$3,352,803 compared to \$3,145,000 in the Five-Year Plan (an increase of \$207,803 or 6.61%). (See further comments below.)
- "Ambac Forbearance Liability Prepayment" of \$5,000,000 (not included in the Five-Year Plan). (See further comments below.)

- Decrease in Fund Balance of \$8,352,176, compared to \$3,220,374 in the Five-Year Plan (an increase of \$5,131,802).
- Projected Beginning Fund Balance of \$24,000,000, compared to \$16,555,062 in the Five-Year Plan (an increase of \$7,444,938).

You have explained that the General Fund and Neighborhood Services Fund are projected to be drawn down from 2020-2022 for various capital projects and debt prepayment, and subsequently, beginning in 2023, these funds will be structurally balanced. We understand the City has a Fund Balance Policy, and the fund balances are currently in excess of that policy. We urge the City to continue to take steps to maintain a structurally balanced budget in all funds, inclusive of capital expenditures.

We echo the Act 47 Coordinator's concerns with the City's ability to maintain healthy General Fund and the Neighborhood Services Fund balances while keeping up with necessary and vital capital expenditures. We recommend the City assess and enhance its Capital Improvement Plan in order to prioritize expenditures for capital needs.

In addition, the following matters are variations from the Five-Year Plan. Please provide a written explanation for the variations as noted below:

- *Capital Projects.* The Capital Projects listed in the budget (page 199 *et seq.*) do not comport with Capital Improvement Plan in the Five-Year Plan. Please explain and/or clarify the reason(s) for the variation.
- *Ambac Forbearance Liability Prepayment.* We acknowledge this is a positive step in the City's fiscal recovery. We are in receipt of an analysis by Marathon Capital Strategies, dated December 10, 2019, of the financial impact on the City's operating budget for the next five (5) years. We understand that, subject to finalization of the agreement, the City intends to prepay in 2020 at least \$5 million, and, if financially feasible, up to \$8 million.
- *FOP Contract.* We acknowledge this is a positive step in the City's fiscal recovery. Please provide an analysis of the financial impact on the City's operating and capital budgets for the next five (5) years.
- *Intergovernmental Solid Waste Agreement with the Borough of Steelton.* We acknowledge this is a positive step in the City's fiscal recovery, and we are pleased to see cooperation with a neighboring municipality. Please provide an analysis of the financial impact on the City's operating and capital budgets for the next five (5) years. In addition, please provide an explanation of the operational impact on the City's sanitation services.

With the finalization of our Intergovernmental Cooperation Agreement and the associated exit of the City from Act 47 status, the Authority anticipates a greater role in the construction of budgets and plans. The Authority has a responsibility to consult with the City and make recommendations concerning the City's budgetary and fiscal affairs.

With respect to the Ambac rate sheet, we acknowledge this is an excellent step for the City. We support your efforts to find ways to allocate additional funds toward debt prepayment. We believe it is a major step towards re-establishing the City's credit rating and re-gaining access to credit markets.

Correspondence to Mayor Papenfuse re: 2020 Budget

We look forward to consulting with the City on the annual revision and update to the Five-Year Plan. We anticipate workshop meetings with the Authority and the City beginning in January 2020.

Although the Authority was not included in the budget process for 2020 that is now nearing its end, we wish to be included at the earliest stages during the next budget cycle. We believe this is critical to advancing the City's fiscal recovery.

In your budget narrative, there is significant weight given to the importance of performance measurements, yet it is noted that the 2017, 2018 & 2019 actuals and 2020 projected measurement data was not complete. We believe implementing an effective system of performance measurement will enhance the efficient management and fiscal recovery of the City.

As previously stated, the Authority is interested in your approach to a comprehensive economic development strategy. We acknowledge the funded, albeit vacant, position of Economic Development Director in the proposed budget. We look forward to working with the City to develop and implement a Community and Economic Development Plan as a matter of priority.

We look forward to working together earlier and more collaboratively in the implementation of the fiscal plan in 2020, the update to the Five-Year Financial Plan, and the next budget cycle.

This review recognizes the difficult decisions the City must make due to limited resources to deliver many vital and necessary services to the citizens and stakeholders of Harrisburg. Although there are clouds gathering on the horizon, we believe there is time to prepare for the challenges ahead, and we remain optimistic that the City's best days lie in front of it.

In conclusion, let me thank you for all the work that has so far been accomplished by you and your team. The Authority is committed to working with your administration and City Council to advance the fiscal recovery of the City of Harrisburg.

Sincerely,



Audry Carter  
Chairperson

cc: Authority Members  
Jeffrey Engle, Esq., Authority Solicitor  
Jeffrey Stonehill, Authority Manager  
Hon. Wanda R.D. Williams, City Council President  
Hon. Ben Allatt, City Council Vice-President  
Charles DeBrunner, City Controller  
Daniel Miller, City Treasurer  
Marita Kelley, Act 47 Coordinator