

City of Harrisburg 2020 Mid-Year Fiscal Report



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City of Harrisburg, Pennsylvania
2020 Mid-Year Fiscal Report

This 2020 Mid-Year Fiscal Report is delivered as the state, nation, and the world are coping with an unprecedented health crisis, the economic and fiscal impacts of which are reaching all levels of government. The COVID-19 global pandemic resulted in a virtual shut down of all economic activity for weeks earlier this year and continues to have severe negative effects even as the state and local economy moves towards reopening. The area unemployment rate increased from 4.2% to 13.3% during the height of the crisis (source: U.S. Census Bureau) and remains at elevated levels, local businesses are suffering significant losses, and commuters, who in normal times are eating in the City’s restaurants, parking in its garages, and shopping in local stores, are working from home instead.

There is a direct link between the economic shutdown and General Fund financial performance. Several key revenue sources, including real estate taxes, local services taxes, and mercantile business taxes, are tracking well below budgeted levels. Parking related revenues are down \$1.4 million compared to the same period last year and projected to finish 2020 \$2.8 million under budget. The City also anticipates hotel tax revenues to be more than \$500,000 under budget. Overall, the City projects \$61.1 million in total 2020 General Fund revenues, \$4.8 million below budget.

The City has taken steps to solidify its fiscal position by implementing expense reduction initiatives, including initiating furloughs, imposing a hiring freeze, and seeking reimbursement for COVID-related expenses through federal CARES Act relief. In addition, medical insurance expenses are much lower than anticipated as doctors and hospital visits declined during periods of state imposed pandemic restrictions.

The COVID crisis has resulted in some increased costs. Notably, with the cancellation of the Harrisburg Senators minor league baseball season, the organization will not be able to make lease payments to the City that partially fund debt service on the Harrisburg Redevelopment Authority Series 2005A Bonds. The City, which provides a guarantee on the bonds, will make the full principal and interest payments on the debt resulting in a transfer to the Senators Fund approximately \$446,000 more than budgeted. Overall, however, the City is projecting \$2.8 million in lower General Fund expenses resulting in a projected a \$1 million operating deficit before transfers to pay down the Ambac forbearance liability and capital expenditures.

The City is better positioned than most other municipalities to manage this crisis. Harrisburg is benefitting from years disciplined spending and operating budget surpluses, which have contributed to a strong fund balance. The fund balance has provided reasonable budget flexibility and allowed the City to avoid the draconian choices that other local governments currently face.

**2020 General Fund
Mid-Year Results and Updated Year-End Projection**

	Actual June 30, 2019	Actual June 30, 2020	Difference	Actual 2019	Adopted Budget 2020	Projected 2020	Variance Budget Positive (Negative)
Revenues	36,347,492	33,062,159	(3,285,333)	68,799,019	65,964,643	61,123,248	(4,841,395)
Expenses	28,646,507	24,087,255	4,559,252	60,744,837	64,945,248	62,166,903	2,778,345
Surplus (Deficit)	7,700,985	8,974,904	1,273,919	8,054,182	1,019,395	(1,043,655)	(2,063,050)
Ambac Repayment	-	-	-	-	5,000,000	5,000,000	-
Capital Expenditures	2,099,400	237,080	1,862,320	6,955,164	4,371,571	4,815,293	(443,722)
Change in Fund Balance	5,601,585	8,737,824	3,136,239	\$1,099,018	(\$8,352,176)	(\$10,858,948)	(\$2,506,772)
Beginning Fund Balance ¹	25,211,083	28,394,997	3,183,914	25,211,083	28,394,997	28,394,997	
Ending Fund Balance	\$30,812,668	\$37,132,821	\$6,320,153	\$26,310,101	\$20,042,821	\$17,536,049	(\$2,506,772)

¹ January 1, 2020 Fund Balance restated to include funds from MOED account

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**2020 General Fund Key Revenue Sources
Mid-Year Results and Updated Year-End Projection**

	Actual June 30, 2019	Actual June 30, 2020	Difference	Actual 2019	Adopted Budget 2020	Projected 2020	Variance Budget Positive (Negative)	Assumption/Notes
Real Estate Taxes	14,790,063	14,105,643	(684,420)	17,136,637	17,707,391	17,076,779	(630,612)	Flat period was just 91% of budget; overall projected 96% of budget
Earned Income Taxes	6,548,134	6,614,086	65,952	12,761,772	12,175,314	12,412,166	236,852	County unemployment rate currently 10.7%; assume gradually decline to 8.0% by Dec 20 no growth in labor force
Local Services Taxes	3,415,248	3,223,130	(192,118)	6,824,394	6,714,405	6,426,694	(287,711)	Consistent with EIT employment assumptions
Mercantile Business Taxes	2,734,033	2,147,219	(586,814)	3,942,127	3,738,082	3,432,422	(305,659)	About \$500,000 behind 6/30/19 collections; maybe some timing issues, but ability to pay issues likely to persist
Realty Transfer Tax	357,417	346,708	(10,709)	1,026,697	800,000	800,000	0	\$350,000 through 6/30 with COVID, expect improved performance in second half
Parking Taxes	2,062,729	1,929,536	(133,194)	4,255,144	4,212,500	3,511,000	(701,500)	No expectations for state workers through year-end, significantly reduced parking activity having a major impact on several key revenue sources.
Ground Lease	595,168	287,388	(307,780)	1,275,290	1,313,458	287,388	(1,026,070)	
Priority Payment	1,046,249	231,331	(814,918)	2,241,682	1,057,258	231,331	(825,927)	
Parking Tickets	249,320	95,205	(154,115)	380,527	425,102	180,216	(244,886)	
Fees/Permits	1,008,876	761,556	(247,320)	1,733,715	2,179,074	1,723,727	(455,346)	Reduced activity during COVID shut down; modest increase projected for second half.
Hotel Fee	0	0	0	900,000	900,000	385,000	(515,000)	Activity expected to struggle through remainder of the year and into 2021
Other	3,540,255	3,320,358	(219,897)	16,090,089	14,742,060	14,948,746	206,686	\$9.4 million of this category is state pension aid, public safety contribution, and police extra duty which are not projected to change from budget
Total	\$36,347,492	\$33,062,159	(\$3,285,333)	\$68,799,019	\$65,964,643	\$61,123,248	(\$4,841,395)	\$2.8 million of revenue shortfall attributable to parking related revenue sources

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**2020 General Fund Expenses
Mid-Year Results and Updated Year-End Projection**

	Actual June 30, 2019	Actual June 30, 2020	Difference	Actual 2019	Adopted Budget 2020	Projected 2020	Variance Budget Positive (Negative)	Assumptions/Notes
Personnel less Medical	13,356,999	13,712,617	(355,618)	30,447,220	33,753,020	32,179,804	1,573,217	Assumes vacancies remain unfilled through year-end; most savings (\$1.1 million from the Police Department)
Medical	5,316,630	3,709,960	1,606,670	10,107,539	10,893,750	9,403,776	1,489,974	Low activity through June 30; assume slightly more than normal activity in second half
Debt Service	5,644,139	2,189,432	3,454,707	10,065,416	10,276,819	10,276,819	-	2020 Unchanged. Difference in mid-year 2019 and 2020 results due to timing of payments.
Other (including transfers)	4,328,739	4,475,246	(146,507)	10,124,661	10,021,659	10,306,505	(284,846)	Includes supplies, services, equipment/maintenance expenses, and transfers. Increased transfer to Senators Fund to cover full Series 2005A debt service payment
Subtotal	28,646,507	24,087,255	4,559,252	60,744,837	64,945,248	62,166,903	2,778,345	Difference in mid-year 2019 and 2020 results due largely to timing of payments.
Ambac Repayment	-	-	-	-	5,000,000	5,000,000	-	Unchanged
Capital Expenditures	2,099,400	237,080	1,862,320	6,955,164	4,371,571	4,815,293	(443,722)	Includes transfers to Capital Project Fund and capital expenditures out of General Fund
Total	\$30,745,907	\$24,324,335	\$6,421,572	\$67,700,001	\$74,316,819	\$71,982,197	\$2,334,622	Difference in mid-year 2019 and 2020 results due largely to timing of debt service payments.

Neighborhood Services Fund

The revised Neighborhood Services Fund year-end projection shows \$303,412 in higher overall revenue; however, this includes a \$1.2 million reduction in “cash carryover” from the previous year. Actual fund revenue generated is projected to *increase* by almost \$1.5 million on the strength of higher than expected Garbage of Refuse Fees and Steelton Trash Pick-up Fees.

**2020 Neighborhood Services Fund
Mid-Year Results and Updated Projection**

	Actual June 30, 2019	Actual June 30, 2020	Difference	Actual 2019	Adopted Budget 2020	Projected 2020	Variance Budget Positive (Negative)
Revenues	8,610,363	8,162,047	(448,316)	19,232,554	16,036,931	17,530,058	1,493,126
Cash Carryover	-	-	-	-	1,494,830	305,115	(1,189,715)
Total Revenues	8,610,363	8,162,047	(448,316)	19,232,554	17,531,761	17,835,173	303,412
Total Expenses	7,450,764	7,230,430	(220,334)	17,444,076	17,531,761	17,835,173	(303,412)
Surplus (Deficit)	\$1,159,599	\$931,617	(\$227,982)	\$1,788,478	\$0	\$0	\$0

Other Fund Activity

The City does not project major budget variances in most of its other funds; however, there are several COVID-related impacts to the Senators Fund, Capital Projects Fund, State Liquid Fuels Tax Fund, and Events Fund.

With the cancellation of the Harrisburg Senators’ minor league baseball season, the organization will not be able to make lease payments to the City that partially fund debt service on the Harrisburg Redevelopment Authority Series 2005A Bonds. As noted above, the City, which provides a guarantee on the bonds, will make the full principal and interest payments on the debt, resulting in a transfer to the **Senators Fund** approximately \$446,000 more than budgeted.

Some activities, such as the fireworks display and Arts Fest, that were budgeted out of the **Events Fund** were modified for COVID-related reasons. Expenditures are projected lower due to the changes to these events.

Finally, the City has delayed certain projects funded out of the **Capital Projects Fund** and **State Liquid Fuels Tax Fund**, including the South Harrisburg project.

Summary

While the City has already begun to experience the negative repercussions of the COVID-19 crisis, the full magnitude of these impacts will become clearer as the year progresses. Management initiatives already implemented have enabled the City to minimize the projected operating deficit for 2020. Economic activity is unlikely to return to pre-pandemic levels in the near-term and the City will be prepared to take action to ensure General Fund stability, if necessary. The City will continue to monitor its fiscal position and developments in the local economy effecting key revenues sources as it begins the 2021 budget process.