



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

December 21, 2020

The Honorable Eric Papenfuse  
Mayor, City of Harrisburg  
Dr. Martin Luther King, Jr. Government Center  
10 N. Second Street  
Harrisburg, PA 17101

Re: Five-Year Financial Plan of the City of Harrisburg

Dear Mayor Papenfuse:

Please be advised that at its public meeting on December 16, 2020, the Intergovernmental Cooperation Authority for Harrisburg (the "Authority") disapproved the City of Harrisburg's proposed Five-Year Financial Plan dated December 14, 2020 (the "Plan").

The Authority reviewed the proposed Plan for conformance with the criteria set forth in the Intergovernmental Cooperation Authorities Act for Cities of the Third Class (Act 124 of 2018), and with consideration for components that will eliminate projected deficits, implement sound budgetary practices, and provide procedures to avoid a fiscal emergency condition in the future.

The Authority determined the proposed Plan is deficient for the following reasons:

- The Neighborhood Services Fund (NSF), a principal proprietary fund of the City of Harrisburg, demonstrates annual deficits.
- The NSF fund balance is on a trajectory to depletion.
- The NSF forecasts are inconsistent with other information in the proposed plan pertaining to transfers to the General Fund.
- A schedule of projected capital commitments for the NSF is not included.
- Financial information provided for a major initiative of the NSF, namely the Intermunicipal Sanitation Agreement with the Borough of Steelton, appears defective and not in accordance with generally accepted accounting principles.

- The schedule of capital improvement projects for the General Fund does not include required supporting information, i.e. detailed budgets and descriptions.
- The schedule of capital improvement projects for other funded projects does not include required supporting information, i.e. detailed budgets, descriptions, and all sources of funding.
- New initiatives are proposed relatively abruptly without demonstrating proper planning procedures. In specific, an increase in headcount from 462 to 512 FTEs and a new Community Services Division are in contradiction of the most recent spending priorities articulated to the Authority, and do not contain detailed budgets, descriptions, and measurable outcomes that the new spending aims to achieve.

Please work directly with Authority Manager Jeffrey Stonehill for coordination and assistance on addressing these specific issues.

The Authority wishes to offer additional recommendations consistent with our duty to consult with the City in the preparation of a plan.

The proposed Plan demonstrates a stable fiscal position, with a solid General Fund balance and relatively resilient revenues in spite of the global pandemic and economic crisis. However, Authority Members are concerned that while the Plan acknowledges the effects of COVID-19 on the current fiscal year and reasonably pushes off any consideration of recovery for affected funds and services until the 2022 fiscal year, no examination is offered of what actions would be warranted should a worst-case scenario occur. Agreeing with City Council's insistence that all major expenses be delayed to the latter part of the second quarter of FY21 is one step in that direction.

Finally, I would direct your attention to the attached list of items. In each instance, one or more Authority Members had questions or concerns.

This correspondence shall constitute written notification of disapproval in accordance with Act 124. The City is required to submit a revised plan within 15 days. However, recognizing the possibility that additional time may be warranted for preparing revisions, we would be willing to grant a reasonable extension of time if the City were to request it.

We look forward to working with you on resolving these issues and reconsidering a revised plan for approval.

Sincerely,



Audry Carter  
Chair

Cc: Authority Members

Enclosure

## **ATTACHMENT: ADDITIONAL ITEMS FOR CONSIDERATION**

**TAXING AUTHORITY:** Appropriate changes to the Plan were made relative to the newly adopted State law making the extraordinary taxes permanent. On the EIT side, and longer term on the LST side, the Plan might benefit from some additional clarity on these changes. The LST happens to run parallel to the efforts to buy down the debt service. Therefore, any fiscal cliff is not as important as it may have been in our prior discussions. That is something that ought to be reflected in the Plan.

**STRATEGIC & FINANCIAL PLANNING:** Going back through the language of Act 124 of 2018, it encourages the Authority to look at “staffing levels,” to look at “increased managerial accountability,” and “to review the outstanding debt.” Therefore, the Authority continues to stress strategic planning that addresses these areas.

In the array of correspondence included with the Plan, there was mention of the steps being taken to develop “controls documents,” working from agency-to-agency and so on. In addition, there is mention of working with the auditors. Could that process be reflected in the Plan directly? For example, are these normal year-end meetings with the auditors, or an attempt to develop new policies and procedures?

The concern remains about the robust nature of the post-retirement benefits. Is the City exploring strategies for diminishing the responsibility for paying such benefits for new employees over time?

The impact of the pandemic is something that is remarkably difficult to gauge. The Board noted that in the Plan, with the most critical funds, the parking in particular, and to a lesser extent the earned income tax yield, the Plan did not pretend to indicate any recovery in 2021. In 2022, would be the earliest. Questions that remain to be clarified: What is the durability of Telework and how will that affect the workforce base? How would that impact office space, real estate values, and local businesses? How does it affect the long-term projections of the LST? We could not begin to guess the social dynamics of what is going to happen over the next few years. What remains is if the numbers that are presented, well calculated on the surface, are defensible in the basic based on lack of any other knowledge?

**AUDIT DEFICIENCIES:** Many audit deficiencies from prior years may still be ongoing. All finances of the City must be done in accord with rules established by the Government Accounting Standards Board (GASB). Are there efforts in place to cure these prior year deficiencies especially in light of the City’s imminent attempt to enter the credit markets?

**PROCESSES:** The City had previously stated, “Streamlined processes were a priority during the COVID pandemic for supporting local businesses.” What processes were streamlined?

**FEDERAL GRANTS:** The reference to the Federal grants administration and increased activity in the Plan seems too modest.

**PARKING:** The City is projecting parking garage ground lease payments returning to 50% in 2022. Does that projection take into account the extreme shortfall in the formula for the waterfall payments?

**TECHNOLOGY:** The question of citywide technology projects is really important. In a recent budget hearing, the City noted that it is replacing all the modules of the financial management software, over the course of several years, beginning with the Treasurer's needs. How will this be coordinated to assure streamlined conversion?

**PARK PERMIT REVENUE:** The City is proposing to redirect "park permit revenues," which is believed to be \$400,000, to the General Fund. Is this revenue guaranteed or non-guaranteed revenue?

**COMMUNITY AND ECONOMIC DEVELOPMENT.** An economic development update was included in Mr. Woolley's supporting documentation. The references made to a strategic plan, that are "in the works" is something that the Authority would appreciate. Specifically, something that is more considered and less serendipitous. The Authority has asked for more strategic planning and more planning associated with economic development across all spectrums and scales of business development around the City.

**NSF:** The Plan does not include supporting planning information for the new agreements signed with the Boroughs of Paxtang and with Penbrook. Please summarize activity projections, revenues, expenses, and capital costs especially in light of the commitment to seven new staff. Please also indicate if the increased revenues are included in the projections set for the in the Plan.

**CLARIFICATIONS/CORRECTIONS NEEDED:**

- On page 5, it states that overall revenues increased 19% from 2016 to 2019. The numbers presented on the table increased 4.7%. Does that need a correction?
- On page 6, the historical figure inaccuracies pointed out by the Controller in his Memorandum of November 17, 2020 do not seem to have not been corrected.
- On page 9, what is the cost of overhead for the Neighborhood Services Fund that the General Fund has been bearing? Is it \$300,000, which is proposed in the future; or, is it \$700,000, which is the number in the past?
- Please include all information answered by Marc Woolley somehow into plan itself to make it standalone. In a response letter included with the Plan, there were a list of initiatives. It is a good list and can be incorporated into the Plan document itself (i.e. procurement, information technology, improving collection rates in the City, etc.).
- On page 11, it states that Steelton pays Harrisburg a flat fee for trash collection. That appears to be inaccurate since Harrisburg sends individual bills to customers.
- On page 18, under the annual debt service summary, there appears to be a discrepancy. The 2020 total of \$10.7 million does not match the total on page 13, which is \$10.2 million. The annual debt service increased by \$2,000,000 for the same series 97 D and F Bonds. What is the explanation?
- On page 22, there is an annual debt service comparison and it does not seem to match the narrative. The narrative references \$2,000,000 payments in 2021 and 2022. The payment is showing in 2021, but it is not shown in the following year 2022.
- With respect to the capital project funds in appendix B, they did not match up with the budget sections for capital improvement projects that were inspected in the prior sections. Those two series of projects should match.