

Intergovernmental Cooperation Authority for Harrisburg

Minutes of the Governing Board

Regular Meeting

April 27, 2022

Large Conference Room, Pursuit CoWorking, 922 N Third Street, Harrisburg PA

hbgica.org

Members in Attendance	Ms. Audry Carter Mr. Douglas Hill Ms. Kathy Speaker MacNett Mr. H. Ralph Vartan	A Quorum Was Recognized
Ex-Officio Members in Attendance	Ms. Marita Kelley, Director of Finance, City of Harrisburg	
In Attendance	Ms. Anna Marie Sossong Independent Counsel Mr. Jeffrey Stonehill Authority Manager	
Meeting Begins		4:01 p.m.
Welcome by Audry Carter, Chair	Ms. Carter mentioned that both Ms. Hodge and Mr. Ryan, from the Office of the Budget, would be unable to attend. She went on to explain that this meeting is at Pursuit CoWorking, for this meeting alone, due to a schedule conflict at Temple University, Harrisburg.	
Approval of the minutes of March 23, 2022	Ms. Carter asked for a motion to approve the minutes. A motion to approve by Mr. Hill. A second by Mr. Vartan. The motion passes.	Approved 4-0
Report of the Chair	Ms. Carter thanked Marita Kelley for being on the Board.	
Update From Dan Hartman, Chief of Staff & Business Manager, City of Harrisburg	Ms. Carter introduced Mr. Hartman. Mr. Hartman gave a brief update on the following: <ul style="list-style-type: none"> • Ongoing budget management including update on revenues and budget reallocation; • Cooperation with Impact Harrisburg; • Stakeholder cooperation; 	

	<ul style="list-style-type: none"> • Harrisburg Police cooperation with other law enforcement agencies; • American Rescue Plan Act (ARPA) plan development; • Public Works beautification projects and road repair; • Matt Maisel and communication projects; • Second Street and State Street road improvement projects; and • Computer mainframe upgrade project. <p>Mr. Vartan mentioned the positive mood at City Hall.</p> <p>Ms. Kim Bracey, Pennsylvania Department of Community and Economic Development, mentioned positive cooperation with the City.</p> <p>Ms. Carter mentioned that revenue indications are positive. Ms. Kelley agreed.</p> <p>Ms. Carter asked if we could discuss Community and Economic Development at the next ICA Board meeting.</p>	
<p>Report on the Enterprise Resource Planning (ERP) Software Update Project by Steve Bortner, Director of Information Technology, City of Harrisburg</p>	<p>Mr. Bortner explained that the City had begun a multistep multiyear process of converting all the software modules of the City to MUNIS ERP, from Tyler Technologies.</p> <ul style="list-style-type: none"> • It is a cloud-based system. • The mainframe systems to be converted are the Paychex payroll system and the Pantimation finance management system. • It is being called “Operation Municipal Migration.” • There is a 10-member steering committee, chaired by Mr. Hartman. • There are 80 city employees involved in the implementation process. 	

	<ul style="list-style-type: none">• The implementation will be done in six phases. The first phase is the financial system to begin in May 2022. Then in order, the modules implemented will be payroll, tax billing, collections, code enforcement, utility billing, asset management, and GIS.• The City anticipates a 27-month implementation schedule.• Mainframe maintenance costs about \$550,000 this year, which will go down below \$300,000 per year.• Challenges include resources, accuracy of data being transferred, and disruptions in City services.• There may be future purchased upgrades or modules. <p>Steve added that about five to ten years of existing data would be migrated. Mr. Stonehill asked about timing of implementation</p> <p>Mr. Vartan asked who else uses MUNIS and Ms. Kelley mentioned York and Reading. She added they have a satellite office in Harrisburg.</p> <p>Mr. Hill asked about a grants management system.</p> <p>Mr. Bortner talked about software integration with other applications.</p> <p>Mr. Hill asked about data verification. Mr. Bortner explained how the City is obtaining email addresses and phone numbers for existing utility accounts.</p> <p>Ms. Carter asked about data security.</p> <p>Mr. Hill asked about training employees.</p> <p>Mr. Stonehill asked about changing City processes because of new software.</p>	
--	---	--

	<p>Mr. Vartan voiced support for the project.</p> <p>Mr. Vartan asked if there can be quarterly updates on the progress of the project. Mr. Bortner said he will be creating City Council updates and will share it with the ICA Board. Ms. Kelley added that the Bureau of Finance will be giving quarterly reports here on out. Ms. Kelley added that Mr. Brooks has joined the Bureau as Budget Manager. There are two more openings being filled.</p>	
Motion to Permit the Section 203 Annual Report to be Submitted	<p>Ms. Carter reminded the Board that the Section 203 Annual Report is due by the end of April to the Governor and certain members of the General Assembly. She thanked all the Board members for their assistance.</p> <p>A motion to approve by Ms. Speaker MacNett. A second by Mr. Hill. The motion passes.</p>	Authorization to complete, execute, and submit the Section 203 Annual Report of the ICA Board; Approved 4-0.
Authority Manager's Report	<ul style="list-style-type: none"> • Mr. Stonehill presented the bills paid report through April 27, 2022. • Ms. Carter mentioned that one of the ICA's insurance policies is up for renewal and she asked for a Board volunteer to participate in the renewal process. Mr. Hill volunteered. 	
Comments from Bryan McCutcheon, Accounting Manager, City of Harrisburg	<p>Mr. McCutcheon spoke to the first quarter revenue, a net revenue over the same period in the previous year.</p> <p>Mr. McCutcheon discussed the performance of the Neighborhood Services Fund. Mr. Vartan asked about collections. Mr. Stonehill asked if late fees have been reinstated yet. Mr. Hartman said they have not because it is a part of a larger discussion about annual billing.</p> <p>Ms. MacNett asked about parking revenues. Mr. McCutcheon explained that the guarantor has issued a notice of</p>	

	<p>default. The City budgeted no revenue from parking in 2022. The question is whether parking will ever return to the City.</p> <p>Mr. McCutcheon commented on the remaining debt service and on pension payment requirements.</p> <p>He added that the City is working on the 2021 audit reports.</p>	
Other Business	Ms. Carter thanked the City for bringing four members of the administration to the meeting.	
Public Comments	There was none.	
Adjourn meeting at 5:03 p.m.	Motion by Ms. Speaker MacNett. A Second was not required.	Approved 4-0

Respectfully submitted:

Jeffrey Stonehill

Jeffrey M. Stonehill, Authority Manager

Appendix Documents

Summary of Bills Paid – Intergovernmental Cooperation Authority for Harrisburg

Report – April 27, 2022

- Digital Ocean \$10.60 April 1, 2022
Website software licenses
- Digital Ocean \$5.72 April 1, 2022
Web Host
- Startup Harrisburg \$95.00 April 1, 2022
Virtual Office Monthly Subscription
- PA Media Group \$134.09 April 15 2022
Legal Advertisements
- Zoom \$158.89 April 16, 2022
Software
- Johnson & Duffie \$910.00 April 27, 2022
Independent General Counsel
- MESH PA LLC \$4,200.00 April 27, 2022
Authority Manager

Starting balance: \$140,469.80

Ending balance: \$134,853.03

- Interest earnings Y-T-D \$7.65
- Fees Y-T-D \$0

ANNUAL REPORT OF THE
INTERGOVERNMENTAL COOPERATION
AUTHORITY FOR HARRISBURG
TO THE GOVERNOR AND GENERAL ASSEMBLY



April 30, 2022

MEMBERS

Audry K. Carter, Chair
H. Ralph Vartan, Vice-Chair
Kathy Speaker MacNett, Secretary/Treasurer
Douglas E. Hill
Karla Hodge

Mark Ryan, *ex officio*, Pennsylvania Office of the Budget
Marita Kelley, *ex officio*, City of Harrisburg

AUTHORITY MANAGER

Jeffrey M. Stonehill

This Page Left Blank Intentionally

DRAFT

DISCLAIMER

The statements, representations, and conclusions contained herein are those of the Intergovernmental Cooperation Authority for Harrisburg (the “Authority”), an independent public authority and instrumentality of the Commonwealth, and are done in conformity with the Intergovernmental Cooperation Authorities Act for Cities of the Third Class (“Act 124”), 53 P.S. § 42101, et seq. The unaudited statements of the Authority contain qualified opinions that are solely based upon the Authority’s review of previously created documents by others and the independent personal observations of the Authority. This is a required report under Act 124. The reporting of the Authority to the Commonwealth of Pennsylvania and its constituent parts has no bearing upon the previously produced and reasonable financial forecasts made by the City of Harrisburg. This report should be relied upon only insofar as it is a mandated requirement of the Authority under Act 124.

This Page Left Blank Intentionally

DRAFT

TABLE OF CONTENTS

Executive Summary.....	5
Sound Financial Management & Reporting	5
Community and Economic Development.....	7
Operational Excellence.....	8
Background.....	10
Appraisal of the City’s Progress.....	12
Intergovernmental Cooperation Agreement.....	12
Communication and Cooperation.....	13
City’s Five-Year Financial Plan.....	13
Community and Economic Development.....	15
Financial Management and Reporting.....	16
Operational Excellence.....	21
Program Management with Federal Funding.....	24
Debt Load and Restoring Access to Credit Markets.....	24
Personnel and Labor Agreements.....	26
Privatization Initiatives.....	28
Intergovernmental Cooperation Opportunities.....	28
Other Matters.....	31
Supplemental Information.....	32
Financial Presentations.....	32
Violations of federal and state law.....	32
Historical loans or other contracts.....	32

This Page Left Blank Intentionally

DRAFT

EXECUTIVE SUMMARY.

The City of Harrisburg's financial condition is currently stable.

On July 8, 2021, pursuant to Act 124, the Authority approved the City's revised Five-Year Financial Plan. This was the final revision to the Plan by the outgoing administration of Mayor Eric Papenfuse. The Plan lays out several important initiatives which, however, due to a variety of factors, the administration failed to implement fully in 2021.

This annual report for the year ending December 31, 2021 also includes important updates for subsequent events during the beginning of 2022, simply because a new mayor, the Hon. Wanda R.D. Williams, was elected in 2021 and inaugurated in 2022. The Authority is pleased to report that under the leadership of Mayor Williams, the new administration has hit the ground running.

Mayor Williams revised the City budget for 2022, which the Authority reviewed for conformance with the criteria set forth in Act 124, and which City Council approved on February 15, 2022. The revised budget meets or exceeds the Authority's expectations for the proper financial management of the City.

As of the date hereof, the City is in the process of revising the Five-Year Financial Plan. We anticipate that the revised Plan to address the retirement of all the City's general-obligation debt.

The City is on the cusp of exit from Act 47 status. That and the essential planning necessary to navigate the City's finances into the future remain major focuses of the work of the Authority.

The Authority emphasizes three themes to help advance the financial stability of the City:

1. sound financial management and reporting;
2. community and economic development; and
3. operational excellence.

The Authority continues to advise the City to develop and implement initiatives to address various issues affecting the City's progress to financial stability.

SOUND FINANCIAL MANAGEMENT & REPORTING.

One of the Authority's top priorities is improvement of the City's financial management and reporting functions.

Director of Finance Position Filled in 2022.

From July 2020 to January 2022, the City's Director of Finance position was vacant. Upon assuming office in January 2022, Mayor Williams announced Marita J. Kelley as the new Director of Finance. As the former Act 47 Coordinator for the City, Ms. Kelley lends immediate credibility to the City's financial management and brings a depth of knowledge of City finances to the position. The Authority applauds the appointment of Ms. Kelley. She serves as the City's ex officio, non-voting member on the Authority Board.

Independent Auditor Identified Numerous Material Weaknesses.

In the City's 2020 Audit, the City's Independent Auditor again identified a number of material weaknesses and significant deficiencies in internal control over financial reporting and other matters, for which corrective action has not been completed. A "material weakness" is the most serious type of finding. Examples of findings are:

- For the third consecutive year, the Independent Auditor expressed a qualified opinion on major federal programs in the Single Audit Report.
- The City does not have adequate staffing to produce its financial statements in accordance with generally accepted accounting principles applicable to governmental entities (GAAP).
- There were multiple findings for federal awards related to reporting, program income, equipment and real property management, allowability, and environmental review requirements. Failure to submit reports and plans by the required deadlines could jeopardize future funding.
- No physical inventory of capital assets has been taken since 2005.

It is notable the City's 2020 Audit was completed in December 2021 and presented to the Authority in January 2022. The extraordinary length of time was due to staffing constraints in the prior administration's final year, including the vacant Director of Finance position.

Neighborhood Service Fund.

Created in 2016, the Neighborhood Services Fund (NSF) is a principal proprietary fund of the City. It accounts for the revenues and expenses associated with refuse collection and disposal. The NSF budget has historically relied on the use of fund balance for its capital needs and operating expenses. The City's 2021 Five-Year Financial Plan demonstrates a move to stabilization of the fund in 2025.

The City achieves low collection rates on accounts receivable in the NSF. Receivables on delinquent sanitation and disposal accounts as of January 2022 totaled over \$12 million according to the City Treasurer. At its public meeting on October 27, 2021, the Authority determined that the City had not adhered to its approved Plan and failed to implement an initiative to improve the collection rates. This determination led to an official notification of variation in accordance with Act 124.

In contrast to the prior administration's indifference, the new administration under the leadership of Mayor Williams has already commenced an examination of potential changes to sanitation billing and implemented additional accounting controls.

Defeasance and Pre-payment of Ambac Debt Obligations.

A strategy to refinance and defease long-term debt obligations of the City was much discussed and partially implemented under the prior administration. In 2021 the City reached an agreement on a debt restructuring with one of its key creditors, Ambac Assurance Corporation ("Ambac"). The agreement provides principal and temporary interest rate reductions, and ultimately will generate recurring

budgetary savings and preserve fund balance. We believe this is a major step towards re-establishing the City's credit rating and re-gaining access to credit markets.

Under the two-step plan, the City defeased approximately \$4.98 million in outstanding debt related to 2005 renovations at the City-owned minor league baseball stadium. The City also made a pre-payment of \$4 million for its "forbearance liability" to Ambac, a debt related to missed bond payments during the City's 2010-2012 fiscal crisis. The combined payments were almost \$9 million. In return Ambac gave the City an immediate \$3,288,900 discount on the forbearance liability, plus a reduction in the interest rate on the remaining balance from 6.75% to 5% for three years. These matters were accomplished in November 2021.

The forbearance liability was at approximately \$26.2 million before the agreement was settled, and accrues interest.

COMMUNITY AND ECONOMIC DEVELOPMENT.

Key to securing the City's long-term health is expanding its economic base and the growth of its own local tax revenues.

Commitment to Community and Economic Development.

The City does not currently have a community and economic development plan. The new administration has communicated its intent to develop a comprehensive plan in partnership with community stakeholders. We are hopeful for the opportunity to report progress in the future on a community and economic development plan for Harrisburg.

We note that per the revised 2022 budget, one individual is responsible for the role of director for two departments: the Department of Building and Housing Development (four days per week) and the Department of Community and Economic Development (one day per week). The Authority is monitoring the sufficiency of the resources being allocated to this area.

American Rescue Plan Funding.

In 2021 the prior administration did not take steps to develop a spending plan for use of the American Rescue Plan (ARP) federal funding. The City received \$23,536,812.50 in rescue plan funds in 2021, with a second allocation of the same anticipated for the spring of 2022.

In 2022 under the leadership of Mayor Williams, the City has made up significant ground. The revised 2022 budget appropriates \$8.86 million of the ARP funds for reimbursement of lost local revenue, pursuant to ARP program guidelines. The City also initiated a public engagement process on other uses for the funds. The City is expected to unveil proposed uses by mid-year 2022.

Impact of the COVID-19 Pandemic.

The City's economic development efforts for much of 2021 were focused on helping the local business community cope with COVID-19 related pressures and hardships.

The protracted remote work environment has had a pronounced negative impact on the downtown business district and parking revenues for the City. However, the City's real estate and mercantile tax

receipts have been remarkably resilient. The long-term impact of COVID-19 on the City's progress with community and economic development remains unclear.

New Comprehensive Plan.

In 2021, the City finally updated and replaced their outdated comprehensive planning document following a seven-year-long process. The previous comprehensive plan was created in 1974, serving more than double its intended lifespan of 20 years.

OPERATIONAL EXCELLENCE.

The City's full financial recovery involves addressing legacy operational issues.

Communication and Cooperation.

One of the Authority's top priorities is communication and cooperation with Mayor Williams and her administration. We believe Mayor Williams has assembled a highly qualified management team, and she is committed to developing a strong working relationship with the Authority.

Compliance with Major Federal Programs.

The City's Independent Auditor again expressed a qualified opinion on compliance for major federal programs in the Single Audit Report dated December 28, 2021. The Independent Auditor also identified an additional finding for other instances of noncompliance and internal controls over compliance.

Although the qualified opinion is a grave concern for the Authority, we noted that the number of findings of non-compliance were reduced from six (6) in the 2019 Audit, to one (1) in the 2020 Audit.

Information Technology Infrastructure.

The City operates legacy Information Technology infrastructure with unsupported hardware and software that has the risk of failing at any point. The City's mainframe infrastructure is more than 30 years old.

The Authority believes the City is making significant strides to address its issues with legacy IT infrastructure and moving in the right direction. The City has entered into an agreement with Tyler Technologies to implement its Munis system, a leading integrated Enterprise Resource Planning (ERP) system.

Proper Planning Procedures.

In 2020, under the prior administration, the City announced a new division within the Bureau of Police, named the Community Services Division. The Authority criticized the abrupt rollout and lack of detailed budgets, descriptions, and measurable outcomes that the new spending aims to achieve. Under the leadership of Mayor Williams, the new administration is in the process of developing an appropriate system of performance measurement. The division's initial staffing complement is currently set at seven community service aides.

Performance Measurement.

The City does not practice systematic performance measurement. We believe implementing an effective system of performance measurement will enhance the efficient management and fiscal recovery of the City.

Trash Service to Neighboring Municipalities.

The Bureau of Neighborhood Services has been actively engaged in a number of key projects in the refuse and recycling, maintenance, and infrastructure development areas. In addition to City trash collection, the City has entered into intergovernmental cooperation agreements with the Boroughs of Steelton, Penbrook, and Paxtang allowing the City to provide municipal solid waste and recycling collection and disposal services. This is a major advancement in the use of the City owned resources to provide trash services to neighboring communities.

Under the prior administration, the Authority expressed concern with the accounting, cost allocation, and reporting practices for these intermunicipal services. Under the new administration, the City has already implemented new accounting reporting capabilities and controls.

Optimism for the New Administration.

Overall, the Authority is quite pleased with the progress the new administration has made in such a short period. There is reason for optimism going forward.

BACKGROUND.

The Intergovernmental Cooperation Authority for Harrisburg (the “Authority”) is a public authority and instrumentality of the Commonwealth of Pennsylvania. The Authority was created for the general purpose of fostering the fiscal integrity of the City of Harrisburg.

The Authority has prepared this report pursuant to Section 203(b)(4) of the Intergovernmental Cooperation Authorities Act for Cities of the Third Class (Act of October 24, 2018, P.L. 751, No. 124) (“Act 124”).

Act 124 confers upon the Authority specific duties, including the following:

To prepare an annual report within 120 days after the close of the assisted city’s fiscal year to the Governor and the General Assembly describing the assisted city’s financial condition and the authority’s progress with respect to restoring the financial stability of the assisted city and achieving balanced budgets for the assisted city. An annual report shall be signed by the chairperson of the board and shall:

(i) Be submitted to the Governor, the presiding officers of the Senate and the House of Representatives, the chairperson and minority chairperson of the Appropriations Committee of the Senate and the chairperson and minority chairperson of the Appropriations Committee of the House of Representatives and the governing body, chief fiscal officer and controller of the assisted city. The report shall be publicly available in the assisted city during normal business hours for public inspection, shall be posted on the authority’s publicly accessible Internet website and may be provided to a member of the public upon request at a cost not to exceed commercial costs of reproduction.

(ii) Clearly show by consistent category the last five years of operating revenues and expenditures, capital expenditures, gross and net indebtedness transactions, including a schedule of principal and interest, five-year projections of the assisted city’s operating and capital budgets and the entire projected indebtedness transactions, including a schedule of principal and interest of the indebtedness until any and all debt has been completely retired.

(iii) Contain a narrative explaining progress of the assisted city in meeting its annual and five-year budgetary objectives, an appraisal by the authority of the progress the assisted city is making to achieve its goals and an appraisal of the extent to which the assisted city is making a good faith effort to achieve its goals.

(iv) Disclose any violations of Federal and State law that the authority may have discovered.

(v) Include as appendixes all historical loans or other contracts entered into by the assisted city and its corporate entities.

In preparing this document, the Authority draws from previously published reports and studies by others, including

- The City of Harrisburg's 2021 Five-Year Financial Plan dated July 8, 2021.
- The City of Harrisburg's Comprehensive Annual Financial Report for FY2020.
- The City of Harrisburg's Approved and Restated 2022 Budget.
- The Act 47 Recovery Coordinator's Quarterly Status Reports.
- The City Controller's Monthly Revenue and Expenditure Reports.
- The Harrisburg Strong Plan, as revised.
- Interviews with public officials and other stakeholders and their generous allowance of time.

APPRAISAL OF THE CITY'S PROGRESS.

From 2012, when the City was placed in receivership, to date, on the cusp of emerging from the Act 47 program for distressed municipalities, the City has made significant progress: approaching sustainable and balanced operating budgets, building a fund balance reserve, funding capital projects, and increasing service levels. Despite these significant accomplishments, much work remains to be done to meet the objective of achieving financial stability. The Authority members have articulated issues and areas of concern that we have asked the City to address as we move forward toward progress.

The Authority is currently focused on a specific set of issues affecting the City's progress to financial stability.

ISSUE #1: INTERGOVERNMENTAL COOPERATION AGREEMENT.

Act 124 provides that the Authority and the City shall enter into an intergovernmental cooperation agreement. An agreement will formalize key terms of the working relationship between the Authority and the City, as we work together to foster the fiscal integrity of Harrisburg. Once approved by the Authority, the Mayor, ratified by City Council, and authorized by Commonwealth Court, an agreement would allow the distressed status of the City under the Municipalities Financial Recovery Act ("Act 47") to terminate.

In 2021, the parties reached a significant milestone with the cooperative approval of a final agreement. The Mayor, City Council, and the Authority approved the agreement. It must also approve the agreement because the corresponding exit from Act 47 status impacts the incinerator litigation still before Commonwealth Court.

Therefore, the agreement is in limbo.

In September 2021, Commonwealth Court removed certain parties to the incinerator litigation. In a 95-page opinion by Judge Michael H. Wojcik, the court removed Gov. Tom Wolf, the State of Pennsylvania and the Department of Community and Economic Development as plaintiffs in the suit, leaving the City, its state-appointed Act 47 Coordinator, and Capital Area Water, the successor to the Harrisburg Authority, as the only plaintiff's remaining in the litigation.

The Authority is anxious to see the approved agreement become official and for the City to exit Act 47 status. To that end, the Board has pledged to cooperate with the Pennsylvania Department of Community and Economic Development Act 47 Coordinator, the City of Harrisburg Solicitor, and other stakeholders in preparation of the finalization of the approved agreement and the change in the City's status.

A draft of the approved agreement is available on the Authority's website and its approval was adopted by an act of City Council in 2021.

ISSUE #2: COMMUNICATION AND COOPERATION.

The Authority believes Act 124 presents a valuable opportunity to engage the leaders of our Commonwealth and develop an alignment of vision between the Authority and the City. Historically, communications with City management have run hot and cold, with challenges of communications and cooperation culminating in the disapproval of the City's Five-Year Financial Plan in December 2020 and a certification of noncompliance to the Secretary of the Budget in December 2021.

Mayor William has embarked on a new revitalization of the relationship with the Authority.

There is great optimism and opportunity with the new incoming Mayor and her Administration. The Authority has so-far experienced a significant increase in communication and cooperation.

Communications between the Authority and the City are facilitated by the City's *ex officio* member of the Authority board. In January 2022, following the swearing-in of the new Mayor and her appointment of a replacement Director of Finance, Marita Kelley became the City's *ex officio* member. She replaced Dan Connelly who had been named in February 2021 as the City's designee, despite not being a City employee. The City functioned for 43 months without a Director of Finance. Marita Kelley is the former Act 47 Coordinator and a retiree from the Pennsylvania Department of Community and Economic Development. She is well-suited for this role.

ISSUE #3: CITY'S FIVE-YEAR FINANCIAL PLAN.

Under Act 124 the City is required to develop, implement, and periodically revise a financial plan.

Initial Five-Year Financial Plan.

On May 29, 2019, the Authority approved the initial Five-Year Financial Plan submitted by Mayor Eric Papenfuse to the Authority for our review. The plan includes an introduction, historical financial results, a capital improvements budget, baseline financial forecasts, and a narrative entitled "Path Forward." In addition, a supplemental Capital Improvement Plan and the existing 2019 Budget were provided.

2020 Five-Year Financial Plan Approved in 2021.

The Authority approved the 2020 Five-Year Financial Plan on March 10, 2021. The late stages in the path to final approval were tortuous and bear some elaboration.

The filing deadline for the 2020 Five-Year Financial Plan was extended by mutual agreement, multiple times, until December 14, 2020. On October 30, 2020, the Assisted City submitted a draft of its proposed plan. On November 24, 2020, the Authority transmitted a review letter to the Assisted City, and on December 2, 2020, the Authority held a public hearing on the draft plan. We note that the special meeting for December 2 was scheduled at the request of Mayor Papenfuse, but neither he nor any representative of City management attended.

On December 14, 2020, the City submitted and certified its proposed Financial Plan. At its public meeting on December 16, 2020, the Authority reviewed the proposed plan for conformance with the criteria set forth in Act 124, 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. At that same meeting, the Authority took action to disapprove the proposed Financial Plan, set in context of recommended changes and offering a further extension.

Following such disapproval, the City was required to submit a revised plan to the Authority. Instead, the City, through outside legal counsel, objected to the reasons for disapproval, and stated the City would not be forwarding a revised plan.

Accordingly, due to the City's failure to submit a revised plan, the Authority was required under Act 124 to certify the City's noncompliance to the Secretary of the Budget, the President pro tempore of the Senate and the Speaker of the House of Representatives, which was done on January 28, 2021.

Following the certification of non-compliance, Authority members held additional discussions with City Administration on resolving the impasse and finding a path toward removal of the certification. On February 19, 2021, the Authority received a submission of the revised 2020 Five-Year Financial Plan. On February 24, 2021, at its regularly scheduled meeting the Authority Board acted to accept it retroactively as a good faith effort and certify the City's compliance.

The revised plan was reviewed by the Authority and approved on July 8, 2021.

2021 Five Year Financial Plan Issues Outlined by the Authority.

Prior to submission of the 2021 Five-Year Plan document in April 2021, the Authority articulated a clear list of priorities and issues it wished that the Papenfuse Administration address:

- *Effect of COVID-19.* COVID-19 represents significant service delivery, budgeting, and administrative challenges. In general, the 2020 plan update continues deferral of projected recovery from such challenges into 2022.
- *Summary of Principal Funds.* The Authority acknowledges, and has communicated to the City, the dual needs of working to meet GASB accounting standards and GAAP reporting standards, and of addressing accounting and procedural matters contained in the findings of the 2019 audit.
- *Transfers from Other Funds.* The plan document indicates that funds transferred to the General Fund from the Neighborhood Services Fund (NSF) have stopped. It also notes no intent for the Neighborhood Services Fund to compensate the General Fund for back office operations after 2021. Given there are likely other indirect costs borne by the General Fund, such as billings and collection staff, supervisory staff, and general overhead, the Authority urges the City to estimate these costs and make a policy determination to reimburse the General Fund at an appropriate level.
- *Improve Collection Rates in the Neighborhood Services Fund.* The City collects approximately 85% of current billings for sanitation and disposal accounts. The City has indicated that it will build on its efforts to improve on its collections by 3% in 2022 and an additional 5% in 2023. The Authority has encouraged the City to accelerate this timeline.

- *Headcount of employees.* The 2020 Plan increases FTEs by 36.5, an 8% increase from the 2019 plan. Given that the majority of these positions will fall within collective bargaining units, the Authority has encouraged long range cost calculations.

A Community Services Division was unveiled in the 2021 budget but lacks an adequate description on strategy and benchmarks of the division.

- *Debt Refinancing Alternatives.* The Authority awaits the final decision from the City as to how to address the debt: prepayment, defeasance, consolidation or a combination of all three.

Annual submission of Five-Year Financial Plan.

Pursuant to Act 124 the City is required to prepare and submit its proposed Five-Year Financial Plan to the Authority annually, at least 100 days prior to the beginning of the City's fiscal year or on another date as the Authority may approve.

On November 20, 2019, the Authority granted an extension to the annual submission deadline until April 30 of each year. This extension was granted at the City's request in light of available staffing and competing reporting obligations throughout the year.

On Wednesday, March 23, 2022, the Board of the Authority received a request from Mayor Williams that the annual update to the Mayor's Five-Year Financial Plan, pursuant to Section 210 of Act 124 of 2018, *the Intergovernmental Cooperation Authorities Act for Cities of the Third Class*, be delayed until June 30, 2022. By previous action of the ICA Board, the annual submission deadline for a revision was moved from being contemporaneous with the submission of the annual budget to April 30 of each year.

In response to Mayor Williams' request, the Authority approved a one-time extension of the submission deadline from April 30, 2022 to June 30, 2022.

ISSUE #4: COMMUNITY AND ECONOMIC DEVELOPMENT.

The Authority is interested in a comprehensive approach to community and economic development. It is the City's responsibility to formulate and implement such a plan. The Authority will advise, assist, and be a partner to the City.

Community and Economic Development Planning.

The City does not currently have a Community and Economic Development Plan. The City has communicated that it will partner with community stakeholders to develop an economic development strategic plan.

The City's economic development efforts for much of 2020 were focused on helping the local business community cope with COVID related pressures and hardships.

The City has a Local Economic Revitalization Tax Assistance (LERTA) program. The City reports that in its current form, it has not proven to be a largely effective tool for encouraging major redevelopment projects in Harrisburg. In order for the City to realize some of the benefits that the

LERTA program hoped to encourage, such as elimination of blight and significant redevelopment, the program may require modifications.

Key to securing the City's long-term financial health and quality of life is expanding its economic base and the growth of its own local tax revenues. We are hopeful for the opportunity to report progress in the future on a Community and Economic Development Plan for Harrisburg.

New Comprehensive Plan in Completed.

In 2021, the City finally updated and replaced their outdated comprehensive planning document following a seven-year-long process. The previous comprehensive plan was created in 1974, serving more than double its intended lifespan of 20 years. In 2014, Harrisburg began to discuss creating a new plan, but was faced with years of delay. A dispute between the city and a former consultant hired to draft the plan prolonged the process, as did extensions to the public comment period.

The new 246-page document is meant to help guide growth and development in the City. It includes topics such as land use, housing, mobility, parks, energy and cultural resources. *HBG2020* is a policy document used by City leaders, developers, business owners, and citizens to make decisions about future growth, development, policy, and capital improvements. Its policies inform and guide land use decisions, ensuring that these decisions are not arbitrary, but based on a conscientious analysis of existing and expected future conditions.

The plan document provides long-range policy direction for land use, transportation, economic development, housing, utilities, public services, and natural and cultural resources. It serves as a guide for elected and public officials by establishing policies and priorities and providing the framework for evaluating development proposals. It expresses the community's vision and priorities and describes where, how, and in some cases when development should occur.

View Harrisburg's 2020 Comprehensive Plan: <https://harrisburgpa.gov/comprehensive-plan>

ISSUE #5: FINANCIAL MANAGEMENT AND REPORTING.

Material Weaknesses and Significant Deficiencies.

The City's Independent Auditor, in its audit findings issued on February 18, 2021, identifies a number of material weaknesses and significant deficiencies in internal control over financial reporting and other matters, for which corrective action has not been completed. A "material weakness" is the most serious type of finding. Select highlights of the findings include:

- For the third consecutive year, the Independent Auditor expressed a qualified opinion on major federal programs in its Single Audit Report.
- The City does not have adequate staffing to produce its financial statements in accordance with generally accepted accounting principles applicable to governmental entities (GAAP). The City should have the ability to produce GAAP financial statements. This is a repeat finding.

- There were multiple findings—including four (4) repeat findings—for federal awards related to reporting, program income, equipment and real property management, allowability, and environmental review requirements. As an example, the City did not timely complete and file all required reports for the CDBG program for the years ended December 31, 2018 and 2019. Failure to submit reports and plans by the required deadlines could jeopardize future funding.
- As previously noted in the December 31, 2007, through December 31, 2018 audits, no physical inventory of capital assets has been taken since 2005.

We have urged the City to take immediate corrective action for all material weaknesses. The City has prepared an outline of responses and intended corrective actions, which was presented to the Authority.

The new Administration has stated their commitment to addressing these issues.

Inability to Practice GAAP Accounting.

The City practices a form of cash-based accounting for its regular operations and does not have the ability at a staff level to produce financial statements in accordance with generally accepted accounting principles applicable to government entities (GAAP).

The Authority has advised that the ability to maintain accounting and render financial reports in a manner consistent with GAAP standards is a crucial tool for management and others to know the City's financial position on a real-time, day-to-day basis.

The Authority believes this matter may be addressed in the Intergovernmental Cooperation Agreement now pending between the Authority and the City. We note that the City is in the process of upgrading its IT systems, which will better position the City to implement accounting practices and standards in accordance with GAAP. Time may be needed to adequately address this issue.

2022 Updated and Reauthorized City Budget.

In February 2022, the City Council re-approved the 2022 budget, as amended.

Pursuant to the Intergovernmental Cooperation Authorities Act for Cities of the Third Class (Act 124 of 2018), 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 2022 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. Two broad observations follow:

The General Fund budget is functional and flexible despite significant uncertainties and constraints and most importantly, remains balanced without the appropriation of any Fund balance. This disciplined approach results in a decrease from last year's budget while still tackling new initiatives. The promised implementation of performance metrics will allow better evaluation of outcomes for FY22.

The budget included increased funds of over \$5 million for several departments with a revised total expenditure figure remarkably less than total revenues for the first time in years. The plan for a surplus is an outstanding achievement for a new Mayor's introductory budget. According to McCutcheon, funding includes an IT system modernization for the City, a project of great importance identified by the Authority. More money also would go towards vehicle management, the police, and fire bureaus, and the parks and recreation departments.

Under the revised budget, all city employees would receive raises, but there are no layoffs.

The budget includes paying \$10.7 million in debt service, some of which includes paying down the City's remaining \$19 million general obligation debt to bond insurer Ambac. Hartman said the City has yet to decide on its plan for paying off the full general obligation debt. Council did make a few final changes to Williams' plan, most notably in its \$19.5 million police budget

Finally, a supplementary spending plan for use of the American Rescue Plan (ARP) federal funding remains unarticulated, although a proposal is expected about mid-year. Of great interest to the Authority, the 2022 revised budget called for use of \$8.86 million of the \$48.8 million in rescue plan funds awarded the City of Harrisburg, representing the "lost revenue" element of the ARP funding. First, the City will complete a public outreach process, now underway, to hear what residents want to see funds used for.

Unfortunately, the Neighborhood Services Fund, long a concern for the Authority, still does rely on a Fund Balance appropriation to balance its budget. There is hope that with added energy for improving the collections rate, this reliance could be reversed.

The following is a general outline of the proposed budget as compared to the City's current Five-Year Financial Plan as amended and restated on June 11, 2021 (the "Five-Year Plan").

General Fund

- Revenues of \$72,523,000, compared to \$65,358,263 in the Five-Year Plan. The budget includes federal grant proceeds of \$8,863,000.
- Expenditures of \$71,294,728, compared to \$71,758,470 in the Five-Year Plan.
- Capital Expenditures of \$2,069,864 compared to \$1,617,000 in the Five-Year Plan.
- Fund Balance appropriation of \$0, compared to \$7,400,208 in the Five-Year Plan.

Neighborhood Services Fund

- Revenues (excluding cash carryover) of \$18,262,224, compared to \$17,036,321 in the Five-Year Plan.
- Expenditures of \$18,029,799, compared to \$17,927,774 in the Five-Year Plan.
- Capital Expenditures of \$644,203 compared to \$1,948,521 in the Five-Year Plan.
- Appropriation of Fund Balance of \$1,025,949 compared to \$891,453 in the Five-Year Plan.

Capital Projects Fund

- Capital Expenditures of \$8,981,337 compared to \$1,290,554 in the Five-Year Plan.

The Authority has acknowledged that the City's proposed revised and restated 2022 budget meets or exceeds the Authority's expectations for the proper financial management of the City of Harrisburg. As a whole, the Authority applauds the Mayor's assembled Financial Management team whose talents are a refreshing change, and which lend immediate credibility to the City's financial management.

DRAFT

STATEMENT OF ACTUAL AND BUDGETED REVENUE
 FOR THE PERIOD ENDED DECEMBER 31, 2021

<u>Revenue</u>	Adjusted Budget 2021	TOTAL Revenue 2021	Variance From Budget 2021	TOTAL Revenue 2020	Variance From Actual 2021 vs 2020
Source:					
Total General Fund	\$86,746,922.00	\$ 68,808,510.00	\$(17,938,412.00)	\$65,212,518.00	\$3,595,992.00
<i>Approp. of Fund Bal.</i>	\$21,100,285*				
Total Capital Projects	\$16,644,138.00	\$ 5,854,497.00	\$(10,789,641.00)	\$ 3,538,865.00	\$2,315,632.00
Total Debt Service	\$14,518,638.00	\$ 13,628,869.00	\$ (889,769.00)	\$10,083,351.00	\$3,545,518.00
Total S.L.F.T.	\$4,204,063.00	\$ 1,285,187.00	\$ (2,918,876.00)	\$ 1,422,384.00	\$(137,197.00)
Total Host Muni Fee	\$604,239.00	\$ 344,725.00	\$ (259,514.00)	\$ 350,854.00	\$(6,129.00)
Total Neighborhood	\$19,219,613.00	\$ 16,126,350.00	\$(3,093,263.00)	\$15,883,785.00	\$242,565.00
Total Senators	\$5,950,000.00	\$ 5,837,346.00	\$ (112,654.00)	\$ 506,780.00	\$5,330,566.00
Total Sanitation (Discontinued)	\$ 0	\$ 69,845.00	\$ 69,845.00	\$ 6,645.00	\$63,200.00
Total Mitigation	\$192,546.00	\$ 52,037.00	\$ (140,509.00)	\$ 63,848.00	\$(11,811.00)
Total Spec Eve/Proj	\$21,300.00	\$ 74,141.00	\$ 52,841.00	\$ 13,655.00	\$ 60,486.00
Total Fire Protection	\$247,833.00	\$ 16,439.00	\$ (231,394.00)	\$ 29,862.00	\$ (13,423.00)
Total Police Protection	\$209,300.00	\$ 118,865.00	\$ (90,435.00)	\$ 207,989.00	\$(89,124.00)
Total Parks & Rec	\$420,314.00	\$ 95,917.00	\$ (324,397.00)	\$ 95,603.00	\$ 314.00
Total WHBG-TV	\$5,000.00	\$ 29.00	\$ (4,971.00)	\$ 1,042.00	\$(1,013.00)
Total Special Events	\$323,000.00	\$ 190,053.00	\$(132,947.00)	\$ 83,517.00	\$106,536.00
TOTAL	\$149,306,906.00	\$112,502,810.00	\$(36,804,096.00)	\$97,500,698.00	\$15,002,112.00

* - The 2021 Adjusted Budget called for the use of \$21,100,285 in fund balance to balance the General Fund. None was used.

STATEMENT OF ACTUAL AND BUDGETED EXPENDITURES
 FOR THE PERIOD ENDED DECEMBER 31, 2021

<u>Expenses</u>	Adjusted Budget 2021	Actual Expenses and Encumbrances	Available Budget 2021
General Fund	\$86,684,486.00	\$78,375,730.00	\$8,308,756.00
Capital Projects Fund	\$16,644,138.00	\$14,706,747.00	\$1,937,391.00
Debt Service Fund	\$14,518,638.00	\$14,078,638.00	\$440,000.00
State Liquid Fuels Tax Fund	\$4,204,063.00	\$3,943,565.00	\$260,498.00
Host Municipality Fee Fund	\$604,239.00	\$342,943.00	\$261,296.00
Neighborhood Services Fund	\$19,219,614.00	\$17,237,741.00	\$1,981,873.00
Harrisburg Senators Fund	\$5,950,000.00	\$5,631,342.00	\$318,658.00
Neighborhood Mitigation Fund	\$192,546.00	\$54,936.00	\$137,610.00
Special Events & Projects Fund	\$20,000.00	\$5,250.00	\$14,750.00
Fire Protection Fund	\$245,533.00	\$224,533.00	\$21,000.00
Police Protection Fund	\$205,300.00	\$89,893.00	\$115,407.00
Parks & Recreation Fund	\$420,214.00	\$81,643.00	\$338,571.00
WHBG-TV Fund	\$5,000.00	\$-	\$5,000.00
Events Fund	\$322,100.00	\$135,546.00	\$186,554.00
	\$149,235,871.00	\$134,908,507.00	\$ 14,327,364.00

ISSUE #6: OPERATIONAL EXCELLENCE.

The City's full financial recovery will benefit from additional improvement with operational issues.

Compliance for Major Federal Programs.

The City's Independent Auditor expressed a qualified opinion on compliance for major federal programs in the Single Audit Report dated February 18, 2022. The Independent Auditor also identified additional findings for other instances of noncompliance and internal controls over compliance.

Information Technology Infrastructure.

The City operates legacy Information Technology infrastructure with unsupported hardware and software that has the risk of failing at any point. The City's mainframe infrastructure is more than 30 years old.

The Authority believes the City is making significant strides to address its issues with legacy IT infrastructure and moving in the right direction. The City projects nearly \$1.5 million in IT capital projects over the next four years. These projects will allow the automation of certain time-consuming processes which are currently manual or maintained off system, as well as improve internal controls for the City.

The contract with Tyler Technologies ("Tyler") to migrate to their Munis system was fully executed on March 3, 2022. Munis is an Enterprise Resource Planning (ERP) solution that integrates all of the core operations onto a single platform. The modular design will allow the City to seamlessly integrate other modules to fit future needs.

This migration will involve the conversion of historical data and processes from our mainframe City, Revenue, and Personnel systems, plus the Central Square eFinance system and the Paychex payroll system. The new system will be hosted by Tyler in their Data Center and will be accessed by City employees through an internet browser. As systems are converted to Munis, the existing systems will be retired and decommissioned. This includes both hardware and software.

Tyler is in the process of assembling their project team, so that project can begin with the City's project teams. The project should begin during the month of April 2022. The preliminary project timeline received from Tyler indicated that the project would be implemented in six (6) separate phases over a 27-month period.

The City's project teams will be made up of a Steering Committee that includes an Executive Sponsor and Project Manager, Functional Leads, Power Users, End Users, and Technical Leads. The Functional Leads, Power Users, and End Users will be involved in the project during the project phases that impact their area of responsibility.

After migration, the Munis system will allow the City to become more efficient with the overall operations of all Bureaus and Departments and be more responsive to our customers. It will also allow City residents to have easier access to their information through a citizen self-service portal and to receive communications from the City electronically.

Communications Office.

A new Communications Director was hired in March 2022, Matt Maisel. Matt comes to the city following seven years as a reporter and anchor at WPMT FOX43 and eight years in print and television journalism in Johnstown. In that time, he covered Harrisburg city news and state government stories.

Public Safety - Police.

Eight Probationary Police Officers who were hired on 3/22/21 have successfully completed one-year of service with the Harrisburg Bureau of Police. This group of officers have spent the past year going through the HACC Academy for their ACT 120 certifications, followed by completing a rigorous 6-month field training program which includes in-house instruction and practical training on the street.

The recently formed Community Services Division now includes a team of six civilian Community Service Aides (CSA) under the supervision of Director, Chardon Huston, and Police Captain, Milo Hooper. The CSA team has identified ways to strengthen the relationship between the police bureau and the community.

In December of 2021, the City was awarded a \$500,000 PCCD VIP grant to support local intervention measures with the goal of reducing or preventing gun violence in the number of hot spot areas in the City. Under this grant, the City will engage a consultant through the National Network for Safe Communities to guide the implementation of a long-range program to continue a collaborative partnership for violence reduction among the Dauphin County Human Services Department, the City of Harrisburg, and the Harrisburg Bureau of Police. The program is expected to foster and promote communication and prevention activities among school entities, the community, and law enforcement through street outreach and use of credible messengers as part of the Group Violence Intervention (GVI) initiative.

The next phase of this effort focuses on initiating and continuing the execution and evolution of the Group Violence Intervention (GVI) strategy. The City will expand resources for the Community Service Aide Program and increase partnerships with sustainable, community-based, non-profit programs in Harrisburg. The grant funding is expected to cover the cost of a multitude of items, including, but not limited to: consultancy fees, the salary of an independent contractor to provide technical assistance, training costs of evidence-based gun violence intervention strategies for the Community Service Aides to provide outreach, street mediation, and violence interruption, computer software, sponsorship efforts, as well as the cost of supplies to support mentorship programs.

Public Safety – Fire.

As of March 25, 2022, the Fire Bureau is staffed with the Fire Chief, Chief Brian Enterline, Senior Deputy Chief, Deputy Chief, the newly created Deputy Chief of Training (Vacant), one Administrative Assistant, and 86 Sworn Personnel. Also, the Fire Bureau has five new firefighter trainee that commenced their training on March 7, 2022.

Public Safety - Codes Enforcement.

The Codes Enforcement Bureau is currently working with Melissa Mesones-Ortiz in translating various forms into Spanish. The translated forms will be available at the customer service counter. Adjustments will be made as needed.

Neighborhood Services Department.

The Bureau of Neighborhood Services has been actively engaged in a number of key projects in the refuse and recycling, maintenance, and infrastructure development areas. In addition to City trash collection, the City has a trash collection contract with the Borough of Steelton, the Borough of Penbrook, and the Borough of Paxtang. This is a major advancement in the use of the City owned resources to provide trash services to neighboring communities.

Parks, Recreation and Facilities.

The following projects are currently underway for the Bureau of Parks, Recreation, and Facilities:

- Reservoir Park - Chutes and Ladders Playground - completing design work, procuring playground equipment- next step is to get a contractor on board to begin construction (hopefully by April 29).
- Italian Lake- dredging the south quarter of the lake for environmental lake health will be complete by the end of March.
- Greenbelt
 - Paxtang Parkway - awaiting decision on PennDOT grant to remediate the trail in a 2,400 linear foot area, applying for a DCNR grant to remediate the streambed in the same area.
 - Received quotes from contractors to clean up illegal dumping area adjacent to Greenbelt, received quote to install fencing along the area to deter further dumping.

Performance Measurement.

The City does not practice systematic performance measurement. We believe implementing an effective system of performance measurement will enhance the efficient management and fiscal recovery of the City.

Traffic and Engineering.

The City's Zero Action Plan is a commitment by the City to reduce and eliminate serious injuries and fatalities within a ten-year period. This was a recommendation in the City's Comprehensive Plan. The City has received strong support from the public and the Pennsylvania Department of Transportation (PENNDOT). This plan advances grassroots efforts within neighborhood groups and the community coming together for the common purpose of traffic safety. The 2nd Street Corridor improvements commenced last week with the milling portion of the project. It is anticipated when the project is complete by the spring of 2023, 2nd Street will support two-way traffic.

Solicitor's Office.

The Commonwealth of Pennsylvania, et al., filed a complaint against seven professional firms based on the Harrisburg Incinerator Project and the related financing transactions. The case is filed in the Commonwealth Court at 368 MD 2018. The Petitioners are represented by Harris, Wiltshire, and Grannis, LLP. In early September 2019, the Commonwealth Court held oral argument on preliminary objections filed by the seven professional firms seeking to dismiss the complaint. In early September 2021, the Court issued a decision on a preliminary objection that the case is proceeding.

Consistent with Act 47 operational initiatives, the Law Bureau again has engaged labor counsel for two (2) union contract negotiations occurring in 2022.

The Law Bureau is assisting in securing trainings for officials and City staff to avoid compliance gaps in course of the transition to a new Administration, in addition to daily oversight of litigation, right to know requests, legislative drafting, lien processing, labor disputes, drafting and review of contracts and general legal compliance matters for the City.

As of April 1, the Law Bureau will have two (2) of the five (5) budgeted attorney positions filled and actively are seeking to fill the remaining slots.

ISSUE #7: PROGRAM MANAGEMENT WITH FEDERAL FUNDING.

The City's independent auditors identified a number of material weaknesses and significant deficiencies with the City's management of federal funding. As a result, the auditors expressed a qualified opinion in their Single Audit report.

The Authority believes it is a matter of utmost urgency to rectify these audit findings and maintain access to federal funding. The City has prepared an outline of responses and intended corrective actions, which was presented to the Authority.

ISSUE #8: DEBT LOAD AND RESTORING ACCESS TO CREDIT MARKETS.

Despite significant improvements in managing their debt, the City still does not have an investment grade credit rating as a result of the previous default. Key to the City's long-term viability is access to the debt markets to fund capital projects and other deferred maintenance needs. To that end, the City has endeavored to restore an investment grade credit rating to build standing with investors and minimize borrowing costs.

The 2021 settlement with Ambac Assurance Corporation ("Ambac") resulted in a significant step in that direction.

1. The HRA Series A-2 of 2005 stadium improvement bonds went thru defeasance in November 2021 (defeased \$4,655,000 in outstanding maturities); this coincided with the City's \$4 million prepayment against the bond insurer forbearance liability and related settlement agreement with Ambac.
2. As a result of the above, the City achieved the additional credits of \$1,520,000 and \$1,768,900 from Ambac fully resulting in a total pay down of the bond insurer liability by \$7,288,900.
3. As of today, the Ambac liability stands at \$19,572,091 (including accrued interest) as of 3/15/22, and to further note the final payment to Ambac per the revised amortization schedule now reflects a 3/15/29 due date.
4. Finally, the City is in the final maturities year for both the GO Series of 1997 "D" Bonds and "F" Notes.
5. "D" Bonds: final maturity scheduled for 9/15/22, and with estimated accretion thru 3/15/22 I have an outstanding value of \$1,586,232 as of 3/15/22 > the \$1,586,232 is 94.70% of the final maturity of \$1,675,000.

6. “F” Notes: also final maturity scheduled for 9/15/22, and with estimated accretion thru 3/15/22 I have an outstanding value of \$6,368,602 as of 3/15/22 > similarly the \$6,368,602 is also 94.70% of the final maturity of \$6,725,000.

What Happens after September 15, 2022?

The next step with debt management is for the City to decide whether or not to reenter the debt marketplace. While their credit rating is currently non-existent, with the Ambac settlement, the City can undertake a debt rehabilitation project with Moody’s Investor Services to re-establish a credit rating. This initiative would be of great interest to the Authority.

Furthermore, the discussion on whether to use new debt financing for appropriate projects should commence in 2022. Appropriate projects, pursuant to advice from the Government Finance Officers Association (GFOA) would be the utilization of debt to finance capital improvements with a multi-year or multi-generational benefit for the City.

The appropriate use of debt is to spread the cost of capital improvements, which increase asset value (i.e., build a physical asset for the community) so that the entire cost of such an improvement is not front-loaded on current taxpayers.

The alternative is to make use of the additional cash-flow and liquidity from the end of the General Obligation (G.O.) debt for the benefit of the operating budget. If the City chooses, the end of the debt obligation can improve the resources of the City to pay for operations. For example, in 2022 the revised budget calls for the one-time use of over \$8 million in American Rescue Plan (ARP) federal funding for operations. It is necessary for the City to determine how to pay for such expenses on an ongoing basis, as the ARP funding was a solution only for the 2022 budget year.

Act 124 of 2018 Prohibits Issuance of Debt.

The Intergovernmental Cooperation Authorities Act for Cities of the Third Class (“Act 124”), 53 P.S. § 42101, et seq., not only established the Authority, but it also prohibits the “Assisted City” from issuing new debt.

Section 208. Limit on city borrowing.

An assisted city and its corporate entities may not borrow or receive funds for any lawful purpose unless the assisted city has entered into an intergovernmental cooperation agreement with the authority and there is an approved financial plan in effect.

The Intergovernmental Cooperation Agreement that was approved by the Authority, City and City Council in 2021 still remains unsigned and the issues involving Commonwealth Court that were holding up the signing still remain unresolved. As a result, the City remains under the control of the Coordinator and the Harrisburg Strong Plan and still subject to the Distressed City designation. The Authority hopes that the Agreement can be signed promptly, and the City removed from Act 47. The Authority has been advised that the City Solicitor’s office is reviewing the status with the hope of resolving the remaining issues and getting the agreement signed and the City removed from Act 47 in the second quarter of 2022.

Until the Agreement is finalized, the City is prohibited from the issuance of new debt.

ISSUE #9: PERSONNEL AND LABOR AGREEMENTS.

The total budgeted police personnel cost for 2022 is \$16,828,879. Of this total, \$12,125,162 or 72% is for salaries, wages, and overtime. The total 2022 budgeted police personnel cost is 23.8% of all General Fund appropriations. In 2020, the City and the Fraternal Order of Police Capital City Lodge No. 12 (“FOP”), ratified a new collective bargaining agreement that runs through 2025 and includes regular salary increases based on a fixed pay scale determined by years of service and job classification. Based on the pay scale and anticipated staffing levels, the City projects average annual salary increases of 2%.

Per its collective bargaining agreement, salaries for the International Association of Firefighters, Local No. 428 (“IAFF”) union members have increased 2% annually through 2022. The contract is currently going through negotiations for 2023, 2024, 2025.

The City and the American Federation of State County and Municipal Employees District Council 90, Local 521 (“AFSCME”) have agreed to 3% salary increase plus \$3,000 lump sum payment for 2022: a 3% salary increase plus \$1,500 lump sum per employee for 2023. The ensuing two years 2024 & 2025, employees will receive a 3% salary increase plus a \$1000 lump sum per employee.

In addition to salaries, overall compensation includes a wide variety of components, such as overtime, longevity pay, shift pay, special assignment pays, other cash premiums and bonuses, employer portion of applicable payroll taxes, vacation, holidays, paid leave, active employee life insurance, and other miscellaneous fringe benefits.

As a result of the 2013 contract amendments, all full-time employees (represented and non-represented) were moved to the Basic Health Plan that previously had only been mandatory for non-represented City employees. In addition, all unions agreed their members would contribute towards the cost of health care premiums, as set forth below:

	FOP	AFSCME
Tier of Coverage	Percent of base salary effective 2020-2025	Percent of base salary effective 2021
Single coverage	2.5%	2.5%
2 person coverage	4.5%	4.5%
3 person coverage	5.5%	5.5%
4 or more person coverage	6.5%	6.5%

IAFF active employees contribute towards their health insurance coverage at the rate of \$40 per biweekly pay for single coverage, and \$90 per biweekly pay for two or more-person coverage.

The City self-insures for health insurance coverage, meaning it does not use a third-party provider for health insurance.

The City also provides for certain post-retirement health benefits for its represented employees. In recent contract negotiations, the bargaining units have agreed to change retirement benefits with respect to active employees and future (yet-to-be-hired) employees. All units agreed that future employees would not be entitled to receive post-retirement health care at the City's cost. All bargaining units agreed that active employees, upon their retirement, would be provided benefits at the same levels as active employees, and that such retiree coverages may be modified from time to time if similarly modified for active employees.

Headcount of Employees.

For 2022, Harrisburg currently employs 470 full-time employees, including 378 full-time equivalents budgeted to be paid out of the General Fund, 80 to be paid out of the Neighborhood Service Fund, and 2 paid from the Host Fee Fund. In addition, 10 employees are paid out of the Federal Department of Housing and Urban Development (HUD), Community Development Block Grant Fund (CDBG).

The following table shows the number of budgeted 2021 full-time employees by employee group:

Employee Group	Covered Positions	2020 Budgeted Total FTEs	2022 Budgeted Total FTEs	Contract Expiration
Non-represented	Executive, management, confidential	96	91	N/A
FOP	All sworn police officers	149	157	December 31, 2025
AFSCME	All non-executive, non-management, non-confidential employees not otherwise covered in FOP or IAFF	135	127	December 31, 2025
IAFF	All firefighters, lieutenants, captains, battalion chief, and deputy chiefs	82	95	December 31, 2022
Total		462	470	

The prior year plan projected stable employee numbers going forward.

In 2020 the City announced a new Community Services Division within the Bureau of Police. The goals of the new division have been fine-tuned so that they provide assistance on non-criminal activity. For the past two year the Community Services Aides have assisted the City with Business Checks, School-related Presence and Assistance, and Non-Reportable Incidences.

ISSUE #10: PRIVATIZATION INITIATIVES.

The City made a commitment to the Authority to explore possibilities of intergovernmental agreements with surrounding municipalities for police services, regionalized fire protective services, and solid waste and recycling collection and disposal service.

Neighborhood Services Fund.

In 2019 the City entered into an Intermunicipal Solid Waste Agreement with the Borough of Steelton to provide refuse collection and disposal services. In 2020, the City entered into similar service agreements with the neighboring boroughs of Paxtang and Penbrook. The City was unable to provide an analysis of the financial impact on the City's operating and capital budgets prior to entering into these agreements.

City management is committed to proper reporting on revenues and expenses related to the Steelton Paxtang and Penbrook agreements, and in December 2021, a format of such reports was produced by Bryan McCutcheon as a part of the 2022 budget process.

As part of the submission of the revised Five-Year Financial Plan in June 2022, a revised report will be prepared. We note though that indirect costs and overhead which are paid for out of the NSF and/or General Fund have not been accounted for (see previous indirect cost discussions in this report) and so the real benefit to taxpayers and ratepayers for these intermunicipal service agreements remains unknown.

ISSUE #11: INTERGOVERNMENTAL COOPERATION OPPORTUNITIES.

Key Stakeholders.

The City's financial difficulties can best be addressed and resolved by cooperation with stakeholders. To foster cooperation and assist the financial recovery of Harrisburg, Authority members invest a significant amount of time engaging with key stakeholders. A non-exhaustive summary of key stakeholders is as follows.

- *City Management.* Authority members struggled to meet regularly with Mayor Eric Papenfuse, but Mayor Wanda Williams has shown much more openness to regular meetings. A standing meeting with Mr. Williams and Authority Chair Audry Carter and Vice-Chair Ralph Vartan is scheduled monthly, generally for the Monday prior to the Authority's board meeting. These meetings are seen as an opportunity to review the upcoming board meeting agenda, discuss Authority business, and foster cooperation. City Business Administrator Dan Hartman has attended Authority meetings on request and communicated with Authority members and staff. Opportunities exist for further engagement between the Authority and City management.
- *City Council.* Authority members had met periodically with Wanda Williams when she was City Council President and Former Vice-President Ben Allatt. Those meetings were an opportunity to share information and opinions, discuss Authority business, and foster cooperation.

The Authority has reached out and attempted to develop a similar positive interaction with new Council President Danielle Bowers and Council Vice-President Ausha Green, who also serves as Chair of the Budget & Finance Committee of Council.

- *Act 47 Coordinator.* Act 47 Coordinator Kim Bracey assists in implementing the Harrisburg Strong Plan, monitors the City's cash flows on a bi-weekly basis, and files quarterly status reports with the Commonwealth Court as long as the City remains in Act 47 distressed status. She regularly sits in on the Authority meetings. We thank Ms. Bracey for her communication.
- *City Controller.* The office of City Controller Charlie DeBrunner assists the Authority to receive and interpret useful information regarding the City's finances, and to foster integrity in financial management and reporting. Mr. DeBrunner is knowledgeable about internal operations and helps to ensure the implementation of and adherence to prudent financial management policies and procedures. This office is a valued partner in the financial recovery for Harrisburg.
- *City Treasurer.* The office of City Treasurer Dan Miller assists the Authority to receive and interpret useful information regarding the City's finances, and to foster integrity in financial management and reporting. Mr. Miller is focused on prudent financial management practices such as policies and solutions to increase the collection of receivables. This office is a valued partner in the financial recovery for Harrisburg.
- *Dauphin County.* Dauphin County is very supportive of the City's financial recovery. Numerous opportunities for cooperation exist to benefit the City's financial recovery. In the past, for example, the County has offered assistance with information technology operations for the City and regionalized solutions to critical public services like public safety and 911 dispatch. The Authority looks forward to exploring and facilitating further partnerships between these two vital bodies.
- *Impact Harrisburg.* Coming out of the Strong Plan, Impact Harrisburg primarily benefits Harrisburg by providing grants for City economic development and infrastructure projects that bolster Harrisburg's tax base, provide jobs for City residents and positively improve the operational efficiency of the City. Most recently, at the onset of the pandemic Impact Harrisburg launched and administered the Neighborhood Business Stabilization Program in concert with the City. The fund provides grants to small Harrisburg businesses.
- *Harrisburg Regional Chamber & CREDC.* The Harrisburg Regional Chamber & CREDC is a champion for Harrisburg and a key partner in the City's financial recovery. HRC/CREDC is equipped to engage in more opportunities for cooperation in the area of community and economic development.
- *Capital Region Water.* Capital Region Water was created in 2013 as part of the Strong Plan. It has vastly improved the quality of service being provided to the City's water and sewer customers. In 2015 CRW and the City entered into a partial consent decree to help reduce runoff pollution entering the Paxton Creek and Susquehanna River. CRW launched a program,

dubbed “City Beautiful H2O,” to restore failing infrastructure, reduce combined sewer discharges, improve the health of our local waterways, and beautify our neighborhoods through community greening. CRW is a vital partner in Harrisburg’s financial recovery.

- *Additional stakeholders.* The Authority believes residents and businesses of the City are a vital part of the process of Harrisburg’s financial recovery. The Authority has committed to holding Listening Sessions with these stakeholders in cooperation with the City.

Opportunities for Cooperation.

As provided in Act 124, the Authority has recommended taking into consideration various opportunities for cooperation or merger of services with other public entities.

Through conversations with various stakeholders, Authority members have become aware of several opportunities that the City should re-visit.

- *Information Technology Infrastructure.* The City operates legacy IT Infrastructure that is being replaced. The Authority has advised the City to explore cooperation opportunities with Dauphin County in this area.
- *Public Safety.* The Authority is aware of past studies on the merits of regionalizing public safety as a way to create cost savings and improve service levels. The Authority has advised the City to explore cooperation opportunities with Dauphin County and suburban municipalities in this area.

OTHER MATTERS.

Listening Sessions.

The Authority had previously committed to holding Listening Sessions with residents and businesses of the City. Identified goals for this outreach include soliciting ideas for further consideration, and connecting individuals where appropriate to form an organized effort. The Listening Sessions will be organized in cooperation with the City who is undertaking a similar effort with respect to the American Rescue Plan (ARP) Act funding prioritization. Given the imperative of that effort, the timeline for more sessions is up in the air.

Economic Development Symposium.

The Authority has committed to launch an initiative to establish an Economic Development Symposium for Harrisburg. It was envisioned as a way to collect best management practices and highlight them for the stakeholders in Harrisburg. The Authority secured a partnership with the Harrisburg Regional Chamber to help execute the event with an anticipated attendance of 300+ persons. We would like to continue to explore this concept with the new mayor and the Harrisburg Regional Chamber & CREDC.

Litigation between the City and Authority.

This issue is now completely resolved, and no legal matters exist between the parties.

SUPPLEMENTAL INFORMATION.

FINANCIAL PRESENTATIONS.

Section 203(b)(4)(ii) of Act 124 provides that this report shall:

Clearly show by consistent category the last five years of operating revenues and expenditures, capital expenditures, gross and net indebtedness transactions, including a schedule of principal and interest, five-year projections of the assisted city's operating and capital budgets and the entire projected indebtedness transactions, including a schedule of principal and interest of the indebtedness until any and all debt has been completely retired.

Enclosed with this report is the City's Five-Year Financial Plan dated June 11, 2021, which contains several of the required financial presentations as of 2021.

VIOLATIONS OF FEDERAL AND STATE LAW.

Section 203(b)(4)(iv) of Act 124 provides that this report shall:

Disclose any violations of Federal and State law that the authority may have discovered.

The Authority has not discovered any violations of federal or state law except as may be discussed herein.

HISTORICAL LOANS OR OTHER CONTRACTS.

Section 203(b)(4)(v) of Act 124 provides that this report shall:

Include as appendixes all historical loans or other contracts entered into by the assisted city and its corporate entities.

There has been no new activity in this area and thus no new appendixes are included. The Authority is working with the City to assure that new agreements of major significance meet the requirements of the Act.