

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

DENNIS M. DAVIN, IN HIS :
CAPACITY AS SECRETARY :
FOR THE DEPARTMENT OF :
COMMUNITY AND ECONOMIC :
DEVELOPMENT :

Petitioner, :

v. :

NO. 569 MD 2011

CITY OF HARRISBURG :

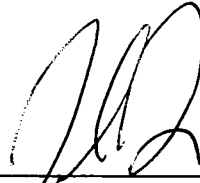
Respondent. :

STATUS REPORT OF THE COORDINATOR FOR THE CITY OF
HARRISBURG

2018 JUL -9 PM 3:56
RECEIVED
CLERK OF COURT
OF PENNSYLVANIA

Marita J. Kelley, Coordinator for the City of Harrisburg (the “Coordinator”),
by and through the Office of Chief Counsel for the Department of Community and
Economic Development, respectfully submits the following Status Report
regarding the implementation of the Harrisburg Strong Recovery Plan, as
confirmed by this Honorable Court on September 23, 2013.

Respectfully submitted this 9th day of July, 2018.



John M. Quain Jr.
Attorney I.D.: 311983
Governor's Office of General Counsel
Department of Community and
Economic Development
400 North Street, Plaza Level
Harrisburg, PA 17120
(717) 214-5300
(717) 772-3103 (fax)
jquain@pa.gov



pennsylvania

DEPARTMENT OF COMMUNITY
& ECONOMIC DEVELOPMENT

Date: July 9, 2018

To: The Honorable Bonnie Brigance Leadbetter

From: Marita J. Kelley, MPA, City of Harrisburg, Recovery Coordinator

Re: Update on Receiver's Plan Implementation

I am pleased to provide the Court with the quarterly update on the status of the implementation of the Receiver's Recovery Plan, as confirmed by the Court on March 9, 2012; on the Modified Plan, the Harrisburg Strong Plan ("Strong Plan"), confirmed by the Court on September 23, 2013 and the Strong Plan Modifications, as confirmed by the Court on July 20, 2016. This will be the eighteenth report to the Court since the appointment of the Coordinator, by then Department of Community and Economic Development (DCED) Secretary C. Alan Walker, effective March 1, 2014.

As the Coordinator, in accordance with Act 47, the Municipalities Financial Recovery Program, as amended by Act 199 of 2014, the Recovery Coordinator Team must provide an Act 47 Exit Plan for the City of Harrisburg by March 22, 2018. Three months from now City Council must act to review and adopt the Recovery Team's recommendation. The Recovery Coordinator has three options to recommend: A Rescission or Exit recommendation from Act 47; A recommendation of a Fiscal Emergency; or A recommendation for a Three-Year Extension.

As such, on March 22, 2018, the City of Harrisburg's Chief Clerk and the Mayor's Office received the Financial Condition Report (FCR) which preliminarily recommends a three-year extension as part of the City's Exit strategy from Act 47, the Municipalities Financial Recovery Program. The Coordinator has had some preliminary discussions with the Mayor and City Council regarding the recommendations set forth in the Financial Condition Report and the Act 47 Exit Plan. A copy of the Financial Condition Report was submitted to the Court as part of last quarters presentation. The public had fifteen days from March 22, 2018, to provide public comment on the Financial Condition Report. The written comment period ended on April 6, 2018 and a public meeting was held on April 10, 2018 at the City Council Chambers to receive oral comment. The final Act 47 Exit Report with the Financial Condition Report embodied in it will be submitted to the Mayor's Office and the Office of Chief Clerk of the City Council for review on July 9, 2018. The public will be allotted a fifteen-day written comment period concluding on July 24, 2018. A public meeting is scheduled on July 24, 2018 at 5:30 pm at the City Council Chambers to receive oral comment on the Act 47 Exit Plan. The City Council is slated to vote by Ordinance, on the adoption of the Exit Plan by September 18, 2018. A copy of the Act 47 Exit Report will be included as an attachment to this submission.

The City's General Fund, available cash balance as of June 14, 2018 stands at \$26.2 million; however, \$7.0 million is encumbered for major capital expenses for IT, Public Safety, and Public Works. These capital improvement projects were deemed necessary by the Mayor and City Council during the 2018 budget adoption. This will leave approximately \$19.2 million in the General Fund, cash balance available as of June 14, 2018.

This memorandum, supported by the accompanying attachment, provides the Court with a summary of actions that have occurred and issues that are involved with the continued implementation of the Strong Plan, including the modifications thereto, through the second quarter of 2018.

During the past three months, (April, May, June) the Coordinator and the rest of the Coordinator's team have been working with the City of Harrisburg's Mayor, Finance Department, and City Council to review 2017 Financial Statements and related transactions to ascertain the financial health of the City. The final 2017 Audit and related Financial Statements and Required Supplementary Information is not expected until September 2018.

The Coordinator team was engaged and involved, as the 2018 final budget was approved by City Council. The approved budget was also reviewed to assure that it is in full compliance with the Harrisburg Strong Plan.

On May 21, 2018 the Commonwealth of Pennsylvania, et al, filed a complaint against seven professional firms based on the Harrisburg incinerator project and series of financing transactions. The case is filed in the Commonwealth Court at 368MD2018. The Petitioners are represented by Harris, Wiltshire & Grannis LLP.

Office of the Receiver/Coordinator

It has now been just over four years and four months since your Honor issued an order on February 25, 2014 to vacate the Office of the Receiver, return the City to the underlying provisions of Act 47, and for DCED's Secretary to appoint a Coordinator who would oversee the further implementation of the Court confirmed Strong Plan. As part of the order vacating the Receivership, the Court retained jurisdiction over the further implementation of the Strong Plan. Consistent with the Court's order and to keep the Court apprised of the Recovery plan's status and Harrisburg's Recovery, I am providing this second quarter 2018 report on the City's progress with further implementation activities.

During the second quarter of 2018, the Recovery Coordinator oversaw the implementation of the Strong Plan modifications. The modifications provide financial projections through 2018 (the five-year initial term of Act 47), along with attendant recommendations that will advance the City's recovery towards the ultimate Rescission or Exit of its Act 47 designation. The modifications recognize the current fiscal position of the City and provide a fiscal roadmap for City officials to advance their recovery to the point at which a Rescission of its distress determination can occur. As stated above the Recovery Coordinator will be moving forward with an Act 47 Exit Plan for the City of Harrisburg. This plan provides the City with a comprehensive strategy to balance future budgets using the limited tools that are at the City's discretion. It offers preferred alternatives that attempt to assuage the fiscal burden of City taxpayers and current employees and gives the City's elected officials flexibility to achieve balanced operating budgets. It also provides opportunities for funding capital improvement programming for services that are essential to improve the City's quality of life and economic vitality, some of which are incorporated in the 2018 approved budget. In fact, the Mayor and City Council have committed an unprecedented \$7.0 million to the capital improvement and investment in the City. Most of the capital improvements are for IT, Public Works, and Public Safety facilities. There is also a considerable investment in the City's Park System for the first time in more than a decade.

As Coordinator, I hold bi-weekly status conference calls with members of our consulting team to coordinate all aspects of plan implementation. The team of professional advisors comprised of the

Novak Consulting Group, Pennsylvania Economy League, Dilworth Paxson, Public Resources Advisory Group, and Harris, Wiltshire & Grannis, along with DCED and the Office of General Counsel, has and will continue to support the Coordinator with further implementation of the Strong Plan Modifications.

The following sections of the report provide an updated summary of progress of the Harrisburg Strong Plan made with respect to:

- Impact Harrisburg – Non-Profit for Infrastructure and Economic Development
- Fiscal Issues
- Operational Matters
- Collective Bargaining/Personnel Matters
- Asset Related issues

Impact Harrisburg

The second quarter of 2018 Impact Harrisburg Board continued to move forward with Infrastructure and Economic Development project grants that the Board has awarded. The Board is responsible for the administration of the \$12.3 million set aside as part of the parking transaction to fund both economic development and infrastructure initiatives to aid the City in strengthening its tax base and addressing critical infrastructure needs, thus enhancing the quality of life for City residents.

The nine-member, Impact Harrisburg Board, was appointed by the Coordinator in January 2015 following the receipt of recommendations from the Mayor, City Council, and Dauphin County. The Board historically has been meeting bi-weekly (beginning January 1, 2018 weekly) to address organizational activities and has made considerable progress to date. Officers include Neil Grover as Chair, Doug Hill as Vice Chair, Brian Hudson as Secretary and Brittany Brock as Treasurer. Sheila Dow-Ford serves as Executive Director. The Board had engaged Vance Antonacci of McNeese Wallace & Nurick LLC as counsel to assist with its incorporation with the Department of State and establishment as a 501(c)(3) non-profit organization with the Internal Revenue Service. Articles of Incorporation were filed with the Department of State and approved on March 17. The 501(c)(3) application was also filed with the IRS in March and approved by the IRS on June 18, 2015.

From the period beginning January 2016 and through June 30, 2018 several significant activities occurred to advance the work of Impact Harrisburg. In early 2016 the organization retained both an accounting and an auditing firm, established a website presence and hired a web master. In addition, the organization entered into a lease arrangement with the Harrisburg Area Community College to rent office space at the HACC midtown campus, thus establishing a central and convenient location within the city.

As Coordinator, my office continues to provide administrative support to the Board of Directors and Sheila Dow-Ford, its Executive Director. I attend Board meetings along with my staff and I offer input, as appropriate. I continue to meet with Ms. Dow-Ford to provide guidance and historic perspective on the role of the Board. I have provided input on contracting, contract compliance issues, disbursements, and related matters. My Administrative Assistant continues to provide administrative support to the Board including the recording and preparation of the Board's meeting minutes. The Board's minutes are posted on the Department's website.

The Board has established the Pennsylvania Housing Finance Agency (PHFA) as its permanent meeting location. The organization has adopted a conflicts of interest policy, a records retention policy, an expense allocation policy; and a policy on Impact Harrisburg grant/reimbursement

drawdowns. In 2017, the organization also underwent its first audit for the fiscal period ending in June 30, 2016; the organization received a "clean" report. The second annual Impact Harrisburg audit for the period ending June 30, 2017 has also been finalized this month.

Within the operational realm, working as a team, the Board of Directors and the Executive Director had finalized requirements for the three programs to be established and administered: 1) Economic Development; 2) Community Building, and 3: Infrastructure Contingency. Under the established criteria only two entities, the City of Harrisburg and Capital Region Water are eligible for participation in the Infrastructure Contingency program.

Thereafter, over approximately a one-month period the Executive Director convened and attended several formal and informal education sessions at which the Impact Harrisburg grant programs and application process were introduced and discussed with a broad diversity of community participants. In addition, print and television media were used to bring publicity to the grant program.

On July 15, 2016 twenty-five applications were filed seeking Impact Harrisburg funding. Over the course of several days, the board met as a committee of the whole to review the applications in detail, and thereafter determined that 14 projects met the established funding criteria. As of June 30, 2018, the total amount of the grant awards allotted by Impact Harrisburg to various grantees stands at \$9,962,010.50. This amount represents a subsequent increase in the grant amount provided to one grantee, based upon a request for an amendment to the original grant agreement to accommodate an increase in the project scope due to unforeseen structural issues requiring remediation and other contingencies.

Projects Funded/Grant Amount/Project Status as of June 30, 2018:

Completed Projects:

1. City of Harrisburg Microsoft Office 365 (\$250,000 grant)
2. TLC Construction and Renovations (\$500,000 grant)
3. Webpage FX (\$500,000 grant)
4. Paxton Street Home Benevolent Society (\$100,000 grant)
5. Harrisburg River Rescue (\$81,369 grant)

Outstanding Projects:

1. Capital Region Water/City of Harrisburg Multi-Modal Collaborative Facility (\$5,487,290.50 grant)
2. East Shore YMCA (\$138,592 grant)
3. Gamut Theatre (\$250,000 grant)
4. Tri-County Community Action Commission (\$204,759 grant)
5. Tri-County Housing Development Corporation (\$350,000 grant)
6. City of Harrisburg Playground Resurfacing (\$250,000 grant)
7. Harrisburg Redevelopment Authority (\$500,000 grant)
8. YMCA Camp Curtin (\$500,000 grant)
9. *Community First Fund (\$350,000 grant) (This project is discussed in greater detail within this document.)

A uniform grant agreement was developed and has been entered into by all grantees with the exception of Community First Fund, with which Impact Harrisburg established a stand-alone agreement because of the unique nature of the purposes of the grant.

In addition, to ensure close adherence with all grant program requirements and any applicable state, local or federal laws, during fiscal-year 2017, the board developed a Request for Proposal under which the organization retained the services of two compliance professionals with extensive expertise in the grants management area. The two individuals work in close coordination with the Executive Director to provide oversight and technical assistance to grantees, as is necessary and appropriate. The team and Executive Director developed various program templates and processes for working with grantees in a uniform and consistent manner. To date, the compliance consulting team attends many board meetings and provides consistent updates on all projects through a shared drive electronic medium (accessible by grantees and board members) as well as via written reports. After serving in this capacity for one year the board deemed it prudent to extend the compliance contract for an additional six months, given the high quality and value of the work performed by the compliance consultants and the remaining number of grantees with future project start dates.

The Harrisburg Business Opportunity Fund

In March 2018 Impact Harrisburg announced the start of the Harrisburg Business Opportunity Fund (HBOF), a one million-dollar (\$1,000,000) loan fund established to bring low interest funding opportunities to new and existing businesses within the City that traditionally have been excluded from more traditional lending outlets. The initial one-million-dollar capitalization for the HBOF was provided by a three hundred fifty thousand-dollar (\$350,000) grant from Impact Harrisburg, and a six hundred fifty-thousand-dollar grant (\$650,000) grant from the Commonwealth Cornerstone Group (CCG), a wholly-owned subsidiary of the Pennsylvania Housing Finance Agency (PHFA). The HBOF grant fund is administered by the Community First Fund (CFF), a Lancaster City-based community development financial institution, which has established an office in Harrisburg and dedicated support staff to build diversity in economic development opportunity within the region. Under the agreement between and among the parties, CFF will report on HBOF activity on a quarterly basis.

Impact Harrisburg has invited the City of Harrisburg to become an HBOF partner both through a contribution to the fund and through the active development of programs to bring greater financial education and opportunities to actual and potential borrowers in a manner that is consistent with the goals articulated under the Act 47 Harrisburg Strong Plan. As of June 2018, the City has declined to join as a financial partner to this initiative. Impact Harrisburg has partnered with the City and other local financial services entities including CREDC, the lending arm of the Capitol Region Chamber of Commerce; the Kutztown Small Business Development Center, M&T Bank, and the Harrisburg Young Professionals to establish a consortium that will bring expertise to building a more cohesive and diverse business community and to enhancing entrepreneurship within Harrisburg.

As of June 2018, the Impact Harrisburg Board continues to meet monthly and in accordance with its Bylaws, elected its board leaders at the Annual Meeting. Further, the Finance Committee meets on a regular basis, between meetings of the board, and all members are invited to attend and participate.

At the June 2018 meeting of the Board the organization's investment advisers, Wilmington Trust, provided an update on the organization's financial standing and reviewed with the Board the feasibility of continuing with the fund allocation policies previously established. The professional recommendation was to continue to adhere to the policy as established, with a continuation of regular reviews and updates, as required.

Harrisburg Supplemental Growth Fund

The City has executed a construction contract in collaboration with PennDOT which was awarded to Lamb Construction, Inc. This award partially addresses the Harrisburg Supplemental Growth Fund that Dauphin County and Assured Guaranty Municipal Corporation (AGM) desired to address the \$10 million commitment from PennDOT that occurred as part of the Transportation Reform legislation passed in late 2013. An Escrow Agreement and the Escrow Disbursement agreement were both executed by all parties. The escrow agreement accounts for the use of funds set aside in the Supplemental Harrisburg Growth Fund and their distribution to the Infrastructure, Economic Development and OPEB funds should the City not receive PennDOT funding. AGM and the County selected M&T Bank as the depository for these funds and the Coordinator transferred the \$6.666 million set aside in the Supplemental Harrisburg Growth Fund to M&T Bank in February 2015 pursuant to the agreement.

Dauphin County and AGM have expressed concerns over the time it has taken to obtain disbursements under the Escrow Agreement. Following discussions between all parties on how to expedite the allocation and disbursement of the remaining \$6.9 million, PennDOT advised the City to file an application under PennDOT's FY 16/17 Multi-Modal application program for the remaining funds. On October 14, 2016 PennDOT announced the award of a \$2,236,667 grant to improve the vehicular, transit, pedestrian and bicycle movements in the City and to address several transportation safety issues. At the same time, PennDOT also committed a total of \$6,710,000 over the next three years for City projects. This approach will fully satisfy PennDOT's commitment and is intended to expedite the process moving forward. Design work on these projects is currently underway and the Coordinator will work with the affected parties in connection with the funding to the City and disbursement of escrow proceeds.

PennDOT's commitment is to provide \$2.0 million annually over a five-year period toward infrastructure repair in addition to existing funding commitments. In May 2015, the City received formal approval from PennDOT for an initial \$3.19 million grant to undertake street related improvements. A contract was executed, the City completed various resurfacing projects and an initial \$633,000 was disbursed to the City in April 2016 pursuant to the contract.

The City approved the Multi-modal grant reimbursement agreement with PennDOT for the remaining \$2.542 million at its March 21, 2017 meeting. This will complete the initial \$3.19 million PennDOT grant. These funds are designated for several City streets to be improved. By the end of the second quarter all environmental clearances had been obtained for the project. Utility companies have finalized their work, which was completed in advance of construction. NRG completed their work at the intersection of Third and Walnut, in advance of street construction. Final design work is complete, and the contract was awarded to Lamb Construction, Inc in late August and construction has started and will continue through spring and summer of 2018. Crews have been on site and aggressively working to the completion goal of September 2018. The project includes significant modernization of the Third Street corridor in the City from Market to Division Streets.

Fiscal Matters

As required by the revision to the Municipalities Financial Assistance Act, the Coordinator filed a Fiscal Condition Report with the City on March 22, 2018. The report recommended that the City remain in Act 47 for an additional three years as part of a detained Act 47 Exit Plan. The Act 47 Exit Plan will be filed with the City on July 9, 2018.

As outlined in the 2017 fourth quarter report, the City moved through its budget development and approval process culminating in City Council's adoption of the 2018 budget at its December 19, 2017 meeting. The adopted 2018 Budget was balanced and totaled \$106,165,855. The two major funds are the General Fund and the Neighborhood Services Fund. The Budget has had several adjustments. As a result, the General Fund Budgeted Expenditures were increased to \$76,360,321 from the adopted budget amount of \$72,810,194.

A review of actual revenues and expenditures through the end of May 2018 finds that the City's total General Fund revenues were \$31,392,226 (49.4% of budget) while expenditures were \$26,142,687 (35.9% of budget). The City received \$14,042,403 (92.9% of budget) of current year Real Estate Taxes through the end of May. The City also received significant Earned Income Tax revenues through May at \$5,282,985 (46.2% of Budget), which has further strengthened its cash position.

As of the end of May, the City had timely met all its initial debt service payments for the year. This included the first of its semi-annual debt service on its General Obligation bonds with a payment of \$4,841,069 on the 1997 Series D and F GO bonds; payment of \$297,742.41 on the PA Infrastructure Bank loan; and payment of \$96,534.90 to M&T Bank on the streetlight LED conversion loan. The City is to be commended for fulfilling its debt service payments on a timely basis.

Following the June 14 check run and payroll, the City's General Fund cash balance was \$26,238,113. This is \$4.0 million higher than at this point in 2017 when the City's cash position was \$22.2 million. The City's bi-weekly General Fund payroll averaged \$925,000 for the second quarter and the Neighborhood Services Fund bi-weekly payroll averaged \$140,000. The Coordinator reviews City payables for both the General and Neighborhood Services Funds on a bi-weekly basis to ensure expenditures are consistent with the confirmed Strong Plan.

During the second quarter, seven bi-weekly check runs were reviewed, comments were provided, and check runs were approved. Through the continued diligence of the City's Finance Office, the City has been able to meet payroll and critical creditor obligations through the second quarter and has continued to maintain a status (within 30 days or less) for virtually all payables. The cost containment provisions of the Emergency Action Plan continue to be followed as they relate to the City providing "necessary and vital services". The 2018 cash flow summary attached with this report reflects actual revenues and expenditures through May with projections through year-end.

The Strong Plan modifications included a number of recommendations related to capital improvements. As the City's recovery progresses, it will have to fund capital projects through a combination of grant funds, borrowing and pay as you go (PAYGO). The 2018 budget takes advantage of certain grants and likewise uses a portion of its fund balance on a PAYGO basis to address targeted capital needs primarily in the IT, Public Safety and Public Works areas.

The Coordinator continues to support the work of the City Controller and Finance Office to provide budget vs. actual reports to the Administration and Council. This information is an important element in having transparent fiscal information available for Elected Officials to make timely decisions as well as keeping the public aware of the City's financial condition.

The Controller's Office continues to monitor compliance with purchase order procedures and recently updated its review of City purchasing procedures through the June 14 check run. The non-compliance rate for FY 2018 is 4.2%; for transactions in the second quarter the rate was 1.9%. It's important that all City personnel follow the City's purchasing procedures and obtain

purchase orders prior to a purchase to ensure available funding and compliance with the budget guidelines set forth.

The Finance Office spent considerable time during the second quarter of 2018 in preparing for the FY 17 audit. Trout, Ebersole & Groff was again engaged to complete their audit preparation work in the areas of OPEB, compensated absences, and utility receivables (refuse and disposal). Maher Duessel (MD), the City's independent auditor, completed interim procedures in February.

This included testing cash disbursements, reviewing previously provided updated internal control narratives/memos, and confirming its work chart for the various sections of the audit. At that time all audit confirmations (mostly for restricted cash or trust accounts and debt) were completed/signed and provided to Maher Duessel for handling. Maher Duessel also has obtained the following items as part of its preliminary work: internal control updates, bank statements for testing, 2017 budget information, 2017 journal entries, OPEB valuation, new debt documentation, and some IT reports. Maher Duessel was onsite and began work on the audit in mid-June with expected issuance of the FY 17 Audit and Financial Statements by mid-September 2018.

During the second quarter the City continued to provide the appropriate Material Event Notices on EMMA related to debt obligations and has maintained compliance with Securities and Exchange Commission (SEC) reporting requirements.

Operational Issues

During the second quarter of 2018, Harrisburg with the support of the Coordinator, made further progress on a number of key Strong Plan operational initiatives. A progress report regarding these areas, as well as other key Strong Plan operational priorities and initiatives, is detailed below.

In August of 2016 the City received an Act 47 grant in the amount of \$465,380 to support implementation of four key Strong Plan initiatives relating to augmentation of managerial capacity. The primary areas of focus relate to the utilization of Act 47 grant resources to augment managerial capacity; enhance IT infrastructure development, strategic planning, project management capacity; and creating lasting improvements in the City's refuse and recycling collection operation.

Treasurer's Office

Dan Miller, CPA is now serving as Treasurer having been appointed by Council in June 2016 to fill the vacancy due to the resignation of Tyrell Spradley. Mr. Miller was sworn in on July 5, 2016 and is working to make the Treasury Department efficient and well run.

In order to improve the operation of the Treasurer's Office and address concerns that had arisen, the City engaged Alvarez & Marsal (A&M) to undertake a review of the City's financial operation with an emphasis on the Treasurer's Office and its policies, procedures and processes. The review and report were issued in February 2016. Although the review did not find any instances of suspicious activity, it did identify a number of key findings including:

- A lack of segregation of duties with the Deputy Treasurer performing multiple tasks without necessary checks and balances.
- Lack of timely reconciliation of the City's bank accounts leading to unresolved variances between book balance and bank balance.
- No inventory of all City bank accounts.

- Adjusting entries are not always recorded in the general ledger by the Finance Bureau.
- A culture of the acceptance of errors in accounting and financial matters.
- Lack of written policies and procedures in the Treasurer's Office.

The report further recommended the following:

- Segregate responsibility for the approval and release of wire transfers from their initiation.
- Eliminate generic "Wires" bank token.
- Move responsibility for account reconciliations from Treasury to another office, possibly the Controller's Office.
- Bring all account reconciliations up-to-date and record all prior adjusting entries.
- Address all known discrepancies in City books in a timely manner.
- Create a master inventory of all City bank accounts/close unnecessary accounts.
- Hire a strong Assistant Deputy Treasurer and ensure that person is empowered to act independently.
- Create a set of written policies and procedures for all processes in Treasurer's Office.
- Improve physical security of Treasurer's Office.
- Address cultural issues related to acceptance and expectation of errors.

Treasurer, Dan Miller completed a review of the recommendations and agreed there was a need for better segregation of duties to strengthen internal controls.

The City Treasurer's Office has worked to address the issues that were deemed substantive and accurately defined in the audit.

The Treasurer's Office has finalized the process of closing dormant accounts and transferring those funds into the General and Neighborhood Services Funds, which represents the City's two major governmental funds. Payments are now made directly from the General and Neighborhood Services Funds thus increasing transparency for these transactions. Having completed this process for the City's major general and restricted funds, the Treasurer has begun meeting with the City's auditors to identify and clarify those accounts corresponding to minor governmental funds that can be consolidated or closed. This represents a continuation of the effort to streamline and simplify the City's accounting practices. To date, the Treasurer's Office has closed or consolidated over 40 dormant accounts.

The Office of Treasurer and the Controller's Office have also initiated a process whereby the Controller's Office provides additional segregation of duties for all wire transfers. All wire transfers require review and sign off by the Controller's Office, which creates a best practice segregation of duties for such activities.

The Treasurer's Office and the Bureau of Financial Management have completed the effort to adjust historical journal entries to ensure that the Treasurer's accounting software pairs with the City's General Ledger, which is housed on the Pentamation financial system. This has created parity between the Office of the Treasurer's system, the General Ledger, and the City's prior year audit adjustments. In addition, the Office of the Treasurer and the Bureau of Financial Management have initiated a process to ensure that these reconciliations occur monthly so that backlogs do not occur again.

Collaboration between the Treasurer's Office and other City offices has significantly improved under the direction of the current City Treasurer. The Treasurer's Office has maintained a close working relationship with the Controller's Office and the Bureau of Financial Management. Meetings occur monthly to review accounts and address any issues that arise and staff in these

offices work together on an almost daily basis to carry forward the financial management work of the City. The Treasurer and the Mayor have also begun meeting monthly to discuss projects of joint interest and foster cooperation and communication among the City's financial and executive management personnel. This cooperation is a fundamental goal of the Act 47 Strong Plan.

To further provide the necessary capacity to ensure better segregation of duties, the Treasurer's Office initiated recruitment for two positions – an Accounting Clerk and a Customer Service Representative. Filling these two positions, and, more importantly, filling the position of Assistant Deputy Treasurer, has allowed the Treasurer's Office to institute the necessary segregation of duties in the office and address one of the A&M Study recommendations.

The Treasurer's Office was engaged in a number of additional special projects. The Treasurer and the Mayor have initiated project planning to expand ACH participation, or automatic payments, for City licenses, permits, and service fees. Currently the City estimates that less than 6% of the eligible public utilize the ACH system. The Treasurer's Office and the Mayor's Office are seeking to dramatically expand participation in ACH, which will in turn generate significant process efficiencies in the City's financial management and accounting functions. Though the project plan is still under development, the initial goal is to develop an intensive marketing and public communication campaign.

Similarly, the Treasurer's Office and Mayor's Office are in active discussions to determine ways in which the sanitation billing and collections processes, and treasury/cash management processes can be better integrated to allow for timely response to customer inquiries, rapid follow-up on delinquent accounts, and timely processing of payments. The Treasurer has proposed that Dauphin County issue the trash bill with the annual Real Estate bill. This proposal is on City Council's agenda July 2, 2018. Regardless of the outcome of this effort, this represents a strong effort on the part of elected officers to work together to streamline processes and improve service to the residents and business owners of Harrisburg.

The Treasurer's Office is also working to develop a more favorable banking arrangement for the City's workers' compensation account. Wells Fargo has traditionally managed the City's workers' compensation account and charged an annual management fee of \$6,500. This fee has often exceeded the interest generated in the account. The Treasurer's Office is working to establish an account with a local bank and estimates that doing so may result in new interest revenue to the City.

The Treasurer's Office, Controller's Office, Mayor's Office and Bureau of Financial Management are working collaboratively to improve the financial management operations of the City including addressing recommendations from the A&M report. The broader cooperation that is occurring will strengthen internal controls and improve overall efficiency in the City's financial operation. I have offered the Coordinator team's assistance with implementing the report's recommendations.

Lastly, staff from the Treasurer's Office has been working diligently to support the annual financial audit.

Finance and Administration

In the area of finance, administration, and support services, the City has made progress in a number of key areas and is working on several ongoing projects. The City Administrator, who began work with the City in October of 2017, is focusing on the development of a strategic operating plan for the City and is working to clarify and prioritize operating, management, and

resource challenges. This is especially important in the City's key support services areas such as Finance, HR, and IT. These will be priority areas of focus for the City's administrative functions going forward.

In financial management and oversight, Finance Bureau staff are working on several projects in the second quarter of 2018. The most significant immediate project relates to the City's annual audit. In the second quarter of 2018, the City completed pre-audit work with limited support from contracted accounting firms. The City's auditing firm, Maher Duessel, began audit field work in June 2018 with the goal of completing the audit by September. City Finance Bureau and Treasurer's Office staff will support the auditors as necessary and will work to complete the statistical elements and the Management Discussion and Analysis (MD&A) sections of the annual audit. The City's ability to take on the majority of the City's non-specialized audit prep work and complete the audits on an annual basis is noteworthy and demonstrates a significant improvement in internal staff capacity. This is attributable to the City's ability to fill and retain important accounting positions.

The second quarter has also seen the Finance Bureau focus on building capital budgeting and planning capacity in the City's Departments. Finance Bureau staff have been working to train and educate managers on effective project management and capital planning approaches as a means to enhance the effectiveness of the budget development and capital project accounting processes.

The Finance Bureau has also begun the 2019 annual budget processes and has distributed budget development templates to all departments. Departments will submit their budgets for consideration by the administration and the recommended 2019 operating and capital budgets will be submitted to the Act 47 Coordinator's team by October 1, 2018. There is one notable deviation from the prior year's budgeting process. Last year, the City initiated a three-year Capital Improvement Plan (CIP) process that sought to distinguish between the operating and capital budget development process. The City anticipates fewer capital funding resources in Fiscal Year 2019 and, as a result, has opted to evaluate capital budget requests as an element of the operating budget process. Though the reasoning behind this move is sound, an important element of Act 47 exit will be the development of a multi-year capital budget development and evaluation process. This process should be re-established as core process that is replicated and expanded upon each year.

The Finance Bureau, Treasurer's Office, and Controller's Office continue to work closely together to streamline processes and improve local government services. In the second quarter, the Finance Bureau and Treasurer's Office worked to implement an improved credit card payment system for the City. This has created greater opportunity for customers to make payments electronically and reduced the fees paid by the City offer credit card payments as an option.

The Finance Bureau and Controller's Officer continue to work closely to monitor and improve the purchasing control process. In addition, the Treasurer's Office and Finance Bureau have devised an approach to convert the monthly sanitation billing process into an optional annual billing option through the City's property tax assessment billing process. This could potentially streamline billing operations and generate significant savings for both the City and customers who opt for the annual billing approach. This is included in the updated sanitation ordinance which will be considered by City Council.

In addition to this area, the City is seeking to improve the contract review and management process, which is an element of the purchasing process. The City is seeking to fill a vacant solicitor position who would take on the responsibility of providing legal contract review with the goal of

expediting the contract review process and, as a result, translating into more rapid service improvements in the City.

Information Technology

As of June 2018, the age and condition of the City's Information Technology infrastructure continues to be major structural challenge for the City; however, notable progress has been made. The City has filled the vacant Deputy IT Director position and is finalizing an offer to fill a critical mainframe programmer position. This will result in full staffing for the IT Bureau.

During the past nine months, the IT Bureau has been engaged in several important projects. The initial effort has been to develop a plan to upgrade and replace the City's antiquated Storage Area Network (SAN). The City has purchased and installed 5 new servers and will have 25 to 30 virtual servers integrated into the networks in the coming months. This will generate significant additional storage capacity which then frees up space for operating and administrative departments to improve the use of technology. This is especially important in the public safety areas. For example, the Police Bureau, with the support of IT, is developing an RFP to purchase and implement body cameras and the IT Bureau is working to develop the necessary storage capacity for video storage and ready access.

The IT Bureau is also working to enhance the functionality of its mainframe. The City's mainframe is over 25 years old and operates under a program database, IDMS, that is so old that it is difficult to find employees who are conversant in the program language. The City has two alternatives to address this issue. The first option is to purchase a new storage system and eliminate reliance on the mainframe. This would be an exceptionally costly process and highly disruptive to operations. The second option is to re-platform the databases to operate on an SQL, rather than an IDMS database. SQL expertise is much easier to find in the labor market place and the option of re-platforming is more cost effective and less disruptive than total replacement of the mainframe. The IT Bureau is currently developing options to implement the re-platforming initiative.

The IT Bureau is also in the process of evaluating options develop a more robust disaster recovery plan. The City is evaluating vendors and service options to create a disaster recovery and back-up process for the City.

Community and Economic Development

In the Community and Economic Development area, the City has seen some progress. At the end of 2016, a \$3.5 million state Redevelopment Assistance Capital program (RACP) grant was awarded to developers to assist with an \$8 million investment in commercial and residential revitalization in mid-town. A second RACP grant of \$3 million was awarded to the City in October to launch the revitalization of an entire neighborhood in Allison Hill (MulDer Square) with new streetscaping, affordable apartments and retail stores. The housing project development is scheduled to be complete by December of 2018 and the streetscaping is scheduled to begin in early 2019.

The Planning Bureau also reports an increase in building and development plan applications for new development and expansions in key commercial and residential spaces in downtown. This is a positive indicator of economic development and tax base growth for the City. To support this additional workload and expand the capacity of the Planning Bureau to engage in planning and development activities, the Bureau filled a new planner position in early June 2018.

The City's LERTA program is also currently active and although there has not been recent new construction under the program, the City reports that investors are rapidly purchasing existing properties for future development under the program. This is a positive indicator from a development perspective.

The City's comprehensive plan development process continues to be a challenge. The Planning Commission is currently engaged in a process to review each section of the draft plan and is meeting with Planning staff bi-weekly to review and discuss redline sections of the document. Planning staff expect at least three more months for review time at which point the document will be finalized for presentation and discussion at the City Council level sometime Fall 2018. The Act 47 Coordinator's team member(s) attends these meetings to offer support in this process.

The City continues moving forward with the organization of its Land Bank which will focus on blighted properties and provide the ability to acquire vacant or abandoned properties, undertake improvements and return them to the tax base. The Land Bank will use available resources to facilitate the return of vacant, blighted, abandoned and tax-delinquent properties to productive use, thus combating community deterioration, creating economic growth and stabilizing the housing and job market. This will provide the City with a major tool to tackle blight and assist in growing the City's tax base and furthering its recovery. The Board is looking at judicial sales for potential acquisition and is awaiting finalization of the comprehensive plan to provide further strategic direction.

The Community and Economic Development Division is also beginning a project with the City Engineer's Office to create a bus route optimization plan as well as a bicycle transportation plan that can be integrated into the City's capital improvement plan. This is targeted to increase the livability and attractiveness of the City to potential new residents and businesses.

Park and Recreation Bureau

The Bureau of Parks and Recreation is actively engaged in planning for an estimated \$1.8 million in upgrades to five parks and playgrounds in the City. They have obtained grants from DCNR, DCED, Impact Harrisburg, and Capital Region Water to complete major repairs to the Heights playground, Royal Terrace playground, Penn and Sayford playground, Norwood and Holly playground, and the Fourth and Dauphin playground. Upgrades are underway in four of the five parks and are expected to be finalized and completed in September with a ribbon cutting ceremony and opening scheduled at that time.

Another of the City's park and recreation assets is Reservoir Park. Following DCNR's award of a \$50,000 matching grant to develop a master site plan to reimagine the historic park, the City retained H. Edward Black and Associates as lead consultant supported by Simone Collins landscape architects and Urban Partners to undertake the study. The City has completed a public engagement process to work on a development plan and the City's consultants are currently engaged in the design process. Plans and cost estimates are expected to be presented to the City within the next month. The City is also in the process of upgrading the chutes and ladders playground and is currently waiting on bids for the design and installation of the playground.

Police Bureau

In the Police Bureau, staffing levels continue to be the primary challenge for the Bureau. There are currently 12 position vacancies including 11 sworn and 1 civilian position. Sworn vacancies include 6 patrol officer positions and 5 detective positions. There is also a civilian police data

technician that is vacant. In addition, the Bureau is expecting at least 5 to 8 additional retirements from the sworn the ranks by the close of the year. The Bureau and Human Resources have been diligent about maintaining hiring lists and will need to continue that effort going forward.

The Bureau has made positive progress in its effort to maintain the condition and availability of its police fleet. In the past several years the Bureau has been successful at obtaining grants to update and upgrade vehicles. In the second quarter of 2018, the Bureau finalized a leasing program for police vehicles. In the first and second quarter, the Bureau has begun replacing non-patrol investigations and command vehicles through a 5-year lease and rotation program. In 2019 they intend to expand the lease to include marked cars/patrol vehicles. This has the benefit of creating a steady rotation and balancing out the cash requirements for new vehicles from year to year.

In the second quarter, the Bureau has also made progress on a number of IT related initiatives. The CopLogic program went live in mid-June 2018. CopLogic is an online reporting system that will allow citizens to file police reports for certain types of incidents online, or at a terminal located at Police headquarters. This software has the dual benefit of improving customer service and limiting the frequency with which sworn officers are drawn away from the street to take minor police reports. PowerDMS also went live in the second quarter of 2018. Power DMS is an electronic General Order (GO) repository and training tool. It provides a central, electronically accessible repository for all General Orders and allows the Bureau to disseminate updated General Orders electronically, train personnel on updates, and test/verify comprehension. PowerDMS is now live and accessible by all command and supervisory personnel and the Bureau is actively engaged in training to roll the program out to front-line officers.

Lastly, the Police substation construction project is currently under construction. The facility will be a modular constructed building and should be in place and activated in December of 2018.

The Bureau is also actively working with IT to develop two new applications for the Police Bureau including MAS360 and the Everbridge system. The MAS360 program is a security feature that will allow the IT bureau to wipe phones remotely in case they are lost or misplaced. The Everbridge system is a system currently used by the Fire Bureau that is being expanded to the Police Bureau. It is an automated officer contact system that the Bureau can use to call in personnel during major events or convey messages to officers.

Fire Bureau

The Fire Bureau is making progress in a number of key areas as well. The Bureau is currently nearly at full complement at the firefighter level. This should have a positive impact on overtime expenses in the Bureau. In addition, the Bureau is currently completing the resume review process to hire a Deputy Fire Chief position. This will expand the Bureau's ability to focus in fire prevention efforts and tackle other projects for the Bureau.

The Bureau has also made progress on implementing a long-standing Recovery Plan recommendation to implement a modified fire company inspection program. The Bureau will be moving to develop a process whereby fire companies complete basic occupancy "evaluations" to identify and remediate fire hazards in the community. This is a best practice and will ultimately enhance the Bureau's fire prevention efforts.

The Fire Bureau continues to experience challenges related to fire apparatus. In 2018 the City activated new pumper truck. Shortly after it was activated in service, the apparatus was involved in a major traffic accident, causing major damage to the pumper. The pumper is still out of service

for repairs, but the Bureau expects it to be returned to service by the close of July 2018. In addition, in early June, there was another accident which caused approximately \$60,000 in damage to another piece of front-line apparatus. This represents an unexpected cost and poses negative operational implications by limiting access to upgraded apparatus and equipment. However, the Bureau has sufficient back up apparatus to maintain continuity of operations. The Bureau is also in the process of developing a capital funding plan for the consideration by the administration to add additional apparatus to the fleet in 2019.

The Bureau is also making progress on fire station repair projects. In 2018 the City funded approximately \$ 1 million in roof repair projects. The repairs at station 1 are underway and will be complete by the end of July. In addition, repairs to station 2 are projected to begin in July. All station repairs are projected to be complete by November 2018.

Neighborhood Services Department- Trash Collection

The Neighborhood Services Department has been actively engaged in a number of key projects in the refuse and recycling, maintenance, and infrastructure development areas.

In the refuse and recycling areas, the City has completely taken over the front-load commercial refuse collection business in the City. This was accomplished by purchasing the necessary front-loader equipment and working over the past several years to transition all commercial accounts to the City. The only commercial accounts that are not currently being serviced by the City are downtown high rises and facilities that have trash compactors. However, the City is developing a plan to purchase the necessary roll-off containers and equipment to take over these accounts in 2019.

The City is also making progress in its effort to develop and manage a composting facility in Susquehanna Township. The City and Act 47 Coordinator's team developed a revised PADEP permit application that includes the City and the School District as program participants. The development of a composting site will serve two important goals. First, it will enhance the City's yard waste collection and composting program, which will in turn decrease the number of tons of waste disposed of at the Harrisburg incinerator (thus reducing disposal expenses). Second, it will advance intergovernmental cooperation in the Harrisburg metropolitan area. Although at this time it is only the City and School District, the potential exists for other municipalities to utilize the site thus sharing resources.

This application was submitted to DEP in May 2018 and is currently under review. In addition, the City is developing its application to Susquehanna Township to build the composting facility. This application is expected to be submitted in July. This will be the major obstacle to facility development. The City attempted to submit another application in 2017 but was met with widespread resistance from the Township. Since that time, the City has actively worked with the Township officials and residents to educate them on the impact of the facility and incorporate their concerns into the process. This new application to DEP and the Township is designed to address those concerns and we are hopeful that the project will be successful. In addition, the City is currently engaged in training program to create two state certified compost facility operators in the Traffic and Engineering Division.

The City has also made substantive progress in the area of recycling. In the Fall of 2017, the City began the process of collecting glass recyclables from bars and restaurants in the City's downtown. This program has been successful and in the second quarter the City established a residential glass recycling drop off area so that the program can continue to be expanded. In addition, the City has

established a cardboard recycling program targeted toward commercial businesses. This program generates revenue for the City and offsets fluctuations and losses in other areas of the recycling commodity market. The City is currently collecting approximately 100 tons of cardboard per month.

City Council has also approved the purchase of an application software "Recycle Coach" to provide up to date details regarding recycling, in multiple languages. Recycle Coach went live in the second quarter and residents and business owners can access the program from their phones to review information regarding recycling rules and schedules.

In late May 2017, City administration submitted a revised waste collection ordinance to City Council for consideration. The revision reconciles the ordinance to reflect the current approach to waste and recycling collection, enforcement, fee payment, collection location, waivers, and methods of citation. The Act 47 Coordinator's team reviewed a draft of this ordinance to ensure that it was consistent with sanitation system improvements identified in the Act 47 plan. City Council took up review ordinance and held two public meetings in June 2018 to hear comment on the proposed changes.

Neighborhood Services Department- Traffic and Engineering

A number of active projects are also underway in the Traffic and Engineering area. The City has hired a new facilities manager and is actively working to develop a facilities improvement plan that includes the potential to separate the City Hall and Police Headquarters facilities, sell the current police headquarters, and relocate Police Headquarters into a City neighborhood where they can be more directly connected to key service areas.

The Traffic and Engineering Division has made progress updating the City's traffic signal infrastructure and is currently engaged in negotiations with a vendor who is willing to provide the City a notable discount for new traffic signal controllers in exchange for the City's old controllers. There is value in the old controllers as replacement parts for other Cities who still use the system. The Bureau is evaluating the cost impact of this alternative.

The City is actively managing a line painting project totaling about \$100,000. This project, which is funded by Liquid Fuels revenue is underway and is expected to be completed in the third quarter. This will improve transportation safety and improve the appearance of City streets.

The City Engineer, Planning and Economic Development staff, and Redevelopment Authority (HRA) continue to work closely with PennDOT on a plan to make major improvements to the Harrisburg Transportation Center (HTC). The Center serves as a key anchor for the downtown and a hub for both rail and bus service for the City and region. Following last year's award of \$15 million by PennDOT to fund a number of needed physical improvements, PennDOT has moved forward with design work that will address improvements including new roofs an energy efficient HVAC system and improved ADA access. They are currently working with the Federal Transportation Administration on environmental clearances and focusing on flood plain remapping along the creek so that permitting and plan review timeline can be established. The City is expecting total development timeline of 5 to 10 years to finish the redevelopment process around the station and is actively working to serve as a partner in the project.

The Federal Courthouse project continues to make progress. President Trump's budget proposal for FY 18 released May 23 included \$137.2 million for construction of new 243,000 square foot Federal Courthouse at Sixth and Reily Streets. This followed action in January 2017 by the U.S.

General Services Administration (GSA) to award a \$9,194,935 contract to Ennead Architects of New York to provide architectural/engineering services for the Courthouse. The services include revising the former approved design concept and completing the design services for the new courthouse. Design services are estimated to be completed in fall 2018. The City's Planning and engineering staff are meeting with the design team every three weeks to review design progress and to identify, discuss, and address infrastructure impacts associated with the project. The primary focus of engineering personnel in the first and second quarter of 2018 has been to deal utility easement challenges around the courthouse.

One of the requirements of the project is that PPL Electric Utilities move its utilities and underground conduit banks to accommodate the development. The General Services Administration (GSA) and PPL could not come to an agreement as to who would own the conduit bank for fiberoptic cable and, to facilitate progress on the project, the City is evaluating taking ownership of the conduit banks in exchange for a 25-year easement fee which would cover the cost of maintenance. The City has reached agreement on major elements of a contract and easement structure and is currently undergoing the legal review process.

Over the last quarter the City has made further progress with the sinkhole mitigation project on South 14th Street in their efforts to address the significant housing and infrastructure issues on this street. In September 2016, FEMA awarded the City \$1.65 million to undertake an initial phase of the project to acquire and demolish approximately 25 homes in the center of the block. As of June 2018, the City has utilized these funds to acquire 24 of the 25 homes in the area and the final remaining home is expected to come under City ownership in the third quarter. This is a major step forward toward the effort to demolish these homes and remediate the land as green space greenspace with no further development.

The Traffic and Engineering Bureau is also actively engaged in several capital improvement projects. The City is currently managing a \$300,000 "Assessable Route Project" to install ADA access ramps at intersections along McClay Street. The City is also managing the design process for a similar project along Hirsch street that is anticipated to cost approximately \$237,000. This project is funded by PennDOT and the Federal TAP program and is slated for construction in the Spring of 2019.

In 2014, the Pennsylvania Department of Transportation (PennDOT) committed to providing \$10 million over a five-year period for street related infrastructure improvements in the City. This commitment stood in addition to PennDOT's planned repairs and projects on Commonwealth managed roads in Harrisburg. In the first and second quarter of 2018 the City has been working primarily on the north seventh street portion of this project. They are currently working on the design process for infrastructure improvements in this area with a goal to pave in 2019. However, the paving schedule may be adjusted to accommodate the federal Courthouse development schedule to ensure that new pavement is only laid after all additional underground infrastructure work is complete on that that project. Traffic and Engineering staff will evaluate this in conjunction with courthouse project progress. Similarly, the City is also in the process of completing a two-way traffic study for Second Street down town. They expect the study to be complete this September and for design work to begin in 2019. Paving work will be coordinated with Commonwealth Gas's gas main replacement schedule in 2019 and 2020.

The City is also currently managing a \$2.8 million-dollar paving project for Industrial Road along the major railroad corridor. This is funded with federal grant revenue and will represent a major improvement to a commercial and industrial area in the City.

Solicitor's Office

On May 21, 2018 the Commonwealth of Pennsylvania, et al, filed a complaint against seven professional firms based on the Harrisburg incinerator project and series of financing transactions. The case is filed in the Commonwealth Court at 368MD2018. The Petitioners are represented by Harris, Wiltshire & Grannis LLP.

The City is also in the midst of defending a lawsuit challenging the commercial trash rates, the exclusive use of the incinerator and the put or pay provision of the Strong Plan. In Spring 2018, the commercial property owner plaintiffs filed a Motion to Amend the matter to a class action suit. The Plaintiff alleges the Court should reduce the rates retroactively and provide past, present and ongoing relief. The City will retain outside counsel to file a Reply in Opposition to the Motion to Amend on various grounds. The litigation is ongoing, and the City intends to vigorously oppose the suit.

The City Solicitor's office has filled two new positions, Senior Deputy Solicitor and Deputy Solicitor. In addition, the City retained outside real estate counsel to assist in a variety of title and transfer issues, both current and historic. The Solicitor's Office also accepted the assignment of a management employee who assists with much needed record keeping system and filing updates.

The collections attorney has been involved in numerous trainings of the varied record keeping systems, including main frame searches, as well as reviewing files and opening negotiations with large sanitation accounts. Notices of intent to commence litigation on select sanitation accounts are being pursued if the accounts cannot be promptly resolved.

The City had received \$10,000 from the first major delinquent waste account. In addition, several other settlements are pending. Neighborhood Services, the Bureau of Financial Management, the Treasurer's Office, and the City Solicitor's Office are working together on an initiative to create automatic electronic collection of sanitation fees as well as other City licenses and fees.

This will represent a significant improvement in customer service and serve as an opportunity to generate consistency in cash flow and limit account delinquency. Once this system is in place and fully communicated to the public, the City will cease the practice of granting waivers on penalties for late payments. This not only represents an improved sanitation and revenue collection process but reflects functional cooperation between City Departments and the Treasurer's Office to address operating challenges. This is a fundamental goal of the Act 47 plan and a positive reflection on the City's progress.

There are several litigation issues that could pose a liability for the City. One involves a civil dispute between landowners and insurance carriers over the 2016 collapse of a wall and parking lot onto a Cameron Street business. There are at least 10 parties involved in this matter and though the City should have no exposure related to the collapse and there are other legal costs involved for the City that are significant.

There is also a federal civil rights claim challenging the City's Buffer Zone Ordinance, which was remanded by the Third Circuit Court of Appeals to the U.S. District Court for the Middle District of Pennsylvania for that Court to consider anew a request for preliminary injunctive relief. A hearing was held in October and several City officials testified. A final ruling has not been issued in this case.

The Strong Plan modifications provided for the City to again retain experienced public-sector employment labor counsel for its labor relations activities including the negotiation of FOP and AFSCME contracts that expired the end of 2016 and the IAFF contract that expires the end of 2017. The City engaged John Dean of Elliott Greenleaf to serve as outside labor counsel to assist with these contracts. During the first quarter 2017, Elliott Greenleaf attorneys successfully negotiated both the FOP and AFSCME contracts and negotiations with the IAFF have recently concluded. The IAFF voted on December 29, 2017 to not to accept the City's proposal. A second proposal is currently being negotiated. The IAFF ratified the terms of this agreement on or about February 8, 2018. After the agreed upon terms are integrated into current successor CBA, a process that remains underway, it will be presented to City Council for its vote to approve it.

Intergovernmental Cooperation

While there are specific instances of cooperation between and among the City, various Commonwealth agencies, Dauphin County, the Harrisburg School District and other neighboring municipalities as discussed below and elsewhere in this report, it remains important for the City to continue to take a proactive role in pursuing intergovernmental cooperation opportunities.

Prior to, and since the City's entrance into the Act 47 program, the City has engaged in collaborative work with a variety of intergovernmental agencies. Examples include the City producing, distributing and collecting real estate taxes on behalf of the School District and performing a similar function for the shared Business Privilege/Mercantile Tax and the recent cooperation on the establishment of a yard waste facility and LERTA program.

The City and Dauphin County collaborate in the provision of various public safety services. The Harrisburg Police Bureau participates in the Dauphin County Special Weapons and Tactics Team (SWAT) and works closely with the Dauphin County District Attorney's Office in criminal investigations. Since June 2011, the Dauphin County Communication Center has provided 911 and dispatch operations for the City, resulting in a significant savings to the City.

Following a Strong Plan recommendation, the City also became a member of the Capital Region Council of Governments (CRCOG) in 2014. CRCOG is a voluntary association of 40-member municipalities from Cumberland, Dauphin, Perry and York Counties, formed to promote intergovernmental communication and cooperation. Among its programs are a joint purchasing program and an auction for surplus property and equipment. The City's participation in the COG has resulted in cost savings for various commodities and services. The COG also provides a forum to discuss common issues in the Harrisburg region. The City also uses the COG's job opening website for recruitment of personnel.

The City is also a member of the Dauphin County Tax Collection Committee which has engaged Keystone Municipal Service to collect the Earned Income Tax for all municipalities and school districts in the County. Beginning in 2016 the City entered into a contract with Keystone Municipal Service for the collection of the Local Services Tax to have a more efficient collection operation for its employment-based taxes.

The City is currently engaged in active discussions with the Harrisburg School District on a joint yard waste facility project that is discussed further under Public Works – Sanitation discussion. It is partnering with PennDOT on a Transit Oriented Development study of the Transportation Center and surrounding area and as a supplement to this project also working with PennDOT and their engineering consultant on a Paxton Creek Evaluation Study to understand the existing flood potential and identify different options to help mitigate flooding within the TOD project area.

The Act 47 Plan includes a number of initiatives relating to intergovernmental relations. In the area of public safety, there are two major opportunities going forward. The first opportunity relates to the recommendations of the regional policing study which was completed in December 2015. The study funded partially by the Act 47 program and completed by the Police Executive Research Forum (PERF), identifies multiple opportunities for intergovernmental service sharing and cooperation in the policing area. It is important for the City to pursue those opportunities to determine where costs savings and/or service enhancements can be achieved.

The second public safety opportunity relates to the fire service. With staffing in the Bureau of Fire, and volunteer firefighter availability in surrounding communities declining, the City is in a position to offer fire service to its neighbors. The deployment approach, service impact, and financial implications of such opportunities must be fully vetted, but they potentially serve as an opportunity to enhance service levels and secure valuable revenue for the City, while potentially enhancing fire service quality in neighboring communities. These opportunities should be aggressively pursued as part of the City's recovery effort.

The City must continue to work closely and cooperatively with the County and Commonwealth agencies on infrastructure and economic development initiatives. PENNDOT has committed to contribute significant resources to the City for infrastructure repair and development that is critical in fostering the City's economic recovery. The County along with the Harrisburg Regional Chamber and CREDC are important partners in the region's economic development. These efforts, and others, should be aggressively pursued to strengthen the City's recovery and support its sustainable exit from Act 47.

Collective Bargaining

The substantial majority of Harrisburg employees are represented by one of three unions: the Fraternal Order of Police Capital City Lodge No. 12 ("FOP"), the American Federation of State County and Municipal Employees District Council 90, Local 521 ("AFSCME"), and the International Association of Firefighters, Local No. 428 ("IAFF"). Each of the City's three unions voluntarily entered into mid-term negotiations to amend their collective bargaining agreements in connection with the filing of the initial Strong Plan in August 2013. The amendments to the prior collective bargaining agreements for the bargaining units, as well as those initiatives for the non-union City employees, were implemented, and cost reductions resulting from these changes continue to be monitored. Although the formal Amendment documents setting forth the revised contract language were finalized and agreed to by AFSCME and the FOP, an amendment document for the IAFF was never completed. The City prepared a formal Amendment document setting forth the changes in the Tentative Agreement document – which was formally ratified by both the IAFF and the City and provided it to the IAFF for execution – however, the IAFF never responded to this formal Amendment document. The Coordinator has continued to insure implementation of the negotiated changes and assist as necessary with respect to any issues and grievances that arise relating to those changes or to any of the Plan initiatives.

In the Amended Strong Plan that was passed by City Council in April 2016 and approved by the Commonwealth Court on July 20, 2016, the Coordinator established new compensation allocations for the FOP, AFSCME, and IAFF units that are consistent with significant amendments which were made to Act 47, commonly referred to as the Act 133 Amendments of 2012 ("Act 133 Amendments"). As amended, Act 47 now requires the Coordinator to project revenues and expenditures for the current and next three fiscal years and develop a capped amount for each city bargaining unit to be available for total compensation and benefits for employees in that unit.

For that reason, and unlike the predecessor Strong Plan, the new Plan separates the costs related to each of the City's collective bargaining units included in the overall cost projections in the Plan so that each bargaining unit can have an active role in collectively bargaining for those compensation items that are most important to the employees in each unit.

Because the CBAs with FOP and AFSCME expired on December 31, 2016, the City entered negotiations with the FOP in September 2016, with AFSCME negotiations starting thereafter. The negotiations for the FOP and AFSCME successor agreements were the first time since the City entered Act 47 that the unions were obligated to negotiate all terms with the City and that the City had the right to renegotiate employment terms with the unions. The City retained the law firm of Elliott Greenleaf to handle its labor negotiations. Members of the Coordinator team met with the City's officials and its new outside labor counsel to discuss negotiation topics in light of the Amended Strong Plan.

Elliott Greenleaf represented the City in its negotiations with the FOP and AFSCME throughout the fourth quarter of 2016 and the first two quarters of 2017. While negotiations with the FOP did not result in a successor contract being reached by the end of 2016, the parties eventually reached an agreement without needing to resort to interest arbitration in March 2017. That agreement has since been executed and ratified by the FOP membership and City Council has passed a resolution approving its terms.

While negotiations with AFSCME started more slowly, the City quickly reached a successor agreement with that union as well. On January 10, 2017, City Council passed a resolution approving the terms of a CBA with AFSCME to cover the years 2017 and 2018; however, at this juncture, the parties do not yet have an executed version of the final contract. Execution of the CBA was stalled originally because the parties required a study from the Pennsylvania Municipal Retirement System ("PMRS") regarding the actuarial information on the impact of certain provisions in the new CBA. Thereafter, typographical errors were identified in that final contract, which has further delayed execution. Nonetheless, the City has already implemented all other aspects of the CBA as amended, and hopes that it will have a contract executed in short order. In the meantime, given that the latest AFSCME contract was only for a two-year term and expires at the end of this calendar year, the City and AFSCME are starting to discuss terms for a successor CBA to take effect as of January 1, 2019 and beyond.

The CBA with the IAFF expired on December 31, 2017. At the IAFF's invitation, the Coordinator made a presentation last April to the IAFF's entire membership, providing an overview of the Act 133 Amendments to Act 47 and the terms of the Amended Strong Plan, and opening a discussion up for any questions that the membership might have. The Coordinator felt that this meeting was positive and set the stage for constructive negotiations for a successor agreement. Elliott Greenleaf represented the City as its labor counsel in connection with negotiations with the IAFF. The City and IAFF reached an agreement for a successor CBA as a result of negotiations. IAFF ratified the terms of this agreement on or about February 8, 2018. After the agreed upon terms are integrated into current successor CBA, a process that remains underway, it will be presented to City Council for its vote to approve it.

In terms of pending grievances, AFSCME's grievance regarding the manner in which the bonus provision in the current CBA is being interpreted remains pending. In accordance with the current CBA, the City has paid bonuses to "all employees in the bargaining unit as of December 31, 2016..." AFSCME, however, contends that "all employees in the bargaining unit" includes those individuals who were not yet bargaining unit members because of their probationary status and lack of dues obligation. The Coordinator and the City believe that payments have been made appropriately

and will prevail if this grievance proceeds to arbitration. Other grievances previously mentioned in prior reports also remain pending, including an FOP grievance that was filed after the police chief would not allow officers to perform off-duty work at the Great American Outdoor Show. An FOP grievance is also pending on an individual employee suspension issue, and there is a pending request for arbitration from the FOP related to a police officer's request to return to work or receive injury-on-duty benefits. There are currently three IAFF grievances pending, but the City does not view them as significant at this time and expects to resolve each. The City Solicitor has a meeting with IAFF leadership scheduled in a mutual effort to resolve these grievances. From the Coordinator's understanding, there is not a significant risk of exposure on any of these pending matters, and the Coordinator will provide further information when it becomes available.

Fire overtime has been a continuing issue for the City since long before the City entered into Act 47, as the expenses were constantly exceeding budget. However, the City has been able to significantly reduce its overtime expense after the IAFF CBA was amended in April 2014, one fire station closed, and new firefighters were appointed in June 2014. Through prudent personnel management, the City's Fire Chief has successfully been able to continue to contain Fire overtime costs. For example, for the first quarter of 2014, total overtime (inclusive of premium pay) was \$727,432 or 64% of salary, while for the balance of 2014 total overtime was \$1,100,943 or 32.5% of salary, half of what it had been averaging before the CBA amendment. For the full 2014-year, overtime was 40.5% of salary and 91% of the \$2,000,000 budget for overtime. Positive trends in overtime costs continued in 2015, 2016, 2017 and to date in 2018. The City has also successfully contained additional premium pay over the course of these years. That said, in 2017, the City did exceed its modest \$650,000.00 annual budget for overtime by spending \$935,348.52. Still, this sum is lower than the amount spent annually in overtime in years prior to 2014.

For the first five months of 2018, expenditures for fire overtime combined with premium pay total \$399,697.64, or 18.3% of regular salary. This expense is at 38% of the annual budget for these items, which appropriate and consistent with the budget. However, this expense should continue to be monitored carefully to ensure that costs remain at or below budget.

Asset Monetization Matters

This section of the report provides an updated summary of progress made with respect to:

- Long-term capital lease of Harrisburg's parking assets from the City and the Harrisburg Parking Authority (HPA) to the Pennsylvania Economic Development Financing Authority (PEDFA),
- The sale of the incinerator from The Harrisburg Authority, now Capital Region Water (CRW) to the Lancaster County Solid Waste Management Authority (LCSWMA),
- Activities related to the "Verizon Bonds," and
- Activities related to the transfer of the water and sewer operation from the City to CRW.

After the December 2013 consummation of the Strong Plan, the City is no longer a guarantor of debt payable on either the Resource Recovery Facility or Parking System. Debt service on these assets is now payable by the Lancaster County Solid Waste Management Authority and the Pennsylvania Economic Development Financing Authority (PEDFA), respectively.

The Strong Plan focused not merely on restructuring City liabilities, but also the elimination of the clear majority of the City's debt and other obligations. The exceptions were the City's General Obligation Bonds, and to a more limited extent, the so-called "Verizon Bonds." The former was restructured as part of the Strong Plan's consummation. As to the latter, over half of the debt

service will be paid for by lease payments made by the Commonwealth and expense reductions achieved by management. The remaining obligation of the City was restructured as part of the Settlement Agreement on the Verizon bonds in January 2015.

Continuing in the second quarter of 2018, PEDFA has engaged in conversations with all affected parties, engaged its professionals and staff to craft an amendment to the bond indenture, and has, as of December 12, 2017, sent to all interested parties an amendment to the bond indenture for their review. PEDFA believes the amendments will resolve the outstanding ambiguities. Payment has been made to SP+. It is PEDFA's desire to resolve the remaining issues regarding the other distributions to the City, HPA and the Capital Reserve as soon as possible.

Harrisburg Parking

The parking monetization was the cornerstone of the City's recovery plan. The choice faced by the Office of the Receiver was whether to sell the system to a private equity firm or hedge fund or put in place a monetization structure that maintained ownership of the assets for Harrisburg, and aligned the incentives of the parties, so that the better the system performed, the more the City would benefit. The latter approach was chosen and therefore it is to the City's benefit that it does everything in its power to improve revenues and support the parking system. This includes recognition that proper maintenance of the parking system is critical to the continuing flow of revenue for the City.

The proceeds of the parking monetization that were received in December 2013 were allocated to the "Acquisition Price" used by the HPA and City as follows:

1. Repay the balance of negotiated settlement with Resource Recovery Facility creditors (\$128 million).
2. Pay debt service on GO Bonds for first time since September 15, 2011 (\$6 million).
3. Repay all the Harrisburg Parking Authority's debt (\$99.8 million).
4. Pay \$36 million to the City of Harrisburg to be used to:
 - a. Reduce payables
 - b. Create an OPEB Irrevocable Trust and fund an initial deposit - (The OPEB Board remains to be created by the City; however, the Coordinator has met with the City's Business Administrator, Marc Woolley, City Solicitor, Neil Grover, and City Finance Director, Bruce Weber to discuss its construct. The goal is to have the OPEB Board selected during 2018.)
 - c. Fund deposit to Impact Harrisburg
 - d. Fund a budgetary reserve to get through first three months of each year (This has worked well as the City has not needed to draw on a TRAN)
 - e. Repay Pennsylvania Investment Bank
 - f. Repay agreed upon amounts to equipment lender

Subsequent to Plan consummation, the parking assets are under the auspices of the PEDFA who engaged Capital Region Economic Development Corporation (CREDC) as their agent to oversee the operation and management of the parking operation. (Please see the note above about the PEDFA proposed amendments). PK Harris/Trimont Real Estate Advisors is responsible for managing the parking assets, and Standard Parking Corporation/SP+ is managing day to day operations. PEDFA contracted with CDM Smith in the fall of 2015 to review certain financial elements of the Park Harrisburg System given the failure to satisfy the 125% rate covenant under the bond indenture. PEDFA, in consultation with the bond guarantors, determined that a review of the operational issues, to provide recommendations aimed at improving the system's operations and financial performance, would be undertaken.

Park Harrisburg Fiscal Year 2018 Operating and Capital Budgets Projections

The projected revenues and expenses through May 2018 were approximately equal to 2017 revenues for the same five-month period. Adverse winter weather resulted in lower transient and meter revenues. The operating expenses through May 2018 was the same for the five-month period in 2017.

The proposed 2018 operating and capital budgets have not been approved yet. Interim budgets will continue to be utilized. In general, the 2018 interim operating budget will reflect the current rates for monthly, transient and meter parking while the DGS lease rate will increase per the terms of the lease. The 2018 interim budgeted operating expenses will be equal to the 2017 budgeted operating expenses increased by Consumer Price Index (CPI). The 2018 interim capital budget will be equal to the amount in the CDM Smith report for 2018, which is \$1,394,580.

Scheduled City/HPA payments year-to-date (through June 1, 2018) - The City has been paid \$701,336 of \$881,166 due and HPA has been paid \$492,698 of \$619,030 due.

For other expenses paid at the subordinate expense level in the bond indenture waterfall, there have been no Performance Fee deposits/payments made in 2018 and no PEDFA fee deposits/payments made in 2018. The Trustee is holding \$1,614,655 pending resolution of issues related to ambiguities in the bond indenture concerning payment of unpaid amounts from previous periods.

SP+ was paid \$544,041 in May 2018 for amounts due from the 2014 overpayment. The City, HPA, PEDFA and the Credit Enhancers (Dauphin County and Assured Guaranty) approved the payment.

Capital & Operational Improvements

Capital Improvement projects completed in 2018 include concrete repair and generator replacement at Locust Street, Market Street and Chestnut Street garages and roof repair at the Chestnut Street garage.

The parking system entered into an energy saving contract and has saved \$16,000 YTD through May 2018.

5-7 Free Parking program

Dauphin County, the City of Harrisburg and the Harrisburg Downtown Improvement District (the "DID") agreed to fund a pilot program where the three parties fund Park Harrisburg in an amount equal to \$270,000 in return for free meter parking in the DID area from 5-7pm Monday through Saturday. The \$270,000 amount is the estimated meter revenue which the system collected from the DID area for the 5-7 pm time in 2017. The program commenced on April 1, 2018 and is the last for one year.

ParkMobile

ParkMobile, the parking application provider for the meter system, had approximately 50,000 transactions for the period of January through May 2018.

Payments to the City and Harrisburg Parking Authority

With regard to the City/HPA payments through February 2018, the City has been paid \$216,517 of \$293,722 due and HPA has been paid \$151,923 of \$206,343 due.

As to other subordinate expenses of the bond indenture waterfall, there have been no Performance Fee deposits/payments made in 2018 and no PEDFA fee deposits/payments made in 2018.

The Trustee is holding \$1,614,655 pending resolution of issues related to ambiguities in the bond indenture, and certain previously described underpayments and over payments from previous periods.

Notwithstanding, the fact that the parking system is generating insufficient amounts to pay all subordinate expenses, Tables 1 and 2 below reflects the significant positive impact the parking transaction has had on revenues of the City derived from parking related fees and charges. In 2012 and 2013, parking tax receipts that the City collected and retained in its general fund were approximately \$1.5 million and \$1.6 million respectively. Parking tax revenues have consistently risen year over year and are expected to do so again this year.

The 2016 budget for Parking Taxes was \$3.8 million and the City received \$3,769,704 (unaudited). The 2014 payments include what has been identified as an overpayment by SP+, otherwise this amount would be significantly lower. As of year-end 2016, the new parking construct has succeeded in generating in excess of \$4 million more in 2016 than the old construct generated in 2013 (prior to the parking transaction's closing that occurred on December 23, 2013).

(The remainder of this page was intentionally left blank)

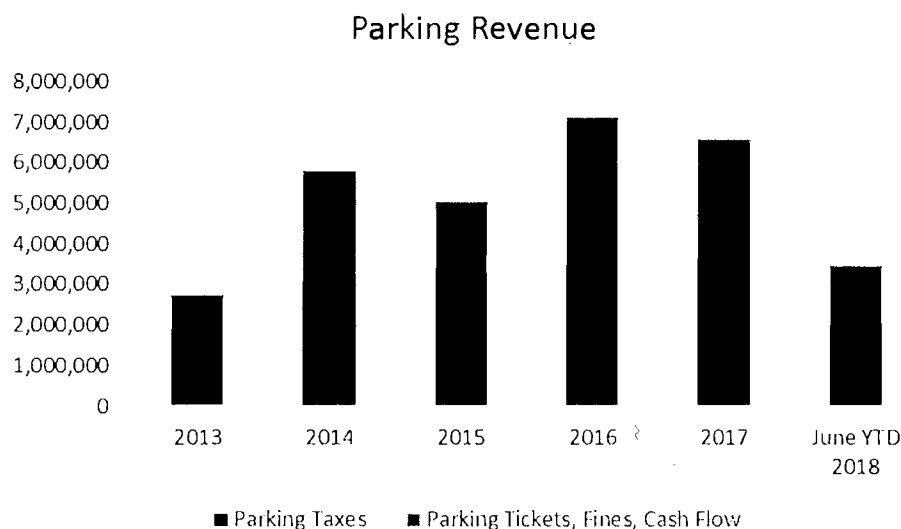
**City of Harrisburg
Parking Revenues**

Table 1

| Group | Account Description | 2013 | 2014 | 2015 | 2016 | 2017 | As of 6/30/2018 |
|-------------------------------|-------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Parking Taxes | MBP PARKING TAXES CURRENT | 1,613,906 | 3,100,722 | 3,289,446 | 3,769,704 | 3,668,788 | 1,974,718 |
| Parking Taxes | MBP PARKING FEE | 13,271 | 16,721 | 11,573 | 13,724 | 12,580 | 11,034 |
| Parking Fees | PARKING LICENSE FEE-PRIOR | 476 | 3,266 | 2,131 | 710 | 4,076 | 0 |
| Parking Fees | PARKING LICENSE FEE-PENAL | 668 | 3,477 | 2,007 | 3,010 | 3,284 | 50 |
| Parking Fees | TOWING FEES | 24,954 | 28,360 | 21,665 | 22,595 | 20,706 | 10,284 |
| Parking Fees | METER BAG RENTAL | 149,706 | 62,834 | 21,504 | 24,116 | 49,312 | 33,860 |
| Parking Fees | FINE AND COSTS | 72,919 | 72,570 | 49,535 | 42,244 | 13,627 | 26,618 |
| Parking Fees | BOOTING FEES | 1,925 | 14,595 | 8,850 | 3,300 | 2,925 | 1,050 |
| | | | | | | | |
| Parking Tickets | PARK TICKETS-VIO FINE | 880,585 | 475,248 | 463,641 | 447,119 | 376,923 | 207,476 |
| | | | | | | | |
| Ground Lease Payment | PRIORITY PARKING DISTR. | 0 | 900,000 | 527,900 | 1,093,623 | 974,526 | 492,697 |
| | | | | | | | |
| Priority Parking Distribution | PRIORITY PARKING DISTRIBUTION | | 1,100,000 | 636,951 | 1,717,788 | 1,457,735 | 701,336 |
| | | | | | | | |
| Rental Income | HPA RENTAL INCOME | 0 | 20,800 | 0 | 0 | 0 | 0 |
| HPA Coordinated Pkg | HBG PRK AUTH COORD PKG | 0 | 0 | 0 | 0 | 0 | 0 |
| | Total Parking Revenue | 2,758,410 | 5,798,593 | 5,035,203 | 7,137,933 | 6,584,482 | 3,459,073 |

City of Harrisburg Parking Revenues

Table 2



Additional Incentive Programs

A 15-minute free parking program was initiated last year for several parking areas in the Central Business District (CBD) of Harrisburg previously marked as loading zones. To date, parking revenue from meters located around the free parking spaces have not been less than what was budgeted. The program was expanded in early 2017 to include conversion of 22 additional loading zones in the Harrisburg Central Business District to 15-minute free parking areas.

On April 2, 2018 the Mayor and Dauphin County announced, "Free Parking," within the Central Business District. The cost is to be borne by the City, County, and the Harrisburg Downtown Improvement District.

ParkMobile

ParkMobile was selected by Park Harrisburg to replace Pango as the provider for mobile-payment solutions effective March 1, 2017. ParkMobile is the leading provider of mobile-enabled parking and mobility-related services in North America. The company's mobile payments solution allows parkers to use their mobile phones to pay for parking at all of the on-street spaces managed by Park Harrisburg. Customers can pay with their smartphones using ParkMobile's mobile applications for iPhone, Android, and Windows phones, or by calling the toll-free number on the ParkMobile meter stickers. Park Harrisburg in partnership with the City and ParkMobile has implemented two other promotional programs that can provide a more customer-friendly parking experience. LUV HBG provides 4 hours of free metered parking on Saturdays and provides \$1/hour meter rates from 5:00 to 7:00 p.m. in the central business district. Park Harrisburg and ParkMobile are working with local businesses on other promotional programs utilizing this application.

In May 2017, ParkMobile had approximately 9,200 transactions. This compares quite favorably to the PANGO transactions which were approximately half this amount in May 2016. Public response to ParkMobile to date has been favorable.

ParkMobile had approximately 50,000 transactions for the period of January through May 2018.

Accruals

The Trustee has provided an opinion on language in the bond indenture related to the waterfall payments and stated that the language related to accruals is ambiguous. PK Harris, the Asset Manager, engaged CDM Smith to update the capital study in order to factor in capital requirements for the system as part of a term sheet. Subsequent to the completion of the updated capital study, AGM and Dauphin County, in their role as credit enhancers and creditors, prepared a proposed term sheet for discussion. Several positive meetings were held between the creditors and the City to discuss the term sheet. It is the Coordinator's belief that a mutually acceptable resolution that balances the needs of the parking system and the City can be reached by the parties.

Capital and Operational Improvements

Capital Improvement projects completed in 2017 and second quarter 2018 include:

1. Concrete repairs and generator replacement at the Locust, Market Square and Chestnut garages.
2. Repaving of the 7th Street Lot and sealcoating of the 10th Street Lot and Mulberry Street Lots. As a result of additional research on cost saving measures by the Operator, SP+, the final cost of repaving the 7th Street lot was \$300,000 below estimates in the Capital Study.
3. A new 10-year Capital Study has been completed and will be utilized for identification of capital improvements by year for the future.

Parking Advisory Committee

A Parking Advisory committee chaired by PK Harris/Trimont Real Estate Advisors, the Asset Manager, and comprised of representatives from CREDC (as PEDFA's representative); SP+, the Operator; HPA; the Mayor; City Council; Department of General Services (DGS); AGM; and the County was established under provisions of the Asset Transfer Agreement and continues to meet periodically to keep stakeholders informed on the parking system's operation. Although it has no decision-making authority, the Advisory Committee serves as a forum for communication and interaction among the parties with interests in the operation of the parking system, and as a vehicle for customer and public input with respect to the operation of the parking system. The Committee's last meeting was held on December 12, 2017.

Resource Recovery Facility

Results for 2014 - 2018

The Lancaster County Solid Waste Management Authority (LCSWMA) has operated the resource recovery facility since December 2013. Tonnage from the City, delivered to the Susquehanna Resource Management Complex (SRMC), exceeded the City's minimum required 35,000 tons in 2014, again in 2015 when the City disposed of 36,636 tons (105%), and again in 2016 when the City disposed of 35,953 tons (103%). As of the end of May, tonnage from the City disposed of at

the Susquehanna Resource Management Complex (SRMC) was 15,330 tons (43.8%) of the City's 35,000 ton minimum put or pay requirement. It is running slightly below last year at this point but is on target to again meet or exceed the 35,000 minimum.

Tipping fees were reduced in 2014 and have remained the same since that time. The more the City diverts from the waste stream through recycling, the less it has to pay for disposal costs. The plan to avoid using general fund monies to pay for any costs resulting from the put or pay provisions being activated included the combination of increasing recycling which will result in payments for recyclable materials, savings from reducing disposal charges (freeing up additional disposal fees) and reducing "leakage" from the system.

The City also receives an annual Host Fee from SRMC. Through May 2018, the City had received \$70,215 in Host Fees which is slightly below the Host Fee that it had received through the same period of 2017.

The "Verizon Bond Problem"

The resolution of the Verizon Bond matter has resulted in significant positive benefits to the City. The resolution has been discussed thoroughly in prior reports. The benefits, though, are continuing to have a positive impact on the City. The lease between Harristown Development Corporation (HDC) and the Department of General Services (DGS) of what is now known as the Commonwealth Tower has resulted in approximately 780 people moving into the Tower in 2016. This influx of employees in the central business district has increased Local Service Tax revenues by approximately \$120,000 per year and also spurred increased economic activity throughout the Strawberry Square and Market Street areas.

Current Status of Commonwealth (formerly Verizon) Tower Project

The Commonwealth renamed the Tower, the Commonwealth Tower, and by mid-2016 DGS had completed the build-out and all Human Services employees had been transferred to the Tower. All told, approximately 780 new Commonwealth employees now work in the Commonwealth Tower. By all accounts, the project is one of the biggest improvement projects that has been undertaken in downtown Harrisburg and has spawned considerable additional activity in the Strawberry Square complex. This project has also resulted in considerable savings to both the City and the Commonwealth (the former in regard to reduced total debt service obligations and the latter in regard to reduced energy costs under its lease).

Additional Improvements to Solution to the Verizon Bonds/Building Problem

A recent negotiated settlement relating to the real property assessment of the parcel is expected to yield a significant, beneficial economic impact for the City. As built into the transaction's legal structure, operating expense savings inure to the benefit the landlord (Redevelopment Authority of the City of Harrisburg - the "RDA") and to the manager of the buildings (Harristown Development Corp.). To the extent additional cash flow - or conditional rent - is directed to the RDA, there is a dollar for dollar reduction in the obligations of the City under its Guaranty of the RDA's Federally Taxable Guaranteed Revenue Bonds, Series A of 1998.

The Stipulation and Joint Motion document and Amended Order of Court executed in July and August 2017, respectively, state that the assessment of the parcel changed, effective January 1, 2016. The first conditional rent that would include any tax savings would be paid in April 2018 for the calendar year ending December 31, 2017 (because calendar year 2016 is already closed).

Although not yet final (and subject to the taxing bodies' further review), calculations provided to the Coordinator of the refunds/credits due from the County, City and School District for calendar years 2016 and 2017, approximate \$517,000 and may be available in April 2018. This is assuming no other offsetting items are in the conditional rent calculation and assuming the taxing bodies issue the checks in 2017, and only after recovery by HDC of \$51,000 in unreimbursed losses per the 2016 conditional rent calculation provided by HDC. HDC is awaiting confirmation from the City and School District regarding their calculations of the amounts of refunds/credits due and no actual refunds/credits have yet been issued.

In the original structure, HDC agreed to assume certain operational risks and subordinate certain payments to the Trustee on the 1998 Bonds. They did so fully intending to bring this tax appeal, reduce energy costs and reduce as many expenses relating to the project as possible. Under the applicable documents, if there are "excess funds" (gross rent less operating expenses and fixed rent) the first \$150,000 goes to HRA as conditional rent and the balance is split 50/50 between HRA and the HDC.

HDC's estimate of the amount of conditional rent that they expect to be paid to the RDA beginning in April of 2019 is \$282,000 per year through 2025. This is comprised of the first \$150,000 plus 50% of the remaining excess funds.

Harristown Development Corporation Activities

Harristown Development Corporation (HDC) continues to actively pursue additional development opportunities in Strawberry Square and the surrounding neighborhood. Strawberry Square itself is a great redevelopment story based on the 17-year Commonwealth lease for the Commonwealth Tower. Building on last year's successes, which included a new Hallmark store, expansions of apparel retailer, Amma Jo, and the Capital Area School for Arts (CASA), several additional projects have moved forward during the second quarter.

Rite Aid opened its new store in Strawberry Square on May 25, 2017. This is the largest retail lease HDC has experienced in its 40-year history. The 14,000 square foot store is double the size of its previous location on Market Street and is considered one of Rite Aid's Flagship stores. It offers an extensive amount of new products and services and has a special partnership with The Hershey Company with a "Chocolate World" style display and gift area. In the month since its opening, sales have been brisk and have exceeded Rite Aid's expectations.

Fresa Bistro, a new 50 seat sit-down restaurant opened at the end of the first quarter and is doing extremely well. It offers a menu of freshly made items, including sandwiches, paninis, salads, wraps and soups. HDC has also signed a lease for a new fast casual Asian Fusion restaurant known as "Freshido." The 2,500 square foot restaurant is located at the corner of 3rd and Market Streets and has seating for approximately 60. The opening of Freshido provides yet another dining option in the downtown.

Best Friends Day Care which opened in 2015 has seen its business grow with the influx of new office employees and has just signed a lease for an additional 1,000 square feet.

HDC is also hosting a monthly Pop-Up Happy Hour in Strawberry Square that creates additional foot traffic in the Strawberry Square complex and is a plus for retail establishments.

Public Financial Management, a major downtown employer relocated its 150 employees to the M&T Bank building taking about 63,000 sq. ft. which is the available office space remaining in this

building. The move represents PFM's long-term commitment to the City as one of the leading businesses in the region.

Residential development also is continuing in both Strawberry Square and the surrounding Third Street neighborhood. Demand for residential housing in downtown Harrisburg is strong as evidenced by a study commissioned by Harristown Enterprises, Inc. The "residential opportunity assessment" report was completed by the national consulting firm, Real Property Research Group (RPRG) and concluded that downtown Harrisburg has great potential to absorb as many as 300 new market rate apartments over the next three years — a very encouraging sign for the City's future. HDC's focus is to create an environment where you can walk to almost everything you need."

In 2016 HDC completed renovations and placed into the market 51 high-end apartments in three complexes: The Flats at Strawberry Square (22 units); F@TT (Fifteen at 22 S. Third) (15 units) and South of Market (SoMa) (14 units). By March all of these units were occupied and there is a waiting list for openings. HDC is currently constructing two additional units at the Flats and has purchased three additional row buildings on South Third Street that it is renovating into six apartment units. HDC is also looking for opportunities to convert older class B and C office buildings into apartments given the demand for housing.

The Downtown Improvement District and Harrisburg Property Services recently partnered to open a new safety and security sub-station in the SoMa district. They will work closely with the City's police department and provide safety and security service to residents and patrons of businesses in this neighborhood.

Two other developers, WCI Partners, LP and the Vartan Group have been partners in the development of residential properties in the City. WCI recently developed the Union Street Lofts (33 units), the Locust Street Apartments (14 units) and Walnut Court Apartments (21 units). Both Locust Street and Walnut Court projects were leased in 6-8 weeks. WCI is bringing on an additional 8 units at 916, 918, and 920 North Third St., adjacent to the Union Street Lofts.

On the educational and technology front, the Blackberry Technology Center opened in the SoMa neighborhood. The project involved the redevelopment of a blighted former hardware store that had been vacant for over 30 years into a three story, 4,500 sq./ft. building that now houses three technology-based companies that employ approximately 30 individuals. All three companies are a product of Harrisburg University's (HU) technology accelerator. HU has been a key player in the development of a burgeoning technology industry in the City as evidenced by a number of technology initiatives. Adjacent to SS, HU has recently completed the build-out of its current building and is pursuing additional space in the downtown area. The technology sector has grown nicely with over 20 firms located in and around downtown employing over 800 individuals. Many of these individuals desire housing in the downtown and contribute to the economic growth evidenced in downtown.

Temple University is also part of the educational corridor with its location in Strawberry Square and has also experienced strong growth in both undergraduate and graduate programs. The Capital Area School for the Arts in Strawberry Square is entering its fifth year as a charter school. It now boasts over 200 students and is expected to renew its charter in 2018.

Strawberry Square Energy Efficiency Upgrade

The Energy Upgrade in Strawberry Square was a separate project thru DGS and HDC that was coordinated with the build-out in PHASE 1 and 2, and is now complete. HDC entered into the performance agreement phase of the contract where the guarantee of savings by Siemens should be sufficient to pay the debt service on the loans. Siemens, as part of their performance agreement, maintains very tight oversight of the building's operation during the ten-year period. Comparative data for 2016 reflects an overall energy cost savings of 31% over 2015 with continued savings being experienced in 2018.

Senator's Stadium Bonds

The park permit/lease with the Harrisburg Senators for the City Island stadium remains an issue as the City has had to make up the difference in debt service from what the permit revenue provides. This amounted to between \$180,000 and \$200,000 annually between 2012 and 2013 and has continued to be a growing obligation. The goal of the Receiver, and now Coordinator, was for the City to enter into a new permit/lease that insured adequate revenues paid from operations of the Stadium to fulfill the debt service obligations on the stadium bonds without further burdening City taxpayers. The City and Coordinator met on several occasions to discuss options and staffing for reaching out to the parties involved. The City has now assumed responsibility for the "Senators' Stadium" financing matter, though the Coordinator's team continues to be available to assist should the City desire.

The owners of the team held back certain payments to the City in order to fund capital improvements to the stadium, thereby increasing the amount of debt service the City was required to pay under the Guaranty of the bonds. In October 2015, the City had to transfer an additional \$85,000 (beyond a May payment of \$163,061) to meet the debt service requirement for a total of \$248,061 on the bonds for the year. In May 2016, the City made a payment of \$241,362 and in October paid an additional \$91,272 for a total of \$332,634. Annual debt service obligations on the stadium bonds will exceed \$650,000 in 2017. The exact amount the City will need to contribute is unknown, though it is likely to be similar to the 2016 payment which represented about half of the total debt service, unless a resolution is found. The increase in debt service being paid by the City, versus the Strong Plan projections, heightens the reasons for making best efforts to use all resources and capacity available to reduce or eliminate this obligation. A resolution of the Stadium Bonds in a manner where they become self-supporting would save the City hundreds of thousands of dollars in debt service each year.

The Mayor has met with the Senators new owner, a local businessman, multiple times and continues to pursue additional uses for the stadium that would generate additional revenue for the City. Initiatives that increase cash flow to support the Stadium's expenses would inure to the benefit of the City and are recognized by the Coordinator as positive steps by the City.

The Coordinator has recommended in the adopted Plan modifications that so long as the City is making payments under its guaranty of these bonds, all advances made are memorialized in a manner that enables the City to maximize its ability to be reimbursed by the team ownership out of excess revenues, if and when they become available.

Finally, both installments of settlement proceeds from the *In Re Derivatives* class action law suit have been paid to the Harrisburg Redevelopment Authority and should be used to defray some of the debt service expenses of this bond issue and the Verizon Bond issue. The Coordinator has

stressed the importance of applying the proceeds of the settlement assets award to the respective obligations.

Water Sewer and Storm Water Operation - Transfer of Assets

When the Receiver's Team looked at the City's assets and assessed options, three different strategies for three different assets were pursued. The incinerator was sold, the parking system was "monetized," and water and sewer (wastewater and stormwater) operations were transferred to The Harrisburg Authority, now Capital Region Water ("CRW"), which was converted into an operating authority (from a financing authority). Under this structure, water and sewer revenues would be insulated and separated from the City's General Fund; and the infrastructure would be improved through expert and focused management and by eventually reinstating an investment grade credit rating.

The transfer, effectuated in late 2013, consolidated the ownership, administrative, operational and financial responsibilities for the drinking water, wastewater and stormwater operations to CRW. All City employees from the Bureaus of Water, Sewerage, and Operations & Revenue became employees of CRW. This transfer and consolidation was supported by the suburban communities served by the water systems, as well as regulators, and has been well-received by the citizens of Harrisburg. The organization is managed by a five-member, City-appointed Board of Directors with an administration comprised of a Chief Executive Officer, Chief Financial Officer, and Directors of Engineering, Operations and Administration. It has grown from approximately 80 staff to over 115 since late 2013, vastly improving the quality of service being provided to the City's water and sewer customers.

Strategic Planning

Capital Region Water's Strategic Plan was approved and adopted by its Board of Directors at its October 26, 2016 Board meeting.

The Strategic Plan identifies the following guiding principles that will lead the organization's decision-making process in the coming years:

Vision: To be a leading, innovative and efficient water utility focused on serving our community.

Values: Capital Region Water has a shared commitment to sustainability and to doing the right thing for public health and the environment, customers and coworkers.

Mission: Capital Region Water is a dedicated team of professionals devoted to customer satisfaction and stewardship of our community's water systems from raindrop to river.

Goals: (1) Efficient Use of Resources, (2) Public Health & the Environment, (3) Customers & Stakeholders, (4) Workforce, and (5) Infrastructure Stability.

All departments of CRW are using the Strategic Plan as a guide toward project prioritization. A system of program tracking and reporting is being developed. More specific updates will be provided in future reports.

Wastewater and Stormwater Compliance – Partial Consent Decree

The US Department of Justice and the US Environmental Protection Agency (“EPA”), along with the Pennsylvania Department of Environmental Protection (“DEP”), viewed the transfer favorably due to the capacity and expertise at CRW that would ensure the system's compliance with the Clean Water Act and Chesapeake Bay requirements.

Due to the authority's ability to access capital and work closely with the regulatory agencies, the conversion of CRW into an operating authority resulted in millions of dollars in savings to the City and rate payers through fine and penalty avoidance and lower cost of debt associated with environmental compliance orders including improvements to the Advanced Wastewater Treatment Facility (“AWTF”) and significant wet weather pollution initiatives.

The City faced millions of dollars in fines and penalties from the Department of Justice (representing the EPA) and from DEP, due to failure to treat sewage properly and comply with applicable effluent treatment and combined sewer overflow standards. With the support of the Commonwealth, Capital Region Water secured a \$24 million low interest loan from PENNVEST for construction of the AWTF upgrades. With this low interest loan commitment, CRW was able to arrange for a private placement for the balance of the \$50 million AWTF project. Construction on the project was completed as of December 2016 (pending final documentation) and when final costs are tabulated is projected to come in under budget.

CRW has complied with all milestones of the Partial Consent Decree entered into by CRW, the City, the State Department of Environmental Protection, the US Environmental Protection Agency, and the US Department of Justice. The potential fines and penalties that would have been imposed on the City appear to have been avoided.

City Beautiful H₂O

“City Beautiful H₂O” is a community-based campaign to improve the health of local waterways and green the City while meeting stormwater and combined sewer system compliance issues. This campaign includes a Green Stormwater Infrastructure plan for CRW's stormwater service area, a partnership with Lower Paxton and Susquehanna Townships to complete a watershed-wide compliance strategy to meet Paxton Creek water quality standards, and a robust community education and engagement process. These plans will be incorporated into CRW's Wet Weather

Planning for regulatory compliance and the City has indicated that it will be included in their Comprehensive Plan update currently underway. These plans will result in significant investment into the community while attempting to minimize the financial impact to rate payers.

CRW held a series of “Community Greening Parties” throughout the City to provide education and receive resident feedback on the development of the Green Stormwater Infrastructure Plan. The Green Stormwater Infrastructure Plan was presented to the CRW Board of Directors at its December 21, 2016 meeting and adopted by the Board at its January 25, 2017 meeting. The project team has taken the feedback received to prepare several conceptual designs including creating a “green block” between the Camp Curtain YMCA and Camp Curtain Memorial-Mitchell United Methodist Church on North 6th Street. The Green Stormwater Infrastructure Plan was presented to the CRW Board of Directors on December 21 and adopted by the Board at its January 25, 2017 meeting. CRW and its consultants are also working with the City's Parks and Recreation Department on the development of a master plan for the City's Reservoir Park and the

incorporation of green elements into five city parks, three of which will receive pervious basketball courts.

Harrisburg's municipal separate storm sewer system (MS4) is permitted by the Pennsylvania Department of Environmental Protection. The system is operated under a permit issued to the City of Harrisburg. This permit could not be transferred to CRW as part of the transition in 2013 because the permit had expired. CRW submitted an application for a permit in October 2014 and has provided all information requested by DEP. CRW continues to operate the system under the City's permit through a cooperative agreement.

Close coordination and cooperation with the City is imperative to being able to meet the requirements of the MS4 permit and our NPDES permit for Combined Sewer Overflows. CRW and its consultants continue to coordinate and facilitate multiple meetings with representatives from the City's Codes, Engineering, Planning, Parks and Recreation, and Fire Departments to discuss the best way to jointly meet the requirements of the permits and City Ordinances. CRW is currently drafting Consolidated Rules and Regulations for its Drinking Water, Wastewater, and Stormwater systems, and will be providing requests/recommendations to the City for modification to City ordinances to ensure consistency between the two.

Project Funding

CRW has been successful in preventing large costs of borrowing by developing successful financial strategies. CRW has completed five successful borrowings since 2013 and was scheduled to complete one additional borrowing in the third quarter of 2017.

Due to many factors, including purchase of the water system from the City, water system debt service grew to 60% of operating expenses. In 2014, certain short-term finance deals were scheduled to begin collecting accelerated principal and interest payments. Because of the transition, CRW was able to refund these amounts resulting in a present worth savings of over \$2-million.

Prior to 2016, CRW had not been able to access the financial bond markets due to the withdrawal of its bond ratings by the rating agencies. In early 2016, with two years of financial records and operating history, CRW was able to restore its Water bond rating (to A+ from Standard and Poor) and refinance over \$52 million in water bonds, resulting in a present worth savings of approximately \$9 million.

The rating agency report had several notable remarks including:

"Based on our Operational Management Assessment (OMA), we view Capital Region Water to be a '3' on a scale of 1-6, with '1' being the strongest. This indicates, in our view, that operational and organizational goals are generally well-aligned, even if some challenges exist. The OMA of "good" includes a secure long-term water supply by way of a CRW-owned-and-operated dam and reservoir on the Susquehanna River that, combined with existing treatment facilities, provides the system with more than twice its peak day demand requirements."

"The water system's financial risk profile is an area of strength, with only minimal qualifications. The current management team has been very aggressive in ensuring that asset management and preventive maintenance are the focus of the capital improvement program. Therefore, the current five-year capital improvement plan (CIP) through 2020 has

identified about \$23.7 million in capital commitments, a number that has been verified by an external consulting engineer that provides annual updates to the general system condition and the financial forecast."

In April of 2017, CRW was successful in re-establishing its Sewer Bond Rating to an investment grade level (A+ S&P). Additionally, CRW successfully marketed \$43,915,000 of Sewer Bonds which were utilized to refund M&T Bank's portion of the AWTF project financing and to provide necessary funding for 2017 and 2018 capital projects.

Impact Harrisburg Board's desire for collaborative projects between the City and CRW viewed this project positively. After learning of the City's plans for street restoration in areas with underground infrastructure ("Multi-Modal Transportation Projects") and the importance for their receiving funding for that work, CRW laid aside plans to apply for funding to offset project costs included in the five-year Capital Improvement Plan, and submitted an application requesting funding for water and sewer infrastructure to align with the City's Multimodal Transportation Projects.

CRW was notified on July 22, 2016 that Impact Harrisburg had approved a grant in the amount of \$2,743,645.25 to CRW for work associated with the City's Multimodal Project. This funding would offset up to \$8 million in CRW costs for condition assessments, design, bidding, and construction of rehabilitation of drinking water, wastewater and stormwater infrastructure. The project also includes the incorporation of Green Stormwater Infrastructure as practical in accordance with CRW's City Beautiful H2O wet weather and community greening plan. CRW is working to complete work in coordination with the City. Representatives of both bodies met with the IH Board on August 16, to discuss their plans and address concerns of the Board. The City's projects include: 3rd Street Resurfacing Project; 2nd, 7th and Division St Project; Berryhill Pedestrian Improvements Project; and North 17th Street Reconstruction.

CRW's General Counsel provided a draft grant agreement to the Impact Harrisburg Board to establish terms of receipt, however, we have not received a response from the Impact Harrisburg Board regarding the acceptance of the grant agreement.

During the second quarter of 2018 CRW would actively coordinating sewer infrastructure repair work and stormwater collection and management, both green infrastructure and conventional (catch basin) as part of the City's 3rd St improvement project. The timeline is controlled by the City, as CRW's work is supplementary to the primary City work. The City is issuing the bid advertisement with bids due in July and construction beginning by September.

Relationship with City

In 2013, the City and CRW entered into a Shared Services Agreement to facilitate the transition of service from the City to CRW and to provide for the effective coordination of services between the parties. The Coordinator continues to encourage the City and CRW to work cooperatively on a number of fronts pursuant to the Shared Services Agreement; however, areas for mutual service cooperation may disappear entirely unless current disputes are resolved and additional service agreements are negotiated.

CRW met with representatives from the City to discuss the remaining outstanding issues related to the transfer of operations and the Shared Services reconciliation. It is believed that there is agreement on the majority of the items in question. One of the remaining areas to be reconciled is the Street Sweeping portion of the Shared Services agreement. The City provided the Street

Sweeping expense summary and CRW is working with City personnel to resolve any remaining issues with the street sweeping charges and was to effectuate a resolution prior to December 31, 2017. CRW will be conducted street sweeping throughout fiscal year 2018.

At the request of the City, CRW prepared a new Shared Services Schedule wherein CRW would complete water and sewer service disconnects on City-demolished properties at the City's expense. CRW has completed work on a dozen of these properties and is waiting for the City to approve the proposed schedule or offer any amendments to the agreement.

One project that CRW is providing service to the City for is related to sanitary sewer overflows at the Harrisburg Transportation Center (HTC). The HTC has experienced sanitary sewer overflows into its lower areas for quite some time, though until recently nothing had been done to remedy the situation. Following several months of investigative work by CRW, their staff met with Harrisburg Redevelopment Authority on March 15, 2017 to review findings from site analysis and hydraulic modeling of the area.

CRW is proceeding on the modeling and planning schedule of our Consent Decree with USEPA, PADEP and USDOJ. The analysis was to be largely completed before the end of 2017 with the final plan submission due on April 1, 2018. HTC is in the middle of three sewer sheds, and long-term plans will likely consolidate two or all of those sewer sheds into a single shed. HTC will also likely separate stormwater from the sanitary sewer system in part or all of the area, and evaluate the potential for attenuation of stormwater with green infrastructure. These changes will require substantial investment and infrastructure relocation complicated by the obstacle created by the railroad tracks. The schedule for implementation of such improvements may well be more than ten years out, and the improvements themselves would not address the building back-up issues as they are created by a site impact (roof drainage) and not combined sewer interceptor or creek backwater. CRW will continue to partner with HRA and PENNDOT on the best collaborative solutions for HTC.

Cooperation between the City and CRW has improved through the regular meetings discussed above and through improved communication of issues between parties. A large part of this improvement is the result of revised channels of communication that allow better management of tasks. There are numerous areas where CRW and the City can collaborate for the benefit of all including comprehensive and green infrastructure planning (including parks and playgrounds), coordination of roadway and utility capital improvement plans, increasing code enforcement, and issues related to the sinkhole and utility line collapse problems. As Coordinator, I continue to encourage such collaboration as it benefits the City's recovery process.

Forensic Claims

To date many parties have been impacted by the Strong Plan and participated in the resolution of the City's debt related issues. This includes City residents who are faced with higher taxes, City employees who suffered wage freezes and made other concessions; creditors of the City and Authority, including AGM, Dauphin County, and AMBAC; and other creditors who were involved in the renovations to the Resource Recovery Facility and the monetization of City assets. Parties that have not participated to date in the City's recovery are the various professionals who were involved in the financing transactions related to the Resource Recovery Facility. Pursuant to the provisions of the Strong Plan, the Receiver and now the Coordinator have continued to actively pursue the forensic claims.

The Receiver initially engaged the firm of McKenna Long & Aldridge, (now Dentons) as Counsel in the pursuit of these claims. With the forensic audit completed by The Harrisburg Authority as background, the Coordinator is engaged with the parties involved in the various financings related to the Resource Recovery Facility in an effort to achieve a consensual resolution as to their role in the financings.

On May 21, 2018 the Commonwealth of Pennsylvania on behalf of the City of Harrisburg has filed the Incinerator Lawsuit Complaint against seven firms that provided professional guidance and advice to the City of Harrisburg on the Incinerator Project for engineering and financing. The law firm of Harris, Wiltshire & Grannis, LLP are representing the Commonwealth.

Concurrently, a separate claim related to the Harrisburg Parking Authority (HPA) and Harrisburg University has also been pursued. This claim relates to the payment of \$3.6 million that was to be made at plan consummation in order to obtain free and clear title to the Harrisburg Parking Authority facilities at Harrisburg University. Under an agreement with HPA this claim was assigned to the City through the Office of the Coordinator. Counsel selected by AGM and Dauphin County determined to opt out of representation of the Coordinator in the complaint originally filed by that counsel in the Dauphin County Court of Common Pleas. As a result, the Coordinator selected Harris, Wiltshire & Grannis to represent him in this matter.

(The remainder of this page was intentionally left blank)

Summary

As I author the second quarterly update of 2018, I want to express my appreciation for the leadership exhibited by the City's Elected Officials. The City's Elected and Appointed Officials have welcomed me and helped me to get acquainted with the City's operations as they relate to the Harrisburg Strong Plan.

An updated Financial Condition Report with a forthcoming Exit Strategy has been presented to the Mayor and City Council on March 22, 2018 due to statutory changes to Act 47 through Act 199. The Financial Condition Report which was embodied in the Act 47 Exit Plan will be submitted to the Mayor's Office and the Chief Clerks Office on Monday, July 9, 2018, while at the same time a copy will be attached to this report. This Act 47 Exit Plan provides direction on a number of issues which include fiscal projections for 2018-2021. The Exit Plan will involve and require some very difficult decisions by the Governing Body and the Act 47 Recovery Coordinator intends to work with them to provide the most reasonable recommendations going forward.

The enactment of the Strong Plan modifications, when it was adopted in September of 2013, was a critical next step in the City's recovery and its move towards a path of sustainability and an Exit from Act 47. The Financial Condition Report will recommend a three-year Exit Strategy to allow the City to stabilize its revenues and reduce its expenditures. The Act 47 Exit Plan is scheduled for City Council consideration by Ordinance in September of 2018.

Although challenges remain, the City has made significant progress on many fronts. Through the second quarter of 2018, the City's operating position is healthy and its cash position strong. The second quarter also saw additional revenue from the Local Services tax along with significant EIT revenues. The General Fund shows a cash balance of \$26.2 million, with \$7 million encumbered for necessary Capital Expenditures, leaving a cash balance of \$19.2 million. The City's fiscal health continues to gain strength and stability. The City's cash position is a very positive sign and negated the need for a Tax and Revenue Anticipation Note (TRAN) for fiscal year 2018.

The City has taken a number of steps to restore its fiscal credibility in the financial marketplace including keeping their audits up-to-date, securing TRANs for three consecutive years, compliance with SEC disclosure requirements, making timely debt service payments, bringing all payables into a current status and undertaking its first capital borrowing since entering Act 47. The City made the bond payment in March and will make another bond payment in October, so it will not need to rely on AMBAC to make its bond payments for the City. The current discussions related to possible repayment of the advances made by AMBAC also bodes well for the City's fiscal credibility. The City recently hired Marathon Capital, as their Financial Advisors to assist with the negotiations with AMBAC. It is imperative that the Mayor, the Financial Advisors, and AMBAC continue to keep the Coordinator apprised of their progress regarding these negotiations, as it was the Harrisburg Receiver who negotiated the first two agreements with AMBAC on behalf of the City. The City is eagerly approaching the time when it can re-enter the bond marketplace to assist in financing much needed capital infrastructure for the future.

Restructuring City operations has played a key role in the City's positive current fiscal position. Ensuring long-term sustainability remains a challenge and requires the revitalization of the City's tax base to generate sufficient revenues to meet service needs of City residents. Progress on this front is typically slower, though we are seeing many positive signs. With full occupancy of the Commonwealth Tower by almost 800 Pennsylvania Department of Human Services employees, the City is seeing a number of positive economic benefits in Strawberry Square and surrounding area including new businesses and residences resulting in increased tax and parking revenues.

The Commonwealth Tower project, along with the Transit Oriented Development (TOD) study of the Transportation Center area, can serve as a further stimulus for additional economic activity in the downtown. The City is also experiencing growth in the technology sector industry that is supported by Harrisburg University and other educational institutions in and around the City. Likewise, the continued advance of plans and funding for the new Federal Courthouse in Midtown will spur further economic activity in that area. The GSA broke ground for the courthouse project on June 18, 2018.

Recent State Redevelopment Assistance grants for revitalization efforts in both Midtown and Allison Hill will further incentivize economic activity, all of which serves to strengthen the City's tax base. It is important that the City continue to build on these successes and partner with governmental and community stakeholders to further advance revitalization efforts.

I, as the new Coordinator, and my team will continue to work with Mayor Papenfuse and his Administration, as well as City Council and other City Elected and Appointed Officials to assist the City as it moves forward with Strong Plan initiatives and other operational enhancements. Regular interaction with the City Administration on issues involving finance, budget, tax collection, IT issues, planning, sanitation, public safety, parking and human resources is an important element to the City's recovery. The Coordinator and team will continue to work with City Officials to effectively manage the adopted 2018 budget, including its capital improvement programming component, increase the City's management capacity, and continue to enact sound financial management policies. City Council Finance Chair, Ben Allatt, plans to adopt several financial management policies within fiscal year 2018. My team and I will work closely with the Mayor and the City Council as they move to consideration of the Ordinance for the Act 47 Exit, which is to be submitted to them on July 9, 2018 followed by a fifteen-day comment period. The final Exit Plan will be presented in September of 2018 which will include a three-year extension to the Recovery Plan for the City.

I will also work to further strengthen public safety, implement additional sanitation system improvements, address City Island matters, pursue intergovernmental initiatives, finalize work on the City's comprehensive plan update and work with the Impact Harrisburg Board to implement the approved infrastructure and economic development projects to spur development and improve the quality of life for City residents.

I am pleased to inform the court that I have met with Mayor Papenfuse, Solicitor Neil Grover, Finance Director, Bruce Weber, and the Controller Charles DeBrunner to discuss the transfer of the Other Post-Employment Benefits (OPEB) funds of \$3.2 million from the Harrisburg Recovery Coordinator to the City of Harrisburg in the form of an OPEB Trust. I will continue to work with the Mayor and Solicitor to move this effort forward and to begin to construct the OPEB Trust Board. The formulation of this trust will have multiple benefits to the City of Harrisburg including a possible improvement in the City's bond rating. The Recovery Coordinator's Legal team has drafted an OPEB trust agreement which will be submitted to Neil Grover, City Solicitor for his review before final consideration. The OPEB trust agreement will need to go before City Council in the form of an Ordinance. I am committing to the Court that this process will proceed and will be effectuated in 2018.

As the Recovery Coordinator, I want to recognize the significant progress that has occurred since Harrisburg entered the Act 47 Program in 2010. Looking forward, I have an optimistic outlook for the future of Pennsylvania's Capital City and I am proud of its renaissance. It is now a place that individuals want to come to work and live in, to serve their community through service on the City's non-profit boards, and to socialize in and to take in a baseball game on a summer's eve.

Indeed, Harrisburg is a shining example of how, by working collaboratively, engaging in partnerships, and sharing in both the pain and success, a City can transition from near bankruptcy to a City that is fiscally healthy and has a vibrant economy that will carry it forward into the next decade.

**CITY OF HARRISBURG
CASH FLOW**

City of Harrisburg
 General Fund
 2018 Estimated Cash Flow

| | Actual Jan | Actual Feb | Actual Mar | Actual Apr | Actual May | Estimated June | Estimated Jul | Estimated Aug | Estimated Sep | Estimated Oct | Estimated Nov | Estimated Dec | Total |
|--|-------------------|------------------|-------------------|-------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|------------------|-------------------|-------------------|
| Revenues, Expenditures, Surplus/(Deficit) | | | | | | | | | | | | | |
| Revenues without Transfers | 2,348,575 | 7,069,601 | 12,573,345 | 3,653,135 | 5,747,570 | 2,882,534 | 2,821,608 | 5,028,890 | 5,508,987 | 3,175,722 | 4,810,873 | 4,076,843 | 59,697,683 |
| Transfer in from Neighborhood Services Fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 405,532 | 0 | 405,532 | 0 | 811,063 |
| Transfer in from Neighborhood Mitigation Fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer in from Landfill/Incin Utility Fd | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer in from Host Fee for Enviromental Costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5,000,000 | 0 | 0 | 0 | 5,000,000 |
| Transfer from Other Funds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 670,000 | 0 | 0 | 0 | 670,000 |
| Total Revenues | 2,348,575 | 7,069,601 | 12,573,345 | 3,653,135 | 5,747,570 | 2,882,534 | 2,821,608 | 5,028,890 | 11,584,519 | 3,175,722 | 5,216,405 | 4,076,843 | 66,178,746 |
| Expenditures | | | | | | | | | | | | | |
| Personnel | 3,245,512 | 2,413,192 | 2,713,151 | 2,610,195 | 3,833,644 | 3,217,494 | 3,585,573 | 3,176,828 | 3,064,180 | 6,669,304 | 2,645,894 | 5,202,484 | 42,377,450 |
| Services | 481,016 | 445,896 | 519,514 | 1,360,113 | 476,981 | 437,017 | 760,252 | 1,001,244 | 460,609 | 925,674 | 564,600 | 886,975 | 8,319,890 |
| Supplies | 124,396 | 250,284 | 114,127 | 136,084 | 163,928 | 226,019 | 348,760 | 245,510 | 222,391 | 256,256 | 244,289 | 568,828 | 2,900,873 |
| Other | 322,222 | 240,994 | 130,919 | 180,595 | 649,141 | 282,744 | 1,885,829 | 1,287,305 | 1,180,049 | 860,740 | 493,031 | 377,025 | 7,890,593 |
| Debt Service | 0 | 0 | 5,235,346 | 500,000 | -7,214 | 155,721 | 0 | 808,328 | 2,579,036 | 86,765 | 47,388 | 476,306 | 9,881,678 |
| Total Expenditures | 4,173,147 | 3,350,366 | 8,713,057 | 4,786,987 | 5,116,479 | 4,318,996 | 6,580,414 | 6,519,215 | 7,506,266 | 8,798,738 | 3,995,202 | 7,511,617 | 71,370,483 |
| Operating Surplus/(Deficit) | -1,824,572 | 3,719,235 | 3,860,288 | -1,133,852 | 631,091 | -1,436,461 | -3,758,806 | -1,490,326 | 4,078,253 | -5,623,016 | 1,221,203 | -3,434,775 | -5,191,737 |

Note: Harrisburg's Budget included \$9.2 million of Cash Carryover to balance the budget
 That money is not reflected in the Revenues.

**City of Harrisburg
General Fund
2018 Estimated Cash Flow**

| | Actual Jan | Actual Feb | Actual Mar | Actual Apr | Actual May | Estimated June | Estimated Jul | Estimated Aug | Estimated Sep | Estimated Oct | Estimated Nov | Estimated Dec | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Cash Summary | | | | | | | | | | | | | |
| Unrestricted Cash Balance Beginning of Month | 20,980,423 | 19,166,422 | 22,915,521 | 26,788,212 | 25,648,632 | 26,279,723 | 26,343,262 | 22,584,456 | 21,094,130 | 25,172,383 | 19,549,367 | 20,770,570 | |
| Surplus/(Deficit) | -1,824,572 | 3,719,235 | 3,860,288 | -1,133,852 | 631,091 | -1,436,461 | -3,758,806 | -1,490,326 | 4,078,253 | -5,623,016 | 1,221,203 | -3,434,775 | |
| Change in Accounts Payable | 0 | 0 | 0 | -5,728 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Other items affecting Cash | 10,570 | 29,864 | 12,404 | 0 | 0 | 1,500,000 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Unrestricted Cash Balance End of Month | 19,166,422 | 22,915,521 | 26,788,212 | 25,648,632 | 26,279,723 | 26,343,262 | 22,584,456 | 21,094,130 | 25,172,383 | 19,549,367 | 20,770,570 | 17,335,796 | |
| Revenues, Expenditures, Surplus/(Deficit) | | | | | | | | | | | | | |
| Revenues without Transfers | 2,348,575 | 7,069,601 | 12,573,345 | 3,653,135 | 5,747,570 | 2,882,534 | 2,821,608 | 5,028,890 | 6,178,987 | 3,175,722 | 4,810,873 | 4,076,843 | 60,367,683 |
| Transfer in from Neighborhood Services Fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 405,532 | 0 | 405,532 | 0 | 811,063 |
| Transfer in from Neighborhood Mitigation Fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer in from Landfill/Incin Utility Fd | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer in from Host Fee for Enviromental Costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer from Other Funds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Revenues | 2,348,575 | 7,069,601 | 12,573,345 | 3,653,135 | 5,747,570 | 2,882,534 | 2,821,608 | 5,028,890 | 11,584,519 | 3,175,722 | 5,216,405 | 4,076,843 | 66,178,746 |
| Expenditures | | | | | | | | | | | | | |
| Personnel | 3,245,512 | 2,413,192 | 2,713,151 | 2,610,195 | 3,833,644 | 3,217,494 | 3,585,573 | 3,176,828 | 3,064,180 | 6,669,304 | 2,645,894 | 5,202,484 | 42,377,450 |
| Services | 481,016 | 445,896 | 519,514 | 1,360,113 | 476,981 | 437,017 | 760,252 | 1,001,244 | 460,609 | 925,674 | 564,600 | 886,975 | 8,319,890 |
| Supplies | 124,396 | 250,284 | 114,127 | 136,084 | 163,928 | 226,019 | 348,760 | 245,510 | 222,391 | 256,256 | 244,289 | 568,828 | 2,900,873 |
| Other | 322,222 | 240,994 | 130,919 | 180,595 | 649,141 | 282,744 | 1,885,829 | 1,287,305 | 1,180,049 | 860,740 | 493,031 | 377,025 | 7,890,593 |
| Debt Service | 0 | 0 | <u>5,235,346</u> | <u>500,000</u> | <u>-7,214</u> | <u>155,721</u> | <u>0</u> | <u>808,328</u> | <u>2,579,036</u> | <u>86,765</u> | <u>47,388</u> | <u>476,306</u> | <u>9,881,678</u> |
| Total Expenditures | 4,173,147 | 3,350,366 | 8,713,057 | 4,786,987 | 5,116,479 | 4,318,996 | 6,580,414 | 6,519,215 | 7,506,266 | 8,798,738 | 3,995,202 | 7,511,617 | 71,370,483 |
| Operating Surplus/(Deficit) | -1,824,572 | 3,719,235 | 3,860,288 | -1,133,852 | 631,091 | -1,436,461 | -3,758,806 | -1,490,326 | 4,078,253 | -5,623,016 | 1,221,203 | -3,434,775 | -5,191,737 |
| Accounts Payable | | | | | | | | | | | | | |
| Accounts Payable Beginning of Month | -1,505,728 | -1,505,728 | -1,505,728 | -1,505,728 | -1,500,000 | -1,500,000 | -1,500,000 | -1,500,000 | -1,500,000 | -1,500,000 | -1,500,000 | -1,500,000 | |
| Accounts Payable End of Month | -1,505,728 | -1,505,728 | -1,505,728 | -1,500,000 | -1,500,000 | -1,500,000 | -1,500,000 | -1,500,000 | -1,500,000 | -1,500,000 | -1,500,000 | -1,500,000 | |
| Change in Accounts Payable | 0 | 0 | 0 | -5,728 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |

Note: Harrisburg's Budget included \$9.2 million of Cash Carryover to balance the budget
That money is not reflected in the Revenues.

**City of Harrisburg
General Fund
2018 Estimated Cash Flow**

Cash Summary

| Revenues, Expenditures, Surplus/(Deficit) | Actual 1st Quarter | Estimated 2nd Quarter | Estimated 3rd Quarter | Estimated 4th Quarter | Total |
|---|-------------------------------|----------------------------------|----------------------------------|----------------------------------|-------------------|
| Revenues | 21,991,521 | 12,283,239 | 19,435,017 | 12,468,969 | 66,178,746 |
| Expenditures | 16,236,570 | 14,222,461 | 20,605,895 | 20,305,557 | 71,370,483 |
| Operating Surplus/(Deficit) | 5,754,951 | -1,939,222 | -1,170,878 | -7,836,588 | -5,191,737 |
| Unrestricted Cash Balance Beginning of Quarter | 20,980,423 | 26,788,212 | 26,343,262 | 25,172,383 | |
| Surplus/(Deficit) | 5,754,951 | -1,939,222 | -1,170,878 | -7,836,588 | |
| Change in Accounts Payable | 0 | -5,728 | 0 | 0 | |
| Other items affecting Cash | 52,838 | 1,500,000 | 0 | 0 | |
| Unrestricted Cash Balance End of Quarter | 26,788,212 | 26,343,262 | 25,172,383 | 17,335,796 | |

Note: Harrisburg's Budget included \$9.2 million of Cash Carryover to balance the budget
That money is not reflected in the Revenues.

| | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|--|
| Accounts Payable | | | | | |
| Accounts Payable Beginning of Quarter | -1,505,728 | -1,505,728 | -1,500,000 | -1,500,000 | |
| Accounts Payable End of Quarter | -1,505,728 | -1,500,000 | -1,500,000 | -1,500,000 | |
| Change in Accounts Payable | 0 | -5,728 | 0 | 0 | |

City of Harrisburg
2018 Estimated General Fund Revenues

| Revenue Group | Actual Jan | Actual Feb | Actual March | Actual April | Actual May | Estimated June | Estimated July | Estimated August | Estimated September | Estimated October | Estimated November | Estimated December | Estimated Total 2018 | Budget 2018 | Variance |
|-------------------------------|------------------|------------------|-------------------|------------------|------------------|------------------|------------------|------------------|---------------------|-------------------|--------------------|--------------------|----------------------|-------------------|------------------|
| Real Estate Taxes Current | 335,665 | 2,418,105 | 10,095,808 | 342,149 | 850,676 | 297,819 | 154,520 | 128,167 | 78,742 | 161,770 | 103,517 | 513,919 | 15,480,858 | 15,121,493 | 359,365 |
| Real Estate Taxes Delinquent | 85,471 | 0 | 175,286 | 216,374 | 170,954 | 118,246 | 355,396 | 155,004 | 251,483 | 532,763 | 129,859 | 91,680 | 2,282,516 | 2,283,377 | -860 |
| Tax Liens Principal | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Tax Sales | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| EIT | 540,819 | 1,606,336 | 1,009,734 | 518,401 | 1,607,695 | 1,092,809 | 420,079 | 1,427,830 | 1,041,331 | 647,950 | 1,433,799 | 752,922 | 12,099,704 | 3,809,999 | 8,289,705 |
| Act 47 EIT | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7,619,998 | -7,619,998 |
| EMS/LST | 96,048 | 1,449,198 | 129,103 | 201,991 | 1,300,586 | 250,472 | 189,539 | 1,074,228 | 283,243 | 237,599 | 1,538,670 | 324,034 | 7,074,713 | 6,049,251 | 1,025,462 |
| Mercantile Business Privilege | 198,894 | 230,573 | 418,632 | 1,228,517 | 432,814 | 171,272 | 122,926 | 157,901 | 69,690 | 186,248 | 164,641 | 78,750 | 3,460,858 | 3,368,550 | 92,308 |
| Other Act 511 Taxes | 58,313 | 36,324 | 28,220 | 3,505 | 87,204 | 14,319 | 89,645 | 340,518 | 55,220 | 44,349 | 380,061 | 340,290 | 1,477,968 | 1,471,000 | 6,968 |
| Capital Fire Protection | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cdbg Reimb. - Demolition | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| District Justice Fees | 31,961 | 26,343 | 34,100 | 35,713 | 39,779 | 25,143 | 32,280 | 19,322 | 42,113 | 61,830 | 21,687 | 26,746 | 397,015 | 383,000 | 14,015 |
| Fed/State(Fed)Pass Thr Gr | 0 | 0 | 0 | 0 | 0 | 3,640 | 3,640 | 21,596 | 9,220 | 3,640 | 7,279 | 162,569 | 211,583 | 211,583 | 0 |
| Federal Grants | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 250,000 | 0 | 51,546 | 301,546 | 51,546 | 250,000 |
| Fees/Permits | 219,079 | 90,719 | 92,513 | 97,283 | 87,868 | 50,273 | 122,075 | 142,743 | 75,317 | 119,862 | 137,012 | 172,817 | 1,407,562 | 1,350,715 | 56,846 |
| Government Grants | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Grants Fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest | 16,459 | 15,413 | 13,621 | 16,817 | 19,377 | 2,026 | 1,663 | 4,473 | 2,406 | 1,317 | 1,459 | 4,703 | 99,734 | 26,566 | 73,168 |
| License | 0 | 146,336 | 19,850 | 0 | 139,313 | 0 | 0 | 157,481 | 523 | 824 | 150,127 | 11,795 | 626,248 | 623,493 | 2,755 |
| Miscellaneous | 70,537 | 151,030 | 70,731 | 82,007 | 129,218 | 255,276 | 172,521 | 334,713 | 165,753 | 124,766 | 115,450 | 197,300 | 1,869,302 | 1,821,133 | 48,169 |
| Pension System State Aid | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,629,069 | 0 | 0 | 0 | 0 | 2,629,069 | 2,629,069 | 0 |
| Public Safety Fees/Permits | 13,701 | 5,276 | 25,685 | 23,903 | 16,624 | 17,347 | 20,379 | 14,311 | 18,457 | 18,232 | 12,441 | 17,130 | 203,487 | 216,451 | -12,964 |
| Public Safety Grants | 47,218 | 9,539 | 22,986 | 18,977 | 9,897 | 32,643 | 27,966 | 11,765 | 5,059,164 | 11,016 | 6,066 | 26,884 | 5,284,122 | 5,361,556 | -77,435 |
| Public Safety Reimbursements | 44,858 | 102,794 | 48,129 | 159,939 | 61,196 | 72,455 | 92,596 | 102,490 | 51,954 | 82,572 | 84,994 | 119,128 | 1,023,106 | 1,019,502 | 3,604 |
| Public Works Fees/Permits | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 58,605 | 191,057 | 249,662 | 250,000 | -338 |
| Reimbursements | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Rental Income | 163 | 163 | 163 | 163 | 163 | 57 | 52 | 46 | 46 | 58 | 40 | 59 | 1,170 | 2,100 | -930 |
| Recreation Fees | 15 | 20 | 30 | 25 | 30 | 2,644 | 5,430 | 1,866 | 563 | 139 | 117 | 34 | 10,913 | 11,231 | -319 |
| Sale Of Assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Vehicle Maintenance Charges | 73,792 | 29,728 | 0 | 95,857 | 0 | 16,529 | 24,869 | 35,644 | 25,680 | 18,156 | 3,416 | 10,204 | 333,874 | 279,300 | 54,574 |
| PILOTS | 0 | 121,292 | 259 | 0 | 108,142 | 20,715 | 250,093 | 42,497 | 70,113 | 13,563 | 43,077 | 7,000 | 676,752 | 676,797 | -46 |
| Pub Utility Realty Tax | 0 | 0 | 0 | 0 | 0 | 0 | 33,680 | 0 | 0 | 11,320 | 0 | 0 | 45,000 | 45,000 | 0 |
| Sewer Maint Charge | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sewer Maint Liens-Penalty | 0 | 0 | 0 | 0 | 0 | 176 | 12 | 1 | 0 | 8 | 2 | 1 | 200 | 214 | -14 |
| Sewer Maint Liens-Princip | 0 | 0 | 11 | 9 | 0 | 85 | 111 | 14 | 35 | 51 | 42 | 16 | 375 | 542 | -167 |
| Sewer Utility Fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sanitation Utility Fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Neighborhood Services Fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 405,532 | 0 | 405,532 | 0 | 811,063 | 811,063 | 0 |
| Neighborhood Mitigation Fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Landfill/Incin Utility Fd | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sewerage Utility Fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Hbg Water Utility Fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Hbg Prk Auth Coord Pkg | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers from Other Funds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 670,000 | 0 | 0 | 0 | 670,000 | 670,000 | 0 |
| Parking Taxes | 313,797 | 373,606 | 283,941 | 330,261 | 374,549 | 136,074 | 380,812 | 423,513 | 238,143 | 303,055 | 77,224 | 666,585 | 3,901,559 | 3,912,500 | -10,941 |
| Parking Fees | 29,944 | 3,146 | 3,530 | 5,709 | 14,399 | 20,972 | 4,154 | 3,667 | 8,952 | 3,165 | 2,879 | 14,755 | 115,273 | 95,020 | 20,253 |
| Parking Tickets | 30,277 | 27,049 | 25,257 | 25,501 | 47,051 | 28,787 | 39,923 | 70,926 | 30,827 | 37,332 | 38,173 | 32,742 | 433,845 | 425,102 | 8,743 |
| Ground Lease Payments | 58,415 | 93,508 | 31,260 | 103,171 | 103,172 | 91,205 | 115,698 | 179,913 | 98,390 | 135,409 | 110,268 | 117,531 | 1,237,939 | 1,238,060 | -121 |
| Priority Parking Distribution | 83,152 | 133,105 | 44,497 | 146,861 | 146,861 | 161,551 | 161,551 | 178,259 | 202,551 | 168,730 | 189,967 | 144,646 | 1,761,730 | 1,762,331 | -601 |
| THA Shared Service | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Harrisburg Authority | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Revenues | 2,348,575 | 7,069,601 | 12,573,345 | 3,653,135 | 5,747,570 | 2,882,534 | 2,821,608 | 5,028,890 | 11,584,519 | 3,175,722 | 5,216,405 | 4,076,843 | 66,178,746 | 63,597,544 | 2,581,202 |

**City of Harrisburg
General Fund
2018 Estimated Expenditures by Month**

| | Actual Jan | Actual Feb | Actual Mar | Actual April | Actual May | Estimated June | Estimated July | Estimated August | Estimated September | Estimated October | Estimated November | Estimated December | Estimated Total 2018 | Budget Total 2018 | Variance Act - Bud |
|--|-----------------------|-----------------------|-----------------------|-------------------------|-----------------------|---------------------------|---------------------------|-----------------------------|--------------------------------|------------------------------|-------------------------------|-------------------------------|---------------------------------|------------------------------|-------------------------------|
| Office of City Council Personnel | 21,113 | 20,780 | 22,023 | 22,023 | 33,034 | 26,958 | 27,187 | 24,371 | 22,291 | 22,472 | 24,657 | 29,738 | 296,647 | 286,888 | 9,759 |
| Office of City Council Services | 21,137 | 3,851 | 481 | 438 | 5,573 | 2,709 | 5,066 | 433 | 2,837 | 27,964 | 2,454 | 26,978 | 99,921 | 102,080 | -2,159 |
| Office of City Council Supplies | 0 | 545 | 96 | 300 | 1,120 | 682 | 2,096 | 2,741 | 262 | 437 | 387 | 5,730 | 14,395 | 22,000 | -7,605 |
| Office of City Council Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Office of City Council | 42,250 | 25,176 | 22,600 | 22,760 | 39,726 | 30,350 | 34,349 | 27,545 | 25,390 | 50,873 | 27,498 | 62,446 | 410,963 | 410,968 | -5 |
| Office of Mayor Personnel | 11,092 | 10,896 | 10,896 | 10,896 | 16,344 | 21,107 | 21,873 | 19,136 | 17,694 | 16,866 | 17,921 | 22,646 | 197,368 | 229,295 | -31,927 |
| Office of Mayor Services | 0 | 2,089 | 96 | 0 | 234 | 247 | 909 | 199 | 3,378 | 199 | 471 | 2,158 | 9,980 | 11,463 | -1,483 |
| Office of Mayor Supplies | 801 | 0 | 442 | 0 | 0 | 728 | 792 | 908 | 1,909 | 734 | 793 | 2,058 | 9,164 | 15,010 | -5,846 |
| Office of Mayor Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Office of Mayor | 11,892 | 12,985 | 11,434 | 10,896 | 16,579 | 22,082 | 23,574 | 20,243 | 22,980 | 17,799 | 19,186 | 26,862 | 216,512 | 255,768 | -39,256 |
| Office of City Controller Personnel | 11,284 | 11,910 | 11,609 | 11,590 | 17,425 | 14,064 | 13,554 | 12,887 | 11,623 | 11,667 | 12,885 | 15,099 | 155,596 | 151,595 | 4,001 |
| Office of City Controller Services | 0 | 0 | 0 | 0 | 0 | 125 | 125 | 125 | 263 | 372 | 125 | 619 | 1,754 | 10,500 | -8,746 |
| Office of City Controller Supplies | 24 | 44 | 0 | 66 | 33 | 432 | 1,072 | 2,016 | 453 | 149 | 230 | 2,185 | 6,703 | 9,207 | -2,504 |
| Office of City Controller Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Office of City Controller | 11,308 | 11,954 | 11,609 | 11,655 | 17,458 | 14,621 | 14,751 | 15,029 | 12,339 | 12,187 | 13,239 | 17,903 | 164,054 | 171,302 | -7,248 |
| Office of City Treasurer Personnel | 25,942 | 26,069 | 26,074 | 26,024 | 39,106 | 32,179 | 31,571 | 30,854 | 25,988 | 24,771 | 25,946 | 31,157 | 345,680 | 340,724 | 4,956 |
| Office of City Treasurer Services | 490 | 0 | 27,835 | 3,378 | -65 | -1,206 | 3,931 | 3,641 | 1,520 | 3,054 | 1,413 | 5,335 | 49,326 | 61,200 | -11,874 |
| Office of City Treasurer Supplies | 1,630 | 125 | 340 | 0 | 0 | 2,012 | 570 | 1,876 | 105 | 7,973 | 160 | 1,375 | 16,167 | 17,865 | -1,698 |
| Office of City Treasurer Other | 0 | 0 | 5,865 | 0 | 0 | 5,000 | 0 | 0 | 5,000 | 0 | 0 | 0 | 15,865 | 40,038 | -24,173 |
| Office of City Treasurer | 28,062 | 26,193 | 60,114 | 29,402 | 39,041 | 37,986 | 36,072 | 36,371 | 32,614 | 35,798 | 27,518 | 37,866 | 427,038 | 459,827 | -32,789 |
| Office of City Solicitor Personnel | 21,864 | 25,163 | 29,245 | 28,738 | 43,402 | 40,858 | 38,564 | 37,397 | 35,791 | 35,253 | 37,894 | 47,298 | 421,467 | 455,215 | -33,748 |
| Office of City Solicitor Services | 199 | 9,312 | 5,280 | 9,643 | 30,379 | 12,452 | 28,655 | 32,584 | 14,275 | 15,529 | 13,942 | 53,968 | 226,220 | 236,632 | -10,413 |
| Office of City Solicitor Supplies | 1,297 | 3,003 | 2,116 | 1,849 | 2,932 | 2,209 | 5,638 | 4,685 | 4,586 | 6,251 | 4,789 | 10,639 | 49,994 | 61,725 | -11,731 |
| Office of City Solicitor Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Office of City Solicitor | 23,360 | 37,479 | 36,641 | 40,231 | 76,712 | 55,519 | 72,857 | 74,666 | 54,652 | 57,033 | 56,625 | 111,905 | 697,681 | 753,572 | -55,891 |
| Office of Business Administrator Personnel | 17,952 | 18,437 | 18,437 | 14,474 | 21,711 | 14,324 | 19,018 | 22,449 | 19,153 | 22,111 | 28,982 | 29,107 | 246,154 | 240,060 | 6,094 |
| Office of Business Administrator Services | 0 | 0 | 0 | 0 | 10,225 | 5,426 | 5,142 | 5,768 | 5,583 | 5,838 | 6,037 | 5,279 | 49,297 | 65,550 | -16,253 |
| Office of Business Administrator Supplies | 0 | 0 | 470 | 0 | 0 | 890 | 136 | 99 | 115 | 75 | 132 | 2,817 | 4,734 | 4,796 | -62 |
| Office of Business Administrator Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Office of Business Administrator | 17,952 | 18,437 | 18,907 | 14,474 | 31,936 | 20,640 | 24,296 | 28,316 | 24,851 | 28,025 | 35,150 | 37,202 | 300,185 | 310,406 | -10,221 |
| Bureau of Financial Management Personnel | 34,134 | 32,781 | 32,982 | 34,121 | 51,181 | 46,280 | 43,280 | 41,647 | 36,660 | 38,562 | 41,212 | 47,779 | 480,618 | 501,659 | -21,041 |
| Bureau of Financial Management Services | 247 | 23,418 | 751 | 60 | 2,395 | 6,948 | 56,463 | 80,559 | 7,249 | 23,996 | 16,551 | 16,787 | 235,424 | 266,863 | -31,439 |
| Bureau of Financial Management Supplies | 143 | 1,812 | 484 | 838 | 89 | 144 | 343 | 68 | 167 | 195 | 468 | 4,630 | 9,382 | 12,598 | -3,216 |
| Bureau of Financial Management Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bureau of Financial Management | 34,525 | 58,011 | 34,217 | 35,018 | 53,665 | 53,372 | 100,085 | 122,274 | 44,076 | 62,754 | 58,231 | 69,196 | 725,423 | 781,120 | -55,696 |
| Bureau of Communications Personnel | 20,624 | 22,741 | 22,122 | 22,120 | 33,178 | 31,800 | 24,703 | 23,408 | 22,436 | 23,085 | 26,364 | 30,489 | 303,070 | 293,303 | 9,767 |
| Bureau of Communications Services | 60 | 4,188 | 1,457 | 225 | 147 | 1,445 | 1,675 | 1,280 | 638 | 1,066 | 5,178 | 3,269 | 20,628 | 18,000 | 2,628 |
| Bureau of Communications Supplies | 2,304 | 78 | 375 | 112 | 207 | 2,295 | 971 | 918 | 2,293 | 3,022 | 3,042 | 5,047 | 20,663 | 23,793 | -3,131 |
| Bureau of Communications Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bureau of Communications | 22,988 | 27,007 | 23,953 | 22,457 | 33,532 | 35,540 | 27,349 | 25,607 | 25,368 | 27,173 | 34,584 | 38,804 | 344,360 | 335,096 | 9,264 |

**City of Harrisburg
General Fund
2018 Estimated Expenditures by Month**

| | Actual Jan | Actual Feb | Actual Mar | Actual April | Actual May | Estimated June | Estimated July | Estimated August | Estimated September | Estimated October | Estimated November | Estimated December | Estimated Total 2018 | Budget Total 2018 | Variance Act - Bud |
|---|---------------|---------------|---------------|-----------------|---------------|-------------------|-------------------|---------------------|------------------------|----------------------|-----------------------|-----------------------|-------------------------|----------------------|-----------------------|
| Bureau of Risk Management Personnel | 5,635 | 5,127 | 5,127 | 5,127 | 7,690 | 6,039 | 5,082 | 5,527 | 5,527 | 5,578 | 6,664 | 7,334 | 70,457 | 66,743 | 3,714 |
| Bureau of Risk Management Services | 0 | 1,158 | 0 | 0 | 0 | 1,258 | 1,258 | 1,258 | 1,258 | 1,258 | 1,258 | 1,258 | 9,966 | 15,100 | -5,134 |
| Bureau of Risk Management Supplies | 0 | 0 | 0 | 0 | 40 | 1,529 | 993 | 92 | 92 | 92 | 92 | 92 | 3,021 | 3,475 | -454 |
| Bureau of Risk Management Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bureau of Risk Management | 5,635 | 6,285 | 5,127 | 5,127 | 7,730 | 8,826 | 7,333 | 6,877 | 6,877 | 6,928 | 8,014 | 8,684 | 83,444 | 85,318 | -1,874 |
| Bureau of Information Technology Personnel | 25,442 | 28,887 | 30,122 | 30,026 | 45,039 | 45,796 | 45,284 | 44,387 | 41,577 | 42,450 | 42,435 | 51,027 | 472,471 | 515,762 | -43,291 |
| Bureau of Information Technology Services | 22,853 | 87,730 | 17,514 | 26,507 | 45,733 | 26,755 | 15,882 | 46,443 | 19,652 | 66,390 | 93,806 | 59,295 | 528,561 | 592,963 | -64,402 |
| Bureau of Information Technology Supplies | 27,713 | 12,926 | 8,982 | 6,977 | 14,560 | 10,352 | 13,261 | 10,525 | 29,421 | 16,866 | 16,919 | 14,356 | 182,859 | 196,091 | -13,232 |
| Bureau of Information Technology Other | 597 | 3,260 | 40,601 | 5,725 | 10,852 | 54,379 | 54,379 | 54,379 | 54,379 | 54,379 | 54,379 | 54,379 | 441,685 | 441,685 | 0 |
| Bureau of Information Technology | 76,606 | 132,803 | 97,219 | 69,235 | 116,184 | 137,281 | 128,805 | 155,733 | 145,029 | 180,085 | 207,539 | 179,058 | 1,625,576 | 1,746,500 | -120,924 |
| Bureau of Human Resources Personnel | 19,331 | 19,496 | 19,500 | 19,500 | 34,506 | 30,637 | 28,731 | 27,632 | 24,650 | 25,523 | 26,904 | 32,239 | 308,649 | 334,792 | -26,143 |
| Bureau of Human Resources Services | 648 | 3,864 | 4,116 | 3,229 | 5,519 | 5,614 | 6,119 | 4,936 | 5,586 | 3,845 | 5,141 | 10,532 | 59,150 | 64,903 | -5,753 |
| Bureau of Human Resources Supplies | 0 | 0 | 0 | 0 | 247 | 83 | 106 | 391 | 83 | 83 | 176 | 907 | 2,077 | 2,300 | -223 |
| Bureau of Human Resources Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bureau of Human Resources | 19,979 | 23,360 | 23,616 | 22,729 | 40,272 | 36,335 | 34,956 | 32,959 | 30,319 | 29,451 | 32,222 | 43,678 | 369,876 | 401,995 | -32,118 |
| Operations and Revenue (Office of the Director) Personnel | 20,380 | 20,110 | 20,110 | 20,110 | 26,314 | 20,130 | 20,130 | 20,130 | 20,130 | 30,195 | 20,130 | 20,442 | 258,311 | 265,584 | -7,273 |
| Operations and Revenue (Office of the Director) Services | 40,437 | 16,978 | 12,945 | 21,091 | 9,418 | 22,554 | 8,667 | 21,510 | 17,289 | 19,613 | 12,818 | 27,602 | 230,923 | 235,873 | -4,951 |
| Operations and Revenue (Office of the Director) Supplies | 1,346 | 2,554 | 4,799 | 2,012 | 4,099 | 13,897 | 1,593 | 10,296 | 1,105 | 1,999 | 5,342 | 5,694 | 54,734 | 55,821 | -1,086 |
| Operations and Revenue (Office of the Director) Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Operations and Revenue (Office of the Director) | 62,163 | 39,641 | 37,854 | 43,212 | 39,831 | 56,581 | 30,390 | 51,937 | 38,525 | 51,806 | 38,290 | 53,739 | 543,968 | 557,278 | -13,310 |
| General Expenses Personnel | 1,373,000 | 527,060 | 541,437 | 821,929 | 1,027,914 | 922,526 | 1,333,261 | 1,052,954 | 937,066 | 1,216,979 | 715,087 | 1,509,268 | 11,978,481 | 12,295,898 | -317,418 |
| General Expenses Services | 147,743 | 80,417 | 134,382 | 1,077,316 | 125,595 | 126,962 | 79,406 | 292,478 | 79,934 | 366,934 | 97,929 | 152,165 | 2,761,259 | 2,846,788 | -85,529 |
| General Expenses Supplies | 0 | 0 | 0 | 0 | 0 | 25,000 | 172 | 31 | 0 | 0 | 0 | 102 | 25,306 | 25,306 | 0 |
| General Expenses Other | 0 | 77,234 | 1,236 | 77,566 | 0 | 1,560 | 78,412 | 1,560 | 1,560 | 78,412 | 1,560 | 1,560 | 320,663 | 318,329 | 2,334 |
| General Expenses | 1,520,743 | 684,711 | 677,056 | 1,976,810 | 1,153,508 | 1,076,047 | 1,491,251 | 1,347,024 | 1,018,560 | 1,662,326 | 814,576 | 1,663,095 | 15,085,708 | 15,486,321 | -400,614 |
| Transfers to Other Funds Debt Service | 0 | 0 | 5,235,346 | 500,000 | -7,214 | 155,721 | 0 | 808,328 | 2,579,036 | 86,765 | 47,388 | 476,306 | 9,881,678 | 9,866,020 | 15,658 |
| Transfers to Other Funds Other | 0 | 0 | 0 | 0 | 489,681 | 15,000 | 0 | 200,000 | 5,000 | 5,000 | 2,500 | 6,500 | 723,681 | 723,681 | 0 |
| Transfers to Other Funds | 0 | 0 | 5,235,346 | 500,000 | 482,467 | 170,721 | 0 | 1,008,328 | 2,584,036 | 91,765 | 49,888 | 482,806 | 10,605,359 | 10,589,701 | 15,657 |
| Office of the Director for the DCED Personnel | 9,999 | 10,103 | 10,103 | 10,599 | 15,899 | 11,182 | 9,968 | 10,805 | 10,706 | 15,630 | 10,857 | 14,795 | 140,646 | 150,710 | -10,064 |
| Office of the Director for the DCED Services | 0 | 0 | 0 | 0 | 0 | 1,000 | 0 | 0 | 0 | 0 | 0 | 0 | 1,000 | 1,000 | 0 |
| Office of the Director for the DCED Supplies | 0 | 0 | 0 | 0 | 130 | 0 | 0 | 0 | 0 | 0 | 500 | 0 | 630 | 1,500 | -870 |
| Office of the Director for the DCED Other | 0 | 0 | 0 | 0 | 2,000 | 1,917 | 1,917 | 1,917 | 1,917 | 26,917 | 1,917 | 1,917 | 40,417 | 48,000 | -7,583 |
| Office of the Director for the DCED | 9,999 | 10,103 | 10,103 | 10,599 | 18,029 | 14,099 | 11,884 | 12,722 | 12,623 | 42,547 | 13,274 | 16,711 | 182,693 | 201,210 | -18,517 |
| Bureau of Planning Personnel | 4,238 | 4,300 | 4,300 | 4,300 | 10,583 | 5,307 | 5,153 | 5,048 | 5,170 | 11,046 | 5,225 | 11,483 | 76,153 | 200,229 | -124,076 |
| Bureau of Planning Services | 3,258 | 462 | 2,127 | 9,319 | 5,540 | 5,397 | 18,425 | 18,508 | 9,904 | 8,947 | 4,637 | 17,451 | 103,975 | 108,042 | -4,067 |
| Bureau of Planning Supplies | 0 | 0 | 1,603 | 0 | 0 | 1,260 | 83 | 255 | 458 | 365 | 937 | 366 | 5,328 | 6,500 | -1,172 |
| Bureau of Planning Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bureau of Planning | 7,496 | 4,762 | 8,030 | 13,619 | 16,124 | 11,964 | 23,661 | 23,812 | 15,532 | 20,358 | 10,799 | 29,300 | 185,456 | 314,771 | -129,315 |

**City of Harrisburg
General Fund
2018 Estimated Expenditures by Month**

| | Actual Jan | Actual Feb | Actual Mar | Actual April | Actual May | Estimated June | Estimated July | Estimated August | Estimated September | Estimated October | Estimated November | Estimated December | Estimated Total 2018 | Budget Total 2018 | Variance Act - Bud |
|--|---------------|---------------|---------------|-----------------|---------------|-------------------|-------------------|---------------------|------------------------|----------------------|-----------------------|-----------------------|-------------------------|----------------------|-----------------------|
| Bureau of Codes Personnel | 56,843 | 56,173 | 56,169 | 56,210 | 89,146 | 60,326 | 60,856 | 60,326 | 60,326 | 89,189 | 60,236 | 95,720 | 801,518 | 915,449 | -113,931 |
| Bureau of Codes Services | 202 | 365 | 683 | 995 | 327 | 2,633 | 1,203 | 2,307 | 5,448 | 1,477 | 3,103 | 2,184 | 20,926 | 29,250 | -8,324 |
| Bureau of Codes Supplies | 0 | 1,199 | 1,246 | 184 | 1,409 | 3,098 | 886 | 2,317 | 814 | 633 | 1,897 | 1,235 | 14,917 | 20,056 | -5,139 |
| Bureau of Codes Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bureau of Codes | 57,045 | 57,737 | 58,097 | 57,389 | 90,882 | 66,057 | 62,944 | 64,950 | 66,588 | 91,298 | 65,236 | 99,139 | 837,361 | 964,755 | -127,394 |
| Economic Development Personnel | 8,905 | 9,004 | 9,004 | 4,311 | 6,467 | 9,497 | 7,492 | 9,916 | 9,289 | 9,289 | 10,699 | 11,694 | 105,568 | 117,878 | -12,310 |
| Economic Development Services | 0 | 0 | 0 | 0 | 1,203 | 83 | 83 | 83 | 83 | 83 | 83 | 4,083 | 5,786 | 5,000 | 786 |
| Economic Development Supplies | 0 | 0 | 0 | 0 | 0 | 122 | 0 | 6 | 1,085 | 669 | 0 | 939 | 2,820 | 2,900 | -80 |
| Economic Development Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Economic Development | 8,905 | 9,004 | 9,004 | 4,311 | 7,670 | 9,702 | 7,576 | 10,006 | 10,457 | 10,041 | 10,783 | 16,716 | 114,174 | 125,778 | -11,604 |
| Office of the Police Chief Personnel | 931,238 | 922,695 | 1,084,539 | 874,343 | 1,376,126 | 1,077,790 | 1,051,196 | 989,140 | 1,080,169 | 3,807,537 | 889,321 | 2,235,102 | 16,319,197 | 16,740,361 | -421,164 |
| Office of the Police Chief Services | 130,071 | 42,406 | 134,225 | 47,120 | 26,960 | 79,146 | 57,866 | 63,601 | 53,282 | 103,920 | 45,341 | 121,328 | 905,264 | 987,972 | -82,708 |
| Office of the Police Chief Supplies | 1,525 | 8,312 | 18,455 | 43,219 | 14,052 | 43,165 | 32,524 | 8,518 | 24,452 | 7,591 | 10,787 | 36,832 | 249,431 | 405,509 | -156,078 |
| Office of the Police Chief Other | 167,636 | 9,750 | 59,494 | 0 | 0 | 60,465 | 803,471 | 214,721 | 482,465 | 971 | 203,471 | 60,465 | 2,062,911 | 2,277,738 | -214,827 |
| Office of the Police Chief | 1,230,469 | 983,163 | 1,296,712 | 964,682 | 1,417,138 | 1,260,566 | 1,945,058 | 1,275,980 | 1,640,368 | 3,920,020 | 1,148,921 | 2,453,727 | 19,536,804 | 20,411,580 | -874,776 |
| Bureau of Fire Personnel | 507,649 | 523,238 | 640,916 | 476,989 | 755,620 | 604,589 | 544,784 | 526,843 | 528,356 | 1,066,980 | 494,871 | 767,011 | 7,437,846 | 7,816,057 | -378,211 |
| Bureau of Fire Services | 22,254 | 17,025 | 28,871 | 20,708 | 51,610 | 26,812 | 40,040 | 29,426 | 18,601 | 32,511 | 41,522 | 106,577 | 435,957 | 456,095 | -20,138 |
| Bureau of Fire Supplies | 8,692 | 37,422 | 1,345 | 1,141 | 6,133 | 11,765 | 56,621 | 21,384 | 18,067 | 27,013 | 30,495 | 143,728 | 363,807 | 355,605 | 8,202 |
| Bureau of Fire Other | 13,000 | 0 | 0 | 0 | 22,215 | 36,609 | 399,354 | 206,497 | 206,497 | 399,354 | 206,497 | 206,497 | 1,696,520 | 1,930,694 | -234,174 |
| Bureau of Fire | 551,595 | 577,685 | 671,132 | 498,838 | 835,578 | 679,775 | 1,040,799 | 784,150 | 771,522 | 1,525,858 | 773,385 | 1,223,813 | 9,934,130 | 10,558,450 | -624,320 |
| Office of Traffic and Engineering Personnel | 60,544 | 57,952 | 56,701 | 54,341 | 92,973 | 84,271 | 77,284 | 70,901 | 67,102 | 65,895 | 75,933 | 95,357 | 859,255 | 859,940 | -685 |
| Office of Traffic and Engineering Services | 65,786 | 130,900 | 129,533 | 125,372 | 133,524 | 89,047 | 346,431 | 322,164 | 144,802 | 182,316 | 127,216 | 169,123 | 1,966,214 | 2,570,003 | -603,789 |
| Office of Traffic and Engineering Supplies | 24,064 | 111,643 | 3,094 | 8,226 | 32,889 | 11,337 | 94,035 | 44,577 | 47,125 | 63,360 | 46,481 | 77,800 | 564,632 | 752,498 | -187,866 |
| Office of Traffic and Engineering Other | 140,989 | 150,750 | 170 | 97,305 | 114,537 | 64,133 | 311,105 | 374,000 | 250,000 | 274,000 | 1,000 | 24,000 | 1,801,990 | 2,336,260 | -534,270 |
| Office of Traffic and Engineering | 291,383 | 451,245 | 189,498 | 285,245 | 373,924 | 248,787 | 828,855 | 811,641 | 509,029 | 585,572 | 250,630 | 366,280 | 5,192,089 | 6,518,700 | -1,326,610 |
| Bureau of City Services Personnel | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bureau of City Services Services | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bureau of City Services Supplies | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bureau of City Services Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bureau of City Services | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bureau of Vehicle Management Personnel | 34,516 | 38,876 | 40,199 | 40,785 | 57,961 | 44,108 | 44,126 | 43,493 | 43,387 | 63,537 | 43,875 | 65,969 | 560,831 | 631,060 | -70,229 |
| Bureau of Vehicle Management Services | 22,070 | 20,120 | 18,473 | 11,533 | 17,533 | 11,580 | 72,911 | 35,690 | 34,794 | 35,050 | 50,998 | 66,313 | 397,065 | 458,254 | -61,188 |
| Bureau of Vehicle Management Supplies | 54,712 | 66,401 | 56,936 | 56,218 | 66,900 | 80,829 | 104,095 | 97,883 | 75,065 | 111,567 | 104,189 | 229,501 | 1,104,296 | 1,186,336 | -82,040 |
| Bureau of Vehicle Management Other | 0 | 0 | 49 | 0 | 9,856 | 21,706 | 21,706 | 21,706 | 21,706 | 21,706 | 21,706 | 21,706 | 161,850 | 161,850 | 0 |
| Bureau of Vehicle Management | 111,297 | 125,397 | 115,656 | 108,536 | 152,250 | 158,223 | 242,839 | 198,773 | 174,953 | 231,861 | 220,769 | 383,490 | 2,224,043 | 2,437,500 | -213,457 |
| Office of the Director of Parks, Recreation and Enrichment Personnel | 23,786 | 21,394 | 21,538 | 21,640 | 32,025 | 67,728 | 132,476 | 97,576 | 39,087 | 24,688 | 27,796 | 31,730 | 541,466 | 554,164 | -12,698 |
| Office of the Director of Parks, Recreation and Enrichment Services | 3,561 | 1,614 | 747 | 3,179 | 5,130 | 10,027 | 9,995 | 38,250 | 34,233 | 25,312 | 34,576 | 34,671 | 201,294 | 215,756 | -14,462 |
| Office of the Director of Parks, Recreation and Enrichment Supplies | 146 | 4,221 | 13,344 | 14,942 | 19,088 | 14,191 | 32,773 | 35,924 | 14,734 | 7,182 | 16,473 | 22,796 | 195,813 | 194,455 | 1,358 |
| Office of the Director of Parks, Recreation and Enrichment Other | 0 | 0 | 23,504 | 0 | 0 | 21,975 | 215,484 | 212,524 | 151,524 | 0 | 0 | 0 | 625,012 | 1,499,000 | -873,988 |
| Office of the Director of Parks, Recreation and Enrichment | 27,493 | 27,229 | 59,133 | 39,761 | 56,243 | 113,922 | 390,728 | 384,274 | 239,578 | 57,182 | 78,844 | 89,198 | 1,563,586 | 2,463,375 | -899,789 |

City of Harrisburg

General Fund

2018 Estimated Expenditures by Month

| | Actual Jan | Actual Feb | Actual Mar | Actual April | Actual May | Estimated June | Estimated July | Estimated August | Estimated September | Estimated October | Estimated November | Estimated December | Estimated Total 2018 | Budget Total 2018 | Variance Act - Bud |
|--|-----------------------|-----------------------|-----------------------|-------------------------|-----------------------|---------------------------|---------------------------|-----------------------------|--------------------------------|------------------------------|-------------------------------|-------------------------------|---------------------------------|------------------------------|-------------------------------|
| Bureau of Act, Culture & Tourism Personnel | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bureau of Act, Culture & Tourism Services | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bureau of Act, Culture & Tourism Supplies | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bureau of Act, Culture & Tourism Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bureau of Act, Culture & Tourism | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 4,173,147 | 3,350,366 | 8,713,057 | 4,786,987 | 5,116,479 | 4,318,996 | 6,580,414 | 6,519,215 | 7,506,266 | 8,798,738 | 3,995,202 | 7,511,617 | 71,370,483 | 76,341,292 | -4,970,809 |

**CITY OF HARRISBURG
EXIT PLAN**



July 9, 2018

The Honorable Eric R. Papenfuse, Mayor
City of Harrisburg
Dr. MLK Jr. Government Center
10 North Second Street, Suite 202
Harrisburg, PA 17101-1681

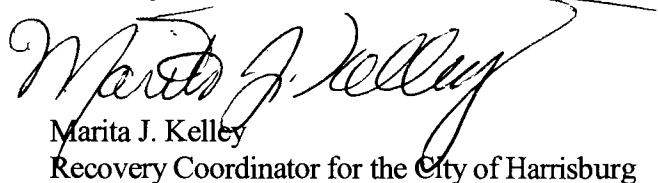
The Honorable Wanda Williams, Council President
Office of City Clerk & Council
Dr. MLK Jr. Government Center
10 North Second Street, Suite One
Harrisburg, PA 17101-1681

Dear Mayor Papenfuse and Council President Williams:

The Recovery Coordinator for the City of Harrisburg has filed copies of the Act 47 Exit Plan for the City of Harrisburg with the City of Harrisburg and appropriate parties on July 9, 2018. There will be a fifteen-day period to receive public comment(s) concluding on July 24, 2018 on the contents of the Exit Plan. Written comments on this Plan may be filed with the Coordinator at PA Department of Community & Economic Development, Governor's Center for Local Government Services, Commonwealth Keystone Building, 400 North Street, 4th Floor, Harrisburg, PA 17120-0225. Following the public comment period, the Coordinator will hold a public meeting to receive oral comment(s) on July 24, 2018. At the end of the comment period, the comments will be reviewed by the Coordinator and will be taken under advisement and considered for amendment to the Exit Plan.

The Recovery Coordinator is required to file the final Exit Plan within ten days of the public meeting mentioned above. The final Exit Plan will be presented for the City's consideration. The City is required by Act 47 of 1987, as amended, to enact an ordinance adopting this revised Exit Plan no later than 45 days following the public meeting. If you have any questions regarding this letter, please contact me at (717)-720-7301.

Sincerely,

A handwritten signature in black ink that reads 'Marita J. Kelley'. The signature is written in a cursive style with a long, sweeping horizontal line extending to the right.

Marita J. Kelley
Recovery Coordinator for the City of Harrisburg

Municipalities Financial Recovery Act

City of Harrisburg

Exit Plan Report

City of Harrisburg
Dauphin County, Pennsylvania



Prepared by the

Commonwealth of Pennsylvania
Department of Community and Economic Development
Governor's Center for Local Government Services

As filed with the City Clerk on July 9, 2018

TABLE OF CONTENTS

| | | |
|----------------|--|-------|
| CHAPTER 1 | EXECUTIVE SUMMARY..... | 1-3 |
| CHAPTER 2 | BACKGROUND..... | 4-6 |
| CHAPTER 3 | BASELINE GENERAL FUND PROJECTIONS 2018-2021..... | 7-13 |
| CHAPTER 4 | LONG-TERM LIABILITIES-DEBT, OPEB, PENSIONS..... | 14-22 |
| CHAPTER 5 | OPERATIONS AND ADMINISTRATION..... | 23-40 |
| CHAPTER 6 | WORKFORCE CHAPTER..... | 41-60 |
| CHAPTER 7 | CONCLUSION..... | 61-66 |
| APPENDIX A & B | | |
| | FINANCIAL CONDITION REPORT..... | A |
| | IMPACT HARRISBURG REPORT AND UPDATE..... | B |

CHAPTER ONE
EXECUTIVE SUMMARY
RECOVERY COORDINATOR'S ACT 47 EXIT PLAN

Since 2010, the City of Harrisburg has effectively used the Commonwealth's Act 47 Municipalities Financial Recovery Program to make considerable operational and fiscal progress. The City has monetized assets, eliminated significant debt, increased service levels, accumulated a significant fund balance and overall returned to normalcy. However, challenges remain. Over the past six years, the City has been relying on approximately \$11 million per year of increased rates on Earned Income and Local Service taxes, both of which are currently slated to go away once the City exits Act 47. Property tax rates have not been increased during the same six-year period.

Act 199 of 2014, which amended Act 47, provides a timeline and process for municipalities to Exit the financial recovery program. In the case of Harrisburg, the five-year, Act 199 timeline began with the issuance of the 2013 Act 47 Recovery Plan. In March 2018, the Financial Condition Report prepared by the Coordinator addressed the end of the five-year timeline by recommending that the City remain in Act 47 for an additional three years. The Coordinator has prepared this three-year Exit Plan (the "Plan") that considers revenue and expenditure levels, debt, operations, and labor strategies in order to strengthen the City so that it is able to leave the Act 47 program in three years as a sustainable municipality.

The greatest challenge facing the Mayor and City Council under the Plan is that Harrisburg will lose Act 47's extraordinary taxes when the City exits its Act 47 status on September 23, 2021. The Plan outlines a multi-faceted strategy to handle this loss of revenue through potential reductions in operating expenses, possible legislative changes to enable the extension of the Act 47 extraordinary taxes, consideration of home rule status to lift statutory caps on certain taxes, restoration of an investment grade rating in order to fund needed capital expenditures through long-term debt, and reduction of debt service and other long-term obligations. Lastly, and to the extent that those strategies are insufficient, the City will need to generate additional revenue through real estate tax increases.

The Plan also reviewed the financial options over which the City has control and makes appropriate recommendations. This requires an examination of the current tax structure for the City, a close look at available cash, and a thorough review of possible spending cuts.

To replace the extraordinary taxes, the City will need to make serious decisions regarding its long-term future. The most viable and stable revenue source available to replace the Act 47 extraordinary tax revenue is from the City's real estate tax assessments as authorized under the Third-Class City Code. The City has at least two other options to pursue other than simply raising existing real estate taxes. The City can consider a home rule charter process that will give it options including restructuring taxes. The City has also requested that the State Legislature grant the City authorization to continue the Act 47 extraordinary tax revenues after the City exits the program. The City will discuss those options with the Legislature during hearings scheduled for this fall.

Meanwhile, to assist the City in managing the transition out of Act 47, the Plan recommends that the City gradually restructure its tax revenue sources by steadily decreasing its earned income and local services tax rates over the Plan's three-year term, while concurrently increasing its real estate tax millage rate to provide sufficient revenue and eliminate each fiscal year's projected operating deficit. To ameliorate the impact of the recommended property tax increases, the Plan allows the City to use a portion of its General Fund balance to reduce the projected operating deficit in each fiscal year but only to the extent necessary after taking into account the benefits of other initiatives set forth in this Plan. The Coordinator highly recommends that the City maintain its Fund Balance at a level of at least 8% of its annual expenditures to assure there are sufficient cash reserves to cover possible critical needs during an emergency. Other options for Fund Balance revenue include reduction of debt and capital spending.

To replace the extraordinary tax revenue under Act 47 solely with increased real estate tax millage, the Coordinator estimates that the City would have to raise its real estate tax millage significantly as follows: 20% in 2019, 20% in 2020, and 43% in 2021. The current real estate tax rates are 30.97 mills on land and 5.16 mills on improvements. These rates have not been increased since 2011. **The potential for tempering the recommended real estate tax millage percentage increases exists through the City's active implementation of the numerous initiatives**

contained in this Exit Plan, the City's continued diligence in monitoring and controlling future expenditures, and/or the use of fund balance. Some property tax increases will be necessary regardless, as is the case with any municipality that spends the majority of its budget on personnel costs and funds wages, health care benefits and pension obligations, all of which increase each year.

The Plan also examines cost saving measures for all departments. Cutting costs while maintaining the same service level will be a challenge; however, it will help to reduce the increases in taxes. Finding the correct balance between raising taxes and cutting costs will be of paramount importance.

The City must also improve management and financing of its capital program. Capital spending is currently funded on a pay as you go basis, and the City is utilizing its fund balance at an unsustainable rate to provide necessary capital needs. The Plan anticipates that the Exit initiatives will improve the City's financial position, thus allowing it to return to the capital markets with an investment grade rating and borrow for a portion of its longterm capital improvements instead of using fund balance exclusively. The City's Finance Bureau is also developing a Capital Improvement Planning process that could assist in managing these important resources and investments.

New revenues, coupled with expenditure reductions, are vital in order for the City to achieve sustainable operations. As the City evaluates its options regarding the projected General Fund operating deficits due to loss of the \$11 million dollars of Act 47 extraordinary tax revenues, the Coordinator stands ready to evaluate any proposal set forth during the comment period.

CHAPTER TWO BACKGROUND

The challenges the City of Harrisburg (City) faced when it entered Act 47 in December 2010 were overwhelming and the threat of municipal bankruptcy loomed as a dark cloud over Pennsylvania's capitol city. The path Harrisburg followed in the ensuing years was difficult, yet through the perseverance of elected officials, the active engagement and participation of numerous key stakeholders, extremely hard work and willingness to make difficult decisions, Harrisburg was able to emerge from the fiscal emergency declaration issued by the Governor in October 2011 and move along a path towards sustainability. Indeed, Harrisburg has made great strides since the confirmation of the Harrisburg Strong Plan (Strong Plan) in September 2013 and has been viewed on a national platform as a model of how to effectively address what seem like overwhelming fiscal challenges.

The Strong Plan was designed to accomplish the following objectives:

1. Eliminate all obligations (debt, swaps, investments, licenses and contractual obligations to vendors) related to the Resource Recovery Facility (approximately \$360,000,000).
2. Eliminate all debt obligations of the Harrisburg Parking Authority and the City including those that were cannibalizing City general fund revenues (approximately \$100,000,000)
3. Deposit nearly \$36 million to the benefit of the City to pay off obligations, reduce accounts payable, balance 2013 budget, leave the City with a positive fund balance for the first time in many years and provide seed money for infrastructure and economic development projects.
4. Increase net revenues to the general fund to enable the City to operate with a balanced and sustainable budget (approximately \$10 million per year of new revenue coming from parking transaction and increased EIT, and a reduction in debt service expenses of between \$15-\$20 million per year for a total general fund improvement of in excess of \$25 million per year).

The Strong Plan accomplished the foregoing goals. It resolved the oppressive debt burden faced by the City from 2008 - 2013. It also succeeded in breaking the string of consecutive years

with larger annual structural operating deficits. With the help of the Strong Plan, the City has built a modest cash reserve while also improving transparency in day-to-day financial management. The City finished 2014 with its annual revenues balanced against its annual expenditures for the first time in many years.

Harrisburg, as with all cities in Pennsylvania, confronts fiscal pressures in addressing its ongoing operational budget and providing quality services to its residents and non-residents who rely on a safe City for their place of employment, recreation and other necessary activities. Approximately 70% of Harrisburg's budget is made up of personnel costs (salaries, health care benefits and pensions) and these costs have increased historically and continue to increase each year. Of course, other expenses increase each year as well; therefore, corresponding revenue increases are needed. Additionally, the City has determined to build up its internal capacity to provide, among other things, better "neighborhood services" and in so doing has committed to increase its full time equivalent complement and wean the General Fund off inter-fund transfers from the Sanitation Fund much more quickly than contemplated by the original Strong Plan. The City's limited growth of its tax base, deferred capital needs, and the pressure to strengthen municipal services, especially in the public safety area, must be more fully addressed for the City to have a sustainable future. Deteriorating infrastructure, outdated or inadequate technology, and aging equipment and vehicles, all make the job of financial recovery more difficult. Moreover, the City's dire financial condition in 2009 forced the City to trim public services and to meet service demands with limited front-line staff and reduced management capacity.

An important element of the Court appointed Coordinator's role in providing oversight to the City's recovery process is the need to periodically revisit the Strong Plan to survey and assess what has been accomplished and to evaluate, from a holistic perspective, how best to respond to evolving conditions, challenges, and successes and make modifications every few years based on the City's actual performance. Further, significant amendments to Act 47 were enacted at the end of 2014, (known as Act 199 which was signed into law after the Strong Plan was confirmed), that required the Strong Plan to provide financial projections through 2018 (representing the initial five-year term for the City to be under the provisions of the Act). Act

199 now prescribes a firmer date for the City to leave Act 47 status. During the fifth year (2018) a financial condition review was undertaken by the Coordinator and recommendations made as to whether: the distressed designation should be rescinded, the Receivership provisions of the Act invoked; a dissolution process undertaken (in limited instances), or a three-year exit plan be prepared.

It was the Coordinator's finding in the Financial Condition Review that although the City has made noteworthy progress on several fronts. Yet the burden of its very limited tax base, increasing costs for collective bargaining contracts, increasing costs for supplies, and legacy cost obligations continues to stress the City's annual finances and hinders its ability to achieve long-term financial sustainability under the five-year period required under Act 47 as amended. Therefore, the Coordinator recommends a three-year Exit plan shall be prepared for the City that will include the initial stages of a strategy designed to moderate the impact of the City's burden on its annual operating budgets and improve the City's ability to achieve long-term financial sustainability. The Coordinator prepared this Exit Plan and filed the same with the appropriate parties on July 9, 2018.

CHAPTER THREE
BASELINE GENERAL FUND PROJECTIONS
2018 – 2021

As part of the City’s 2018 Exit Plan process, the Coordinator has developed baseline General Fund projections for the period 2018 – 2021. The baseline General Fund projections illustrate the City’s projected financial condition based on past and current City revenue and expenditure trends. Thus, they do not take into account the implementation of the various initiatives recommended in this Exit Plan.

In order to develop the baseline General Fund projections, the Coordinator first conducted a review of the City’s historical financial data to determine the City’s revenue and expenditure baseline.¹ The historical financial review was completed using financial data independently maintained by the Coordinator, the City’s annual audits through 2016, and City supplied data for 2013 – 2017 (subjected to monthly review and analysis by the Coordinator). In addition to the historical financial review, the Coordinator utilized the City’s adopted 2018 General Fund operating budget and independent trend analysis, where appropriate. The revenue and expenditure assumptions that follow were used by the Coordinator to develop the City’s baseline General Fund projections.

Revenues

The revenue assumptions that follow were used by the Coordinator to develop baseline General Fund revenue projections.

- All 2018 rates for taxes and fees were held constant through 2021.
 - Earned Income Tax at Act 47 Rate of 1.5%
 - Local Services Tax at Act 47 Rate of \$156
- Real Estate tax revenue was increased annually by one half of one (0.5) percent.
- Earned Income Tax (EIT) revenue was increased annually by one (1.0) percent.

¹ See Appendix A, *Report Stating the Financial Condition of the City of Harrisburg*.

- Local Services Tax (LST) revenue was increased annually by one half of one (0.5) percent. The LST is projected at a base level of employment of approximately 49,000 taxpayers at the higher income exemption approved by City Council. The base LST \$52/employee rate is subject to five dollars sharing with the Harrisburg School District for a net to the City of \$47/employee.
- Business Privilege and Mercantile Tax revenue and Parking Tax revenue was increased annually by one half of one (0.5) percent.
- Real Estate Transfer revenue was held at the budget level for 2018.
- The Public Safety Allocation from the Commonwealth was held constant at \$5.0 million.
- Supplemental State Aid for pension was increased 3.0 percent annually.
- Grant Revenues were decreased after 2018 to reflect historic levels.
- Ground Lease and Priority Parking Revenues assume scheduled amounts can be paid.
- Other revenues and transfers are held constant over the period based upon the Act 47 Coordinator's historical data and trend analysis.

General Fund Revenue Projections—2018 – 2021

The City's General Fund operating revenues are projected to decrease by \$242,608 or 0.4 percent from \$66.18 million in 2018 to \$65.9 million in 2021. Total tax revenue is projected to decrease from \$45.9 million in 2018 to \$45.8 million in 2021, a decrease of \$163,782 or 0.4 percent. Total non-tax revenue, which is projected to account for about one third of total City revenues in 2018, is also projected to decline over the projection period, decreasing by \$78,826 or 0.4 percent. The largest non-tax revenue decrease is attributed to an anticipated reduction in Grant revenues beginning in 2019.

**General Fund Baseline Revenue Projections
2018 – 2021²**

| Revenue Group | Estimated | Projected | Projected | Projected | Change 2018 - 2021 | |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|--------------------|-------------|
| | 2018 | 2019 | 2020 | 2021 | \$ | % |
| Real Estate Taxes Current | 17,763,374 | 17,867,860 | 17,957,199 | 18,046,985 | 283,610 | 1.6 |
| Realty Transfer Tax | 599,145 | 599,145 | 599,145 | 599,145 | 0 | 0.0 |
| EIT Act 511 | 4,366,757 | 4,410,424 | 4,454,528 | 4,499,074 | 132,317 | 3.0 |
| EIT Act 47 | 7,913,513 | 7,992,648 | 8,072,575 | 8,153,301 | 239,787 | 3.0 |
| EMS Act 511 | 2,300,000 | 2,311,500 | 2,323,058 | 2,334,673 | 34,673 | 1.5 |
| LST Est 47 | 4,774,713 | 3,769,330 | 3,788,170 | 3,807,104 | -967,609 | -20.3 |
| Mercantile Business Privilege | 3,499,681 | 3,517,790 | 3,535,998 | 3,554,304 | 54,623 | 1.6 |
| Parking Taxes | 3,901,559 | 3,921,067 | 3,940,672 | 3,960,376 | 58,816 | 1.5 |
| Hotel Tax | 840,000 | 840,000 | 840,000 | 840,000 | 0 | 0.0 |
| Total Taxes | 45,958,743 | 45,229,764 | 45,511,345 | 45,794,961 | -163,782 | -0.4 |
| State Aid Pension | 2,629,069 | 2,681,651 | 2,735,284 | 2,789,989 | 160,920 | 6.1 |
| Public Safety Allocation | 5,000,000 | 5,000,000 | 5,000,000 | 5,000,000 | 0 | 0.0 |
| Fees/Permits/Licenses | 2,482,755 | 2,524,204 | 2,531,265 | 2,538,407 | 55,652 | 2.2 |
| Grants | 635,413 | 109,710 | 109,710 | 109,710 | -525,703 | -82.7 |
| Vehicle Maintenance Charges | 333,874 | 340,526 | 347,312 | 354,233 | 20,360 | 6.1 |
| PILOTS | 676,752 | 676,752 | 676,752 | 676,752 | 0 | 0.0 |
| Parking Revenue | 553,321 | 562,474 | 573,457 | 586,636 | 33,316 | 6.0 |
| Ground Lease Payments | 1,237,939 | 1,250,319 | 1,262,822 | 1,275,450 | 37,511 | 3.0 |
| Priority Parking Distribution | 1,761,730 | 1,779,347 | 1,797,141 | 1,815,112 | 53,382 | 3.0 |
| Transfers from Other Funds | 1,481,063 | 1,481,063 | 1,481,063 | 1,481,063 | 0 | 0.0 |
| Other Non-Tax Revenue | <u>3,428,088</u> | <u>3,360,508</u> | <u>3,532,054</u> | <u>3,513,824</u> | <u>85,737</u> | <u>2.5</u> |
| Total Nontax Revenue | 20,220,003 | 19,766,553 | 20,046,859 | 20,141,177 | -78,826 | -0.4 |
| Total | 66,178,746 | 64,996,318 | 65,558,204 | 65,936,138 | -242,608 | -0.4 |

Extraordinary Revenue Authorizations

² The total revenues estimated and projected differs from the Coordinator's Financial Condition Report due to changes in actual receipts and other adjustments.

As a Third-Class City governed by the Optional Third-Class City Charter Law, the City of Harrisburg has the power, within prescribed constitutional and statutory limitations, to levy taxes on: the taxable value of land and real estate improvements; the earned income and net profits of individual residents, workers (both resident and nonresident), operations and gross receipts of businesses operating within the City; occupations of residents; parking receipts; and transfers of real estate. By action of Dauphin County, the City receives a portion of revenues from the County Hotel Excise Tax for designated tourism-related purposes. By action of the Commonwealth, the City receives a portion of the Public Utility Realty Tax based on the assessed value of taxable utility realty. With few exceptions, the City maximizes the taxing powers authorized by the Commonwealth.

As an Act 47 designated distressed municipality, the City also has the ability to increase certain tax rates above limits set under the Third-Class City Code or other applicable state law. The City sought and received from Commonwealth Court authority to levy an additional one percent (1%) on earned income from residents (for a total of two percent) effective January 1, 2013 and to levy a \$104 increase to the Local Services Tax (for a total of \$156) on individuals working within the City effective fiscal year 2016. The extraordinary taxing ability provided by Act 47 is an integral tool of the City's financial recovery providing significant additional revenue for the City of more than \$11.0 million per year.

Expenditures

The expenditure assumptions that follow were used by the Coordinator to develop baseline General Fund expenditure projections.

- The number of employed City personnel was held constant at the adopted 2018 General Fund operating budget workforce level.
- Current wages are increased as specified in current collective bargaining agreements, interest arbitration awards or court orders. At the conclusion of a current collective bargaining agreement or arbitration award during the 2018 – 2021 period, annual wage increases are projected to increase at two percent. Salaries for non-represented City employees are increased two percent annually.

| Employee Group | Covered Positions | Contract Expiration |
|-----------------|--|---------------------|
| Non-represented | Executive, management, confidential | N/A |
| FOP | All sworn Police Officers | December 31, 2020 |
| AFSCME | All non-executive, non-management, non-confidential employees not otherwise covered in FOP or IAFF | December 31, 2018 |
| IAFF | All firefighters, lieutenants, captains, battalion chiefs, and deputy chiefs | December 31, 2022* |

*Pending City Council approval

- Employee/retiree medical insurance expenditures were increased annually by six percent from 2019 through 2021 in conformance with recently observed City experience and similar annual increases projected for other local government entities.
- Other major insurance costs have been projected on a line-by-line basis.
- Capital expenditures are included per the City’s Capital Budget.
- Minimum Municipal Obligations (pension) for 2018 are at the City’s budgeted level. For 2018 – 2021 the projected MMO is increased annually based on increases in wages for the respective bargaining group and does not take into account future investment earnings, or other factors that by their nature cannot be ascertained at this time.
- Other expenditures were increased at various levels based on the Coordinator’s historical data, trend analysis and City input.
- No further increases in the costs of any other benefits were included.

General Fund Expenditure Projections—2018 - 2021

As illustrated in the table below, the City’s total operating expenditures are projected to decrease from \$71.4 million in 2018 to \$70.4 million in 2021. The decrease in Capital expenditures of \$5.0 million are partially offset by increases in Personnel costs of \$4.1 million. Significant one-time capital expenditures included in the 2018 estimate are not expected to continue.

**General Fund Baseline Expenditure Projections
2018 - 2021³**

| <u>Category</u> | Estimated | Projected | Projected | Projected | Change 2018 - 2022 | |
|---------------------|-------------------|-------------------|-------------------|-------------------|---------------------------|--------------|
| | 2018 | 2019 | 2020 | 2021 | \$ | % |
| Personnel | 42,377,450 | 43,704,057 | 45,102,971 | 46,462,821 | 4,085,371 | 9.6 |
| Services | 8,319,890 | 8,083,280 | 8,037,419 | 8,153,339 | -166,550 | -2.0 |
| Supplies | 2,900,873 | 2,873,711 | 2,822,823 | 2,833,658 | -67,215 | -2.3 |
| Other | <u>1,357,467</u> | <u>1,165,486</u> | <u>1,186,806</u> | <u>1,209,037</u> | <u>-148,430</u> | <u>-10.9</u> |
| Sub Total Operating | 54,955,680 | 55,826,534 | 57,150,019 | 58,658,856 | 3,703,176 | 6.7 |
| Capital | 6,533,126 | 3,198,431 | 1,520,515 | 1,539,542 | -4,993,583 | -76.4 |
| Debt Service | <u>9,881,678</u> | <u>9,977,918</u> | <u>10,214,321</u> | <u>10,229,526</u> | <u>347,848</u> | <u>3.5</u> |
| Total GF | 71,370,483 | 69,002,883 | 68,884,855 | 70,427,924 | -942,560 | -1.3 |

General Fund Projections—2018 – 2021

As based upon the above revenue and expenditure assumptions, the following table illustrates that without implementation of the recommendations included in this Exit Plan, the City will encounter General Fund operating deficits throughout the projection period.

**Baseline General Fund Projections
2018 – 2021
Includes Act 47 Extraordinary Revenues
(Without Implementation of 2018 Exit Plan)**

| | Estimated 2018 | Projected 2019 | Projected 2020 | Projected 2021 |
|-------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Revenue | 66,178,746 | 66,222,684 | 66,790,702 | 67,174,799 |
| Expenditures | <u>71,370,483</u> | <u>69,002,883</u> | <u>68,884,855</u> | <u>70,427,924</u> |
| Surplus/(Deficit) | -5,191,737 | -2,780,199 | -2,094,154 | -3,253,125 |

Conclusion

³ The total expenditures estimated and projected differs from the Coordinator’s Financial Condition Report due to changes in actual expenditures and other adjustments.

The Coordinator's baseline General Fund projections for the period 2018 – 2021 project that the City will have operating budget deficits throughout the period. Although the City's General Fund operating expenditures are projected to decrease over the projection period, the City's General Fund operating revenues are also projected to decrease. The Coordinator has included initiatives in this Exit Plan to eliminate the projected operating deficits and provide the City with balanced General Fund operating budgets going forward that will assist the City in achieving long-term financial sustainability.

CHAPTER FOUR
LONG-TERM LIABILITIES
DEBT, OPEB, PENSIONS

The outstanding principal amount of the City’s long-term debt as of December 31, 2017, was \$77,289,455. The City is currently expected to make \$10,073,232 in long-term debt service payments in 2018.

Summary Schedule of Future Debt Service Amounts
2018 through 2021

| Debt Description | 2018 | 2019 | 2020 | 2021 |
|--|-------------------|------------------|-------------------|-------------------|
| PA Infrastructure Bank Loan | 297,742 | 0 | 0 | 0 |
| HRA Revenue Bonds-Series A of 1998 (the “Verizon Bonds”) | 500,000 | 700,000 | 940,000 | 950,000 |
| HRA Revenue Bonds-Series A-2 of 2005 (the Stadium Bonds) | 229,350 | 231,778 | 228,181 | 228,386 |
| 1997 GO Debt – Series D & F (the Ambac- Insured GO Bonds) | 8,660,000 | 8,660,000 | 8,660,000 | 8,665,000 |
| M&T Bank - Streetlight LED project | 386,140 | 386,140 | 386,140 | 386,140 |
| Totals | 10,073,232 | 9,977,918 | 10,214,321 | 10,229,526 |

The City currently has a vastly improved liquidity position compared to the period prior to the Strong Plan. However, if the City does not replace the extraordinary tax revenues available under Act 47, the City will again find itself in a difficult liquidity position. The Coordinator recommends the City use its best efforts to reduce expenses (including long-term debt, pension and OPEB obligations) and couple these initiatives with necessary revenue increase to mitigate the impact of any loss of enhanced EIT and LST revenues.

AMBAC Insured – General Obligation Bonds

Due to severe liquidity crisis in the City, the City defaulted on payment of its general obligation bonds in 2012 and 2013. As part of the Strong Plan, Ambac and the City entered into a forbearance agreement and liquidity arrangement. If, the City continued to experience liquidity problems Ambac would advance a portion of the debt service owed. Borrowings under this arrangement are supposed to be repaid at a negotiated interest rate of approximately 6.07%. If the City were to utilize all of the advances offered by Ambac between 2014 and 2022, the City would have had a \$5.387 million per year obligation to Ambac from 2023 through 2033.

The Coordinator has encouraged the City to repay the GO Bonds with its own revenues in lieu of borrowing from Ambac, when feasible, and to consider using a portion of its accumulated fund balance to reduce the obligations to Ambac that commence repayment in 2023. Because the City was unable to make payments on its GO Bonds in 2012 and 2013 and utilized advances in 2014 and 2015 (the aggregate of all advances and missed payments have been accruing interest), the amount owed to Ambac under the Settlement Agreement exceeds the amount of the fund balance that would be prudent to apply to this bond issue at this time. As suggested elsewhere in this Exit Plan, the City does not have control over whether the Enhanced LST and Enhanced EIT are extended. It also does not know whether the electorate will approve a Home Rule Government Study Commission. Until the City either raises real estate taxes sufficiently to cover potential lost revenues, statutorily is granted those revenues, or actually becomes a Home Rule Charter municipality, the Coordinator recommends the City adopt a multi-tiered strategy consisting of:

i.) Continuing to pay the full debt service on the GO Bonds during 2018-2022, ii.) Applying a relatively small portion of the City's fund balance to payments to Ambac while maintaining a reasonable fund balance, and iii.) Negotiating with Ambac relating to pre-2014 defaults and/or other repayment obligations. The City should attempt to reduce the amount owed to Ambac beginning in 2023 (from \$5.38 million per year to as close to zero as possible).

Because advance refundings have been eliminated by the new Federal Tax Law, the only other potential source - outside using limited fund balance - available to the City to implement this strategy, would be proceeds of taxable bonds.

The Coordinator encourages the City and Ambac to negotiate a reduction to the largest extent possible, all amounts not paid by the City relating to pre-2014 defaults (and accrued interest thereon).

Ambac Insured – Senator’s Stadium Bonds

The debt service on the Harrisburg Redevelopment Authority’s 2005 Federally Taxable Guaranteed Revenue Bonds (Stadium Project) is paid for by a combination of revenues relating to operation of the stadium and parking and amounts currently payable by the City under its Guaranty. The City is projecting that its guaranty obligations will be between \$200,000 and \$300,000 per year during the three-year exit plan. The City has been working with management of the Harrisburg Senators and the City Islanders with an aim towards increasing revenues and reducing or eliminating the City’s guaranty obligations. The City also retained outside counsel to reform the stadium Park Permit.

Verizon Bonds

Verizon’s lease was expiring just as the debt service guaranteed by the City would have been required. This would have resulted in the City having to increase its annual debt service expenses by approximately \$1.88 million per year in 2016 and thereafter to \$7.35 million upon maturity). The Commonwealth of Pennsylvania agreed to move approximately 800 employees that had been working at the Old State Hospital Building to the Verizon Tower and a complicated repayment arrangement was put into place. It would be difficult to overstate the value of the Commonwealth of Pennsylvania’s efforts to help the City resolve this very significant debt problem. The Commonwealth is paying rent and conditional rent is also now being paid in connection with the leasing of the building reducing the City’s liability by tens of millions of dollars. Additional local service taxes, additional parking taxes, and the benefits associated with having an additional 800-900 employees located downtown continue to be realized in the City.

In terms of the payment streams pledged to pay debt service on the 1998A Bonds issued by the Redevelopment Authority and guaranteed by the City (the “1998A Verizon Bonds”), the City’s economic obligations have decreased due in large part to efforts by the Harrisburg Development Corporation to reduce energy costs, taxes and other expenses related to building operations. AGM had entered into a Settlement Agreement with the City in connection with

repayment of the 1998A Verizon Bonds, to extend some liquidity to the City (expected to be during 2018 through 2022), however the combination of improving economics on the building (resulting in additional conditional rent payments being made and corresponding reduction in the City’s obligations) and the City’s improving liquidity position, puts the City in a position to not borrow from AGM under the Settlement Agreement. By not borrowing from AGM the City avoids having to repay approximately 6.07% interest on borrowings of up to \$2.1 million.

The following table illustrates the projected Conditional Rent payable based upon facts and circumstances known in 2013-14 as compared with the updated projections relating to Conditional Rent subsequent to completion of the energy savings projects and tax assessment appeal.

| Year | 1998A Debt Service | DGS Rent Allocated | City Guaranty Payment | DGS Option | Conditional Rent City's Split (est. 2014) | Conditional Rent City's Split (est. 2017) | DSF Release \$2,404,606 | Total Revenues | Ending DSF Balance | Refund to HRA/City |
|------|-----------------------|-----------------------|--------------------------|---------------|---|---|-------------------------------|-------------------|-----------------------|-----------------------|
| 2016 | \$ 930,000 | \$ 450,000 | \$ - | \$ - | \$ 2,148 | \$ - | \$ 480,000 | \$ 930,000 | \$ 2,404,606 | \$ - |
| 2017 | \$ 1,880,000 | \$ 600,000 | \$ 500,000 | \$ - | \$ 3,765 | \$ - | \$ 780,000 | \$ 1,880,000 | \$ 1,924,606 | \$ - |
| 2018 | \$ 1,910,000 | \$ 600,000 | \$ 500,000 | \$ - | \$ 8,643 | \$ 477,181 | \$ 332,819 | \$ 1,910,000 | \$ 811,787 | \$ - |
| 2019 | \$ 1,930,000 | \$ 600,000 | \$ 700,000 | \$ - | \$ 13,711 | \$ 275,000 | \$ 355,000 | \$ 1,930,000 | \$ 456,787 | \$ - |
| 2020 | \$ 1,960,000 | \$ 600,000 | \$ 940,000 | \$ - | \$ 18,928 | \$ 275,000 | \$ 145,000 | \$ 1,960,000 | \$ 311,787 | \$ - |
| 2021 | \$ 1,990,000 | \$ 600,000 | \$ 950,000 | \$ - | \$ 24,300 | \$ 275,000 | \$ 165,000 | \$ 1,990,000 | \$ 146,787 | \$ - |
| 2022 | \$ 2,010,000 | \$ 600,000 | \$ 950,000 | \$ - | \$ 29,829 | \$ 275,000 | \$ 146,787 | \$ 1,971,787 | \$ - | \$ (38,213) |
| 2023 | \$ 2,040,000 | \$ 600,000 | \$ 1,250,000 | \$ - | \$ 35,521 | \$ 275,000 | \$ - | \$ 2,125,000 | \$ - | \$ 85,000 |
| 2024 | \$ 2,070,000 | \$ 600,000 | \$ 1,250,000 | \$ - | \$ 41,382 | \$ 275,000 | \$ - | \$ 2,125,000 | \$ - | \$ 55,000 |
| 2025 | \$ 2,090,000 | \$ 687,500 | \$ 1,250,000 | \$ - | \$ 128,964 | \$ 182,215 | \$ - | \$ 2,119,715 | \$ - | \$ 29,715 |
| 2026 | \$ 2,120,000 | \$ 750,000 | \$ 1,430,000 | \$ - | \$ 184,388 | \$ 182,215 | \$ - | \$ 2,362,215 | \$ - | \$ 242,215 |
| 2027 | \$ 2,150,000 | \$ 750,000 | \$ 1,445,000 | \$ - | \$ 180,834 | \$ 182,215 | \$ - | \$ 2,377,215 | \$ - | \$ 227,215 |
| 2028 | \$ 2,180,000 | \$ 750,000 | \$ 1,450,000 | \$ - | \$ 177,363 | \$ 182,215 | \$ - | \$ 2,382,215 | \$ - | \$ 202,215 |
| 2029 | \$ 2,210,000 | \$ 750,000 | \$ 1,500,000 | \$ - | \$ 173,975 | \$ 182,215 | \$ - | \$ 2,432,215 | \$ - | \$ 222,215 |
| 2030 | \$ 2,240,000 | \$ 750,000 | \$ 1,500,000 | \$ - | \$ 170,668 | \$ 182,215 | \$ - | \$ 2,432,215 | \$ - | \$ 192,215 |
| 2031 | \$ 2,300,000 | \$ 750,000 | \$ 1,500,000 | \$ - | \$ 167,440 | \$ 182,215 | \$ - | \$ 2,432,215 | \$ - | \$ 132,215 |
| 2032 | \$ 2,320,000 | \$ 750,000 | \$ 1,500,000 | \$ - | \$ 164,291 | \$ 182,215 | \$ - | \$ 2,432,215 | \$ - | \$ 112,215 |
| 2033 | \$ 7,350,000 | \$ 187,500 | \$ 4,340,746 | \$ 4,863,765 | \$ 40,481 | \$ 182,215 | \$ - | \$ 9,574,226 | \$ 0 | \$ 2,224,226 |
| | <u>\$ 41,680,000</u> | | <u>\$ 22,955,746</u> | | <u>\$ 1,566,632</u> | <u>\$ 3,767,116</u> | | | | <u>\$ 3,686,233</u> |

If the City were to terminate the Settlement Agreement, the amounts in the last column above, “Refund to HRA/City” would be simply subtracted from the City Guaranty Payment column, thereby further reducing the City’s obligations under this bond issue. The difference between the totals in Conditional Rent column as originally projected and the total in the Conditional Rent in the updated column illustrates that the Conditional Rent increases should be able to backfill any needs for advances from AGM, and thus the principal and interest on \$2.1 million of advances repaid to AGM can likely be avoided.

It is believed that pursuant to the **In Re Derivatives** settlements, in excess of ten thousand dollars was paid in two separate installments to the Harrisburg Redevelopment Authority relating

to these bonds and that such amounts should be transferred to the Trustee for these bonds which will defray some of the costs to the City under the Guaranty, in the year it is received.

Other Post-Employment Benefits (OPEB)

In December of 2013, proceeds from the parking monetization in an amount of approximately \$3.69 million were deposited with Metro Bank in anticipation of the City: i. authorizing the creation of an OPEB Trust, ii. appointing a Board of Trustees, iii. selecting an investment advisor, iv. adopting an investment policy statement and v. implementing a long-term strategy aimed at addressing an OPEB liability.

Amounts deposited for these purposes were invested in money market funds awaiting the establishment of the trust and appointment of professional investment advisors.

There are three additional, potential, funding mechanisms in the Strong Plan. First, if more than \$4.0 million is on deposit in Impact Harrisburg's Economic Development Fund after December 31, 2018, then, and not more frequently than once every three years, Impact Harrisburg may, in the discretion of its Board, and upon a determination that all such sums are not needed to further stimulate the economy of the City, transfer as much as fifty percent of the sums on hand to the Harrisburg OPEB Trust. Second, as and when money is released from the Escrow Agreement (PennDOT arrangement) with the County and AGM to the City, 23% of such amounts released to the City are required to be deposited into Harrisburg's OPEB Trust. Third, 30% of the sum received by the City from recoveries on Incinerator Claims shall be deposited in each of the three above-described entities on a pro rata basis as described in the Plan; and the remaining 10% shall be available for the City's use as the then Mayor and the City Council shall jointly agree and direct.

Ideally, once the City is able to manage a structurally balanced budget, the City should begin to appropriate amounts on an annual basis to supplement these cash infusions and to slowly increase the OPEB trust so that earnings could begin to address the OPEB liability. The Coordinator encourages the City to provide in its annual budget amounts to be deposited in the OPEB Trust. The sooner money is deposited and invested, the sooner the amounts in the OPEB Trust will begin to appreciate in value and begin to mitigate this liability.

As of the date of the preparation of this Exit Plan, the City has not acted on the creation of an OPEB trust. There is currently \$3.78 million in the OPEB fund because monies have been

deposited in a money market fund earning 0.50 percent interest or less for the past four years. It is estimated that had the trust been established and the investment policy statement created, four years prior, assuming an investment allocation like the City’s police pension fund, the Trust would likely have closer to \$4.8 million, or \$1,000,000 more than at this time. Below is a table with a pro forma estimate of the growth of the initial deposit using actual investment returns from the police pension fund since 2014.

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|----------------------------|-------------|-------------|-------------|-------------|-------------|
| Millions of Dollars (\$) | \$3.69 | \$3.92 | \$3.95 | \$4.20 | \$4.87 |
| Investment Return (Police) | | 6.05% | 1.01% | 6.08% | 16.1% |

Exit Plan Initiatives

DS1. Reduce Amount Owing to Ambac After GO Bonds Are Repaid.

The City is encouraged to use a portion of its accumulated fund balance to reduce the obligations to Ambac beginning in 2023. In the alternative, the City may wish to use a portion of the fund balance in 2020, 2021 and 2022 to serve as a bridge to the reduced debt service requirements beginning in 2023. The Coordinator recommends the City adopt a multi-tiered strategy consisting of: i. paying the full debt service on the bonds during 2018-2022, ii. applying a portion of the City's fund balance to payments to Ambac, and iii. negotiating with Ambac relating to pre-2014 defaults, other amounts owed and negative carry in any advance refunding escrow.

Ambac is encouraged to negotiate appropriate reduction, to the largest extent possible, of all amounts owed by the City with particular attention paid to defaults prior to December 22, 2013 (and accrued interest thereon), considering the fact Ambac was paid an insurance premium, and the City was in fact in severe financial distress when the insured event occurred.

DS2. Avoid Borrowing from AGM Under Verizon Settlement Agreement.

Due to improvements in the City's liquidity and fund balance, coupled with increases in Conditional Rent split with the City, the City should avoid borrowing from AGM at 6.07% under the applicable settlement agreement. The City should consider negotiating with AGM for consideration in return for terminating the Settlement Agreement.

DS3. Finalize and Adopt Financial Management Policies.

Drafts of these policies have been circulated through committee since 2014. A debt management policy, capital improvement plan policy, and a fund balance policy should be approved by City Council and the Mayor in 2018. The Fund Balance policy shall be viewed together with the Capital Improvement Plan to ascertain how much if any of the Fund Balance should be used during the next three years to pay for priorities under the five-year capital improvement program of the City. The more quickly the City finalizes and adopts these financial management policies and regains its investment grade credit rating, the more quickly the City will be able to undertake modest borrowings for its capital needs, spread the costs through the useful life of the capital asset and preserve the fund balance for other important purposes.

DS4. Seek to Regain Investment Grade Credit Rating.

The largest impediment to obtaining an investment grade rating for the City is the risk relating to reliance on legislative changes that the City has no control over. Reductions in expenses and increases in Real Estate tax rates should be pursued as long as the legislative changes (or adoption of Home Rule status) have not occurred. If the City is fortunate enough to have one or more of the changes promulgated into law, it can then mitigate the real estate tax increases.

DS5. Authorize OPEB Trust, Retain Investment Advisor and Invest OPEB Trust Monies.

The City shall establish a Board of Trustees and approve OPEB Trust documents during 2018. An investment advisor shall be selected by the Board, an investment policy shall be developed and approved, a custodian selected, and the funds invested on a long-term basis.

The City shall take actions necessary to ensure that all supplemental amounts are deposited into the OPEB Trust, including amounts released from the Escrow Agreement and any Incinerator Litigation proceeds. A long-term return on investment coupled with a spending rule that enables some of the earnings to be distributed to retirees could result in a six-figure reduction in the City's retiree health benefits. The OPEB Trustees will adopt a spending rule and amounts set aside for the City can begin being used for its intended benefit.⁴

DS6. Reduce Assumed Rate of Return on the Police Pension.

The City should consider reducing the assumed rate of return on its police pension currently at 8.0 percent. At this assumed rate of return, any year that the fund does not achieve this target rate of return may require additional funding to the Minimum Municipal Obligation (MMO) and prevent the police pension fund from keeping pace with its liability growth rates. Reducing the assumed rate of return will reduce the likelihood of increased pension costs due to failure to meet return assumptions and mitigate this funding gap over the long term. However, absent other funding changes, a lower assumed rate of return will increase both the police plan's unfunded liabilities and annual MMO cost. The Coordinator has received an estimate that each drop of 0.5 percent in the assumed rate of return will increase the City's annual MMO by approximately

⁴ By way of illustration, if the OPEB Trustees adopt a "spending rule" that allows for an annual distribution from the OPEB Trust to retiree health benefits of an amount equal to the lesser of: i. the three-year trailing average of returns on the Trust and ii. 4%, of the corpus, the City could have received 4% of the \$4.87 million in the above pro forma or nearly \$195,000 in 2018.

\$670,000 (for example, from 8.0 percent to 7.5 percent). Alternatively, the City may avoid this annual MMO increase by increasing the asset value of the Plan through a direct cash deposit of \$4,500,000 into the Police pension fund. Further reductions of the assumed rate of return will follow a similar financial choice unless the pension's rate of return exceeds the 8 percent assumed rate over the measurement period, in which case the City can gradually use such excess earnings to reduce the assumed rate of return.

DS 7. Reduce or Eliminate amounts owing by City under Guaranty of Stadium Bonds.

The City should continue to negotiate with management of the Senators and City Islanders, utilize legal counsel to reform the Park Permit and consider bringing Ambac in to negotiations aimed at restructuring this bond issue in a way that reduces the City's obligations with respect to capital contributions and its debt service guaranty to as close to \$0 as possible.

DS8 Cause HRA to transfer proceeds of In Re Derivatives Settlement to Bond Trustees.

To the extent the HRA is holding on to proceeds of settlements that could be used to defray City expenses, the City should cause HRA to transfer such amounts to the appropriate bond trustees so that the City's debt service obligations can be reduced commensurately.

CHAPTER FIVE

OPERATIONS AND ADMINISTRATION

The Exit Plan outlines a multi-faceted strategy that relies on: i.) legislative changes to enable extension of the extraordinary EIT and LST taxes after exit from Act 47, ii.) consideration of Home Rule status, which could enable the City to maintain some or all of the extraordinary tax revenues, iii.) restoration of investment grade rating so that capital can be funded through the incurrence of long-term debt, iv.) reduction of debt service obligations, v.) reduction in operating expenses, and vi.) to the extent the foregoing is insufficient, generating additional revenue through real estate tax increases. This Chapter will focus on consideration of any viable expenditure reductions that can be achieved to help bridge the gap.

In the process of developing this Exit Plan, the Act 47 Coordinator's Team met with department directors and staff from each of the City's operating and administrative departments to clarify operating challenges and identify opportunities for potential expenditure reductions in the City. Those conversations indicate that though the City has made progress in many operating areas, there are still fundamental challenges and investment needs that must be considered as Act 47 exit is considered. It is also evident that there are no clear opportunities to close the Act 47 revenue and expenditure gap through immediate, major expenditure reductions, without reductions in vital and necessary services. Further, there are a number of areas that will require dedicated investment into the future.

For example, the City's Information Technology (IT) infrastructure is in need of major investment. The City is operating on an antiquated mainframe infrastructure that is so old that programmers can no longer be found in the labor market place. The City's Storage Area Network (SAN) infrastructure requires major upgrades to ensure that sufficient memory is available to operate core public safety and administrative business applications. And the City's phone system is no longer supported and requires a complete upgrade.

The City is also facing a number of facility infrastructure needs. Deferred maintenance due to limited financial resources has resulted in facility investment needs at fire stations, police

headquarters, and the City Government Center. In addition, the City is confronted with the need to develop a new or renovated public works facility. The City has begun investing in addressing these issues but will not be able to continue this effort without maintaining or enhancing General Fund revenue levels.

These issues, and others, illustrate that though the City has made progress in a number of important areas, there continue to be significant investment needs. As a result, compensating for Act 47 revenue loss through expenditure reductions cannot reasonably be considered a path to a sustainable exit. However, there are a number of immediate measures and studies that the City should undertake to limit the growth of expenditures and pursue efficiencies during the three-year exit period.

Hiring Process

OA1. Implement a hiring review board process.

In 2018, personnel expenses represent approximately 61% of the City's total General Fund operating budget. One of the most significant mechanisms that can be implemented to control expenditure growth is to control the addition of new personnel and accumulate position vacancy savings where possible, position vacancy savings is actual savings, compared to budgeted expenses, realized through a delay in filling positions that are vacated through retirement or some other means.

As summarized above, there continue to be investment needs in the City. This applies to staffing as well. The City has made strides in restoring some stability to departmental staffing levels, especially in key public safety areas. At the time of this report, the Fire Bureau was close to full staffing. The Police Bureau was operating with 12 total vacancies, including 11 sworn officer positions, but has worked closely with the Human Resources (HR) Bureau to develop active hiring lists to ensure that vacancies are filled as quickly as possible. Ultimately, the City's operational and financial recovery cannot be sustainably secured without considering basic staffing needs required to deliver core services.

As a result, it is not recommended that the City enact a total hiring freeze. However, it will be important for the City and the Act 47 Coordinator to apply a more stringent level of scrutiny for all new hires and position vacancy refills. As a result, it is recommended that the City and the Act 47 Coordinator initiate a monthly vacancy review board process whereby the Business Administrator, Finance Director, and Act 47 Coordinator review all position vacancies and make a joint determination about which should be filled. To fill a vacant position, the case must be made by the hiring department that not filling the position would dramatically impede the City's ability to deliver vital and necessary public services.

Financial Polices

OA2. Develop Comprehensive City-wide Financial Policies.

The 2013 Strong Plan called for the development and adoption of comprehensive financial policies. Such policies are looked upon favorably by rating agencies and are another important step in the City regaining credibility in the financial marketplace. In 2015, the Act 47 Coordinator developed a draft debt and fund balance policy for prospective review and adoption by the City. With guidance and support from the Act 47 Coordinator, the City shall establish formal financial policies.

These policies shall be developed in accordance with GFOA best practices. Specific policies that shall be developed include, but are not limited to:

- Debt Policy – The City shall proceed with the review of the Debt Policy that was advanced and enact said policy in early 2016.
- Fund Balance – The City shall establish a fund balance policy that identifies the appropriate size of unreserved fund balance, the process by which resources are set aside for unreserved fund balance, and the methods by which unreserved fund balance resources may be utilized.
- Process for Departmental Budget Charge Backs – The City shall establish a policy to identify internal operations that necessitate departmental charge backs (e.g., the Bureau of Information Technology charging City departments and bureaus for network

administration services) and create an internal service fund structure within the chart of accounts in order to document and monitor chargebacks as needed.

- Process for Preparation, Coordination and Response to Comprehensive Annual Financial Audits – The City shall formally establish a policy outlining the necessary preparations for the annual audit, the roles and responsibilities of City staff in coordinating the completion of the annual audit, and the process by which the City will respond to any corrective actions outlined in the external audit upon its completion.

Capital Planning Process

OA 3. Develop a Five-Year Capital Improvement Plan (CIP) and Process.

The City of Harrisburg has made significant strides in refining and improving its operating budget process by establishing a recurring budget calendar and rigorous operating budget request evaluation process. In addition, the City developed a separate 3-year capital budget development process for FY2018. This was a positive step toward implementing a widely recognized best practice in municipal budgeting. However, the City has opted not to include a separate long-term CIP process in its 2019 budget development process. Instead, capital requests will be considered as line items in each department's operating budget request. This decision is largely based on the fact that the City does not anticipate that it will have access to significant capital funding in 2019. Though this challenge is evident, it will also be important for the City to institutionalize the practice of long-term capital plan development as a requirement of its eventual exit from Act 47.

The CIP is a long-term planning tool for prioritization, financing and technical design, execution, and timely completion of all capital projects. Generally, these capital projects will have a significant impact on the City's infrastructure and protect the health and safety of the public. Additional benefits include:

- Establishing a system of examining and prioritizing the needs of the City ensures that the most essential capital improvements are provided first;
- Providing a mechanism for coordinating and consolidating all City departmental requests prevents duplication of projects and equipment purchases; and
- Coordinating physical/infrastructure planning with long-range financial planning

allows maximum benefits from limited funding sources.

The CIP document represents a five-year period of the City's ongoing capital improvements. Each year, the document is updated to represent the next five-year window. In each annual update, completed projects, as well as projects scheduled to be completed before the end of the fiscal year, will be removed from the document, new projects will be added, and other previously-programmed projects may be re-prioritized.

CIP planning is a dynamic process that will include changes over time. These changes may be necessitated by organizational changes, funding uncertainties, unforeseen emergencies, project delays or plans by other entities that can impact the CIP.

The CIP is a planning document to be used as a companion to the City's annual operating budget. Each year, the funding included in the first year of the five-year CIP is allocated and approved by the City Council as part of the annual budget adoption process. In addition to the up-front funding requirements associated with CIP projects, the City's annual operating budget must also absorb the cost of maintaining and operating new facilities or equipment that are constructed or procured under the City's capital plan. Capital projects are economic activities that lead to the acquisition, construction, or extension of the useful life of capital assets. Capital assets include land, facilities, parks, playgrounds and outdoor structures, streets, bridges, pedestrian and bicycle systems, water and sewer infrastructure, technology systems and equipment, traffic control devices and other items of value from which the community derives benefit for a significant number of years.

OA 4. Complete and Implement Comprehensive Plan and Housing Strategy.

With the Commonwealth Court's approval to allocate up to \$75,000 from the funds set aside for economic development in the Harrisburg Growth Fund, the City initiated a Comprehensive Plan update process in early 2015. In April 2015, the City awarded the contract to Office of Planning and Architecture (OPA) of Harrisburg to lead the process supported by 5 other firms (K&W Engineers & Consultants, Good Land Collaborative, ARUP Americas, CSPM Group and AB3 Development). Following a public contest, "BeHBG" was selected as the

“brand” name for the update. A “BeHBG” website was established to provide the community with ongoing updates and allow further community input.

The process included extensive public engagement with numerous stakeholder meetings and community workshops. Staff also participated in 24 community events to gather further input on how the City should evolve and develop over the next twenty years and to obtain a sense of the priority of City issues. The consultants met with PennDOT to coordinate transportation issues and with Harrisburg Housing Authority representatives to discuss housing issues. A day-long community workshop was held in December 2015 at the Capitol View Commerce Center to summarize the results. The entire consulting team presented information regarding the status of the plan, including specific presentations on housing and transportation to about 150 people who attended throughout the day.

2016 focused on retooling the Plan based on the public input received. The Planning Director spent considerable time reviewing and editing the consultant’s draft, though the process was slowed due to staff limitations in the Planning Office. The process has been stymied since late 2016 due to a contract dispute between the City and the Office of Planning and Architecture, resulting in the City’s termination of the contract in early 2017. The City is actively working to advance the plan and has engaged two of the sub- contractors to assist in completing a final draft and expedite the presentation of a final plan for public review and consideration.

The Comprehensive Plan is a critical economic and community development tool for the City and, as a result, it will be important for the City to complete the process as soon as possible.

POLICE STAFFING

The Bureau of Police has made strides in implementing many of the initiatives outlined in the Strong Plan. The Bureau has consolidated the use of specialized units in the Bureau in favor of assigning additional personnel to the patrol function. It has reduced civilian staffing in the parking enforcement function as a result of the monetization of parking assets to Standard Parking. In addition, the Bureau has decreased the number of captain positions from three to two.

However, the most pressing issue confronting the Bureau is sworn staffing shortages. Given the limited financial resources available through the exit process, it is unlikely that additional personnel can be hired. As a result, the City should fully evaluate opportunities available to more efficiently deploy existing personnel.

OA 5. Complete A Staffing and Shift Schedule Study for The Uniformed Patrol Division to Mitigate the Impact of Staffing Shortages.

The most significant operational and financial challenge confronting the Bureau of Police relates to sworn staffing, especially in the Uniformed Patrol Division, which is the largest sworn police function. According to interviews with the senior executive officers of the Bureau, the Uniformed Patrol Division targets daily shift staffing goal of 15 patrol officers per shift to meet its calls for service demand and adequately engage in the proactive policing activities, such as foot and bicycle patrols. This is based on Bureau's existing patrol beat and response structure. Though the target for the daily shift staffing is 15 patrol officers, the Department maintains a minimum required staffing level of 10 officers per shift. If staffing falls below the 10-officer minimum, officers are called in on overtime to meet minimum staffing targets. According to Bureau estimates, each of the platoons requires a target staffing of 25 officers to consistently meet the patrol officer staffing goal of 15 officers per shift; the current patrol officer staffing level per platoon ranges from 20 to 23 patrol officers. There are currently 11 sworn officer vacancies in the department.

The Uniformed Patrol Division currently operates under an 8-hour shift schedule. Police officers who are assigned to uniformed patrol perform steady tours of either 7:00 a.m. to 3:00 p.m., 3:00 p.m. to 11:00 p.m. or 11:00 p.m. to 7:00 a.m., with steady days off. Although a steady tour schedule provides a welcome measure of regularity for the workforce, there are a number of other schedule alternatives that can be evaluated to determine if deployment and schedule changes can mitigate the impact of staffing shortages. For example, implementation of 12-hour schedule deployment models has demonstrated value in decreasing the incidence of unexpected time off, which impacts staffing availability and potentially overtime usage. It is also typically a much more cost-effective shift schedule to maintain, typically requiring fewer officers per patrol team to meet shift staffing targets.

Effective scheduling requires analysis of operational and financial efficiencies, the unique needs of the Bureau and the community, and the impact of the schedule on the agency's employees. There are literally dozens of possible alternatives, and the evaluation of those alternatives must be made to ensure that they result in a more efficient use of resources that will enhance police service without creating undue stress on the members of the Police Bureau.

Therefore, before a new duty schedule is implemented, an in-depth study should be conducted to ensure that the nuances of the Bureau are explored and addressed. Therefore, a committee consisting of the Chief of Police and/or designees, representative(s) of the Fraternal Order of Police, and the Act 47 Coordinator shall be created to implement this initiative and make the final determination on a new schedule that meets the operational needs of the Bureau, enhances efficiency and reduces expense to the greatest degree possible

OA 6. Initiate Discussions with The District Attorney's Office to Develop an Approach to Utilize the Dauphin County Forensic Investigation Team for City of Harrisburg Forensic Investigations.

The Bureau of Police currently does not participate in the Dauphin County Forensics Team, instead opting to maintain a staff of three in-house Forensics Investigators. The Bureau of Police has maintained this internal capacity for two primary reasons. First, the Department wishes to maintain internal capacity to avoid the possibility that forensics personnel will be unavailable when needed. The Bureau of Police has expressed concern that since the Dauphin County Forensics Team is responsible for providing services across Dauphin County, the team may not be promptly available to provide service at Harrisburg crime scenes. Second, the Bureau of Police maintains considerable pride in the quality of its forensic investigations, the expertise of its investigators, and the level of training provided to personnel. Given the importance of forensic investigation as a major investigative tool, the Bureau of Police is reluctant to pursue a shared service model for fear that the loss of direct day- to-day control may impact the ultimate quality of forensic investigations.

These are important considerations; however, they must be considered and prioritized within the broader issues that the Department is facing relating to staffing levels. These staffing

shortages ultimately result in having fewer officers on the street at a given time.

The City currently dedicates three officers to forensic investigations. By participating in the Dauphin County Forensics Team, the City may have the opportunity to dedicate only one officer to forensics investigations full time, which would allow the Department to redeploy the other two Forensic Investigators to other units, such as Patrol, where sworn staff are needed. Moreover, the City will be able to capitalize on the regional resources provided by the Dauphin County Forensics Team. In other words, depending on the agreement reached with the District Attorney's Office, the Bureau of Police could realize an increase in street strength and also increase forensic investigation resources.

REGIONALIZATION

Prior to and since the City's entrance into the Act 47 program, the City has engaged in collaborative work with a variety of intergovernmental agencies. For example, The City produces and distributes property tax bills on behalf of the School District and also collects the payments.

The City and Dauphin County collaborate in the provision of public safety services. The Harrisburg Police Bureau participates in the Dauphin County Special Weapons and Tactics Team (SWAT) and works closely with the Dauphin County District Attorney's Office in criminal investigations. In June 2011, the Dauphin County Communication Center began providing 911 and dispatch operations for the City of Harrisburg, at no charge to the City.

Dauphin County, through its Department of Community and Economic Development, directly assists businesses and municipalities within the County in undertaking economic development projects. The Dauphin County Economic Development Corporation, a non-profit development entity, has partnered with the City in ongoing efforts to retain and grow existing businesses as well as attract new ones through business resource networks and calling programs.

Following a Strong Plan recommendation, the City also became a member of the Capital Region Council of Governments (CRCOG) in 2014. CRCOG is a voluntary association of 40-

member boroughs and townships from Cumberland, Dauphin, Perry and York Counties, formed to promote intergovernmental communication and cooperation. It offers a joint purchasing program and an auction for surplus property and equipment. The City is also a member of the Dauphin County Tax Collection Committee which administers the collection of the Earned Income Tax for all municipalities and school districts in the County.

While there are specific instances of cooperation between and among the City of Harrisburg, the Commonwealth of Pennsylvania, Dauphin County, the Harrisburg School District and other neighboring municipalities, there is no mechanism or body that facilitates discussion of issues of mutual interest or concern. It is therefore important for the City to take a proactive role in pursuing intergovernmental cooperation opportunities.

As the City considers Act 47 exit within the next three years, there are two key opportunities to pursue regionalization as a means to generate efficiencies, generate revenue, or reduce expenses which will mitigate the impact of other revenue generating measures. The first opportunity relates to the outcome of the regional policing study completed in 2015. The Police Research Executive Research Forum (PERF) identified multiple opportunities for intergovernmental service sharing and cooperation in the policing area. It will be important for the City to pursue those opportunities to determine where costs savings and/or service improvements can be achieved.

The second public safety opportunity relates to the fire service. As staffing in the Bureau of Fire has stabilized and volunteer firefighter availability in surrounding communities' declines, the City may be in a position to offer fire service to its neighbors. The deployment approach, service impact, and financial implications of such opportunities must be fully vetted, but they potentially serve as an opportunity to enhance service levels and secure valuable revenue for the City, while potentially enhancing fire service quality in neighboring communities. However, these opportunities should be aggressively pursued as part of the City's recovery effort.

OA 7. Pursue Regional Policing Opportunities Detailed in the 2015 Dauphin County Regional Policing Initiative.

In 2015, Dauphin County and the District Attorney's Office, with support from the Act 47 program, contracted with the Police Executive Research Forum (PERF) to assess opportunities for regional police initiatives in the County. The City of Harrisburg Bureau of Police, as the largest police department in the County, was included as an important participant in that assessment. Both the Harrisburg Police Chief and the City's FOP representative participated as members of the study Task Force.

A final report with recommendations for service and cost sharing was issued in December 2015. The report details a number of large scale regional policing/consolidation initiatives. The major consolidation options are summarized below:

- **Option 1: Dauphin Metropolitan Police Department** – 12 police departments that make up the central urban- suburban core of Dauphin County around Harrisburg would form a single metropolitan police department (Derry Township, Highspire Borough, Hummelstown Borough, Lower Paxton Township, Lower Swatara Township, Middletown Borough, Paxtang Borough, Penbrook Borough, Royalton Borough, Steelton Borough, Susquehanna Township, and Swatara Township). This option could provide an approximate 39% cost savings.
- **Option 2: Harrisburg Metropolitan Police Department** – This agency would be comprised of the 12 departments that make up the central core of the County as described in Option 1, plus the City of Harrisburg. This option could provide an approximate 33% cost savings.
- **Option 3: Southern Dauphin Merger** – Seven smaller agencies (Highspire Borough, Hummelstown Borough, Lower Swatara Township, Middletown Borough, Paxtang Borough, Royalton Borough and Steelton Borough) would be merged with Swatara to reduce redundancy and improve efficiency. This option could provide an approximate 26% cost savings.
- **Option 4: Southern Dauphin Regional Police Department** – This option would combine five small agencies (Highspire Borough, Lower Swatara Township,

Middletown Borough, Royalton Borough and Steelton Borough) into a single department with a focus on less redundancy and more effective policing. This option could provide an approximate 9% cost savings.

- **Option 5: Derry Regional Police Department** – Hummelstown Borough would be merged with Derry Township under a contract arrangement to provide a more efficient approach to policing in these adjacent jurisdictions. This option could provide an approximate 32% cost savings.
- **Option 6: Northern Regional Police Department** – This option would combine four small agencies (Halifax Borough, Lykens Borough, Millersburg Borough and Wiconisco Township) north of the mountains to provide expanded coverage to this area. At least two officers would be on patrol around the clock. This option would include a 363% plus cost increase but is included to demonstrate what would be required to provide full-time policing in the north part of the county.
- **Option 7: Countywide Police Department** – Although a change in state law would be required to enact this scenario, PERF was asked to examine the parameters for one police department that would serve the entire county. This agency would be comprised of four police districts and a substation to maintain a focus on the localities involved. This option could provide an approximate 29% cost savings.

Of the large-scale consolidation options summarized above, the Harrisburg Metropolitan Police Department (option 2) and the creation of a countywide police department (option 7), are the two options that would directly involve the City of Harrisburg. Both options would require significant cross-community buy-in and detailed analysis to move forward; however, if the political will is in place to pursue this option, the potential cost savings to all communities involved indicate that fully evaluating this option would be warranted.

The other five options identified in the analysis would not directly impact the City, though they would create some indirect impacts. These options, which are smaller in scale than creating a county-wide department, offer two substantive benefits. First, they are more likely to be implemented because they involve fewer political jurisdictions and are more manageable to implement than a central county-wide department. Second, they will potentially increase the

scale, size, and scope of operation for Harrisburg's regional neighboring departments, many of which are currently small departments. As these departments increase in size through consolidation or merger, they will be better equipped to provide specialty services and act as partners with the City of Harrisburg on regional initiatives. This may provide an opportunity for the City to utilize these neighboring departments for specialty services which will allow the Harrisburg police department to redeploy personnel to other priority areas of operation.

It is important to note, however, that these consolidation options have only been discussed at the conceptual level and the potential fruit of consolidation efforts is not certain. Regardless, it will be important for the City to continue to engage as a member of the Task Force and seek opportunities, as the largest police department in the County, to add value and benefit from the regional initiatives.

OA 8. Partner with Dauphin County and the Act 47 Coordinator to conduct a study to evaluate regional fire service delivery opportunities.

In the 2013 Harrisburg Strong Plan, the Bureau of Fire had a total of 13 initiatives that were the direct responsibility of the Bureau of Fire. The Bureau has made significant progress toward implementing many of those initiatives. Notably, through collective bargaining negotiations, the Department closed one fire station and adjusted its company staffing level to 14 firefighter/ lieutenants and one command officer per shift. This has in turn allowed the Bureau to significantly reduce its overtime expenses and added significant value from both a public safety and firefighter safety and response perspective.

With changes to the deployment model and the addition of personnel to the Bureau of Fire, staffing and deployment has stabilized in the Bureau. The Bureau provides a high level of service to residents, businesses and visitors, and maintains a complement of highly trained firefighters and command staff.

Given the level of service provided by the Bureau and the Bureau's proximity to other boroughs and townships, there are opportunities in the coming years to develop regional partnerships or contracting models whereby the City of Harrisburg could provide fire

suppression, special rescue, and fire prevention services to neighboring communities. This is especially true given the loss of volunteers across the Commonwealth. Such initiatives have the potential to serve the purpose of improving fire services in neighboring communities while also serving as a potential revenue source for the City of Harrisburg.

The Bureau of Fire has begun evaluating these opportunities. However, full evaluation of options available will require detailed deployment and staffing analysis, cost estimates, and extensive conversations with neighboring communities and their elected officials. It is therefore recommended that the City seek to partner with Dauphin County and the Act 47 Coordinator to conduct a fire regionalization and service sharing study to identify and prioritize opportunities.

REFUSE AND RECYCLING

With Act 47 funding and support from the Act 47 Coordinator, a comprehensive sanitation program evaluation was completed in mid-2015 by Barton & Loguidice. The study concluded that the sanitation system was broken and unsustainable without significant change and provided a plan to modernize the sanitation operation, which built on recommendations from the 2013 Strong Plan. Recommendations focused on obtaining new or refurbished collection vehicles, purchasing and deploying new trash and recycling containers, increasing recycling through educational efforts, enforcing current ordinances, and validating all commercial and residential billing information.

In response to the study, the City has restructured the sanitation and public works operations through the creation of the Bureau of Neighborhood Services (BNS). This restructuring added staffing resources to the sanitation operation, thereby allowing street maintenance personnel to be fully dedicated to their assigned tasks. This restructuring addressed both operational and financial needs and has enhanced the City's ability to provide more efficient sanitation and street-related services to its residents. Since that time, the BNS has worked to fundamentally improve refuse and recycling operations.

The City has completely taken over the front-load commercial refuse collection business

in the City. This was accomplished by purchasing the necessary front-loader equipment and working over the past several years to transition all commercial accounts to the City. The only commercial accounts that are not currently being serviced by the City are downtown high rises and facilities that have trash compactors. However, the City is developing a plan to purchase the necessary roll-off containers and equipment to take over these accounts in 2019.

The City is also making progress in its effort to develop and manage a composting facility in Susquehanna Township. The City and Act 47 Coordinator's team developed a revised PADEP permit application that includes the City and the School District as program participants. The development of a composting site will serve two important goals. First, it will enhance the City's yard waste collection and composting program, which will in turn decrease the number of tons of waste disposed of at the Harrisburg incinerator (thus reducing disposal expenses). Second, it will advance intergovernmental cooperation in the Harrisburg metropolitan area. Although at this time it is only the City and School District, the potential exists for other municipalities to utilize the site thus sharing resources.

The City has also made substantive progress in the area of recycling. In the Fall of 2017, the City began the process of collecting glass recyclables from bars and restaurants in the City's downtown. This program has been successful and in the second quarter the City established a residential glass recycling drop off area so that the program can continue to be expanded. In addition, the City has established a cardboard recycling program targeted toward commercial businesses. This program generates revenue for the City and offsets fluctuations and losses in other areas of the recycling commodity market. The City is currently collecting approximately 100 tons of cardboard per month. The City is currently estimating a diversion rate due to recycling of approximately 16%, which is a dramatic improvement over the 4% rate in 2013.

The City also continues to meet its commitment to the Lancaster County Solid Waste Management Authority, (LCSWMA) to deliver at least 35,000 tons per year of solid waste to the Susquehanna Resource Management Center (SRMC). In 2016 the City delivered 35,953 tons of waste to the facility. In 2017, the City delivered 37,427 tons to the SRMC. It has largely accomplished this task through the reabsorption of commercial accounts into the City's sanitation operation and has also accomplished this measure while also significantly improving its recycling

rate. These are important advances for the City's sanitation operation. However, the City continues to face challenges relating to the refuse and recycling collection operation.

The City is currently facing a lawsuit from several commercial customers in the City challenging the City's refuse and recycling rate structure. This lawsuit offers the potential to substantially impact the City's ability to generate sufficient revenue to fund refuse and recycling services and other related BNS operations. Furthermore, the City's effort to restore sanitation operations also represents a cost. This cost should be compared against other opportunities in the market place to ensure that the City residents and business owners are receiving the most efficient and effective service available.

OA 9. Complete an Assessment of The Sanitation System Improvements.

In 2014, the Act 47 Coordinator leveraged Act 47 funding and with the support of the new City administration contracted with a sanitation services consultant to complete an assessment of the sanitation operation and develop an approach for improvement in the City's operation. It was determined early in the reevaluation process that the current system of waste and recyclables collection and related services in Harrisburg was, in simple terms, "broken and unsustainable" without major improvements. The status quo, do nothing alternative, was not an option for the City's waste and recyclables collection program. However, the shortfalls in the 2013 RFP process dictated a more focused look at developing consensus and exploring alternatives to a straight privatized bid for waste and recyclables collection services.

The City has made significant strides toward improving its sanitation operation. However, there are still several outstanding issues that could serve to significantly disrupt the financial and operational sustainability of the program. For example, the City has not developed a capital improvement plan and funding stream that demonstrates its ability to sustainably maintain and fund the regular replacement of sanitation packers, recycling trucks, dumpsters and carts on an ongoing basis. Perhaps more importantly, the City has been operating under a heavily disputed commercial refuse collection rate structure. This structure may require revision which could potentially impact sanitation revenue. In addition, the operations improvement highlighted in the

previous sanitation related initiatives must be effectively implemented to reach sustainable improvement.

Given these unknowns, it will important to complete a full assessment of the proposed sanitation operating improvements, revenue and expenditure history and projections, and plans for maintaining a sustainable operation going forward. If sufficient improvement can be achieved, the City should continue with further implementation of the evaluations recommendations. However, if improvement cannot be achieved, it is recommended that the City re-initiate a bid process to effectively compare the new sanitation operation to the services that can be offered by private sector contractors. This will allow policy makers to make an informed policy and budgetary determination regarding the prudence of maintaining a public-sector sanitation operation versus contracting the service out.

OA 10. Initiate Discussions with LCSWMA To Release A Portion of The Tipping Fee Security Held in Escrow.

The City has approximately \$1.35 million in an escrow account securing its obligations to LCSWMA to pay ongoing tipping fees. It has several options relating to liquidating this account in whole or in part and providing alternative security. Transfer of these amounts could help the City pay for new equipment or other necessary capital items or help the City restructure debt as a mechanism to drive down operating expenses. It is recommended that the City work cooperatively with LCSWMA and consider taking appropriate actions to satisfy LCSWMA so that some or all of these funds can be released to the City.

PARKING

The City and Harrisburg Parking Authority (“HPA”) sold the City’s parking assets including garages and meters in the Business District to Pennsylvania Economic Development Authority (PEFDA) in December of 2013 for \$267,479,162. The system is currently managed by a third-party asset manager and a third-party operator and provides annual revenue to the City in the form of Ground Lease and Priority Parking payments of approximately \$3.0 million. Additionally, the City collects almost \$4.0 million in parking taxes.

Even though the City has sold most of its parking assets, there are a few areas outside of the parking garages and meters that the City can and should focus on to improve revenues and parking within the City.

OA 11. Develop a Master Parking Plan for Residential and Commercial Parking Permits.

Parking Ordinances relating to permits for on-street parking (commercial and residential) and relating to public safety issues should be reviewed periodically. Now that the PEDFA has owned the parking garages for more than four years, the City should review the remaining aspects of parking management responsibilities that reside with the City. With revenue from parking fees and permit fees declining over the past four years, and complaints by residents and businesses regarding on-street parking, the City should consider retaining the services of a national parking consultant to work with City officials to review, and where appropriate amend, certain parking permit related ordinances and determine the appropriate level of permit and parking fees. The sale of the parking system to PEDFA was structured so that the better the garages and meters performed, the more money the City would receive and the sooner the bonds would be paid off. It is possible for a consultant to undertake a review of City ordinances, demand and management by the City of permits, and come up with a solution that is better for residents and commercial property owners, and helps the City realize additional revenues.

OA 12. Ongoing Discussions with Parking Advisory Committee Aimed at Improving the System.

City Council members, the Mayor's office and administration officials on the ground will be in the best position to provide ideas to the Parking Advisory Committee as to how to improve parking in the City, and how to increase revenues without necessarily increasing parking rates. Adding additional revenues through increased utilization will take some of the pressure off the need to increase rates every year or two. The debt service on bonds issued to fund the plan must be satisfied and the assets must be maintained to continue servicing the bonds, in order to continue providing the City \$7 million +/- per year. The City must recognize the foregoing when providing ideas as to how to increase revenues.

CHAPTER SIX

WORKFORCE CHAPTER

As with most local governments, Harrisburg’s personnel costs represent the majority of the City’s actual expenditures. The City requires a substantial workforce to prevent and investigate crime and enforce laws, maintain safe and clean streets, ensure public safety and deliver other important municipal government services.

Since the Strong Plan was confirmed on September 23, 2013, and subsequently amended in July 2016 (the “Amended Strong Plan”), Harrisburg has made significant progress toward establishing a more stable and sustainable fiscal structure, a major piece of which involves a remodeled plan for workforce expenditures.

The substantial majority of Harrisburg employees are represented by one of its three unions: the Fraternal Order of Police Capital City Lodge No. 12 (“FOP”), the American Federation of State County and Municipal Employees District Council 90, Local 521 (“AFSCME”), and the International Association of Firefighters, Local No. 428 (“IAFF”). Each of the City’s three unions voluntarily entered into mid-term negotiations to amend their collective bargaining agreements in connection with the filing of the initial Strong Plan in August 2013. The amendments to the prior collective bargaining agreements, as well as savings initiatives for the City’s non-union employees, were implemented, and cost reductions resulting from these changes began to be realized and continue to be monitored. Since the Amended Strong Plan was approved by the Commonwealth Court on July 20, 2016, the City has re-negotiated successor agreements with all three of its Unions. Specifically, the City has a contract in place with the FOP through December 31, 2020, and the City has agreed upon terms for a successor contract with the IAFF through December 31, 2022. While the City also has a contract in place with AFSCME through December 31, 2018, negotiations for a new successor contract are already starting.

Given the significant impact that workforce expenditures have on the overall budget, Harrisburg must continue to be vigilant in managing employee compensation (including both wages and benefits) in order to ensure the City remains fiscally healthy. Even with the improvements in certain revenues that have been achieved since the Strong Plan was initially implemented and subsequently modified, there remains a continuing need to contain workforce

expenditures in light of Harrisburg’s still sluggish revenue growth. This is particularly true given how the costs of healthcare, pensions and other post-employment benefits will continue to grow beyond the fiscal year in which they are expended

This Chapter of the Exit Plan provides an overview of issues pertaining to the City’s represented workforce, including headcount, compensation, healthcare cost, and post-employment expenses such as pensions and other post-employment benefits, and then identifies several initiatives that the City must follow when entering into new labor agreements with its unions, in order to ensure continued compliance with the strictures of Act 47.

EMPLOYEE OVERVIEW

HEADCOUNT

For 2018, Harrisburg is budgeted to employ approximately 454 full-time employees. Approximately 375 of the 454 full-time employees are budgeted to be paid out of the General Fund, while approximately 75 are budgeted to be paid out of the Neighborhood Services Fund with four paid from the Host Fee fund.

The following chart demonstrates the number of full time employees that the City is budgeted to employ in 2018 within each of the collective bargaining units as well as non-represented employees.

| Employee Group | Covered Positions | 2018 Budgeted Total FTEs | Contract Expiration |
|-----------------------|--|---------------------------------|----------------------------|
| Non-represented | Executive, management, confidential | 87.95 | N/A |
| FOP | All sworn Police Officers | 149.00 | December 31, 2020 |
| AFSCME | All non-executive, non-management, non-confidential employees not otherwise covered in FOP or IAFF | 134.94 | December 31, 2018 |

| Employee Group | Covered Positions | 2018 Budgeted Total FTEs | Contract Expiration |
|-----------------------|--|---------------------------------|--------------------------------|
| IAFF | All firefighters, lieutenants, captains, battalion chiefs, and deputy chiefs | 82.00 | December 31, 2022 ⁵ |
| Total | | 453.89 | |

Compensation

By far, Harrisburg’s largest workforce expenditure is employee salaries. For example, in 2017, salary expenditures cost the City \$22,353,917. In addition to salaries, overall compensation includes a wide variety of components, including, without limitation, longevity pay, shift pay, special assignment pay, other cash premiums and bonuses, employer-portion of applicable payroll taxes, vacation, holidays, paid leave, active employee life insurance, and other miscellaneous fringe benefits.

After the Amended Strong Plan was confirmed in July 2016, the City had to renegotiate its CBAs with the both the FOP and AFSCME, which were set to expire later that year. The negotiations for the FOP and AFSCME successor agreements were the first time since the City entered into Act 47 that the unions were obligated to negotiate all terms with the City and that the City had the right to renegotiate employment terms with the unions.

A. FOP

The City negotiated with the FOP throughout the fourth quarter of 2016 and the first two quarters of 2017. While negotiations with the FOP did not result in a successor contract being reached before the then-current contract expired, and the parties were prepared to move forward with interest arbitration, they eventually reached an agreement between themselves in March 2017. That agreement has since been executed and ratified by the FOP membership and City Council has passed a resolution approving its terms (the “2017 FOP CBA”).

By way of background, in 2013, the FOP had agreed to a wage freeze during the years 2013 and 2014, followed by 1% raises in the years 2015 and 2016. The 2017 FOP CBA provides

⁵ Pending City Council approval.

for a 1% increase in base salary in each year from 2017 through 2020. The 2017 FOP CBA also provides for longevity pay at the rate of 1% of the employee's base pay for each year of service after the employee's third year, up to a maximum of 13% for eligible employees; however, employees hired after January 1, 2013 are not eligible for longevity pay.

B. AFSCME

While negotiations with AFSCME started more slowly in the fourth quarter of 2016, the City quickly reached a successor agreement with that union as well (the "2017 AFSCME CBA"). On January 10, 2017, City Council passed a resolution approving the terms of a CBA with AFSCME to cover the years 2017 and 2018; however, at this juncture, the parties do not yet have an executed version of the final contract. Execution of the CBA was stalled originally because the parties required a study from the Pennsylvania Municipal Retirement System ("PMRS") regarding the actuarial information on the impact of certain provisions in the new CBA. Thereafter, typographical errors were identified in that final contract, which has further delayed execution. Nonetheless, the City has already implemented all other aspects of the CBA as amended and hopes that it will have a contract executed in short order.

By way of background, in its prior CBA, AFSCME agreed to freeze wages in 2013 and 2014, followed by 1% increases in base salary for the years 2015 and 2016. The 2017 AFSCME CBA provides for 1% increases in base salary in 2017 and 2018 as well as lump sum payments of \$1,000.00 per year per employee. The 2017 AFSCME CBA permits employees hired before September 16, 2013 to continue receive longevity pay at frozen rates; however, employees hired on or after September 16, 2013 will not be eligible for longevity pay.

C. IAFF

Meanwhile, the CBA with the IAFF expired on December 31, 2017. The City and IAFF reached an agreement for a successor CBA as a result of negotiations (the "Tentative IAFF CBA"). IAFF ratified the terms of this agreement on or about February 8, 2018. After the agreed-upon terms are integrated into a new CBA, it will be presented to City Council to vote to approve it.

By way of background, IAFF had agreed to a wage freeze for its members in 2013 and 2014, followed by a 1% raise in 2015 and 2016, and a 2% raise in 2017. Additionally, employees receive longevity pay at the rate of 1% of the employee’s base pay for each year of service after the employee’s third year, up to a maximum of 13%; however, employees hired on or after April 7, 2014 will not be eligible for longevity pay. The Tentative IAFF CBA provides for 2% increases in base salary in each year from 2018 through 2022.

In addition to salary and longevity pay, the City provides other forms of cash compensation in the form of shift differentials, holiday premium pay, unused sick leave, overtime, and premium pay. The following chart, based on the Bureau of Labor Statistics’ National Compensation Survey from March 2017, demonstrates that the City of Harrisburg’s paid leave benefits remain more generous than private sector norms and are competitive with those of other state and local governments.

| Employee Group | Annual Holidays | Personal Leave | Vacation after 1 year | Vacation after 5 years | Vacation after 10 | Vacation after 20 years |
|-----------------------------------|------------------------|-----------------------|---|---|--|---|
| AFSCME 7.5 hours/day | 13 days per year | 3 days per year | 6.88 hours per month <i>6.88 hours per month</i> | 10.63 hours per month <i>10.63 hours per month</i> | 15 hours per month <i>13.74 hours per month</i> | 18.75 hours per month <i>13.74 hours per month</i> |
| AFSCME 8-12 hours/day | 13 days per year | 3 days per year | 7.34 hours per month <i>7.34 hours per month</i> | 11.34 hours per month <i>11.34 hours per month</i> | 16 hours per month <i>14.67 hours per month</i> | 20 hours per month <i>14.67 hours per month</i> |
| FOP | 14 days per year | 3 days per year | 16 days per year | 19 days per year | 22 days per year | 30 days per year <i>(22) days per year</i> |
| IAFF | 11 days per year | 1 days per year | 12 days per year <i>(8) days per year</i> | 16 days per year <i>(12) days per year</i> | 16 days per year <i>(12) days per year</i> | 20 days per year <i>(16) days per year</i> |
| Private Sector Median | 7 days per year | n/a | 10 days per year | 15 days per year | 15 days per year | 20 days per year |
| State and Local Government Median | 11 days per year | n/a | 12 days per year | 15 days per year | 18 days per year | 22 days per year |

Numbers in italics apply to those union employees hired after the date of the ratification of collective bargaining agreement amendments negotiated after the City entered into Act 47.

Further, as a result of those negotiated amendments, all AFSCME, FOP, and IAFF employees were moved to the Basic Health Plan that, previously, had only been mandatory for non-represented City employees, providing an additional avenue for cost savings. In addition, all of the unions agreed to begin to have their members contribute towards the cost of health care premiums, as set forth below.

| FOP | |
|---------------------------|--|
| Tier of Coverage | Percentage of base salary effective 2017-2020 |
| Single coverage | 2.5% |
| 2 person coverage | 4.5% |
| 3 person coverage | 5.5% |
| 4 or more person coverage | 6.5% |
| AFSCME | |
| Tier of Coverage | Percentage of base salary effective 2017-2020 |
| Single coverage | 2.0% |
| 2 person coverage | 4.0% |
| 3 person coverage | 5.0% |
| 4 or more person coverage | 6.0% |

Beginning February 1, 2014, IAFF employees began contributing towards the premium costs of 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.

In addition to health care offered for active employees, the City also provides for certain post-retirement health benefits for its represented employees. Although the City could not change the plan design for employees who had already retired as of the date of the amendments, all of the bargaining units agreed to change entitlements with respect to active employees and future (yet-to-be-hired) employees. All units agreed that future employees of the City (who had yet to be hired) would not be entitled to receive post-retirement health care at the City's cost. As to benefits provided to active employees upon their eventual retirement, all units also agreed that the coverages would be provided at levels that are the same as active employees, and that such retiree

coverages may be modified from time to time if similarly modified for active employees. All units also agreed that retirees would contribute a portion of their pension towards the premium costs for healthcare coverage, though the IAFF carved out this obligation with respect to certain active employees.

Since the revised plan was confirmed in 2016, the City prevailed in a grievance proceeding that could have potentially adversely impacted the budget for years to come. On August 19, 2016, an arbitrator denied the IAFF's class action grievance on behalf of a group of firefighters who entered the Fire Academy in March 2014 but did not graduate and become members of the Fire Bureau until June 2014. The IAFF alleged that the City breached the CBA by denying certain vacation benefits to this new group of firefighters based on the amendment to the CBA ratified by City Council in April 2014 – while these firefighters were still cadets in training. The IAFF alleged that this group should have received vacation benefits consistent with those in effect prior to April 2014, since they were “employees” of the City as of March 2014 when they received their conditional appointment letters and began their training. The City disagreed, asserting that the cadets, even though they were City employees receiving some wages and benefits, were not qualified to be firefighters at the time of the April 2014 amendment and, therefore, were not members of the Fire Bureau afforded the benefits existing under the then-current collective bargaining agreement. The City also argued that, prior to ratification by City Council, the IAFF and the City all understood that this new group of firefighters would not be eligible for benefits under the then-existing scheme and would be given a reduced level of benefits following graduation. The arbitrator agreed with the City's position, finding that the term “employees” in the CBA and its April 2014 Amendment did not include the cadets who were in training at the time of the amendment, as they did not become “employees” for the purposes of the CBA until after they graduated from the Fire Academy in June 2014 and were appointed as probationary firefighters. The time for appeal of this award has long since expired, so this decision is now final. The Coordinator is extraordinarily pleased with this outcome, since an adverse result could have spiraled into providing a series of additional expensive benefits for this newer group of firefighters, which would have put further strain on the City's ability to implement a balanced budget.

OTHER POST EMPLOYMENT BENEFITS

Harrisburg OPEB Trust Fund

Prior to the adoption of the contract amendments with the three collective bargaining units, the City provided post-retirement health care benefits to all employees. The actuarial report delivered at the beginning of 2013 estimated that the City had an unfunded accrued actuarial liability relating to these benefits of more than \$177 million. Taking into account some of the contract provisions that were both administratively expensive and added to this unfunded liability of the City, some of the contract amendments were tailored to reduce both the stress on the administration and cost of the benefits. As of January 1, 2014, the City's unfunded accrued actuarial liability for post-retirement health care benefits was reduced to \$133,006,585 (approximately \$44 million less than reported prior to consummation of the Strong Plan). Further, this benefit has now been eliminated for all employees hired after the adoption date of the respective collective bargaining agreement amendments and as well as for non-represented employees hired after September 18, 2013. The benefits to the City's General Fund budget will take some time to be realized and, in the interim, the City should carefully manage this liability.

Employees who were hired prior to the amendments, as well as current retirees, are still entitled to post-retirement health care benefits. As of January 1, 2016, the unfunded accrued actuarial liability rose again, up to \$155,120,287. Accordingly, the City should monitor and take steps necessary to control both the annual required contribution and the unfunded accrued actuarial liability in order to reduce pressure on the General Fund to pay the benefits included in the liability.

PENSIONS

Based on the Comprehensive Annual Financial Report of the City of Harrisburg for the year ended December 31, 2014 and the Certification of the City of Harrisburg's Minimum Municipal Obligation ("MMO") under Act 205 of 1984 for 2016, the City was required to pay a net amount of approximately \$1 million, after receipt of aid from the Commonwealth, to satisfy its obligations with respect to the Combined Police Officers' Pension Plan (the "Police Plan"), the Combined Non-Uniformed Employees' Pension Plan (the "Non-Uniformed Plan") and Combined

Firefighters' Pension Plan (the "Firefighters Plan") (collectively, the "Pension Plans").

The modifications to the funding of the Pension Plans on account of changes regarding the Pension Plans in the most recent amendments to the respective collective bargaining agreements may impact the City's financial obligations. In particular, collectively bargained changes may affect the City's progress in reducing the underfunding of the Police Plan, which is a single-employer pension plan controlled by an independent board of trustees. Diligent efforts should be undertaken to monitor the Police Plan's funded status and reduce the potential for increased underfunding of the Police Plan. The Non-Uniformed Plan (for AFSCME employees) and the Firefighters' Plan, both of which are part of the Pennsylvania Municipal Retirement System (PMRS), are presently fully funded. However, the funded status of the Non-Uniformed Plan and Firefighters' Plan should also be carefully monitored to ensure that they remain fully funded to reduce the likelihood of materially increased future calculations by the City.

Actuarial assumptions for Non-Uniformed and Firefighters' Plans are set by PMRS and use a return on investment ("ROI") of 5.5% and wage growth of 4.1%. The Police Plan, which is locally administered, uses an ROI of 8% and wage growth of 5%. For 2015, the Police Plan had an ROI of 1.01%, which is 7% below the actuarial assumed rate. For 2016, the Police Plan had an ROI of 6.08%, which is 2% below the actuarial assumed rate. Given this disparity, the City may, as a long-term goal, seek to move the Police Pension Fund to PMRS. While doing so would require an additional initial cash infusion or cause a significant impact on the annual payment of MMO, it would allow the City to address the growing disparity between the 8% actuarial assumption and the actual ROI – which disparity is likely to continue to grow if not addressed.

The following chart demonstrates the unfunded liability of the Police Plan in comparison to the Firefighters' Plan and the Non-Uniformed Plan:

| Non-Uniformed | Jan-09 | Jan-11 | Jan-13 | Jan-15 | Jan-17 |
|----------------------|----------------|----------------|----------------|----------------|---------------|
| Active Members | 307 | 270 | 229 | 145 | 189 |
| Retired Members | | | 179 | 216 | 213 |
| Unfunded Liability | (\$19,077,693) | (\$21,568,647) | (\$21,788,396) | (\$15,860,225) | (\$9,368,867) |
| Fund Ratio | 135% | 139% | 136% | 126% | 116% |
| IAFF | Jan-09 | Jan-11 | Jan-13 | Jan-15 | Jan-17 |
| Active Members | 93 | 83 | 72 | 75 | 72 |
| Retired Members | | | 123 | 134 | 135 |
| Unfunded Liability | (\$12,009,756) | (\$13,201,626) | (\$10,008,099) | (\$8,924,323) | (\$1,918,068) |
| Fund Ratio | 123% | 124% | 116% | 114% | 103% |
| FOP | Jan-09 | Jan-11 | Jan-13 | Jan-15 | Jan-17 |
| Active Members | 161 | 165 | 146 | 139 | 139 |
| Retired Members | | | 176 | 201 | 201 |
| Unfunded Liability | \$1,992,355 | \$8,543,570 | \$13,526,580 | \$8,529,789 | \$17,860,075 |
| Fund Ratio | 97% | 88% | 83% | 89% | 81% |

INITIATIVES

As with many municipal governments, workforce expenditures represent the majority of the City’s general fund expenditures. Restoration of Harrisburg’s financial health is dependent upon controlling workforce compensation. The initiatives outlined below are intended to move the City toward a more stable and balanced budget so that the City can focus on improving the City’s financial recovery, rather than merely limping on as a struggling municipality.

As a result of a Pennsylvania Supreme Court decision involving collective bargaining and interest arbitration issues in Scranton, significant amendments were made to Act 47, commonly referred to as the Act 133 Amendments of 2012 (“Act 133 Amendments”). As amended, Act 47 now requires the coordinator to project revenues and expenditures for the current and next three fiscal years and develop a capped amount for each city bargaining unit to be available for total compensation for employees in that unit. For that reason, this Plan separates the costs related to each of the City’s collective bargaining units included in the overall cost projections in the Plan so that each bargaining unit can have an active role in collectively bargaining for those terms of compensation that are most important to the employees in such unit. With limited exceptions, arbitration awards under Act 111 are subject to this amendment of Act 47 and preclude arbitrators from imposing financial terms on the City that would require it to pay overall compensation to its employees that exceeds the amounts set forth in this Plan. Although the Act 133 Amendments had

been passed prior to the filing of the Strong Plan, the City was not able to impose those obligations on the bargaining units because none of their contracts had yet expired. However, those unit caps were imposed during collective bargaining negotiations for contracts to take effect in 2017 and thereafter.

WF1. Maximum Compensation Allocations and Costing Analysis.

Pursuant to the Act 133 Amendments, this Plan will set the maximum amounts of funds that are available to each bargaining unit and non-represented employees for each of the next three years. The maximum expenditures for each employee group show the “baseline” costs – prior to any adjustments through upcoming negotiations or arbitration – as well as any allowances for collective bargaining. Compensation components impacted by negotiations include, but are not limited to: wages/salaries, longevity, shift pay, special assignment pay, other cash premiums and bonuses, applicable payroll taxes, vacation, holidays, paid leave, active employee health care, active employee life insurance, and other miscellaneous fringe benefits. Included in the maximum allocations for each year are the costs carried forward from recurring increases in prior contract years.

Projected costs for the FOP unit are set forth in the chart below. These projections are based on the current CBA that is in place, assuming a 2% wage increase for the year 2021 – since that is beyond the duration of the 2017 FOP CBA. Further, the projections for extra duty, overtime, sick leave buyback and severance are based on a 2% increase in base pay and anticipated step movement. The projections for the uniform allowance are based on a cost of \$625 per employee for 3 years, and there is no estimated increase in this cost. The total medical costs are limited to a 6% increase.

| FOP | 2018 | 2019 | 2020 | 2021 |
|------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | <u>Estimated</u> | <u>Projected</u> | <u>Projected</u> | <u>Projected</u> |
| Salary & Wages | 10,025,536 | 10,233,617 | 10,515,379 | 10,874,434 |
| Signing Bonus | 199,500 | 200,000 | 200,000 | 200,000 |
| Extra Duty | 769,502 | 785,473 | 807,099 | 834,658 |
| Overtime | 568,500 | 580,299 | 596,277 | 616,637 |
| Sick Leave Buy | 79,998 | 81,658 | 83,906 | 86,771 |
| Back | | | | |
| Severance | <u>210,000</u> | <u>214,359</u> | <u>220,260</u> | <u>227,781</u> |
| Total | 11,853,036 | 12,095,406 | 12,422,922 | 12,840,282 |
| FICA | 171,869 | 175,383 | 180,132 | 186,184 |
| Medical | 2,246,410 | 2,381,195 | 2,524,066 | 2,675,510 |
| Uniform | <u>73,375</u> | <u>73,375</u> | <u>73,375</u> | <u>73,375</u> |
| Total FOP | 14,344,690 | 14,725,359 | 15,200,496 | 15,775,351 |

Projected costs for the IAFF unit are set forth in the chart below. These projections are based on the Tentative IAFF CBA to which the parties have agreed. Pursuant to the Tentative IAFF CBA, employees will receive a base wage increase of 2% each year for 2018 through 2022. Longevity projections have been calculated pursuant to the rates agreed to in the collective bargaining agreement, which is an increase of 1% of base pay for every year of service over three (3) years, up to a maximum of 13%. The increases shown for premium pay is based on the anticipated increase in base salary per year. There is no estimated increase in overtime, sick leave buy-back, severance, clothing allowance, clothing maintenance allowance, or college credits so the projected increase in base salary rates may have to be adjusted if there is to be any changes to these items. The total medical costs are limited to a 6% increase.

| IAFF | 2018 | 2019 | 2020 | 2021 |
|-------------------|------------------|------------------|------------------|------------------|
| | <u>Estimated</u> | <u>Projected</u> | <u>Projected</u> | <u>Projected</u> |
| Salary & Wages | 4,793,947 | 4,922,675 | 5,054,213 | 5,214,506 |
| Overtime | 675,000 | 675,000 | 675,000 | 675,000 |
| Premium | 355,000 | 362,100 | 369,342 | 376,729 |
| Sick Leave Buy | 150,000 | 150,000 | 150,000 | 150,000 |
| Back | | | | |
| Severance | <u>110,000</u> | <u>110,000</u> | <u>110,000</u> | <u>110,000</u> |
| Total | 6,083,947 | 6,219,775 | 6,358,555 | 6,526,235 |
| FICA | 88,217 | 90,187 | 92,199 | 94,630 |
| Medical | 1,411,601 | 1,496,297 | 1,586,075 | 1,681,240 |
| Uniform | <u>96,050</u> | <u>96,050</u> | <u>96,050</u> | <u>96,050</u> |
| Total IAFF | 7,679,815 | 7,902,309 | 8,132,879 | 8,398,155 |

Projected costs for the AFSCME unit are set forth in the chart below. These projections are based on the 2017 AFSCME CBA currently in place, assuming a 2% wage increase for the years beyond its term. These projections are based on longevity being frozen at current rates for those employees receiving longevity payments. The increases shown for social security are based on the anticipated increase in base salary per year and are calculated at 7.65% of wages. There is no estimated increase in overtime, sick leave buy-back, or clothing allowance, so the projected increase in base salary rates may have to be adjusted if there is to be any changes to these items. The total medical costs are limited to a 6% increase based on what we anticipate will be reflected in any successor AFSCME collective bargaining agreement.

| AFSCME | 2018 | 2019 | 2020 | 2021 |
|---------------------|------------------|------------------|------------------|------------------|
| | <u>Estimated</u> | <u>Projected</u> | <u>Projected</u> | <u>Projected</u> |
| Salary & Wages | 4,939,232 | 5,038,016 | 5,138,777 | 5,241,552 |
| Signing Bonus | 112,650 | 80,500 | 23,500 | 0 |
| Overtime | 321,000 | 318,000 | 318,000 | 318,000 |
| FICA | 409,414 | 414,263 | 417,597 | 423,638 |
| Medical | 1,564,833 | 1,658,723 | 1,758,246 | 1,863,741 |
| Uniform | <u>40,000</u> | <u>42,400</u> | <u>44,944</u> | <u>47,641</u> |
| Total AFSCME | 7,387,128 | 7,551,902 | 7,701,064 | 7,894,572 |

For those employees represented by a union, the City and the respective bargaining units may agree to spend the allocation on various compensation components so long as they mutually

determine that such an allocation is appropriate. This is subject to the specific limitations laid out in this Exit Plan. The City and the unions shall not exceed the annual allocations in the above charts. The City shall avoid any compensation adjustments that result in disproportionate long-term costs.

The City must ensure that future collective bargaining agreements continue to remain compliant with the Exit Plan. To that end, no person or entity, including (without limitation) the City, any union representing City employees and any arbitrator appointed pursuant to Act 111 or otherwise, shall continue in effect past the stated expiration date of any current labor agreement the wages, benefits or other terms and conditions of the existing labor agreement if such wages, benefits or other terms or conditions are inconsistent with the initiatives made in this Exit Plan.

If any existing collective bargaining agreements and/or amendments or extensions are void or voidable, no person or entity, including (without limitation) the City, any union representing City employees and any arbitrator appointed pursuant to Act 111 or otherwise, shall continue in effect past the stated original expiration date of the prior collective bargaining agreement the wages, benefits or other terms and conditions of the prior existing labor agreement if such wages, benefits or other terms or conditions are inconsistent with the initiatives made in this Exit Plan.

All collective bargaining agreements, interest arbitration awards, settlements, memoranda and agreements of any kind issued or entered into after the approval of this Exit Plan must be effective at the earliest possible date, and no later than the expiration of the then-current and legally binding collective bargaining agreements and interest arbitration awards. This shall apply even if the agreement is entered into or the arbitration award is executed subsequent to the effective dates, thus requiring that the agreements or awards be retroactive. No collective bargaining agreements, interest arbitration awards, settlements, memoranda and agreements of any kind issued or entered into after the approval of the Plan may extend the current expiration dates of the existing agreements and awards, nor the expiration dates of the prior unextended and unamended agreements and awards if such extensions are void or voidable.

Prior to the expiration of any of the collective bargaining agreements, the City shall take steps to promptly bargain new collective bargaining agreements with each of these units and shall

follow all time limits for interest arbitration so that any interest arbitration award shall be issued prior to the expiration of the collective bargaining agreement. This shall also equally apply if any or all of the existing amendments to the collective bargaining agreements are void or voidable. The timelines contained in Act 111 shall be adhered to strictly and may not be waived. If an arbitration award is not issued prior to the expiration of the collective bargaining agreement, then the City shall implement all of the provisions and initiatives of the Plan to the maximum extent legally consistent with applicable law.

Unless and until this Exit Plan is confirmed, any new labor agreement between the City and any union representing City employees (whether resulting from collective bargaining, interest arbitration pursuant to Act 111 or otherwise) must comport with the Initiatives set forth in the Amended Strong Plan, without regard to the period of agreement specified in any such Initiative. Once this Exit Plan is confirmed, any new labor agreement between the City and any union representing City employees must comport with the Initiatives as set out in this Exit Plan.

For any proposed changes to the Compensation Components in place at the expiration of the current collective bargaining agreement or any new Compensation Components proposed, the City shall conduct a full cost analysis of those changes for each year of the proposed collective bargaining agreement (or annually for non-represented employees) to determine and assure that the maximum allocations shown above are not exceeded. The City shall provide the full cost analysis information to the Act 47 Coordinator in form and content acceptable to the Coordinator as soon as possible for the Coordinators' review and approval. If the Act 47 Coordinator determines that the proposals exceed the maximum allocated amounts, the proposals shall be returned to the bargaining units or employees and the City for modification. The Act 47 Coordinator will not approve any cost analysis if the Coordinator determines that inadequate information is provided to verify the cost analysis or if the analysis is not provided in a timely manner. The intent of this provision is that the Act 47 Coordinator is the final decision maker as to the cost of any proposed change to a compensation component, whether those proposed changes occur during labor agreement negotiations or during arbitration of any such agreement or at any other time.

In providing this costing analysis the City shall include the following information for each Compensation Component for which there is a proposed change, or any new Compensation Component proposed:

- Current rate, formula, leave allocation structure, or other standards that are in place for that Component and the proposed changes to the Component.
- Number of employees in the bargaining unit who currently receive the Component, those who will become eligible for the Component during the term of the agreement under the status quo and those who would become eligible for the Component during the term of the agreement under the proposed change (*e.g.*, X employees receive shift differential in 2018, Y will receive shift differential in 2019 under the status quo, Z will receive shift differential in 2019 under the proposed change). This data should be provided on an annual basis for each year of the collective bargaining agreement where appropriate.
- Average salary of the employees who currently receive the Component and the average salary of the employees who would receive that Component under the proposal. This information shall be provided at the bargaining unit, position or whatever other level of detail is appropriate to the proposed change.
- The number of hours per shift and, if applicable, shifts per 24-hour period.
- Any applicable minimum staffing requirements or assumptions. If the proposed change affects overtime, the costing shall include an estimate on how the proposed change will impact overtime.
- Actuarial analysis, as applicable, of any modifications to retiree benefits.
-

The above list is provided to guide the City in providing adequate costing analysis and is not a comprehensive list of the information that the Act 47 Coordinators may request to verify costing analysis. All items may not apply depending on the change proposed. If the City does not provide additional information requested by the Coordinators, the Coordinators reserve the right to return the analysis for modification.

WF2. Retain Experienced Public Labor Relations Counsel to Negotiate with Unions and/or timely Initiate Process to Pursue Interest Arbitration.

Throughout the period in which this Exit Plan is in effect (as well as during all periods prior to the confirmation of this Exit Plan), the City shall retain and continue to retain experienced public employment labor counsel to negotiate successor collective bargaining agreements to take effect following the expiration of the collective bargaining agreements. The City shall select and use qualified counsel as an active participant in the review and development of negotiations and as the chief spokesperson for all contract negotiations and interest arbitrations.

Having an experienced public employment labor counsel will allow the City to address past practices that unnecessarily increase the cost of operations and are permissive subjects of bargaining. After ascertaining such past practices, the City shall provide a list of such practices to the Act 47 coordinator prior to the initiation of collective bargaining negotiations with each union.

The City shall make every good faith effort to achieve negotiated labor agreements consistent with this Exit Plan (or, pending confirmation of this Exit Plan, the Amended Strong Plan). If negotiations do not result new agreements with one or more of the three unions, then counsel shall initiate the process to pursue interest arbitration in a timely manner with respect to the units where an agreement could not be reached.

WF3. Establish and Participate in Labor-Management Committee Meetings for Each Bargaining Unit.

Experienced public labor relations counsel should also be engaged to facilitate developing a plan and schedule for joint labor-management committee meetings for each of the bargaining units. The purpose of such meetings would be to identify issues, problems and grievances within the respective unit and identify potential solutions that can be reached through collaboration. The committees could also be used to identify new services for the City to offer, improved methodologies for delivery of services, and creative cost-savings opportunities for the City to consider, such as the use of volunteers or non-City workers as may be appropriate. This practice of regular meetings between labor and management for each unit should improve morale and

communication within the unit while also reducing the filing of formal grievances and arbitrations – the latter of which results in an overall cost savings for the City.

WF4. Monitor Pension Plan Funding and Take Steps to Avoid Underfunding Issues.

While the Pension Plans for IAFF and AFSCME employees are fully funded at present, the City should take steps to monitor its practices to ensure funding levels continue to be sufficient for projected retirees. Because the Pension Plan for the FOP is presently underfunded, the City should take steps to address this underfunding through regular monitoring, ensuring consistent and timely contributions are being made, and taking proactive steps to reduce the underfunding levels. In connection with this Initiative, and those set forth elsewhere in this revised Plan, collective bargaining agreements entered into with the City’s unions must not provide any enhancements to or increase the level of pension benefits to future retirees.

WF5. Affordable Care Act Study.

The ongoing implementation of the Patient Protection and Affordable Care Act (“ACA”) may likely create both challenges and opportunities for the City in the future. Beginning in 2022, the ACA is expected to impose a 40 percent excise tax on the value of health insurance benefits exceeding certain thresholds – often referred to as the “Cadillac tax.” The current threshold estimates are \$10,200 for individual premiums and \$27,500 for family premiums, and both will be indexed to inflation. The thresholds will likely be higher for plans covering high-risk professions such as police and firefighters, and employers will not be able to pass the excise tax along to employees.

The creation of healthcare exchanges to provide greater access to coverage may provide opportunities to develop alternative, more affordable approaches for retiree healthcare for those Harrisburg employees still eligible during the years prior to Medicare coverage. For example, some employers are moving toward a stipend approach that better aligns with the Federal program.

Given the above and other potential impacts, it will be important for the City to actively study the projected impacts and potential opportunities created by the ACA, as it has already

begun. This will likely require expert support and would also benefit from early and active labor-management communications and collaboration.

WF6. Establish the OPEB Trust Fund and Provide Subsequent Funding to The Extent Possible Through Funds Received as A Result of The Pursuit of The Forensic Claims, from the Harrisburg Supplemental Growth Fund with Respect to The Escrow Agreement Between the City, AGM And Dauphin County and to the Extent Funds Are Available from The City's Budget.

The Strong Plan and Amended Strong Plan provided for the establishment of an OPEB Trust Fund after plan consummation. The City is currently working with counsel and other professionals to draft the documents necessary to establish the OPEB Trust. The City shall continue to proceed with those actions required to establish the OPEB Trust Fund and to see that the funds provided are transferred to the Trust Fund and invested pursuant to the Trust Fund's investment policy. The City is encouraged to annually contribute towards reducing its unfunded actuarial accrued liability for OPEB, in addition to any amounts that may be transferred to the OPEB Trust Fund from the Harrisburg Supplemental Growth Fund under provisions of the Escrow Agreement and/or pursuit of forensic claims.

Although prefunding the OPEB Trust will result in higher initial costs than if the City continues each year to only pay its current OPEB liabilities on a "pay-as-you-go" basis, the additional contributions will yield significant cash flow savings in later years, better secure funding of OPEB liabilities for current and future retirees and lower the burden that increased OPEB liabilities will have on future taxpayers.

WF7. Limit Enhancements to OPEB in Future Collective Bargaining Negotiations.

In the negotiations with the City's three unions that took place after the City entered Act 47, all unions agreed that future employees (defined as those employees hired after the ratification of the respective collective bargaining agreement amendments) of each bargaining unit would not be entitled to post-retirement health care provided by the City. This freeze of post-employment benefits for future employees helps to curb costs and places the City in a more financially stable position moving forward, given that it limits uncertain future liabilities. Fortunately, all three units

have continued to freeze the availability of post-employment benefits in each of their successor contracts entered in 2017 and 2018.

Therefore, unless the City is required by law to change any wages, benefits, terms, provisions, or conditions enumerated here in, all new collective bargaining agreements (which phrase shall include but not be limited to new agreements, extensions, amendments, side agreements, memoranda of understanding and settlements) between the City and the unions representing its employees (whether resulting from collective bargaining between the parties or interest arbitration pursuant to Act 111 as applicable or otherwise) covering calendar years 2018 through 2021 and subsequent years (or any portion thereof) **must not** contain, require or provide for (1) any new benefits for retirees or other inactive employees (*e.g.*, those in layoff or disability status), or (2) any improvements in existing benefits for retirees or other inactive employees, nor the continuation of existing benefits that were modified by the Strong Plan or the Amended Strong Plan.

CHAPTER SEVEN

CONCLUSION

ACHIEVING BALANCED GENERAL FUND BUDGETS 2018 – 2021

It was the Coordinator's finding in the Financial Condition Report that the City made noteworthy progress addressing the issues that lead to the City's financial distress determination. Since the determination that the City was financially distressed, the City has resolved its oppressive debt burden, ended the string of consecutive years with growing structural deficits and with the help of the extraordinary taxing authority provided by Act 47 in the Strong Plan, it has accumulated a cash reserve while also improving day-today financial and operational management. However, the City's tax base remains limited while the City continues to confront increasing costs related to its collective bargaining contracts, increasing costs for materials and supplies and the long-term burden of legacy cost obligations all of which hinders the City's ability to achieve long-term financial sustainability. In fact, the Coordinator's baseline General Fund projections illustrate that the City will incur General Fund operating budget deficits through 2021. Therefore, the Coordinator recommended that a three-year Exit plan be prepared for the City that will include a strategy designed to place the City in a position to terminate its Act 47 financial distress status at the end of the three-year Exit Plan and situate the City on a long-term path of financial sustainability.

As mentioned in the Baseline General Fund Projection chapter, the City will receive more than \$11.0 million in 2018 from the extraordinary taxing authority provided under Act 47. However, at the end of this three-year Exit Plan - in the absence of a legislative change or change in Home Rule Amendments- the City will no longer have at its disposal this extraordinary taxing authority. The City will be required to revert to the tax rate limits contained in the Local Tax Enabling Act for its earned income tax and the local service tax. Thus, the City will need to replace the revenue produced pursuant to Act 47.

At the time of composing this Exit Plan, the most viable and stable revenue source available to the City to replace the extraordinary tax revenue provided by Act 47 is the City real estate tax millage as authorized under the Third-Class City Code. To replace the extraordinary tax revenue under Act 47, *solely* with increased real estate tax millage, the Coordinator estimates that—absent any future legislative revenue authorizations, an adoption of a Home Rule Charter form of City

government or a significant reduction in the municipal services provided to its citizens — the City would have to increase its real estate tax millage significantly. This revenue, coupled with expense reductions, is vital to the City’s ongoing operations and to eliminating the projected General Fund operating deficits reflected below. To assist the City in managing this transition, the Coordinator is recommending that the City gradually restructure its tax revenue sources by gradually decreasing its earned income tax rate and local services tax rate over the Exit Plan’s three-year term while concurrently increasing its real estate tax millage rate to provide sufficient revenue to eliminate each fiscal year’s projected operating deficit. To ameliorate the impact of the recommended property tax increases the Coordinator is also recommending that the City apply a portion of its General Fund balance to reduce the projected operating deficit in each fiscal year. **The potential exists for tempering the use of fund balance and the recommended real estate tax increases through the City’s active implementation of the numerous initiatives contained in this Exit Plan and the City’s continued diligence in monitoring future expenditures.**

**General Fund Balanced Budgets ⁶
2018-2021**

| | Estimated 2018 | Projected 2019 | Projected 2020 | Projected 2021 |
|--|-------------------|-------------------|-------------------|-------------------|
| Revenue | 66,178,746 | 66,222,684 | 66,790,702 | 67,174,799 |
| Expenditures | <u>71,370,483</u> | <u>69,002,883</u> | <u>68,884,855</u> | <u>70,427,924</u> |
| Surplus/(Deficit) | -5,191,737 | -2,780,199 | -2,094,154 | -3,253,125 |
| Reduce Earned Income Tax Rate | 0 | -3,996,324 | -8,072,575 | -8,153,301 |
| Reduce Local Services Tax | 0 | 0 | -2,351,700 | -4,703,400 |
| Reimbursement Expense/Encumbrance | 0 | 700,000 | 0 | 0 |
| Reduce/Eliminate Capital Spend/Other Exp. | 1,500,000 | TBD | TBD | TBD |
| Current Year RE Tax Increase | 0 | 3,024,380 | 3,629,256 | 8,710,215 |
| Cumulative Prior RE Tax Increases | 0 | 0 | 3,024,380 | 6,653,637 |
| Deficit Reduction and/or Use of Fund Balance | <u>3,691,737</u> | <u>3,052,143</u> | <u>5,864,792</u> | <u>745,974</u> |
| Net Surplus/(Deficit) | 0 | 0 | 0 | 0 |
| Real Estate Tax Revenue | 15,121,901 | 18,146,281 | 21,775,538 | 30,485,753 |

⁶ The potential for tempering the use of fund balance and the recommended real estate tax millage increases exists through the City’s active implementation of the numerous initiatives contained in this Exit Plan and the City’s continued diligence in monitoring future expenditures.

The City's employment of this restructuring strategy will eliminate the projected General Fund operating budget deficits and will position the City to terminate its distressed status in 2021.

Deficit Elimination

DE1. Increase Real Estate Tax Mills to Offset Act 47 Extraordinary Tax Rate Reduction.

The City will lose its authorization for increased rates of tax on earned income and the local services tax in September 2021. Accordingly, the City shall begin to reduce the rates of earned income by 0.5 percent starting in 2019, another 0.5 percent in 2020 and levy the maximum Act 511 rate in 2021. The City shall begin to reduce the Local Services Tax rate by \$52 in 2020 and by an additional \$52 in 2021 so that the Act 511 maximum rate of \$52 shall be in effect for fiscal year 2021. The Coordinator estimates that these actions will reduce the City's tax revenue by approximately \$11.5 million by the beginning of fiscal year 2021. The Coordinator has included initiatives and expenditure controls as appropriate throughout this Exit Plan with the intended goal of reducing the amount of real estate tax increases necessary to replace this lost revenue. To the extent that the Exit Plan's revenue and expenditure initiatives are not accomplished or are insufficient to eliminate the City's projected annual budget deficits, the City shall increase the Real Estate tax millage to offset any remaining deficits. The Coordinator is aware that raising additional revenue through higher tax rates needs to be considered in the context of the impact it may have on economic drivers, business location decision makers, policy makers and, of course, residents. Both short-term and long-term consequences need to be considered. This is particularly true as businesses and other investors consider locations for future expansion and growth. However, if the City is unable to provide vital and necessary services due to structural budget deficits and chronic cash shortages such a situation will have a greater economic consequence in the long run for residents as well as the Capital Region.

DE2. Use of Fund Balance.

The City ended 2017 with \$20.9 million in cash in the General Fund and current estimates show the City will end 2018 with over \$17 million in cash in the General Fund. As the City weans itself off the extraordinary tax revenue afforded by Act 47, the City may use a portion of its General Fund cash balance to cover expenditures, tempering the necessary real estate tax increases during

each of next three fiscal years. The City should also use a portion of the General Fund balance to reduce its debt obligations in accordance with initiatives presented elsewhere in this Exit Plan; provided that in doing so it achieves sufficient expense reductions that further facilitate long-term fiscal stability. To the extent that the City, in consultation with the Coordinator, determines that there is an appropriate benefit to the City of using the General Fund balance for debt service savings and long-term debt obligation reduction, then the impact of such a transaction may require a revision to the real estate tax increases shown in the table above. However, regardless of the purpose of General Fund balance utilization, it is the Coordinator’s recommendation the General Fund balance at year end shall be maintained at a level at least equal to eight percent of anticipated fiscal year expenditures throughout the period of this Exit Plan.

**Estimated and Projected General Fund Balance and Use
Beginning of Year and End of Year
2018 – 2021**

| | Estimated 2018 | Projected 2019 | Projected 2020 | Projected 2021 |
|---------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Cash Balance BOY | 20,980,423 | 17,288,686 | 13,105,339 | 8,669,775 |
| Use of Fund Balance | -3,691,737 | -3,052,143 | -5,864,792 | -745,974 |
| Cash Balance EOY | 17,288,686 | 14,236,543 | 7,240,547 | 7,923,801 |

DE3. Expenditure Reductions through Implementation of Exit Plan Initiatives.

The City shall consider the implementation of the expenditure reduction initiatives outlined elsewhere in this Exit Plan. Continuous monitoring and evaluation of workforce, departmental and capital expenditures is imperative to temper the necessary real estate tax increases.

DE4. Consider Forming a Government Study Commission to Study the City’s Current Form of Government.

The City is currently governed under the Third-Class City Code and Optional Third-Class City Charter Law and is therefore subject to limits on the rate of taxation on property included in the City Code. The City is also subject to other tax rate limits imposed on earned income, realty transfer, and other taxes levied pursuant to the Local Tax Enabling Act. Under Act 47, the City was enabled to exceed the LTEA tax rate limits on earned income and the local services tax. However, this legal authority to exceed these tax rate limits is only available to the City while it is

in the Act 47 program. When the City's financially distressed status is rescinded the City will be forced to revert to the tax rate limitations of the Third-Class City Code and the Local Tax Enabling Act. This will most likely result in the City having trouble in generating the revenue to provide for the provision of essential services of public safety and health over the long term.

A legal alternative to avoid the possibility of reverting to these tax rate limitations would be for the City's residents to adopt a home rule charter pursuant to the Home Rule Charter and Optional Plans Law, Act 62 of 1972, as amended. Under a home rule charter form of government, the City's residents can design a form of government that provides for local control and local governance outside of the City Code. Becoming a home rule charter municipality would allow City Council to determine the City's tax rates on real estate, realty transfers and the earned income of residents without statutory limitations. However, this process begins with the formation of government study commission elected by the City's electorate. Thus, the Coordinator is recommending that City Council, in consultation with the Mayor and Coordinator, shall consider adopting an ordinance initiating the Home Rule Study process.

DE5. Legislative Authorization.

The City shall continue discussions with its Legislative delegation and with the Pennsylvania Municipal League to extend the authorization of increased rates of taxes for the earned income and local services taxes beyond the municipality's tenure in Act 47. It is recognized that special legislation will be required to enact this change. The City should continue to pursue through its lobbyist, legislative changes related to its taxing ability.

Neighborhood Services Fund

While the focus of this section has been on balancing the budget for the General Fund of the City, the City must also be vigilant in monitoring the Neighborhood Services Fund. As shown, below if no action is taken to alter the current trends on this Fund through revenue increases or expenditure reductions as noted in various section of the plan, this fund will exhaust its balance by 2021 and result in the reduction of services or increased reliance on the already stressed General Fund revenue resources.

**Neighbor Services Fund
Revenues, Expenditures, and Balance
2018 – 2021**

| | 2018 | 2019 | 2020 | 2021 |
|---------------------------|-------------------|-------------------|-------------------|-------------------|
| Revenue | Estimated | Projected | Projected | Projected |
| Operations | 14,390,500 | 14,669,500 | 14,954,080 | 15,244,352 |
| Miscellaneous | 308,300 | 121,235 | 123,351 | 125,508 |
| Transfers | <u>1,710</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Revenue | 14,700,510 | 14,790,735 | 15,077,431 | 15,369,860 |
| Expenditures | | | | |
| Personnel | 5,304,278 | 5,377,718 | 5,517,629 | 5,662,900 |
| Services | 8,682,990 | 8,846,148 | 8,973,411 | 9,103,219 |
| Supplies | 729,360 | 729,360 | 729,360 | 729,360 |
| Lease Purchase | 644,993 | 644,993 | 644,993 | 644,993 |
| Capital | 3,682,000 | 0 | 0 | 0 |
| Transfer to General Fund | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Expenditures | 19,043,620 | 15,598,218 | 15,865,393 | 16,140,472 |
| Surplus/(Deficit) | -4,343,111 | -807,482 | -787,962 | -770,612 |
| Cash Balance EOY | 1,966,799 | 1,159,316 | 371,354 | -399,258 |

APPENDIX

A . FINANCIAL CONDITION REPORT

B. IMPACT HARRISBURG REPORT AND UPDATE

APPENDIX A

Municipalities Financial Recovery Act
Financial Condition Report

City of Harrisburg
Dauphin County, Pennsylvania



Prepared by the
Commonwealth of Pennsylvania
Department of Community and Economic Development
Governor's Center for Local Government Services

As filed with the City Clerk on March 22, 2018

March 22, 2018

Eric Papenfuse
Mayor
City of Harrisburg
MLK Jr. City Government Center
10 N. 2nd St.
Harrisburg, PA 17101

Wanda Williams
Council President
City of Harrisburg
MLK Jr. City Government Center
10 N. 2nd St Suite 305
Harrisburg, PA 17101

Dear Mayor Papenfuse and Council President Williams:

Enclosed please find a copy of the City of Harrisburg's Act 47 Recovery Coordinator's Financial and Economic Condition Report for the City of Harrisburg. The Report was officially filed on Thursday, March 22, 2018, with the Mayor's Office and the Harrisburg City Clerk for the City of Harrisburg City Council. The City of Harrisburg's Recovery Coordinator will place a notice of the Report and related Public Meeting with the Dauphin County Reporter, the designated Legal Periodical of Dauphin County, on March 23, 2018. Further, the notice will be placed in a newspaper of general circulation, with the Central Penn Business Journal. The true and correct Report will be on file for public inspection at the City's offices, and I request that you also post the Report on the City's website. The Recovery Coordinator will permit fifteen 15 days for comment and at the close of those fifteen days the Coordinator will conduct a public meeting for discussion on April 10, 2018 at 5:00pm at the City of Harrisburg's City Council Chambers, 10 North 2nd Street, Harrisburg, PA 17101. The Recovery Coordinator respectfully requests that the Mayor and each member of City Council, Treasurer, Controller, the Business Administrator, and the City Finance Director be present at this meeting.

Respectfully,

Marita J. Kelley,
City of Harrisburg's Recovery Coordinator

Enclosure (1)

CITY OF HARRISBURG FINANCIAL CONDITION REPORT

Introduction

Pursuant to the Commonwealth of Pennsylvania's Municipalities Financial Recovery Act, Act 47 of 1987, as amended, (Act 47) the City of Harrisburg (City) was declared a financially distressed municipality by order of the Secretary of the Department of Community and Economic Development (DCED) in December 2010. The City was placed under receivership following the Governor's declaration of a fiscal emergency in October 2011. In September 2013 the Harrisburg Strong Plan was confirmed by Commonwealth Court of Pennsylvania and continued under the direction of the Receiver and the Commonwealth Court. On January 16, 2014 in recognition of the end of the fiscal emergency in the City of Harrisburg, and pursuant to Section 608(a) of Act 47, the Secretary of the Department of Community and Economic Development certified that the economic conditions that led to the Declaration of Fiscal Emergency had been alleviated and the statutory criteria prerequisite to the existence of a fiscal emergency were abated. He further requested that the Court terminate the Receivership effective March 1, 2014, acknowledged that the City shall continue to be subject to the provisions of Act 47 and requested approval of his appointment of a Department of Community and Economic Development official as Coordinator to oversee the continued implementation of the Harrisburg Strong Plan. The Strong Plan was last modified on November 25, 2015. Act 199 of 2014 (Act 199) amended Act 47 requiring, among other provisions, a limit to the amount of time a municipality may be declared a financially distressed municipality. Because the City was operating under the 2013 confirmed Strong Plan on the effective date of Act 199, it is subject to a termination date five years from the effective date of its then most recent recovery plan, i.e., five years from September 23, 2013. As part of the Act 199 process, the Coordinator is required to complete a report stating the financial condition of the municipality no later than 180 days after the beginning of the final year of distressed status. The report is required to include one of the following findings based on the conditions within the municipality: (1) termination of distressed status; (2) municipal disincorporation; (3) fiscal emergency; or (4) a three-year exit plan. The Coordinator has prepared this Report Stating the Financial Condition of the City of Harrisburg (Report), and accordingly files this Report with the DCED and City representatives.

Financial Condition

Background

As stated in the 2013 Strong Plan:

The challenges Harrisburg faced when it entered Act 47 in December 2010 were overwhelming and the threat of municipal bankruptcy loomed as a dark cloud over Pennsylvania's capitol city. The path Harrisburg followed in the ensuing years was difficult, yet through the perseverance of elected officials, the active engagement and participation of numerous key stakeholders, extremely hard work and willingness to make difficult decisions, Harrisburg was able to emerge from the fiscal emergency declaration issued by the Governor in October 2011 and move along a path towards sustainability. Indeed, Harrisburg has made great strides since the confirmation of the Harrisburg Strong Plan in September 2013 and has been viewed on a national platform as a model of how to effectively address what seem like overwhelming fiscal challenges. However, more needs to be done and it is now up to the elected officials of the City to ensure a stable and healthy future.

The City has resolved the oppressive debt it faced in 2010. It has broken the string of consecutive years with annual operating deficits and growing structural deficits and with the help of the Strong Plan built a very modest cash reserve while also improving day-today financial management. The City finished 2014 with its annual revenues balanced against its annual expenditures, and with a resolution of the Commonwealth's budget and receipt of the \$5 million public safety appropriation should be very close to being balanced for 2015. Harrisburg, as with all cities in Pennsylvania, faces fiscal pressures in addressing its ongoing operational budget and providing quality services to its residents. The limited growth of its tax base, deferred capital needs and the pressure to strengthen municipal services especially in the public safety area all remain to be more fully addressed for the City to have a sustainable future. Crumbling infrastructure, outdated or inadequate technology, and aging equipment and vehicles, all make the job of recovery more difficult. Moreover, the City's financial condition forced the City to trim services and to meet service demands with limited front-line staff and management capacity. Since 2009, the City has eliminated 100 positions from the City budget, representing a 17% decrease over the 2009 budgeted staffing levels.

With the above history in mind, this report will review the City's current financial condition and provide a finding to DCED as required under Act 199.

Operating Budget Review

The City has experienced operating budget surpluses since it adopted the 2013 Strong Plan. The City's audits indicate that the City incurred operating budget surpluses in 2014 through 2016. The City's 2017 unaudited financial statements indicate that the City completed 2017 with a \$2,939,571 operating budget surplus.

**Revenues, Expenditures, and Balances
2012 - 2017**

| | Audited 2012 | Audited 2013 | Audited 2014 | Audited 2015 | Audited 2016 | Reported 2017 |
|-----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| Revenue | 49,541,137 | 60,352,410 | 61,624,809 | 57,634,038 | 64,980,744 | 66,299,496 |
| Expenditures | <u>73,110,274</u> | <u>81,022,979</u> | <u>57,523,007</u> | <u>57,282,581</u> | <u>55,482,540</u> | <u>63,359,925</u> |
| Surplus/(Deficit) | -23,569,137 | -20,670,569 | 4,101,802 | 351,457 | 9,498,204 | 2,939,571 |
| Fund Balance Jan 1 | -54,226,749 | -77,795,886 | 23,434,870 | 26,761,992 | 27,113,449 | 36,611,653 |
| Special Items^{1/} | 0 | 121,901,325 | -774,680 | 0 | 0 | 0 |
| Fund Balance Dec 31 | -77,795,886 | 23,434,870 | 26,761,992 | 27,113,449 | 36,611,653 | 39,551,224 |
| Unassigned Fund Balance | -80,393,973 | 10,528,539 | 14,648,078 | 14,761,238 | 21,172,840 | |
| Ending Cash Balance | 1,717,878 | 6,866,399 | 12,601,819 | 6,286,854 | 19,255,289 | 20,980,423 |
| Ending Accounts Payable | 5,516,496 | 3,060,715 | 4,167,090 | 2,438,071 | 2,097,064 | 1,505,728 |

^{1/}2013 Includes results of Strong Plan monetization of Incinerator and Parking assets.

2017 Financial Review

The City reported ending the 2017 fiscal year with an operating surplus of \$2,939,571.⁷ For the 2017 fiscal year, the City's unaudited operating revenues were \$66.3 million exceeding the budget by \$4.9 million or 7.9%. Unaudited operating expenditures were at \$63.4 million or 3.6 percent under the approved budget by \$2.4 million. Accordingly, the City is expected to have a 2017 operating surplus of revenue over expenditures of approximately \$2.9 million.

2017 Actual vs. Budget

| Revenues | 2017 Actual | 2017 Budget | Variance | |
|----------------------------|--------------------|--------------------|-------------------|-------------|
| | | | \$ | % |
| Real Estate Tax | 17,594,052 | 16,631,432 | 962,620 | 5.8 |
| EIT | 11,446,980 | 10,816,927 | 630,053 | 5.8 |
| LST | 7,413,159 | 5,561,176 | 1,851,983 | 33.3 |
| Other Taxes | 4,289,519 | 4,905,208 | -615,689 | -12.6 |
| Parking Revenues | 7,128,580 | 7,318,225 | -189,645 | -2.6 |
| Other Revenues | <u>18,427,206</u> | <u>16,194,013</u> | <u>2,233,193</u> | <u>13.8</u> |
| Total Revenues | 66,299,496 | 61,426,981 | 4,872,514 | 7.9 |
| Expenditures | | | | |
| Personnel | 35,432,355 | 38,993,797 | -3,561,441 | -9.1 |
| Non Personnel | | | | |
| Services | 4,956,282 | 6,278,134 | -1,321,852 | -21.1 |
| Supplies | 2,918,343 | 4,025,069 | -1,106,726 | -27.5 |
| Other | <u>20,052,945</u> | <u>16,414,843</u> | <u>3,638,102</u> | <u>22.2</u> |
| Total Non Personnel | <u>27,927,570</u> | <u>26,718,046</u> | <u>1,209,524</u> | <u>4.5</u> |
| Total Expenditures | 63,359,925 | 65,711,842 | -2,351,918 | -3.6 |
| Surplus/(Deficit) | 2,939,571 | -4,284,861 | | |

⁷ Based on the City of Harrisburg's reported financial numbers that have not been independently audited as of this Report.

2018 Financial Condition

The City adopted its 2018 operating budget on December 19, 2017. Revenues of \$63.6 million and a fund balance appropriation of \$9.2 million are slated to cover expenditures equal to \$72.8 million. The City anticipates using the fund balance to pay for capital improvements totaling more than \$7.4 million as well as other one-time expenditures including the \$1.0 million settlement to the Suburban Communities in the 2018 fiscal year. The Coordinator will continue to monitor the City's fiscal position and prepare monthly cash flow estimates for the City's use.

Budgeted Revenues and Expenditures 2018

| | 2018 | | 2018 |
|----------------------------|---------------------|---------------------------|---------------------|
| <u>Revenues</u> | <u>Budget</u> | <u>Expenditures</u> | <u>Budget</u> |
| Property Taxes | \$17,404,870 | Personnel | 43,905,841 |
| Earned Income Act 511 | 4,083,332 | Services | 8,126,324 |
| Local Services Tax Act 511 | 2,300,000 | Supplies | 2,739,344 |
| Earned Income Tax Act 47 | 7,346,665 | Other | 8,172,667 |
| Local Services Tax Act 47 | 3,749,251 | Debt Service | <u>9,866,020</u> |
| Parking Taxes | 3,399,550 | | |
| Other Taxes | 5,352,500 | | |
| Non-Tax Revenue | 15,479,922 | | |
| Parking Revenue | 3,000,391 | | |
| Transfers | <u>1,481,063</u> | | |
| Total Revenues | \$63,597,544 | Total Expenditures | \$72,810,195 |

As of the date of this Report the City has a typical amount of accounts payable with none known to be over thirty days due and a sufficient cash balance to meet anticipated costs. The City ended 2017 with \$20.98 million in cash and \$1.5 million in accounts payable. The City is estimated to end 2018 with \$11.7 million in cash and \$1.5 million in payables.

2018 Estimated Cash Flow

| | Estimated 1st Quarter | Estimated 2nd Quarter | Estimated 3rd Quarter | Estimated 4th Quarter | Total |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-------------------|
| Revenues, Expenditures, Surplus/(Deficit) | | | | | |
| Revenues | 19,129,139 | 13,775,540 | 15,675,497 | 15,017,367 | 63,597,544 |
| Expenditures | 18,261,846 | 15,533,577 | 18,287,418 | 20,727,354 | 72,810,195 |
| Operating Surplus/(Deficit) | 867,293 | -1,758,037 | -2,611,920 | -5,709,987 | -9,212,651 |
| Unrestricted Cash Balance Beginning of Quarter | 20,980,423 | 21,341,988 | 19,583,951 | 16,972,031 | |
| Surplus/(Deficit) | 867,293 | -1,758,037 | -2,611,920 | -5,709,987 | |
| Change in Accounts Payable | -505,728 | 0 | 0 | 0 | |
| Other items affecting Cash | 0 | 0 | 0 | 0 | |
| Unrestricted Cash Balance End of Quarter | 21,341,988 | 19,583,951 | 16,972,031 | 11,262,044 | |

Cost Centers

Labor

The City currently has 454 budgeted employee positions. The City’s managerial and confidential employees are “at will” employees. Most of the City’s employees are represented by one of three unions and are subject to labor contracts with the City.

| Union | Contract Expiration |
|---------------------------|--------------------------|
| FOP, Lodge No. 12 | 12/31/2020 |
| IAFF, Local Union No. 428 | 12/31/2022 ^{1/} |
| AFSCME, Local 521 | 12/31/2018 |

1/Pending City Council approval.

Legacy Costs

The City’s legacy costs include retiree healthcare, pension, and debt service. Although these ongoing legacy costs were incurred by the City in prior years, the City remains legally required to satisfy these commitments. The City presently commits current operating budget revenue and dedicated millage revenue to fulfill these legacy costs and the corresponding expenditures are included in the City’s operating budget and debt service expenditures. During the 2014-2016 operating budget review period the City’s legacy costs varied. In 2014, the City’s legacy costs were \$19.1 million or 32.0 percent of the City’s total 2014 operating expenditures. In 2015, the City’s legacy costs increased to \$19.9 million or 34.0% percent of the City’s total 2015 operating expenditures. For 2016 the costs increased to \$20.1 million, accounting for 32.4 percent of the budget. These legacy costs significantly impact the City’s ability to provide current services to its residents from the revenue it receives from its annual operating tax revenues.

Legacy Costs by Type and Proportion of Total Expenditures 2014 - 2016

| | 2014 Reported | 2015 Reported | 2016 Reported |
|--|---------------------|---------------------|---------------------|
| Retiree Healthcare | \$5,375,266 | \$5,653,446 | \$6,110,202 |
| Pension MMO | 2,428,193 | 2,972,450 | 2,906,315 |
| Annual Debt Service | <u>11,338,871</u> | <u>11,275,518</u> | <u>11,045,746</u> |
| Total Legacy Costs | \$19,142,331 | \$19,901,414 | \$20,062,262 |
| Total General Fund Expenditures | \$59,894,963 | \$58,602,672 | \$61,977,753 |
| % of Total Expenditures | 32.0% | 34.0% | 32.4% |

Debt

The City's outstanding principal long-term debt as of December 31, 2017, was \$77,289,455. The City is currently expected to make \$8,095,370 in long-term debt service payments of principal and interest in 2018.

Summary Schedule of Future Debt Service Amounts 2018 through 2027

| Debt Description | 2018 | 2019 | 2020 | Total 2021 thru 2027 | Total 2018 thru 2027 |
|---|------------------|------------------|------------------|---------------------------------|---------------------------------|
| PA Infrastructure Bank loan | 297,742 | 0 | 0 | 0 | 297,742 |
| HRA Revenue Bonds-Series A of 1998 <i>(specified minimum City contribution)</i> | 500,000 | 700,000 | 940,000 | 8,525,000 | 10,665,000 |
| HRA Revenue Bonds-Series A-2 of 2005 <i>(stadium improvement bonds-FNB Park)</i> | 229,350 | 231,778 | 228,181 | 1,597,481 | 2,286,790 |
| 1997 GO Debt - Series D & F Refunding Bonds <i>(assuming full advance taken each year)</i> | 6,682,138 | 6,747,498 | 6,747,498 | 40,417,489 | 60,594,625 |
| M&T Bank - streetlight LED project | 386,140 | 386,140 | 386,140 | 1,061,884 | 2,220,303 |
| | | | | | |
| Totals | 8,095,370 | 8,065,416 | 8,301,819 | 51,601,854 | 76,064,460 |

Pensions

The City participates in three single employer pension plans. As of December 31, 2016, the Non-Uniform Pension Plan funding ratio was 115.51 percent with a Net Pension Asset of \$9,368,867; the Fireman's Pension Plan funding ratio was 102.85 percent with a Net Pension Asset of \$1,918,068 and the Police Pension Plan funding ratio was 80.78 percent (Distress Level I) with a Net Pension Liability of \$17,860,075. The City's annual minimum pension obligation in 2018 is estimated to be \$3,935,858. State aid for pensions is anticipated to cover \$2,629,069 of the obligation.

| Employees Covered | Primary Retirement Plan | Plan Name | Funding Status as of 12/31/2016 |
|--------------------------|--------------------------------|---------------------------|--|
| Non-Uniformed | Defined Benefit Plan | Non-Uniformed Employee | 115.51% |
| Police Employee | Defined Benefit Plan | City of Harrisburg Police | 80.78% |
| Fire Employees | Defined Benefit Plan | City of Harrisburg | 102.85% |

Retiree Healthcare

The City's retiree healthcare contribution in 2016 was \$6,110,202. The Strong Plan included an initial deposit of \$3.6 million to pre-fund an OPEB Trust and the Receiver and Coordinator have encouraged the City to complete the trust agreement and fund the trust, but the City has not done so during the preceding four years. The City does budget an amount to prefund some portion of this legacy cost similar to its pension liabilities but instead finances these costs on a pay-as-you-go basis. As of January 1, 2016, the City's unfunded actuarial liability for retiree healthcare was \$155,120,287.

Extraordinary Revenue Authorizations

As a Third Class city governed by the Optional Third Class City Charter Law, the City of Harrisburg has the power, within prescribed constitutional and statutory limitations, to levy taxes on: the taxable value of land and real estate improvements; the earned income and net profits of individual residents, workers (both resident and nonresident), operations and gross receipts of businesses doing business in the City; occupations of residents; parking receipts; and transfers of real estate. By action of Dauphin County, the City receives a portion of revenues from the County Hotel Excise Tax for designated tourism-related purposes. By action of the Commonwealth, the City receives a portion of the Public Utility Realty Tax based on the assessed value of taxable utility realty. With few exceptions, the City maximizes the taxing powers authorized by the Commonwealth.

As a designated distressed municipality, the City also has the ability to increase certain tax rates as authorized under Act 47 above the limits set under the Third-Class City Code. The City has sought and received from Commonwealth Court authority to levy an additional one percent (1%) on earned income from residents and non-residents (for a total of two percent) and to levy a \$104 increase to the Local Services tax rate on employees in the City. This extraordinary taxing ability has provided significant additional revenue for the City of more than \$11.0 million per year.

Act 47 Extraordinary Taxes

| | Projected 2018 | Projected 2019 | Projected 2020 | Projected 2021 |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|
| Earned Income Tax | | | | |
| Total Current EIT Revenue | 11,600,000 | 11,716,000 | 11,833,160 | 11,951,492 |
| Non-Resident estimate | 410,000 | 414,100 | 418,241 | 422,423 |
| Resident | 11,190,000 | 11,301,900 | 11,414,919 | 11,529,068 |
| Act 47 Tax Revenue | 7,460,000 | 7,534,600 | 7,609,946 | 7,686,045 |
| Local Services Tax | | | | |
| Total Current LST | 6,049,251 | 6,049,251 | 6,079,497 | 6,109,895 |
| LST Estimated | 2,300,000 | 2,300,000 | 2,300,000 | 2,300,000 |
| Act 47 Tax Revenue | 3,749,251 | 3,749,251 | 3,779,497 | 3,809,895 |
| Total Act 47 Tax Revenue | 11,209,251 | 11,283,851 | 11,389,443 | 11,495,940 |

The increased revenue under Act 47 authorization would no longer be available to the City upon rescission of the distressed status and an exit from Act 47. The impact of a sudden removal of this revenue source would require the City to increase tax rates only as authorized under the Third-Class City Code and the Local Tax Enabling Act. The City is at the statutory limit for tax rates for its primary revenue sources and would only have the ability to increase the real estate millage rate to replace the lost Act 47 revenue. A real estate millage increase of more than 74% over the 2018 levy would be required.

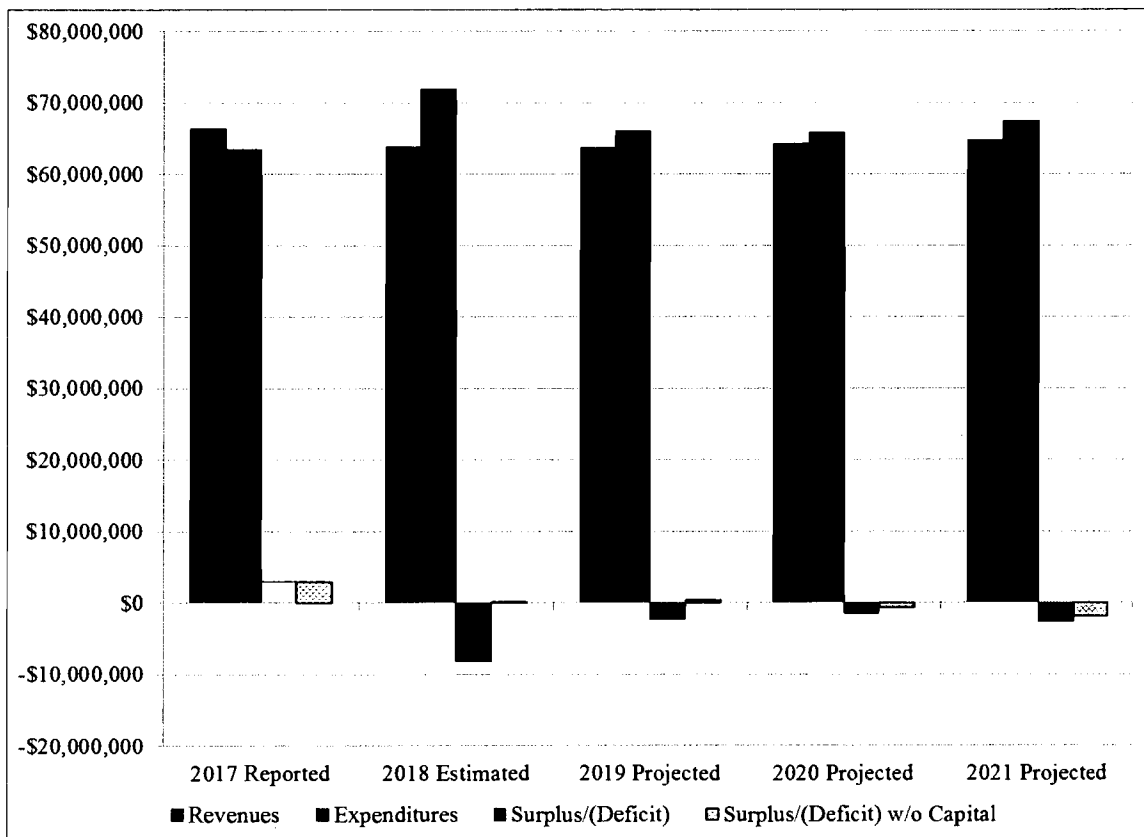
Financial Baseline

The Coordinator has reviewed the City’s financial history and developed financial projections for 2019 through 2021, using the City’s 2018 budget as the projection baseline. Investment in much needed capital improvements produces deficits in 2018-2021. Normal expenditure growth assumptions indicate that the City will incur a general fund operating deficit in 2019 of \$696,755 in 2020 growing to \$1.9 million in 2020 absent increases in revenue or decreases in expenditures. It is important to note that these projections include the extraordinary taxes noted above.

**Projected Baseline Revenues, Expenditures, Surplus (Deficit)
2018 – 2021**

| | Estimated 2018 | Projected 2019 | Projected 2020 | Projected 2021 |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| Revenue | 63,712,329 | 63,652,182 | 64,211,174 | 64,595,510 |
| Expenditures | <u>71,880,049</u> | <u>66,041,652</u> | <u>65,737,507</u> | <u>67,304,043</u> |
| Surplus/(Deficit) | -8,167,720 | -2,389,470 | -1,526,333 | -2,708,533 |
| Capital Improvement Program | 7,065,800 | 2,518,236 | 829,579 | 837,170 |
| Other One - Time Expenditures | <u>1,223,000</u> | <u>225,000</u> | <u>0</u> | <u>0</u> |
| Surplus/(Deficit) without Capital Improvements | 121,080 | 353,766 | -696,755 | -1,871,363 |
| Fund Balance Jan 1 | 39,551,224 | 31,383,504 | 28,994,035 | 27,467,701 |
| Special Items | 0 | 0 | 0 | 0 |
| Fund Balance Dec 31 | 31,383,504 | 28,994,035 | 27,467,701 | 24,759,168 |
| Cash Balance | 12,812,703 | 10,423,234 | 8,896,900 | 6,188,367 |

**Projected Baseline Revenues, Expenditures, Surplus (Deficit)
2017 – 2021**



Neighborhood Services Fund

In 2014, the City established the Neighborhood Services fund for Public Works related functions. Revenues from collection and disposal fees are tracked in this fund, as well as expenditures related to sanitation. Contracted payment to the Lancaster County Solid Waste Authority is recorded here. As of December 31, 2017, this fund had an estimated cash balance of approximately \$6.3 million. The 2018 Budget includes \$2.7 million for the acquisition of the Public Works site, necessitated with the disposition of the incinerator and another \$1.0 million in other Capital. For 2019 – 2021, Operations revenues are anticipated to grow at 1.5% annually. Expenditures increase based on contracted amounts and are anticipated to increase 5% in the period (excluding site acquisition.) Ongoing deficits will eliminate the fund’s cash balance by 2021.

Neighbor Services Fund Revenues, Expenditures, and Balance 2018 – 2021

| | 2018 | 2019 | 2020 | 2021 |
|---------------------------|-------------------|-------------------|-------------------|-------------------|
| Revenue | Estimated | Projected | Projected | Projected |
| Operations | 14,390,500 | 14,669,500 | 14,954,080 | 15,244,352 |
| Miscellaneous | 308,300 | 120,199 | 122,293 | 124,429 |
| Transfers | <u>1,710</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Revenue | 14,700,510 | 14,789,699 | 15,076,373 | 15,368,781 |
| Expenditures | | | | |
| Personnel | 5,304,278 | 5,377,718 | 5,517,629 | 5,662,900 |
| Services | 8,682,990 | 8,846,148 | 8,973,411 | 9,103,219 |
| Supplies | 729,360 | 729,360 | 729,360 | 729,360 |
| Lease Purchase | 644,993 | 644,993 | 644,993 | 644,993 |
| Capital | <u>3,682,000</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Expenditures | 19,043,620 | 15,598,218 | 15,865,393 | 16,140,472 |
| Surplus/(Deficit) | -4,343,111 | -807,482 | -787,962 | -770,612 |
| Cash Balance BOY | 6,309,909 | 1,966,799 | 1,159,316 | 371,354 |
| Cash Balance EOY | 1,966,799 | 1,159,316 | 371,354 | -399,258 |

Finding

It is the Coordinator's finding that although the City has made noteworthy progress on a number of fronts, the burden of its very limited tax base, increasing costs for collective bargaining contracts, increasing costs for supplies, and legacy cost obligations continues to stress the City's annual finances and hinders its ability to achieve long-term financial sustainability under the five-year period required under Act 47 as amended. Therefore, the Coordinator recommends that a three-year exit plan shall be prepared for the City that will include the initial stages of a strategy designed to moderate the impact of the City's burden on its annual operating budgets and improve the City's ability to achieve long-term financial sustainability.

The Coordinator's baseline operating budget projections for the next four years projects the City's baseline operating expenditures increase slightly by 5.0 percent while the City's baseline operating revenue over the next five years is projected to increase only slightly (1.3 percent). Consequently, the City is projected to incur baseline operating budget deficits by 2020 in the absence of a financial plan. It is also important to note that the operating revenues used in the baseline include the extraordinary revenues provided through Act 47 of \$11 million. The City would immediately return to "Fiscal Emergency" status if these revenues streams are eliminated as the \$353,766 surplus in 2019 would become a \$10 million deficit. Therefore, the City needs the additional time available under an Exit Plan to address this through the exploration of Home Rule or to bring about legislative change.

The Coordinator will be providing recommendations to the City to eliminate these projected operating deficits in the recommended exit plan.

APPENDIX B

Impact Harrisburg

The second quarter of 2018 Impact Harrisburg Board continued to move forward with Infrastructure and Economic Development project grants that the Board has awarded. The Board is responsible for the administration of the \$12.3 million set aside as part of the parking transaction to fund both economic development and infrastructure initiatives to aid the City in strengthening its tax base and addressing critical infrastructure needs, thus enhancing the quality of life for City residents.

The nine-member, Impact Harrisburg Board, was appointed by the Coordinator in January 2015 following the receipt of recommendations from the Mayor, City Council, and Dauphin County. The Board historically has been meeting bi-weekly (beginning January 1, 2018 weekly) to address organizational activities and has made considerable progress to date. Officers include Neil Grover as Chair, Doug Hill as Vice Chair, Brian Hudson as Secretary and Brittany Brock as Treasurer. Sheila Dow-Ford serves as Executive Director. The Board had engaged Vance Antonacci of McNees Wallace & Nurick LLC as counsel to assist with its incorporation with the Department of State and establishment as a 501(c)(3) non-profit organization with the Internal Revenue Service. Articles of Incorporation were filed with the Department of State and approved on March 17. The 501(c)(3) application was also filed with the IRS in March and approved by the IRS on June 18, 2015.

From the period beginning January 2016 and through June 30, 2018 several significant activities occurred to advance the work of Impact Harrisburg. In early 2016 the organization retained both an accounting and an auditing firm, established a website presence and hired a web master. In addition, the organization entered into a lease arrangement with the Harrisburg Area Community College to rent office space at the HACC midtown campus, thus establishing a central and convenient location within the city.

As Coordinator, my office continues to provide administrative support to the Board of Directors and Sheila Dow-Ford, its Executive Director. I attend Board meetings along with my staff and I

offer input, as appropriate. I continue to meet with Ms. Dow-Ford to provide guidance and historic perspective on the role of the Board. I have provided input on contracting, contract compliance issues, disbursements, and related matters. My Administrative Assistant continues to provide administrative support to the Board including the recording and preparation of the Board's meeting minutes. The Board's minutes are posted on the Department's website.

The Board has established the Pennsylvania Housing Finance Agency (PHFA) as its permanent meeting location. The organization has adopted a conflicts of interest policy, a records retention policy, an expense allocation policy; and a policy on Impact Harrisburg grant/reimbursement drawdowns. In 2017, the organization also underwent its first audit for the fiscal period ending in June 30, 2016; the organization received a "clean" report. The second annual Impact Harrisburg audit for the period ending June 30, 2017 has also been finalized this month.

Within the operational realm, working as a team, the Board of Directors and the Executive Director had finalized requirements for the three programs to be established and administered: 1) Economic Development; 2) Community Building, and 3: Infrastructure Contingency. Under the established criteria only two entities, the City of Harrisburg and Capital Region Water are eligible for participation in the Infrastructure Contingency program.

Thereafter, over approximately a one-month period the Executive Director convened and attended several formal and informal education sessions at which the Impact Harrisburg grant programs and application process were introduced and discussed with a broad diversity of community participants. In addition, print and television media were used to bring publicity to the grant program.

On July 15, 2016 twenty-five applications were filed seeking Impact Harrisburg funding. Over the course of several days, the board met as a committee of the whole to review the applications in detail, and thereafter determined that 14 projects met the established funding criteria. As of June 30, 2018, the total amount of the grant awards allotted by Impact Harrisburg to various grantees stands at \$9,962,010.50. This amount represents a subsequent increase in the grant amount provided to one grantee, based upon a request for an amendment to the original grant agreement

to accommodate an increase in the project scope due to unforeseen structural issues requiring remediation and other contingencies.

Projects Funded/Grant Amount/Project Status as of June 30, 2018:

Completed Projects:

1. City of Harrisburg Microsoft Office 365 (\$250,000 grant)
2. TLC Construction and Renovations (\$500,000 grant)
3. Webpage FX (\$500,000 grant)
4. Paxton Street Home Benevolent Society (\$100,000 grant)
5. Harrisburg River Rescue (\$81,369 grant)

Outstanding Projects:

1. Capital Region Water/City of Harrisburg Multi-Modal Collaborative Facility (\$5,487,290.50 grant)
2. East Shore YMCA (\$138,592 grant)
3. Gamut Theatre (\$250,000 grant)
4. Tri-County Community Action Commission (\$204,759 grant)
5. Tri-County Housing Development Corporation (\$350,000 grant)
6. City of Harrisburg Playground Resurfacing (\$250,000 grant)
7. Harrisburg Redevelopment Authority (\$500,000 grant)
8. YMCA Camp Curtin (\$500,000 grant)
9. *Community First Fund (\$350,000 grant) (This project is discussed in greater detail within this document.)

A uniform grant agreement was developed and has been entered into by all grantees with the exception of Community First Fund, with which Impact Harrisburg established a stand-alone agreement because of the unique nature of the purposes of the grant.

In addition, to ensure close adherence with all grant program requirements and any applicable state, local or federal laws, during fiscal-year 2017, the board developed a Request for Proposal under which the organization retained the services of two compliance professionals with extensive expertise in the grants management area. The two individuals work in close coordination with the Executive Director to provide oversight and technical assistance to grantees, as is necessary and appropriate. The team and Executive Director developed various program templates and processes for working with grantees in a uniform and consistent manner. To date, the compliance consulting team attends many board meetings and provides consistent updates on all projects through a shared drive electronic medium (accessible by grantees and board members) as well as via written reports. After serving in this capacity for one year the board deemed it prudent to extend the compliance contract for an additional six months, given the high quality and value of the work performed by the compliance consultants and the remaining number of grantees with future project start dates.

The Harrisburg Business Opportunity Fund

In March 2018 Impact Harrisburg announced the start of the Harrisburg Business Opportunity Fund (HBOF), a one million-dollar (\$1,000,000) loan fund established to bring low interest funding opportunities to new and existing businesses within the City that traditionally have been excluded from more traditional lending outlets. The initial one-million-dollar capitalization for the HBOF was provided by a three hundred fifty thousand-dollar (\$350,000) grant from Impact Harrisburg, and a six hundred fifty-thousand-dollar (\$650,000) grant from the Commonwealth Cornerstone Group (CCG), a wholly-owned subsidiary of the Pennsylvania Housing Finance Agency (PHFA). The HBOF grant fund is administered by the Community First Fund (CFF), a Lancaster City-based community development financial institution, which has established an office in Harrisburg and dedicated support staff to build diversity in economic development opportunity within the region. Under the agreement between and among the parties, CFF will report on HBOF activity on a quarterly basis.

Impact Harrisburg has invited the City of Harrisburg to become an HBOF partner both through a contribution to the fund and through the active development of programs to bring greater financial education and opportunities to actual and potential borrowers in a manner that is consistent with

the goals articulated under the Act 47 Harrisburg Strong Plan. As of June 2018, the City has declined to join as a financial partner to this initiative. Impact Harrisburg has partnered with the City and other local financial services entities including CREDC, the lending arm of the Capitol Region Chamber of Commerce; the Kutztown Small Business Development Center, M&T Bank, and the Harrisburg Young Professionals to establish a consortium that will bring expertise to building a more cohesive and diverse business community and to enhancing entrepreneurship within Harrisburg.

As of June 2018, the Impact Harrisburg Board continues to meet monthly and in accordance with its Bylaws, elected its board leaders at the Annual Meeting. Further, the Finance Committee meets on a regular basis, between meetings of the board, and all members are invited to attend and participate.

At the June 2018 meeting of the Board the organization’s investment advisers, Wilmington Trust, provided an update on the organization’s financial standing and reviewed with the Board the feasibility of continuing with the fund allocation policies previously established. The professional recommendation was to continue to adhere to the policy as established, with a continuation of regular reviews and updates, as required.

.....

Markian Roman Slobodian
Law Offices of Markian R. Slobodian
801 N. 2nd Street
Harrisburg, PA 17102-3213
(717)232-5180
Attorneys for Ambac Assurance Corporation

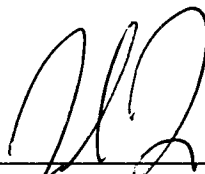
Ronald L. Finck
Mette, Evans & Woodside
3401 N. Front Street
P.O. Box 5950
Harrisburg, PA 17110
(717)232-5000
Attorneys for County of Dauphin

Paul M. Hummer
Saul Ewing LLP
Centre Square West
1500 Market Street, 38th Floor
Philadelphia, PA 19102-2186
(215) 972-7777
Attorneys for Assured Guaranty Municipal Corp.

Charles B. Zwally
Mette, Evans & Woodside
3401 N. Front Street
P.O. Box 5950
Harrisburg, PA 17110
(717)232-5000
Attorneys for County of Dauphin

Mark Kaufman
King & Spalding
1180 Peachtree Street, NE
Atlanta, GA 30309
Phone: (404)527-4000
Fax: (404)527-4198
*Attorneys for Fredrick A. Reddig, in his official capacity as Coordinator for the
City of Harrisburg*

Dated: 7/9/18



John M. Quain Jr.
Attorney I.D.: 311983
Governor's Office of General Counsel
Department of Community and
Economic Development
400 North Street, Plaza Level
Harrisburg, PA 17120
(717) 214-5300
(717) 772-3103 (fax)
jquain@pa.gov