

# Municipalities Financial Recovery Act Consultative Evaluation

City of Harrisburg  
Dauphin County, Pennsylvania  
October 20, 2010

Conducted By:  
PA Department of Community & Economic Development  
Governor's Center for Local Government Services  
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> ready > set > succeed



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## INTRODUCTION

The Municipalities Financial Recovery Act (Act 47 of 1987, as amended) was enacted to foster the fiscal integrity of municipalities so that they can provide for the health, safety and welfare of their citizens; pay principal and interest on their debt obligations when due; meet financial obligations to their employees, vendors and suppliers; and provide for proper financial accounting procedures, budgeting and taxing practices. The failure of a municipality to do so adversely affects the health, safety and welfare not only of the citizens of the municipality but also of other citizens in this Commonwealth.

The Municipalities Financial Recovery Act (Act 47), in Section 202-Standing to Petition for a Determination, provides ten categories of parties and individuals who have standing and may request a determination of municipal financial distress from the Secretary of the Department of Community and Economic Development (Department).

One party that has standing to allege that the municipality is financially distressed is “the chief executive of any city.”

A Request for Determination of Municipal Financial Distress was filed by Linda D. Thompson, Mayor of the City of Harrisburg, under the Municipalities Financial Recovery Act. The Request was notarized on October 1, 2010 and received by the Department on October 1, 2010. The Request asks that the Department determine the City’s eligibility as a distressed municipality under the provisions of the Municipalities Financial Recovery Act (Act 47).

Section 203(c) of Act 47 authorizes the Department to conduct a consultative investigation into the financial affairs of the municipality after receiving a Request but prior to conducting a public hearing as required under Section 203(b) of Act 47. A public hearing is scheduled for Wednesday, October 20, 2010 at 5:00 PM to receive testimony of the petitioner, City Officials and other interested parties relative to whether the Department should declare the City of Harrisburg a distressed municipality under Act 47.

Section 201 of Act 47 enumerates eleven criteria, at least one of which must be present in order for a municipality to be considered for a distress determination by the Department. The chief executive of the City of Harrisburg, Mayor Linda D. Thompson alleges that the following criteria as set forth in Section 201 of Act 47 are present:

- (3) The municipality has defaulted in payment of principal or interest on any of its bonds or notes or in payment of rentals due any authority.

The City asserts that it has defaulted on certain of its guaranty obligations on the Harrisburg Authority’s Resource Recovery Facility (RRF) Revenue Bonds and Notes and other related RRF debt since November 2009;

- (5) The Municipality has failed to make required payments to judgment creditors for 30 days beyond the date of the recording of the judgment.

The City asserts that it has failed to make required payments to two (2) judgment creditors after said judgments were recorded in favor of the creditors; and,

- (9) A municipality has sought to negotiate resolution or adjustment of a claim in excess of 30% against a fund or budget and has failed to reach an agreement with creditors.

The City asserts that it has been seeking forbearance from its guaranteed Harrisburg Authority RRF debt obligations, the total of which exceeds 100% of the General Fund Budget- and has been unsuccessful in doing so.

## SCOPE OF EXAMINATION

Our review of the financial position of the City relied upon the accuracy and completeness of the financial information that was presented to us by City representatives as well as certain information that was obtained from other sources. We examined financial, personnel and other pertinent administrative records and information including interim financial reports to the extent that they were available. We made limited effort to verify information presented to us by comparing with original source documents, as would be done on a selective basis in an audit of the municipality.

We are pleased to acknowledge the assistance of the Mayor, appointed officials and employees of the City for their assistance and cooperation in gathering information during the course of our consultative field work.

## OBJECTIVES OF THE FIELD CONSULTATIVE EFFORT

The objectives of this Consultative Evaluation are twofold:

- (1) To determine whether the City had met one or more of the eligibility requirements for a determination of distress under Act 47, and if so,
- (2) To examine available financial records and other relevant data in order to recommend whether or not the City should be determined to be distressed under the provisions of Act 47.

The Mayor's request for a determination of financial distress alleges the presence of Section 201 criteria numbers 3, 5, and 9. Central to Criterion 3 is validation that the municipality defaulted in payment of principal or interest on any of its bonds or notes or in payment of rentals due any authority; validation of criterion 5 requires evidence that the municipality has failed to make required payments to judgment creditors for 30 days beyond the date of the recording of the judgment; and, criterion 9 requires evidence that the municipality has sought to negotiate resolution or adjustment of a claim in excess of 30% against a fund or budget and has failed to reach an agreement with creditors.

## CONCLUSIONS ON PRESENCE OF DISTRESSED CRITERIA

**Based upon an analysis of available records and interviews with City officials, it is our conclusion that the City of Harrisburg can be considered for a distressed determination because Criterion 3 is present.**

### **Act 47, Section 201, Criteria 3, 5, 9 Examined and Validated**

The following summary and related charts are provided to validate the criteria alleged by the City for Act 47 consideration. The City has set forth criteria 3, 5, 9 under Section 201 of the Act that they believe makes them eligible to be considered for an Act 47 determination.

**Criterion (3)** The municipality has defaulted in payment of principal or interest on any of its bonds or notes or in payment of rentals due any authority.

The City asserts that it has defaulted on certain of its guaranty obligations on the Harrisburg Authority's Resource Recovery Facility (RRF) Revenue Bonds and Notes and other related RRF debt since November 2009.

The City of Harrisburg has defaulted on several debt service obligations. A default is considered to have occurred when either the Guarantor (City) has failed to make a scheduled debt service payment or when payment is made from a bond's debt service reserve fund or if payment is made by a surety policy. The following is a list of the debt service obligations that the City has currently defaulted upon:

Series1998A- due 3/1/10 and 9/1/10; 2002A- due 5/1/10; Series 2003ABC- due 3/1/10 and 9/1/10; 2003D, 2003E, 2003F- due 6/1/10;

Swaps and its Swap Cap Fee payments- 6/1/10; and,

Loan payment obligations due to Covanta, the Resource Recovery Facility Operator- due 4/1/10, 7/1/10, and 10/1/10.

The total aggregate of all 2010 debt obligations listed above which are due and unpaid as of the date of this report is \$10,517,920.

The above data validates that Criterion 3 is present.

**Criterion (5)** The Municipality has failed to make required payments to judgment creditors for 30 days beyond the date of the recording of the judgment.

The City asserts that it has failed to make required payments to two (2) judgment creditors after said judgments were recorded in favor of the creditors. The City and the creditors subsequently negotiated payment plans in settlement of the judgments.

The judgments, as identified by the City are listed below. The Department has validated that no other judgments currently exist:

Conrail v. City of Harrisburg in which the City must pay \$300,000 in three annual installments of \$100,000, the first of which was made this year; and,

Eichelberger v. City of Harrisburg in the City must pay \$660,000 in two annual installments of \$330,000, the first of which was paid this year.

The City had initially failed to make its required payment on the above listed judgments. Although the City did not pay the full judgment when rendered, the City and its creditors have agreed upon a re-payment schedule. The City has made its required payment for this calendar year. As such, the City is current on its payment plans. Given this situation, the Department is not able to validate Criterion 5.

**Criterion (9)**- A municipality has sought to negotiate resolution or adjustment of a claim in excess of 30% against a fund or budget and has failed to reach an agreement with creditors.

The City's 2010 adopted budget is recorded as being \$64,710,368. Utilizing this budget figure, the City's 30% threshold to meet this Criterion is \$19,413,110. In addition to the current outstanding debt obligations listed above, the City also has unpaid vendor invoices totaling \$1,939,818. The figures added together amount to \$12,457,738 which falls short of the 30% threshold. Despite having outstanding claims totaling approximately 20% of the General Fund,

the finding is still material and merits close attention. Furthermore, the City has nearly \$7M more in debt obligations coming due later in the calendar year. The addition of future debt obligations will by year's end total more than 30%.

Given this situation, the Department is not able to validate Criterion 9.

## DISTRESS DETERMINATION

Based upon this analysis, it is apparent that the City of Harrisburg meets Criterion 3 as enumerated in the Act. The fact that Criterion 3 was found to be present enables the DCED to conduct a further evaluation and recommend whether or not the City of Harrisburg should be designated as distressed under Act 47.

It is Commonwealth policy, as stated in Act 47, "to foster the fiscal integrity of municipalities so that they provide for the health, safety and welfare of their citizens; pay principal and interest on their debt obligations when due; meet the financial obligations to their employees, vendors and suppliers; and provide for proper accounting procedures, budgeting and taxing practices."

It is our opinion that the City of Harrisburg has exhibited conditions that make it difficult to fulfill its responsibilities as outlined above. This conclusion is based upon the City's inability to meet debt payments for bonded debt and judgments, a multi-year history of fiscal year-end structural deficits (four out of the six years), declining fund balances, and significant cash flow difficulties.

**Accordingly, it is our recommendation that the City of Harrisburg be declared financially distressed.**

In arriving at a recommendation our analysis also considered other relevant factors, which are discussed below:

1. Current and Projected 2010 Financial Position and Changes in Fund Balance
2. Early Intervention Program Forecast
3. Tax Base and Revenue Trends
4. Debt Service Obligations Outlined
5. Pension Payments and MMO Requirements
6. Expenditure and Workforce Trends
7. Socio-Economic and Demographic Trends
8. Administrative and Financial Management Practices

## 1.) CURRENT AND PROJECTED 2010 FINANCIAL POSITION AND CHANGES IN FUND BALANCE

A detailed cash flow analysis for 2010 is summarized in Table 1 below.

Table 1- Cash Flow Projections

| <b>Table 1 - City of Harrisburg –<br/>Cash Flow Projections For 2010</b> |                     |                     |                              |
|--|---------------------|---------------------|------------------------------|
|  | <b>Revenues</b>     | <b>Expenditures</b> | <b>Surplus<br/>(Deficit)</b> |
| JAN  | \$2,847,305         | \$2,673,242         | 174,063                      |
| FEB  | \$4,426,877         | \$2,530,676         | 1,896,201                    |
| MARCH  | \$9,229,420         | \$9,455,280         | (225,860)                    |
| APRIL  | \$9,369,016         | \$5,805,155         | 3,563,861                    |
| MAY  | \$2,451,742         | \$5,644,829         | (3,193,087)                  |
| JUN  | \$2,763,299         | \$2,944,648         | (181,350)                    |
| JUL  | \$2,341,172         | \$4,679,334         | (2,338,162)                  |
| AUG  | \$4,861,205         | \$3,519,835         | 1,341,370                    |
| SEP  | \$5,525,285         | \$7,739,405         | (2,214,120)                  |
| OCT  | \$2,959,749         | \$4,145,905         | (1,186,156)                  |
| NOV  | \$3,951,764         | \$3,771,653         | 180,111                      |
| DEC  | \$2,934,568         | \$5,633,932         | (2,699,363)                  |
| <b>TOTALS</b>  | <b>\$53,661,403</b> | <b>\$58,543,894</b> | <b>(4,882,491)</b>           |
| <b>Source: City Actual</b>   |                     |                     |                              |

The City anticipates nearly a five million dollar (this includes \$1,939,818 of unpaid vendor payments as of 10-18-2010) cash flow shortage by year end.

Cash flow is critical to the operation of the General Fund for obvious reasons. Under the City's current financial circumstances, it will not be able to maintain a positive cash flow through the end of the calendar year without outside assistance or serious consequences. The increasing liquidity problem will further erode the City's ability to meet its current and long-term liabilities. The inability to maintain a positive cash flow is not sustainable and will create an inability to meet payroll, debt service payments, and other vendor obligations between now and the end of the fiscal year. When a municipality is unable or struggles to maintain positive cash flow; important services may need to be curtailed which may have a negative impact on the health and safety of its citizens. This is one of the more important determining factors in the consideration of Act 47 fiscally distressed status.

Table 2 below displays the history of General Fund Revenues, Expenditures, and Changes in Fund Balance through the unaudited figures for 2009. What the table does not illustrate is the City's responsibilities for current General Obligation Debt which is paid through the Debt Service Fund. These include the following General Obligation bonds: General Obligation Bonds 1995 Series A & B to fund the City's unfunded actuarial accrued pension liability; 1997 General Obligation Bonds 1997, Series D to retire the City's \$15 million bond from the Emmaus Bond Pool and to pay for expenses related to the National Civil War Museum; 1997 General Obligation Bonds to retire \$25 million bond from the Emmaus Bond Pool and to pay for expenses related to the construction of the Civil War Museum; and for the General obligation bonds 2003, Series A, B, & C. These notes were used towards various transportation improvement projects including Hamilton Street, Sixth Street, and State Street at Reservoir Park.

| <b>Table 2 City of Harrisburg Revenues, Expenditures, and Changes in Fund Balance</b> |                      |                      |                      |                     |                     |                     |
|---|----------------------|----------------------|----------------------|---------------------|---------------------|---------------------|
|   | Audited<br>2004      | Audited<br>2005      | Audited<br>2006      | Audited<br>2007     | Audited<br>2008     | Unaudited<br>2009   |
| Taxes   | \$23,370,790         | \$24,246,730         | \$23,825,971         | \$27,297,475        | \$26,836,116        | \$26,562,622        |
| Charges for Services  | \$16,972,347         | \$19,041,848         | \$17,430,054         | \$18,156,103        | \$18,767,299        | \$20,515,810        |
| Interest & Rents  | \$269,312            | \$267,609            | \$322,676            | \$424,893           | \$366,410           | \$147,571           |
| Intergovernmental   | \$8,042,735          | \$7,674,913          | \$7,413,755          | \$8,191,861         | \$8,629,774         | \$7,599,436         |
| Fines and Forfeits  | \$1,811,458          | \$1,752,381          | \$1,690,845          | \$1,974,002         | \$2,109,236         | \$1,740,861         |
| Licenses & Permits/Cable TV   | \$490,719            | \$483,281            | \$508,799            | \$510,735           | \$540,748           | \$577,845           |
| Other Miscellaneous   | \$2,028,622          | \$1,522,476          | \$3,254,364          | \$4,217,030         | \$3,101,717         | \$906,128           |
| <b>Total Revenues</b>   | <b>\$52,985,983</b>  | <b>\$54,989,238</b>  | <b>\$54,446,464</b>  | <b>\$60,772,099</b> | <b>\$60,351,300</b> | <b>\$58,050,273</b> |
| <b>Other Financing Sources</b>  |                      |                      |                      |                     |                     |                     |
| Operating Transfers In  | \$1,499,618          | \$1,312,767          | \$1,013,519          | \$1,366,615         | \$2,017,497         | \$2,144,476         |
| Proceeds from Sale of Assets  | \$1,033,000          | \$214,757            | \$7,214,620          | \$1,308,407         | \$211,780           | \$0                 |
| Proceeds from Issuance of Debt  | \$6,540,147          | \$626,033            | \$2,350              | \$8,275,085         | \$0                 | \$0                 |
| Other Financing Sources Total   | \$9,072,765          | \$2,153,557          | \$8,230,489          | \$10,950,107        | \$2,229,277         | \$2,144,476         |
| <b>Revenue &amp; Other Fin Sources</b>  | <b>\$62,058,748</b>  | <b>\$57,142,795</b>  | <b>\$62,676,953</b>  | <b>\$71,722,206</b> | <b>\$62,580,577</b> | <b>\$60,194,749</b> |
| General Admin   | \$11,635,634         | \$11,810,472         | \$10,347,959         | \$11,947,260        | \$8,666,869         | \$16,908,860        |
| Public Safety   | \$25,422,875         | \$28,217,015         | \$28,433,477         | \$26,793,171        | \$28,436,434        | \$23,162,549        |
| Building and Health   | \$1,291,262          | \$1,361,322          | \$1,416,919          | \$1,161,175         | \$1,197,345         | \$875,133           |
| Public Works  | \$4,594,063          | \$4,203,650          | \$5,177,545          | \$5,304,816         | \$5,375,162         | \$4,414,648         |
| Culture & Recreation/Com Dev  | \$3,648,123          | \$3,741,836          | \$3,847,544          | \$3,640,181         | \$3,725,868         | \$2,390,016         |
| Debt Service  | \$7,427,599          | \$1,336,178          | \$1,537,160          | \$965,988           | \$838,509           | \$804,886           |
| Incinerator/Other   | \$0                  | \$0                  | \$6,119,838          | \$714,171           | \$0                 | \$0                 |
| <b>Total Expenditures</b>   | <b>\$54,019,556</b>  | <b>\$50,670,473</b>  | <b>\$56,880,442</b>  | <b>\$50,526,762</b> | <b>\$48,240,187</b> | <b>\$48,556,092</b> |
| Other Financing Uses  |                      |                      |                      |                     |                     |                     |
| Transfer Out  | <b>\$9,761,422</b>   | <b>\$9,585,810</b>   | <b>\$8,829,930</b>   | <b>\$7,629,243</b>  | <b>\$15,018,460</b> | <b>\$11,338,871</b> |
| Other Financing Uses Total  | \$9,761,422          | \$9,585,810          | \$8,829,930          | \$7,629,243         | \$15,018,460        | \$11,338,871        |
| <b>Total Expenditures and Other Uses</b>  | <b>\$63,780,978</b>  | <b>\$60,256,283</b>  | <b>\$65,710,372</b>  | <b>\$58,156,005</b> | <b>\$63,258,647</b> | <b>\$59,894,963</b> |
| <b>Net Change in Fund Balances</b>  | <b>(\$1,722,230)</b> | <b>(\$3,113,488)</b> | <b>(\$3,033,419)</b> | \$13,566,201        | <b>(\$678,070)</b>  | \$299,786           |
| <b>Fund Balance - Beginning of Year</b>   | \$8,574,993          | \$6,852,763          | \$3,739,275          | \$705,856           | \$14,272,057        | \$13,593,987        |
| <b>Fund Balances Reserved EOY</b>   | *                    | \$3,333,097          | \$2,645,620          | \$10,409,125        | \$13,673,865        | \$13,373,865        |
| <b>Fund Bal Unreserved EOY</b>  |                      | \$406,178            | <b>(\$1,939,764)</b> | \$3,862,932         | \$220,122           | \$519,908           |
| <b>Tot. Fund Balances End Yr.</b>   | \$6,852,763          | \$3,739,275          | \$705,856            | \$14,272,057        | \$13,593,987        | \$13,893,773        |
| <b>Annual Audit</b>   |                      |                      |                      |                     |                     |                     |

\*Fiscal Year 2004 split between reserved & unreserved fund balance was not available.

It appears that the fund balance reserves for 2004-2007 are largely committed or reserved fund balances and therefore only a small portion (less than 10%) is unreserved fund balances. For 2008, the Fund Balance End-of Year is \$13,593,997 of which \$13,373,865 is committed reserve for the following purposes: encumbrances, workers compensation, capital outlay trust, revolving loans for businesses. This leaves \$220,122 as unreserved fund balance for fiscal year 2008. Similarly, the 2009 projected Fund Balance End-of-Year is almost entirely a committed reserve for the same purposes as listed above and the unreserved fund balance is \$519,908. The 2009 unreserved fund balance has been used in 2010 and the City is already behind in vendor payments, is paying on judgments to vendors, and is currently having difficulty making the payroll payment for 10/29/2010.

In addition to the General Obligation bond commitments, the City has also issued various revenue bonds. These Revenue Bonds include 2006 Series A-2 for renovations to the Commerce Bank Park Baseball Stadium; 2006 Lease Revenue Bonds to finance the leasing of the McCormick Building; 2007 Capital Leases for the purchase of vehicles and other Public Works Equipment; 2008 General Obligation Note with Pennvest for various resurfacing projects.

The City also guarantees various other debt issues for one of its component units, The Harrisburg Authority (THA). The Harrisburg Authority issued various bonds and notes to finance the renovation and upgrade of a Resource Recovery Facility (RRF). During 2009, THA had to utilize certain debt service reserves in conjunction with the City's and Dauphin County's guarantee to make the required debt service payments. The City had to exercise those obligations again in 2010.

The City has transferred significant sums of money to the Debt Service Fund to pay the City's General Obligation Debt and the Revenue Bonds defined above. The Operating Transfers Out 2004 through 2009 were largely transferred to the Debt Service Fund to pay the City's General Obligation Debt and Revenue Bonds defined.

The City has been able to offset some of the inter-fund transfers out through Other Financing Sources such as one time sale of assets and the proceeds from the issuance of debt. These practices usually result in short-term gains and produce very little long-term benefit.

The burden that the General Obligation Bonds and the Revenue Bonds has placed on the General Fund is unusual and troublesome. If the General Fund accounts were not bearing the cost for these substantial bond payments the City of Harrisburg's General Fund would be a more stable fund.

This situation became increasingly more complicated in September 2010 when the City's General Fund was having difficulty making its General Obligation Bond payments. The Commonwealth agreed to provide assistance through paying pending state funds to the City in advance of their scheduled disbursement dates, so that the City was able to make its debt service payment on the bonds.

There are several Resource Recovery Facility Bond payments that will come due prior to the end of the calendar year. Given its cash flow position, the City will be unable to meet the commitments on these bonds. Dauphin County will be looked upon to make the debt service payments on those bonds in which they serve as co-guarantor. In February 2010, Moody's rating agency moved to

reduce the City's General obligation Bond rating to B2 or junk bond status. Additional defaults will only exacerbate an already complicated refinancing situation.

In addition, the City has several judgments against it from City vendors. The judgments, as previously listed, are: Conrail v. City of Harrisburg in which the City must pay \$300,000 in three annual installments of \$100,000, the first of which was made this year; and, Eichelberger v. City of Harrisburg in which the City must pay \$660,000 in two annual installments of \$330,000, the first of which was paid this year.

As evidenced by the cash flow report found above, the City is also holding payments of approximately \$2M to vendors. The nearly \$2M in outstanding unpaid vendor invoices is almost equally split between personnel related expenses such as health care premiums, workers compensation insurance and payroll services and other non-personnel related services such as vehicle and public facility maintenance expenses. Again, the combination of a cash flow crisis and a debt service payment crisis is not easily evidenced in Table 2.

The additional commitments to the RRF will not be met for the December bonds payable. Since The Harrisburg Authority has already indicated that they cannot make the bond payments for December, the Trust will be notified to make the payments if there is any funding available in the Debt Service Reserve Funds. Based on the bond payments made in September for the RRF it is anticipated that the reserves are nearly depleted.

## **2.) Early Intervention Program Forecast**

The City obtained an Early Intervention Program (EIP) grant from DCED and engaged Management Partners, Inc. in the fall of 2009 to undertake a review of its finances and to develop a multi-year financial plan. The ensuing fiscal analysis uncovered a fiscal crisis that necessitated the development of an Emergency Plan. The Emergency Plan would lay out a short-term strategy to address the City's critical cash flow situation. Management Partners, Inc. attributed the fiscal crisis as stemming from the debt obligations resulting from the City's Refuse Recycling Facility (RRF), the downturn in current economic conditions and institutional financial conditions. While the multi-year financial plan progressed to completion in May of 2010, the Emergency Plan was developed and presented to the City in January 2010 for immediate consideration of short term recommendations.

Management Partners, Inc. identified three critical areas that the City must address in its Emergency Plan and provided recommendations for potential improvement. The three areas are: obligations for debt service; cash management; and, addressing structural financial issues. Subsequent to receiving the Emergency Plan, the City made application to the Department for additional resources under the EIP to begin implementation of recommendations. However, prior to the implementation of any recommendations, the City's financial situation quickly deteriorated and as such, the Mayor felt it appropriate to request consideration under the Act 47 program.

Below in Table 3 are the anticipated deficits as defined in the Management Partners, Inc. Early Intervention Program study conducted earlier this year.

### **Financial Forecast for 2010 to 2015**

As part of the Early Intervention Study Phase I, Management Partners, Inc. developed a five-year financial model. The model provides a forecast of Harrisburg's financial future based on revenue and expenditure assumption and related economic concerns. Management Partners, Inc. noted that the current global and national economy in general are very weak with considerable volatility.

While some improvements in the economy have been noted, the factors affecting state and particularly local government finance have yet to show any real economic improvement or recovery. Keeping these grave economic predictions in mind, the following projections were developed for the City of Harrisburg.

The General Fund is the primary fund for revenues and expenditures related to most governmental services provided by the City of Harrisburg. This includes Administration, Public Safety, Public Works, and Parks and Recreation. Included in the projections are significant increases in wages and health benefits. These are the result of the extension of collective bargaining agreements for police, fire and non-uniformed employees. Since personnel costs comprise the majority of the expenditures in the General Fund it is important to define the impact this component will have on the overall budget. The General Fund financial forecast without corrective action for 2011 through 2015 is shown in Table 3.

Table 3 - General Fund Forecast from 2011 to 2015

| <b>Table 3 Harrisburg General Fund Financial Forecast from 2011 to 2015</b> |                      |                      |                      |                      |                      |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Harrisburg General Fund Projected Forecast</b>                           | <b>2011 Forecast</b> | <b>2012 Forecast</b> | <b>2013 Forecast</b> | <b>2014 Forecast</b> | <b>2015 Forecast</b> |
| <b>Revenues</b>   | \$60,628,812         | \$60,809,927         | \$60,520,698         | \$60,829,097         | \$61,153,724         |
| <b>Expenses</b>   | \$62,305,030         | \$63,467,842         | \$64,589,782         | \$65,746,297         | \$66,733,436         |
| <b>Surplus/(Deficit)</b>  | (\$1,676,218)        | (\$2,691,646)        | (\$4,137,558)        | (\$5,021,460)        | (\$5,683,972)        |
| <b>Cumulative Surplus/(Deficit)</b>   | (\$1,676,218)        | (\$4,367,864)        | (\$8,505,422)        | (\$13,526,882)       | (\$19,210,854)       |
| <b>Management Partners, Inc.</b>  |                      |                      |                      |                      |                      |

This table indicates a pattern of slow revenue growth and increasing expenses. This condition will result in increasing annual deficits that would accumulate to \$19.2 million over the time period 2011 through 2015. These assumptions assume no major policy changes occur during this time period. Assuming nothing in the current financial paradigm changes the City is headed for a \$19 million dollar deficit in a short five-year period.

Property taxes revenues will continue to decrease slightly over the life of the forecast. This pattern for property taxes has been consistent with historical collections since 2007. Local Services Taxes and Earned Income Taxes will grow slowly at a rate of less than 2% per year. Business Privilege taxes will grow slowly at a rate of slightly higher than 2% per year. Other forms of revenue are expected to be flat through the forecast period.

Revenues will remain consistently flat at a time when expenses will continue to climb. Wage increases for City employees are included based on current contractual agreements as specified below:

- Police Department: 4% wage increase in 2011, 3% wage increase per year 2012 to 2015
- Fire Department: 3% wage increase in 2011, 4% wage increase in 2012, 3% wage increase in 2013 to 2016
- American Federation of State, County, and Municipal Employees: 4% wage increase in 2011, 3% wage increase in 2012 to 2014
- Non-Bargaining Unit Employees have no scheduled increase through 2015

(Please note that contract extensions through 2016 occurred late in Fiscal Year 2009.)

Operating expenses will increase on average 3% per year based on the Federal Reserve System target for price stabilization.

Medical benefit expenses are expected to increase 12% or more per year based on historical experiences.

The City of Harrisburg’s direct debt service expense of \$10,325,921 is included in each year for the forecast period of 2011 to 2015.

The assumed deficits obviously cannot be sustained. Important policy decisions will have to be made to balance the budget and eliminate any potential deficits. These policy decisions will require a combination of increases in revenues and serious decreases in expenditures. The City cannot continue with the deficits assumed.

### 3.) TAX BASE AND REVENUE TRENDS

The City’s real estate tax assessment has steadily declined from 2003 to 2007, however, fiscal years 2008, 2009, and 2010 exhibited a slight increase in taxable assessed value. The City currently has a separate tax rate for land and buildings (improvements). Dauphin County property is assessed at 100%. These factors present unique dilemmas for the elected officials as it is important that the City remain competitive with surrounding municipalities and it cannot afford to place significant burden on taxpayers.

Table 4- Trends in Assessed Value

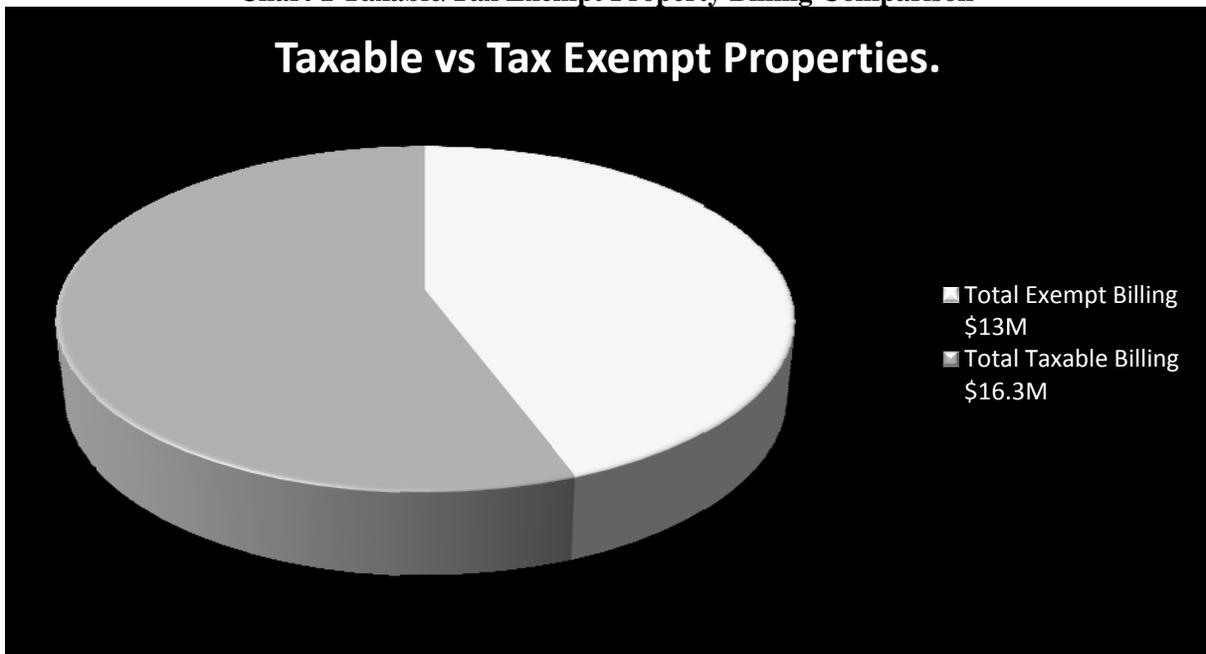
| <b>Table 4 - City of Harrisburg -Trends In Assessed Valuation</b> |                                   |                      |   |
|---|-----------------------------------|----------------------|---|
| <b>Year</b>   | <b>Assessed Valuation Taxable</b> | <b>Annual Change</b> | <b>Effective Single Equivalent Millage Rate</b> |
| 2003  | 1,669,818,000                     |                      | 8.66  |
| 2004  | 1,626,560,000                     | -2.59%               | 8.66  |
| 2005  | 1,594,658,000                     | -1.96%               | 8.63  |
| 2006  | 1,590,658,000                     | -0.25%               | 8.64  |
| 2007  | 1,584,834,000                     | -0.37%               | 10.15   |
| 2008  | 1,584,939,000                     | 0.01%                | 10.15   |
| 2009  | 1,609,510,900                     | 1.56%                | 10.15   |
| 2010  | 1,628,033,820                     | 2.72%                | 10.15   |
| Source: STEB 2003/08 Fin Dpt.Hbg. 2009/10                         |                                   |                      |   |

The City has 48% tax exempt real estate property leaving only 52% of the property subject to the real estate tax. Efforts have been made to encourage non-profits in the City to contribute their fair share; however, the City has had very little success in gaining compliance from these tax exempt properties. State legislation that amended the charitable organization definition has curtailed the City's efforts to obtain contributions from non-profit charitable organizations (namely hospitals).

#### Chart 1- Taxable/Tax Exempt Property Billing Comparison

City records indicate that there are 17,212 taxable properties and 1,477 tax exempt properties. While this figure is less than 10% the assessed value of the Tax Exempt properties, it accounts for 48% of the total billing. Chart 1 below illustrates the comparison of Taxable and Tax Exempt Property Billing

**Chart 1 Taxable/Tax Exempt Property Billing Comparison**



Source: City of Harrisburg Tax Duplicate

Please see Table 5 below for the following observations for the real estate taxes collected that are corrected for constant dollars. In fiscal year 2004 the City sold 2003 and prior year's delinquent real estate liens to the Harrisburg Redevelopment Authority. In 2006, a 1.5 mill real estate tax increase was enacted. Even with this increase corrected for constant dollars, the real estate taxes collected were nearly at the same level as they were in 2004. In general, the real estate tax income has been flat except for the tax increase that occurred in 2007.

Table 5- Real Estate Tax Revenues (General Purpose)

| <b>Table 5 - City of Harrisburg – Real Estate Tax Revenues (General Purpose)</b> |                     |                     |                     |                     |                     |                           |                                 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------------|---------------------------------|
| <b>Formula:</b> Real Estate Tax Revenues<br>(Constant Dollars)                   |                     |                     |                     |                     |                     |                           |                                 |
|  | <b>2004</b>         | <b>2005</b>         | <b>2006</b>         | <b>2007</b>         | <b>2008</b>         | <b>2009<br/>Unaudited</b> | <b>12/31/2010<br/>Projected</b> |
| Real Estate Tax Revenues   | \$15,194,054        | \$13,321,183        | \$12,806,048        | \$16,077,025        | \$16,346,529        | \$15,657,718              | \$16,716,365                    |
| CPI for Local Area   | 118.5               | 122.5               | 126.9               | 130.139             | 136.042             | 136.598                   | 139.348                         |
| CPI in Decimal   | 1.19                | 1.23                | 1.27                | 1.3                 | 1.36                | 1.37                      | 1.39                            |
| Millage Rates  | 8.66                | 8.63                | 8.64                | 8.64                | 8.64                | 10.15                     | 10.15                           |
| <b>Real Estate Tax Revenues</b>  | <b>\$12,768,113</b> | <b>\$10,830,230</b> | <b>\$10,083,502</b> | <b>\$12,366,942</b> | <b>\$12,019,507</b> | <b>\$11,428,991</b>       | <b>\$12,026,162</b>             |
| <b>(In Constant Dollars)</b>   |                     |                     |                     |                     |                     |                           |                                 |
| <b>Source: Bureau of Labor Statistics Federal Government</b>                     |                     |                     |                     |                     |                     |                           |                                 |

Table 6 illustrates the earned income tax history corrected for constant dollars. The earned income taxes (EIT) increased each year from 2004 to 2007. The 2008 and unaudited 2009 EIT declined and in 2010 is projected to slightly increase. Some of this may be attributed to the slowing of the global and national economy. When corrected for constant dollars, the EIT in 2010 is at the same level as in 2004.

Table 6- Earned Income Tax- General Purpose Levy

| <b>Table 6 - City of Harrisburg - Earned Income Tax-General Purpose Levy</b> |              |             |             |             |             |                           |                                 |
|--|--------------|-------------|-------------|-------------|-------------|---------------------------|---------------------------------|
| <b>Formula:</b> Earned Income Tax-General Purpose<br>(Constant Dollars)      |              |             |             |             |             |                           |                                 |
|  | <b>2004</b>  | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009<br/>Unaudited</b> | <b>12/31/2010<br/>Projected</b> |
| <b>Earned<br/>Income<br/>Tax-<br/>General</b>                                | \$3,111,689  | \$3,346,735 | \$3,390,099 | \$3,904,142 | \$3,810,890 | \$3,444,832               | \$3,658,432                     |
| <b>CPI for<br/>Area</b>  | 118.5        | 122.5       | 126.9       | 130.139     | 136.042     | 136.598                   | 139.348                         |
| <b>CPI<br/>Decimal</b>   | 1.19         | 1.23        | 1.27        | 1.3         | 1.36        | 1.37                      | 1.39                            |
| <b>EIT<br/>Adjusted in<br/>Constant<br/>Dollars</b>                          | \$2,614,865  | \$2,720,923 | \$2,669,369 | \$3,003,186 | \$2,802,125 | \$2,514,476               | \$2,631,965                     |
| <b>Source:</b>   | City Finance |             | Dept.       |             |             |                           |                                 |

Table 7 displays the tax revenue trends for the past six years. Fiscal year unaudited 2009 revenue information and projected year-end 12/31/2010 are included in Table 7. Since 2004 the General Fund tax sources have steadily albeit slowly increased each year except for the unaudited 2009. The Unaudited 2009 Local Services Tax includes only three quarters of revenue because the legislation changed late in the prior fiscal year not permitting enough time to allow for the collection of all four quarters. Please note that the projected 2010 indicate that all four quarters of the Local Services Tax will be collected.

For fiscal year 2010, the projected tax revenue is expected to increase in the major revenue sources. The Finance Department anticipates that the 2010 real estate tax, earned income tax, local services tax, and amusement tax will outpace 2009 revenues based on third quarter revenue performance. Overall the global and national economy is not expected to recover quickly and thus, the primary revenue sources are not expected to recover significantly.

Table 7- Tax Revenue Trends

| <b>Table 7 - City of Harrisburg- Tax Revenue Trends</b> |                               |                     |                     |                     |                     |                           |                                 |
|---|-------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------------|---------------------------------|
|   | <b>2004</b>                   | <b>2005</b>         | <b>2006</b>         | <b>2007</b>         | <b>2008</b>         | <b>2009<br/>Unaudited</b> | <b>12/31/2010<br/>Projected</b> |
| <b>RE Tax-<br/>Current</b>                              | \$15,194,054                  | \$13,321,183        | \$12,806,048        | \$16,077,025        | \$16,346,529        | \$15,657,718              | \$16,716,365                    |
| <b>Realty<br/>Transfer</b>                              | \$885,956                     | \$1,101,829         | \$818,858           | \$843,295           | \$1,044,116         | \$400,913                 | \$385,134                       |
| <b>Act 511-EIT</b>                                      | \$3,111,689                   | \$3,346,735         | \$3,390,099         | \$3,605,142         | \$3,810,890         | \$3,444,832               | \$3,658,432                     |
| <b>OPT/LST</b>  | \$336,509                     | \$2,782,395         | \$3,022,552         | \$2,867,389         | \$1,950,626         | \$1,782,217               | \$2,001,456                     |
| <b>Other Act<br/>511</b>                                | \$0                           | \$0                 | \$0                 | \$0                 | \$0                 | \$0                       | \$0                             |
| <b>Amusement<br/>Tax</b>                                | \$320,773                     | \$280,182           | \$280,923           | \$280,289           | \$279,779           | \$257,460                 | \$261,000                       |
| <b>Business</b>   | \$3,842,582                   | \$3,694,587         | \$3,788,415         | \$3,904,624         | \$3,684,238         | \$3,931,992               | \$3,834,300                     |
| <b>Total Tax<br/>Revenue</b>                            | <b>\$23,691,563</b>           | <b>\$24,526,911</b> | <b>\$24,106,895</b> | <b>\$27,577,764</b> | <b>\$27,116,178</b> | <b>\$25,475,132</b>       | <b>\$26,856,687</b>             |
| <b>Source:</b>  | <b>City<br/>Finance Dept.</b> |                     |                     |                     |                     |                           |                                 |

#### 4.) DEBT SERVICE OBLIGATIONS OUTLINED

The City of Harrisburg currently has significant debt obligations. In addition to the General Obligation Bonds and Revenue Notes for the Governmental Units (both were defined earlier in the discussion), the City has guaranteed debt for the Harrisburg Authority, the Harrisburg Parking Authority, and the Harrisburg Redevelopment Authority. The total Bonds Payable which is presented in the 2008 City of Harrisburg's Annual Audit as of the 2008 Audit is \$509,511,299. According to the 2008 bonds payable schedule, The Harrisburg Authority owes nearly \$304 million dollars of the total figure and does not appear to be in a position to meet annual debt payments. The City is listed as co-guarantor on many of the bond issues. The County of Dauphin is also listed as co-guarantor on certain debt issues.

Table 8- Total Bonds Payable for Governmental Fund Type and the City's Related Component Units as of 2008

| <b>Table 8 - TOTAL BONDS PAYABLE FOR GOVERNMENTAL FUND TYPE AND THE CITY'S RELATED COMPONENT UNITS AS OF 2008 AUDIT</b> |                                |                                 |                                 |                                     |                                       |   |
|---|--------------------------------|---------------------------------|---------------------------------|-------------------------------------|---------------------------------------|---|
| <b>Total Bonds Payable for both Governmental Activities &amp; Total Component Units of the Government Harrisburg</b>    | <b>Governmental Activities</b> | <b>Business-Type Activities</b> | <b>The Harrisburg Authority</b> | <b>Harrisburg Parking Authority</b> | <b>Harrisburg Redevelop Authority</b> | <b>Total Bonds Payable for Gov. Funds &amp; Component Units</b> |
| GO Bond, Series A & B of 1995   | \$7,253,644                    | \$92,038                        |                                 |                                     |                                       |   |
| GO Bond Series A-1 of 1997  |                                | \$1,180,000                     |                                 |                                     |                                       |   |
| GO Bond Series D of 1997  | \$34,796,691                   |                                 |                                 |                                     |                                       |   |
| Rev Bonds Hbg Senators, Series  |                                | \$8,570,000                     |                                 |                                     |                                       |   |
| Lease Revenue Bonds, Series of 2006   | \$5,281,310                    |                                 |                                 |                                     |                                       |   |
| Water Revenue Bonds, Series of 2008   |                                |                                 | \$69,420,000                    |                                     |                                       |   |
| Water Revenue Bonds, Series A of 2004   |                                |                                 | \$37,045,000                    |                                     |                                       |   |
| Water Revenue Bonds, Series A, B, C, & D of 2002  |                                |                                 | \$48,825,000                    |                                     |                                       |   |
| Water Revenue Bonds, Series A of 2001   |                                |                                 | \$4,785,000                     |                                     |                                       |   |
| Sewer Revenue Bonds, Series of 1992   |                                |                                 | \$6,925,000                     |                                     |                                       |   |
| Sewer Revenue Bonds, Second/Third Series of 1989  |                                |                                 | \$6,925,000                     |                                     |                                       |   |
| Resource Recovery Bonds, Series A,D,E and F of 2003   |                                |                                 | \$147,555,000                   |                                     |                                       |   |
| Resource Recovery Bonds, Series A of 1998   |                                |                                 | \$11,240,000                    |                                     |                                       |   |
| Parking Revenue Bonds, Series K of 2000   |                                |                                 |                                 | \$11,800,000                        |                                       |   |
| Parking Revenue Bonds, Series J of 2001   |                                |                                 |                                 | \$28,290,000                        |                                       |   |
| Parking Revenue Bonds, Series N of 2003   |                                |                                 |                                 | \$5,265,000                         |                                       |   |
| Parking Revenue Bonds, Series O of 2003   |                                |                                 |                                 | \$11,820,000                        |                                       |   |
| Parking Revenue Bonds, Series P of 2005   |                                |                                 |                                 | \$16,625,000                        |                                       |   |
| Parking Revenue Bonds, Series R of 2007   |                                |                                 |                                 | \$16,965,000                        |                                       |   |
| Parking Revenue Bonds, Series T of 2007   |                                |                                 |                                 | \$19,890,000                        |                                       |   |
| Parking Revenue Bonds, Series K of 2007   |                                |                                 |                                 |                                     |                                       |   |
| Guaranteed Revenue Bonds, Series A & B of 1998  |                                |                                 |                                 |                                     | \$93,590,000                          | \$93,590,000  |
| Less: Deferred loss on refunding and unamortized Prem.  |                                | (\$58,490)                      | (\$28,424,195)                  | (3,593,405)                         | (52,551,294)                          | (\$84,627,384)  |
| <b>Total Bonds Payable</b>  | <b>\$47,331,645</b>            | <b>\$9,783,548</b>              | <b>\$304,295,805</b>            | <b>\$107,061,595</b>                | <b>\$41,038,706</b>                   | <b>\$509,511,299</b>  |
| <b>Source: 2008 Annual Audit</b>  |                                |                                 |                                 |                                     |                                       |   |

According to the 2008 Audit, the rate covenant calculation required under applicable trust indentures pertaining to the Harrisburg Resource Recovery Facility (RRF) financing has not been met for the fiscal year ended December 31, 2008. If the RRF fails to generate sufficient revenues to pay debt service on the RRF Revenue Bonds, Series, A,D,E, and F of 2003, the RRF Revenue Notes, Series B and C of 2003, the RRF Subordinate Variable Rate Revenue Notes, Series A 2002 or RRF Bonds, Series A 1998, or ceases revenue generating operations, or if other monies set aside for such purpose are insufficient, the City of Harrisburg is required to pay principal and interest on such bonds and notes when due pursuant to respective Guaranty Agreements among the City, The Harrisburg Authority, and the respective trustees for the bond and notes. The County of Dauphin has provided a secondary guaranty of the RRF Revenue Bonds, Series D and E, collectively, in the maximum aggregate principal amount not to exceed \$113,000,000 by entering into a County Bond Guaranty Agreement with the Harrisburg Authority and the trustees for such bonds. The Resource Recovery segment of the Harrisburg Authority has incurred substantial accumulated losses, which have caused the operation to experience serious cash flow difficulties. Covanta, the firm that currently operates the RRF facility, provided a significant loan of \$25.5M to The Harrisburg Authority and the City to keep the facility operating in 2009/2010. The Authority and City are currently in default on that loan payment.

The Resource Recovery segment of the Harrisburg Authority has been unable to pay on some of the bonds leaving the City and the County as Guarantors of the debt to make the payment. Earlier in 2010 two debt service payments for the Harrisburg RRF were paid for Series 1998A and Series 2003ABC. The City utilized funds from each of the bond's respective Debt Service Reserve Fund (DSRF) to make these payment(s). Insufficient funds remain in the DSRF's balances for specific future bond series payments. Once the DSRF is depleted for the specific bonds then the City (and in some cases the County) will be responsible to pay the bond balances. Since the City opted to use the DSRF to pay the scheduled payment, the debt service obligations are considered to be in default according to the terms of the bond indenture. (The Trustee reports that the County is making monthly payments to fund the DSRF's deficiencies.)

Of even more significant concern is that the City has several bond issues where the DSRF is either completely depleted or lacks sufficient funds to make a complete payment. Series 2002A and 2003F are covered by a surety policy.

The City itself does not have the resources to fund the Harrisburg Incinerator Facilities debt with or without bond DSRFs. Below are a series of schedules defining the total bonded debt which is either guaranteed (as first or second guarantor) by the City or the bond holders and is part of an important component unit (Harrisburg Authority, Harrisburg Parking Authority, or the Harrisburg Redevelopment Authority) of the City. As a component unit, these entities are considered part of the City Government.

Tables 9-12 identify the total requirement to amortize all bonds outstanding. This information was retrieved from the 2008 Annual Audit. The total amortization of all debt for the City and its related component units is \$818 million dollars.

Table 9- Total Requirement to Amortized all Bonds Outstanding

| <b>Table 9 – Total Requirement to Amortized all Bonds Outstanding</b> |                     |                     |                     |                  |
|---|---------------------|---------------------|---------------------|------------------|
| <b>Issue</b>  | <b>Principal</b>    | <b>Interest</b>     | <b>Total</b>        | <b>Type Debt</b> |
| GO 2009   | \$6,700,773         | \$290,677           | \$6,991,450         | General          |
| GO 2010   | \$5,788,415         | \$601,585           | \$6,390,000         | General          |
| GO 2011   | \$3,904,684         | \$590,316           | \$4,495,000         | General          |
| GO 2012   | \$3,706,528         | \$793,472           | \$4,500,000         | General          |
| GO 2013   | \$3,511,400         | \$988,600           | \$4,500,000         | General          |
| GO 2014-2018  | \$14,884,166        | \$7,585,834         | \$22,470,000        | General          |
| GO 2019-2023  | \$4,826,407         | \$4,386,112         | \$9,212,519         | General          |
| PG REV 2009   | \$885,164           | \$728,029           | \$1,613,193         | Primary Gov      |
| PG REV 2010   | \$895,164           | \$633,578           | \$1,528,742         | Primary Gov      |
| PG REV 2011   | \$905,164           | \$589,875           | \$1,495,039         | Primary Gov      |
| PG REV 2012   | \$920,164           | \$545,362           | \$1,465,526         | Primary Gov      |
| PG REV 2013   | \$930,164           | \$500,042           | \$1,430,206         | Primary Gov      |
| PG REV 2014-2018  | \$3,530,490         | \$1,859,072         | \$5,389,562         | Primary Gov      |
| PG REV 2019-2023  | \$1,990,000         | \$1,267,922         | \$3,257,922         | Primary Gov      |
| PG REV 2024-2028  | \$2,565,000         | \$678,242           | \$3,243,242         | Primary Gov      |
| PG REV 2029-2030  | \$1,230,000         | \$65,860            | \$1,295,860         | Primary Gov      |
| Rev Bond Less Deferred Loss   | (\$58,490)          |                     | (\$58,490)          |                  |
| <b>Total</b>  | <b>\$57,115,193</b> | <b>\$22,104,578</b> | <b>\$79,219,771</b> |                  |
| <b>Source: City of Harrisburg 2008 Annual Audit</b>                   |                     |                     |                     |                  |

Table 10 – Long Term Debt Schedule THA

| <b>Table 10 - Long Term Debt Schedule The Harrisburg Authority (THA)</b> |                      |                      |                      |                  |
|--|----------------------|----------------------|----------------------|------------------|
| <b>Issue</b>   | <b>Principal</b>     | <b>Interest</b>      | <b>Total</b>         | <b>Type Debt</b> |
| HA REV 2009  | \$6,840,000          | \$17,514,277         | \$24,354,277         | HA REV           |
| HA REV 2010  | \$9,240,000          | \$17,659,227         | \$26,899,227         | HA REV           |
| HA REV 2011  | \$9,490,000          | \$14,799,897         | \$24,289,897         | HA REV           |
| HA REV 2012  | \$9,875,000          | \$13,045,894         | \$22,920,894         | HA REV           |
| HA REV 2013  | \$6,865,000          | \$12,734,199         | \$19,599,199         | HA REV           |
| HA REV 2014-2018   | \$49,980,000         | \$60,193,001         | \$110,173,001        | HA REV           |
| HA REV 2019-2023   | \$76,930,000         | \$47,356,274         | \$124,286,274        | HA REV           |
| HA REV 2024-2028   | \$77,730,000         | \$29,569,578         | \$107,299,578        | HA REV           |
| HA REV 2029-2033   | \$78,570,000         | \$10,310,747         | \$88,880,747         | HA REV           |
| HA REV 2034  | \$7,200,000          | \$450,000            | \$7,650,000          | HA REV           |
| Less Deferred Loss Refunding   | (\$28,424,195)       |                      | (\$28,424,195)       |                  |
| <b>Total</b>   | <b>\$304,295,805</b> | <b>\$223,633,094</b> | <b>\$527,928,899</b> |                  |
| <b>Source: City of Harrisburg 2008 Annual Audit</b>                      |                      |                      |                      |                  |

Table 11 – Long Term Debt Schedule HPA

| <b>Table 11 - Long Term Debt Schedule Harrisburg Parking Authority</b> |                      |                     |                      |                  |
|--|----------------------|---------------------|----------------------|------------------|
| <b>Issue</b>   | <b>Principal</b>     | <b>Interest</b>     | <b>Total</b>         | <b>Type Debt</b> |
| HPA REV 2009   | \$2,865,000          | \$4,789,799         | \$7,654,799          | HPA REV          |
| HPA REV 2010   | \$3,710,000          | \$4,683,324         | \$8,393,324          | HPA REV          |
| HPA REV 2011   | \$3,525,000          | \$4,546,472         | \$8,071,472          | HPA REV          |
| HPA REV 2012   | \$3,665,000          | \$4,410,379         | \$8,075,379          | HPA REV          |
| HPA REV 2013   | \$3,805,000          | \$4,272,617         | \$8,077,617          | HPA REV          |
| HPA REV 2014-2018  | \$23,210,000         | \$18,510,296        | \$41,720,296         | HPA REV          |
| HPA REV 2019-2023  | \$31,790,000         | \$12,529,610        | \$44,319,610         | HPA REV          |
| HPA REV 2024-2028  | \$28,925,000         | \$5,568,192         | \$34,493,192         | HPA REV          |
| HPA REV 2029-2033  | \$7,075,000          | \$1,363,837         | \$8,438,837          | HPA REV          |
| HPA REV 2034-2036  | \$2,085,000          | \$94,838            | \$2,179,838          | HPA REV          |
| Less Deferred Loss Refunding   | (\$3,593,405)        |                     | (\$3,593,405)        |                  |
| <b>Total</b>   | <b>\$107,061,595</b> | <b>\$60,769,364</b> | <b>\$167,830,959</b> |                  |
| <b>Source: City of Harrisburg 2008 Annual Audit</b>                    |                      |                     |                      |                  |

Table 12 – Long Term Debt Schedule Harrisburg Redevelopment Authority

| <b>Table 12 - Long Term Debt Schedule Harrisburg Redevelopment Authority</b> |                     |                 |                     |                  |
|--|---------------------|-----------------|---------------------|------------------|
| <b>Issue</b>   | <b>Principal</b>    | <b>Interest</b> | <b>Total</b>        | <b>Type Debt</b> |
| HRA REV 2014-2018  | \$18,470,000        | \$0             | \$18,470,000        | HRA REV          |
| HRA REV 2019-2023  | \$37,430,000        | \$0             | \$37,430,000        | HRA REV          |
| HRA REV 2024-2028  | \$21,270,000        | \$0             | \$21,270,000        | HRA REV          |
| HRA REV 2029-2033  | \$16,420,000        | \$0             | \$16,420,000        | HRA REV          |
| Less Deferred Loss Refunding   | (\$52,551,294)      |                 | (\$52,551,294)      |                  |
| <b>Total</b>   | <b>\$41,038,706</b> | <b>\$0</b>      | <b>\$41,038,706</b> |                  |
| <b>Source: City of Harrisburg 2008 Annual Audit</b>                          |                     |                 |                     |                  |

A critical concern for the City of Harrisburg is the extraordinarily high debt service expense as part of their total budget. As indicated below on Table 10 the City of Harrisburg’s General Fund and Debt Service Fund debt service payments were above 10% of total revenues. Fiscal Year 2004 was exceptionally high at 25.63%. Usually a financial indicator warning trend is when debt service exceeds 10% of operating and debt service revenue. Harrisburg has exceeded this benchmark every year between 2005 and 2010 with 2008, 2009, and 2010 above 16%. This is an unfavorable trend for the City.

It is important to note that the General Fund does not account for all debt service payments. The Debt Service Fund accounts for the majority of the debt service payments and it is far higher than the General Fund debt service activity. In fact, it appears that the General Fund transferred funds each year for the five year period to the Debt Service Fund to cover certain Debt Service Payments. The inter-fund transfers from the General Fund were the primary source for these debt service payments in the Debt Service Fund. This Debt Service activity affects only Governmental Fund Type debt not Authorities or component unit’s debt. As mentioned before, the City is the co-guarantor on multiple Revenue Bonds for the RRF. In fact, the Debt Service Fund in 2008 posted a \$1.2 million loss; hence, significantly decreasing the Debt Service Fund, Fund Balance.

Table 13- Debt Service Expenditures 2004- 2010

| <b>Table 13 - City of Harrisburg - Debt Service Expenditures – 2004 – 2010</b>                                 |               |               |               |               |               |                           |                           |
|--|---------------|---------------|---------------|---------------|---------------|---------------------------|---------------------------|
| <b>Formula: Debt Service Expenditures/Revenues for the General Fund and the Debt Service Governmental Fund</b> |               |               |               |               |               |                           |                           |
|  | <b>2004</b>   | <b>2005</b>   | <b>2006</b>   | <b>2007</b>   | <b>2008</b>   | <b>2009<br/>Unaudited</b> | <b>2010<br/>Projected</b> |
| Debt Service Expenditures  | \$15,685,843  | \$7,933,715   | \$8,228,415   | \$8,119,595   | \$11,337,452  | \$11,949,975              | \$11,942,709              |
| GF Oper. And Debt Service Revenues   | \$61,211,467  | \$61,590,204  | \$61,126,682  | \$69,844,394  | \$68,751,244  | \$74,220,885              | \$66,979,970              |
| <b>Debt Service Expenditures as a % of Operating Revenues</b>  | <b>25.63%</b> | <b>12.88%</b> | <b>13.46%</b> | <b>11.63%</b> | <b>16.49%</b> | <b>16.10%</b>             | <b>17.83%</b>             |
| <b>Source: City of Harrisburg Finance Department</b>   |               |               |               |               |               |                           |                           |

## 5.) PENSION PAYMENTS AND MMO REQUIREMENTS

The Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended) governs the actuarial funding of all municipal pension plans. The City of Harrisburg has individual pension plans for police administered by M & T Bank as Custodian of the plan, the firefighters plan is administered by Pennsylvania Municipal Retirement System (PMRS), and the non-uniform employees plan is administered by PMRS.

The three pension plans, police, firefighters, and non-uniform employees are funded through the City’s General Fund appropriations, state aid, and employee’s contributions. The amount of the City’s budget appropriation for pension plans is determined annually by the Chief Administrative Officer of the pension plans and is known as the Minimum Municipal Obligation (MMO.) This obligation includes funds received through the state aid for employee contributions, and City funds.

For the most part the pension funds are over funded and the City appears to have sufficient assets to cover the current pension liabilities. Only the Police Pension Fund in Fiscal Year 2003 and 2009 had less than 100% funding. Act 205 MMO payments were current through the end of 2009. The 2009 pension information exceeds the amount required to fund the pension. Keep in mind the City floated a bond to make pension payments to fully fund the pensions; therefore, there is debt associated with the current asset/liability position. The City may not be able to make the full MMO payment in 2010. This will be the first time in twenty-eight years that the City did not make the MMO payment on time. Please see Table 14 for the full summary of the City’s Pension plans.

Table 14- Pension Assets and Liability Summary

| <b>Table 14 City of Harrisburg Pension Assets and Liability Summary</b> |             |               |                 |                        |                         |
|---|-------------|---------------|-----------------|------------------------|-------------------------|
|   | <b>Year</b> | <b>Assets</b> | <b>AAL/UAAL</b> | <b>(Under)<br/>AAL</b> | <b>Funded<br/>Ratio</b> |
| <b>Police</b>   | 2003        | \$48,588,557  | \$50,541,728    | \$1,953,171            | <b>96%</b>              |
|   | 2005        | \$61,438,353  | \$55,244,375    | (\$6,193,978)          | <b>111%</b>             |
|   | 2007        | \$68,875,536  | \$59,874,001    | (\$9,001,535)          | <b>115%</b>             |
|   | 2009        | \$63,959,386  | \$65,951,752    | \$1,992,366            | <b>97%</b>              |
| <b>Fire</b>   | 2003        | \$52,137,632  | \$39,968,500    | (\$12,169,132)         | <b>130%</b>             |
|   | 2005        | \$61,270,530  | \$50,101,540    | (\$11,168,990)         | <b>122%</b>             |
|   | 2007        | \$60,115,728  | \$50,833,300    | (\$9,282,428)          | <b>118%</b>             |
|   | 2,009       | \$65,332,550  | \$53,322,794    | (\$12,009,756)         | <b>123%</b>             |
| <b>Non<br/>Uniform</b>  | 2003        | \$56,946,711  | \$44,367,335    | (\$12,579,376)         | <b>128%</b>             |
|   | 2005        | \$63,053,150  | \$52,154,704    | (\$10,898,446)         | <b>121%</b>             |
|   | 2007        | \$67,814,104  | \$55,904,700    | (\$11,909,404)         | <b>121%</b>             |
|   | 2009        | \$72,842,581  | \$53,764,888    | (\$19,077,693)         | <b>135%</b>             |
| <b>Annual Audit</b>   |             |               |                 |                        |                         |

## 6.) EXPENDITURE AND WORKFORCE TRENDS

The Revenue trends have been relatively flat over the five year period. Table 15 below demonstrates that the City Public Safety costs are increasing as a percentage of all revenue over time. As police and fire contractual obligations come due, the City is unable to respond in the form of increased revenues leaving a widening gap between revenues and expenditures. Over the last five years, Public Safety as a percentage of total operating revenues has averaged 47%. The figures below represent all costs for the operation each department.

The continuation of this trend will likely necessitate further reductions to the City's workforce and reductions to service levels.

Table 15- Public Safety Expenses

| <b>Table 15 - City of Harrisburg - Public Safety Expenses</b>        |               |               |               |               |               |
|--|---------------|---------------|---------------|---------------|---------------|
| <b>Formula:</b> Public Safety Expenses                               |               |               |               |               |               |
| Total Net Operating Revenues   |               |               |               |               |               |
|  | <b>2004</b>   | <b>2005</b>   | <b>2006</b>   | <b>2007</b>   | <b>2009</b>   |
| Public Safety  | \$25,422,875  | \$28,217,015  | \$28,433,477  | \$26,793,171  | \$23,162,549  |
| Total Net Operating Revenues   | \$52,985,983  | \$54,989,238  | \$54,446,464  | \$60,772,099  | \$58,050,273  |
| <b>Public Safety as a percentage of Total Net Operating Revenues</b> | <b>47.98%</b> | <b>51.31%</b> | <b>52.22%</b> | <b>44.09%</b> | <b>39.90%</b> |
| <b>City Finance Dept.</b>  |               |               |               |               |               |

During the course of the field survey work, Department staff was able to verify all of the workforce numbers with the City Staff. A complete review and breakdown of the City workforce history is included in Table 16 below. Since 2004, the City has reduced its compliment by more than 150 employees and has made internal structural changes within the various departments. In Fiscal Year 2010, the City staffing was reduced by 52 positions due to the City's deteriorating financial position. Most of the loss came from the Department of Community and Economic Development. This is significant since this Department assists with future community and economic development projects. If staff is not available to assist with these projects the economic growth of the City could be impacted.

Table 16- Workforce History by Year

| <b>Table 16 - City of Harrisburg - Workforce History By Year</b> |             |             |             |             |             |             |               |
|--|-------------|-------------|-------------|-------------|-------------|-------------|---------------|
| <b>DEPARTMENT</b>  | <b>2004</b> | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b>   |
| Mayor  | 10          | 10          | 5           | 6           | 5           | 4           | 4             |
| Council  | 10          | 10          | 8           | 10          | 9           | 10          | 9             |
| Controller   | 4           | 4           | 4           | 4           | 4           | 2           | 3             |
| Treasurer  | 10          | 10          | 10          | 8           | 8           | 9           | 8.4           |
| Solicitor  | 7           | 6           | 6           | 7           | 5           | 6           | 3             |
| Human Relations Commission                                       | 3           | 2           | 2           | 2           | 3           | 3           | 3             |
| Engineer   | 6           | 6           | 5           | 4           | 4           | 3           | 2             |
| Econ. Dev./Special Projects                                      | 8           | 8           | 5           | 5           | 5           | 6           | 4             |
| Administration   | 58          | 54          | 42          | 39          | 42          | 41          | 37.6          |
| Bldg and Housing Development                                     | 45          | 34          | 29          | 29          | 29          | 29          | 14.3          |
| Police   | 214         | 211         | 197         | 199         | 202         | 213         | 205           |
| Fire   | 100         | 97          | 92          | 88          | 93          | 89          | 84            |
| Public Works   | 155         | 141         | 129         | 134         | 132         | 134         | 124.63        |
| Parks and Rec  | 29          | 31          | 27          | 30          | 31          | 26          | 22            |
| Incineration and Steam Generation                                | 16          | 43          | 43          | -           | -           | -           | 0             |
| <b>Total</b>   | <b>675</b>  | <b>667</b>  | <b>604</b>  | <b>565</b>  | <b>572</b>  | <b>575</b>  | <b>523.93</b> |
| <b>Source: City's Bureau of Human Resources</b>                  |             |             |             |             |             |             |               |

The City's Police Department staffing has remained close to 200 and for 2008, 2009 and 2010 the number was slightly above 200. The Fire Department staffing has declined from 100 in 2004 to 84 in 2010. Realizing that the City has the highest per capita crime rate of comparable City's with similar populations and economic and social make-up(see Table 17 below), it is not feasible to significantly reduce the Police Department at this time.

Table 17- Comparative 2009 Violent/ Property Crime Rate per capita- similar sized Cities

| <b>Table 17</b><br><b>Comparative 2009 Violent/</b><br><b>Property crime rate per capita</b><br><b>Similar Sized Cities</b> |            |               |                |                       |
|---|------------|---------------|----------------|-----------------------|
|   | Population | Violent crime | Property crime | Crime rate per capita |
| Harrisburg  | 46,961     | 831           | 2,163          | .0637                 |
| Altoona   | 45,793     | 169           | 974            | .0249                 |
| Lancaster   | 54,441     | 461           | 2,858          | .0609                 |
| Chester   | 36,529     | 967           | 1,299          | .0620                 |
| Wilkes-Barre  | 40,710     | 171           | 1,497          | .0409                 |
| York  | 39,970     | 504           | 1,957          | .0615                 |
| <b>Source: 2009FBI</b><br><b>UCS Reports</b>  |            |               |                |                       |

Typical of most municipal government operations, personnel and benefit costs are the largest budget category making it difficult to adjust operations to meet available income. Without further service reductions, there is little ability to reduce expenses to meet the current revenue stream.

Current management of expenses and cost containment is difficult. The City has negotiated collective bargaining agreements that have significant, unsustainable financial impacts including pension and post retirement health care costs that are increasing at a pace far greater than the CPI.

The City has in effect three labor agreements, which cover approximately 90% of the total labor force. The Fraternal Order of Police Agreement is in effect through December 31, 2015. The International Association of Fire Fighters is in effect through December 31, 2016. The American Federation of State, County, and Municipal Employees is in effect through December 31, 2014.

## 7.) SOCIO-ECONOMIC AND DEMOGRAPHIC TRENDS:

In addition to the above fiscal trends, our analysis has found that socio-economic and demographic trends have further contributed to the financial difficulties of the City of Harrisburg.

## Population

Similar to other cities of similar population with the exception of Lancaster, Harrisburg has seen a gradual decline in population over the last 30 years. This is in contrast to a population gain within the county and state as a whole. The loss of population coupled with the high percent of families below the poverty level has a negative impact on the City's tax base and creates added stress on the City's ability to meet increasing demands for service.

Table 18- Comparative Population in Similar Sized Cities

| <b>Table 18<br/>Comparative Population<br/>in Similar Sized Cities</b> |                                      |                                      |                                      |                                      |               |   |
|--|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|---------------|---|
|  | <b>1980<br/>Total<br/>Population</b> | <b>1990<br/>Total<br/>Population</b> | <b>2000<br/>Total<br/>Population</b> | <b>2008<br/>Total<br/>Population</b> | <b>Change</b> | <b>%<br/>Population<br/>65 years<br/>and over</b> |
| <b>Harrisburg</b>  | 53,264                               | 52,376                               | 48,950                               | 44,848                               | -16%          | 10.8%   |
| <b>Altoona</b>   | 57,078                               | 51,881                               | 49,523                               | 46,756                               | -18%          | 15.7%   |
| <b>Lancaster</b>   | 54,725                               | 55,551                               | 56,348                               | 56,116                               | +3%           | 9.2%  |
| <b>Chester</b>   | 45,794                               | 41,856                               | 36,854                               | 29,542                               | -35%          | 11.4%   |
| <b>Wilkes-Barre</b>  | 51,551                               | 47,523                               | 43,123                               | 40,618                               | -21%          | 18.1%   |
| <b>York</b>  | 44,691                               | 42,192                               | 41,298                               | 38,809                               | -13%          | 10.2%   |
| <b>Dauphin County</b>  | 232,317                              | 237,813                              | 251,805                              | 255,322                              | +10%          | 13.7%   |
| <b>Commonwealth</b>  | 11,863,895                           | 11,881,643                           | 12,281,054                           | 12,418,756                           | +5%           | 15.2%   |

Table 19 below sets forth income poverty and housing values for the City, County and other cities of similar size and characteristics. The City's demographics clearly demonstrate it has one of the highest levels of poverty in comparison to other cities of similar size. Over 26% of families in Harrisburg are at or below the poverty level and 17% earn less than \$10,000 according to 2008 census estimates. It is a population that cannot withstand additional tax levies especially on earned income or real estate. The average housing value in Harrisburg is less than half of the average housing value in the Commonwealth and \$73,500 less than the average in Dauphin County. The City's Per Capita Income is only 68% of the state's average.

**Table 19- Comparative Income & Housing in Similar Sized Cities**

| <b>Table 19<br/>Comparative Income &amp; Housing<br/>in Similar Sized Cities</b> |   |   |   |  |   |                                       |
|--|---|---|---|--|---|---------------------------------------|
|  | <b>2008<br/>Median<br/>Household<br/>Income</b> | <b>2008<br/>Per<br/>Capita<br/>Income</b> | <b>2008<br/>% Families<br/>Below<br/>\$10,000</b> | <b>2008<br/>% Families<br/>Below<br/>Poverty</b> | <b>2008<br/>Median<br/>Home<br/>Value</b> | <b>2008<br/>% Renter<br/>Occupied</b> |
| <b>Harrisburg</b>  | \$35,105  | \$18,294                                  | 17%   | 26.1%  | \$75,200                                  | 59.1%                                 |
| <b>Altoona</b>   | \$35,156  | \$18,659                                  | 6.7%  | 15%  | \$79,500                                  | 34.3%                                 |
| <b>Lancaster</b>   | \$32,854  | \$15,499                                  | 10.8%   | 23.6%  | \$90,100                                  | 55.7%                                 |
| <b>Chester</b>   | \$26,998  | \$13,444                                  | 15.6%   | 29.8%  | 65,500                                    | 58.3%                                 |
| <b>Wilkes-Barre</b>  | \$29,183  | \$17,064                                  | 8.4%  | 17.1%  | 74,700                                    | 48.3%                                 |
| <b>York</b>  | \$27,640  | \$14,624                                  | 15.4%   | 31.2%  | \$75,500                                  | 55.2%                                 |
| <b>Dauphin County</b>  | \$52,360  | \$26,015                                  | 4.4%  | 7.5%   | \$148,700                                 | 33.5%                                 |
| <b>Commonwealth</b>  | \$50,272  | \$27,025                                  | 4.0%  | 8.2%   | \$155,400                                 | 28.6%                                 |
| <b>Source: 2006-2008 American Community Survey 3- Year Estimates</b>             |   |   |   |  |   |                                       |

## Housing Stock

Table 20 below reflects the status of the City’s housing stock. Harrisburg’s vacancy rate is twice that of the rate for Dauphin County and the state and next to Chester the highest of comparably sized third class cities. Likewise, over half of Harrisburg’s housing stock is pre-1940 which is twice as high as the age of the housing stock in the County and the Commonwealth. Incidents of fire, code violations and crime are typically higher where there are higher vacancy rates and older housing stock thus adding further pressure on City services.

Table 20- Comparative Occupied/ Vacant Housing in Similar Sized Cities

| <b>Table 20<br/>Comparative Occupied/ Vacant Housing<br/>in Similar Sized Cities</b> |                                   |                                 |   |
|--|-----------------------------------|---------------------------------|---|
|  | <b>%<br/>Occupied<br/>Housing</b> | <b>%<br/>Vacant<br/>Housing</b> | <b>%<br/>Structures built<br/>before 1940</b> |
| <b>Harrisburg</b>  | 79.1%                             | 20.9%                           | 57.2%   |
| <b>Altoona</b>   | 89.2%                             | 10.8%                           | 54.1%   |
| <b>Lancaster</b>   | 91.0%                             | 9.0%                            | 62.5%   |
| <b>Chester</b>   | 76.4%                             | 23.6%                           | 31.2%   |
| <b>Wilkes-Barre</b>  | 84.9%                             | 15.1%                           | 65.1%   |
| <b>York</b>  | 86.6%                             | 13.4%                           | 48.1%   |
| <b>Dauphin County</b>  | 90.1%                             | 9.9%                            | 24.4%   |
| <b>Commonwealth</b>  | 89.1%                             | 10.9%                           | 28.7%   |
| <b>Source: 2006-2008 American Community Survey 3- Year Estimates</b>                 |                                   |                                 |   |

Census statistics also show a greater percentage of households paying over 30% of their income towards rent. According to the United State Department of Housing and Urban Development the acceptable threshold for a household to spend on rent is 30% or less of its income. As housing costs seem relatively low in the City of Harrisburg they are still considered high in comparison to household income.

Table 21 below provides data related to median rents and percentages of the population paying over 30% of household income towards rent.

Table 21- Comparative Rental Information in Similar Sized Cities

| <b>Table 21 - Comparative Rental Information in Similar Sized Cities</b> |   |                    |
|--|---|--------------------|
|  | <b>Population paying gross rent of 30% or more of house hold income</b> | <b>Median rent</b> |
| <b>Harrisburg</b>  | 53.6%   | 651                |
| <b>Altoona</b>   | 50.7%   | 490                |
| <b>Lancaster</b>   | 54.9%   | 647                |
| <b>Chester</b>   | 60%   | 744                |
| <b>Wilkes-Barre</b>  | 48.4%   | 588                |
| <b>York</b>  | 51.4%   | 583                |
| <b>Dauphin County</b>  | 43.6%   | 739                |
| <b>Commonwealth</b>  | 47.1%   | 715                |
| <b>Source: 2006-2008 American Community Survey 3- Year Estimates</b>     |   |                    |

Table 22 below provides data related to residents 25 years and over without a high school diploma and percentage of residents unemployed.

This census information shows a significantly higher percentage of adults without a high school diploma for Harrisburg compared to Dauphin County and the state. The unemployment rate is almost twice as high for Harrisburg compared to Dauphin county and the state. It can be argued that higher educational levels relate to greater employment levels and thus a more sustainable economic base.

Table 22- Comparative Education & Unemployment in Similar Sized Cities

| <b>Table 22 - Comparative Education &amp; Unemployment in Similar Sized Cities</b> |  |                     |
|--|--|---------------------|
|  | <b>Residents 25 &amp; older<br/>without a HS diploma</b> | <b>% Unemployed</b> |
| <b>Harrisburg</b>  | 21.5%  | 9.4%                |
| <b>Altoona</b>   | 13.7%  | 7.4%                |
| <b>Lancaster</b>   | 28%  | 9.7%                |
| <b>Chester</b>   | 24.9%  | 13%                 |
| <b>Wilkes-Barre</b>  | 16.5%  | 8.1%                |
| <b>York</b>  | 26.4%  | 13.1%               |
| <b>Dauphin County</b>  | 11.9%  | 5.0%                |
| <b>Commonwealth</b>  | 13.2%  | 5.9%                |
| <b>Source: 2006-2008 American Community Survey 3- Year Estimates</b>               |  |                     |

It is obvious from the demographic data presented that there is a low and diminishing ability for the residents to produce the necessary resources to support services at current levels.

In fact, the low median, per capita income, and education levels contribute to the ever declining tax base and the inability of the City to raise additional revenue to support services. All of the demographics and socio-economic indicators demonstrate continuing downward trends that create barriers for the City in terms of raising enough income to provide services to ensure the health, safety, and welfare of City residents. The economic recession will continue to put fiscal pressures on individual residents and the City as a whole.

## 8. ADMINISTRATIVE AND FINANCIAL MANAGEMENT PRACTICES

A review of city audits for years 2004, 2005, 2006, 2007, and 2008 allowed the Department to gain significant insight into the City's fiscal health. The Certified Public Accountant (CPA) audit from 2008 notes that control deficiencies existed in managing multiple federal grants. Since there were multiple findings relating to these federal grants the Department views this as a serious concern regarding internal control processes and management of the federal grants and recommends that the City implement corrective actions as identified by the CPA.

It is also worthy to note that in more than one instance during our review, the City's financial data varied from the financial data provided by the Independent Auditors. In an effort to promote consistency and accuracy, the audited financial numbers were used for this report to the extent they were available. The City's unaudited financial reports were used to complete the review of 2009

data and projections from the Financial Management Department were used to project the 2010 year-end estimates.

The City has not completed its 2009 Audit as of the writing of this report. Since we are nearly at the close of Fiscal Year 2010, the Department considers this a serious deficiency as it impedes the City's ability to more fully understand its financial performance for 2009 as well as to prepare for the 2011 budget. The Annual Audit and Financial Report is due to the Department no later than April 1 of the year immediately following the fiscal year. A CPA audit will determine the validity of the financial statements for fiscal year 2009. The previous year's audits appear to have been completed on time and a comprehensive annual financial report was prepared for the fiscal years noted above.

It has been noted that the Financial Management Department does not have sufficient staff to oversee and manage the annual audit process. This is the primary reason the audit has not been completed. The City should make every effort to put the proper staff in place to manage and execute the annual CPA audit.

## RECOMMENDATION

Based on our analysis of the City's fiscal condition, tax base and revenue trends, debt service obligations, current and projected 2010 financial position, expenditure and workforce trends, pension obligations, use of inter-fund transfers, socio-economic and demographic trends and administrative and financial management practices, it is our recommendation that the City of Harrisburg be declared distressed under Act 47 at this time.

Clearly the City is and has been experiencing ongoing financial challenges over the past several years. The City's fiscal position has further deteriorated in 2010. Its ability to meet payroll, vendor, and debt obligations has been seriously challenged. These conditions make it difficult for the City to continue to fulfill its responsibilities to provide for the health, safety and welfare of its citizens. Our recommendation is based upon a continuing pattern of:

- Increasing year-end deficits;
- Significant year-end cash flow deficits
- Inability to pay current and future debt obligations;
- Decline of tax revenue in constant dollars taking inflation into account;
- Increasing annual costs particularly in personnel and employee benefits; and,
- Employing one-time revenue strategies that are not sustainable

Given the City's current fiscal position there are serious questions and uncertainty as to its ability to maintain municipal services without an adverse impact on the health, safety and welfare of the community. In our opinion, the City is exhibiting symptoms of distress that support a distress determination under Act 47.