



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT
HARRISBURG, PA 17120

OFFICE OF SECRETARY

November 3, 2011

The Honorable Linda Thompson
Mayor of the City of Harrisburg
Dr. Martin Luther King, Jr. Government Center
10 North 2nd Street
Harrisburg, Pennsylvania 17101

The Honorable Gloria Martin-Roberts
President of Council
Dr. Martin Luther King, Jr. Government Center
10 North 2nd Street
Harrisburg, Pennsylvania 17101

Mayor Thompson and Council President Roberts:

The Governor's Declaration of Fiscal Emergency applicable to the City of Harrisburg directs the Department of Community and Economic Development (DCED) to prepare an Emergency Action Plan as prescribed by Sections 602 and 603 of Act 47 as amended by Senate Bill 1151. DCED has retained the services of the Act 47 Coordinator to assist in the preparation of the Emergency Action Plan. This letter outlines the expectations that the Commonwealth has for the City during this fiscal emergency. Clearly throughout, and subsequent to, the Act 47 plan development, the City Administration has kept a very watchful eye on expenditures and cash flow. This Emergency Action Plan builds on the cost containment strategies that have been in place throughout the year, and identifies priority initiatives from the Coordinator's final plan that need to be acted upon swiftly in order to ensure that vital and necessary services are maintained within the City during the state of fiscal emergency. The following list of priority initiatives shall be acted upon as part of the Emergency Action Plan.

- ADMIN 07: Eliminate bulk copy services in the City's duplication center and eliminate one position
- POL 12: Increase operational efficiency in Parking Enforcement Office
- POL 13: Implement a new schedule for Parking Enforcement Officers
- POL 14: Increase current parking ticket fees
- PW 02: Enforce the City's right to commercial collection and contract with private collector for collection of commercial waste
- PRE 03: Eliminate Park Ranger Corp
- REV 04: Review and increase utilization of Payment in Lieu of Property Tax (PILOT) agreements, consider impact in sale of government owned property
- REV 06: Increase business license fees; improve compliance with Business Privilege and Mercantile Tax

Because of the very delicate nature of the City's immediate financial picture, and in order to ensure that vital and necessary services are maintained within the City, it is critical that all expenditures continue to be carefully scrutinized prior to obligating the City for payment. Expenditures that are essential to the health, safety and welfare of City residents, referred to in SB 1151 as "vital and necessary services", will

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not be jeopardized by any other expenditure, and all funds payable to the City will be used to pay for such services before being allocated to or expended for any other purpose. SB 1151 defines these uncompromisable expenditures as:

"Vital and necessary services." Basic and fundamental municipal services, including any of the following:

- (1) Police and fire services.
- (2) Ambulance and rescue services.
- (3) Water supply and distribution.
- (4) Wastewater services.
- (5) Refuse collection and disposal.
- (6) Snow removal.
- (7) Payroll and pension obligations.
- (8) Fulfillment of payment of debt obligations or any other financial obligations.

In order to ensure that vital and necessary services are maintained within the City during the state of fiscal emergency, the City **shall** continue, and reinstate if suspended, the following steps commensurate with the financial crisis it faces:

- **Spending freeze for discretionary purchases:** The City **shall** eliminate FY2011 discretionary purchases of certain categories of material and equipment, such as computers, peripherals, and printers, as well as office supplies until current inventories are depleted. Equipment or vehicle purchases should also be deferred except in urgent cases. Optional contracts for professional services or commodities should be reduced or eliminated whenever possible. Finance Director **and DCED** approval should be required for all discretionary purchases over \$2,500.
- **Hiring freeze and overtime restrictions:** **DCED approval shall** be required for any exceptions to a general hiring freeze, including filling temporary, seasonal or paid intern positions in the FY2011 budget. Advance **DCED** approval of overtime **shall** be required, although we understand unforeseeable events may occur, particularly for public safety departments. Bureau Directors should work closely with the Finance Director **and DCED** to monitor and manage overtime throughout the year. This should not be interpreted to limit hiring for key critical positions, such as the Business Administrator/Chief of Staff, and those positions that have a positive impact on revenues or allow overtime expenditures to be reduced.
- **Limit capital project expenditures:** **No capital projects shall be commenced during the period of the fiscal emergency without the approval of DCED.** Critical, non-emergency priorities should be identified **and advanced to DCED for consideration** if they cannot be deferred. The remainder of funds should be set aside for contingencies.
- **Review grant and third party funds:** The City should review discretionary grant-funded or third-party supported programs that require cash or in-kind matches from the City's General Fund to determine whether they should be temporarily suspended. Acceptance of all grants and third party funds shall be approved in advance by DCED.
- **Maintain flexibility to exercise all available strategies:** The City **shall take no** actions that may preclude the implementation of various work force, operational, or budgetary strategies in the future. This includes any investments by the City or its Authorities in technology or personnel that could limit opportunities for joint working, consolidation or other efficiency measures.
- **The City shall not incur debt,** however DCED may approve short term borrowing for Tax Anticipation Notes (TAN) if this is deemed necessary.

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Although expenditure items are of great concern as noted above, the Emergency Action Plan requires diligent management on revenue related matters to insure that all tax collection and utility billing activities are timely and appropriate follow up actions are taken to maximize the collection of revenues. The Harrisburg Parking Authority (HPA) shall transfer from the Consolidated Parking Fund the remaining \$1.7M as anticipated in the City's FY 2011 projected cash flow. 2012 Tax Bills should be mailed no later than February 15, 2012. Such diligence will ensure that the City continues to receive sufficient revenues to support the unimpeded provision of vital and necessary services within the City during the state of fiscal emergency.

Fee Study Implementation In early 2011 DCED provided grant funding for the City to conduct a fee study. Fee increases recommended in the fee study must be included in the City's 2012 budget. Appropriate fees are an important part of the city's revenue stream and they must be increased to provide fiscal stability, and critical to ensuring vital City services can be maintained throughout the state of fiscal emergency.

Cash Flow Analysis and Recommended Actions We reviewed Cash Flows prepared by the City through the year of FY2011. The City's current cash flow projections estimate a \$1.0 million cash deficit at 2011 year end, as shown in the cash flow chart in Appendix A.

The City estimates that \$3.2 million will be available in transfers from other funds (including \$1.75 million from the HPA in addition to the already received lease proceeds of \$7.4 million) for the fourth quarter of this year. By the end of 2011, the City also expects to receive over \$1.4 million from various other utility funds. During the last quarter of 2011, the City must continually monitor the receipts of these expected funds and confirm that there is sufficient money in the funds to cover these transfers.

Additionally, the sale of delinquent tax liens was not included in the City's cash flow numbers; however we have been informed that an expected tax lien sale will be placed to bid for closing in December. The Pennsylvania Economy League (PEL) had previously estimated this sale to generate approximately \$1.4 million and we believe that the City can expect to receive this amount. If the tax lien sale is successful and all other transfers occur, the City is expected to close the deficit of \$1.0 million and have a surplus of revenue over expenditures of more than \$400,000. It is critical that the City take those actions referred to above as quickly as possible and no later than December 15 in order to close the projected \$1M gap.

PEL has prepared an expected cash flow projection for the first quarter of 2012 based on the 2011 experience. We anticipate that the City can expect strong cash flow from early receipts of real estate taxes provided that the City does not significantly delay the mailing of the 2012 real estate billing. First quarter payments of General Fund expenditures and General Fund debt service reserve transfers will total \$17.0 million. However, the City is projected to receive over \$6.5 million from City utility transfers during the first quarter of 2012. **If these utility transfers do not occur when projected, or in the amounts projected, the City will have a cash shortfall.** Projections for the remainder of the 2012 year are based upon an assumption of similar expenditure patterns as experienced in 2011. However, the HPA lease proceeds of \$7.4 million in revenue in the 2011 cash flow will not be available in 2012. Therefore it can be expected that the City's cash position will deteriorate throughout the year and a negative balance for City cash may occur as early as September, 2012, as shown in the chart found in Appendix B.

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To maintain adequate cash balance for the remainder of 2011 and into 2012, the City shall:

- Monitor its cash position bi-weekly and provide reports to DCED as soon as possible, and in no event later than the Wednesday following bi-weekly check runs;
- Execute and close on the tax lien sale as soon as possible and in no event later than December 10, 2011.
- Monitor and report to DCED on monthly transfers and cash balances from City utilities so that the General Fund receipts of cash occur in a timely manner. The regular periodic transfers of City funds from utilities and City component entities were satisfactory in 2011 and should continue through 2012.
- Adopt a balanced budget as early as possible and in no event later than December 31, 2011; and
- Mail tax bills by February 15, 2012.

Please note that this plan contemplates cases where essential service delivery, grant recovery, or net revenue generation benefits may justify exceptions. In this case you should make requests directly to DCED. Fred Reddig will be the City's contact person for obtaining all DCED approvals and addressing any questions you may have with regard to this Emergency Action Plan.

Thank you for your continued cooperation as we work together to restore fiscal stability to the City of Harrisburg.

Sincerely,



C. Alan Walker, Secretary
Department of Community and Economic Development

cc: Daniel C. Miller, City Controller
City Council Members
Harrisburg Parking Authority
Harrisburg Authority
Bob Krobath, Director, Bureau of Financial Management
Fred Reddig, Executive Director, Governor's Center for Local Government Services
Julia D. Novak, President, The Novak Consulting Group
Gerald Cross, PA Economy League

Enclosures

APPENDIX A

City of Harrisburg General Fund Cash Flows 2011 Projected										
	Beginning Balance	General Fund Operating Revenues	Revenue Anticipated from City Utilities	Parking Authority Transfer	Total Revenues	General Fund Expenditures	General Fund transfers to DSR	Total Expenditures	Surplus/ (Deficit)	Ending Balance
YTD SEPT	\$2,093,251	\$30,843,785	\$10,861,366	\$8,650,000	\$50,355,150	\$33,799,074	\$10,690,622	\$44,489,697	\$5,865,453	\$3,772,202
OCTOBER	\$3,772,202	\$1,031,496	\$974,986	\$750,000	\$2,756,482	\$5,560,660	\$349,152	\$5,909,812	-\$3,153,331	\$618,872
NOVEMBER	\$618,872	\$1,635,122	\$314,050	\$750,000	\$2,699,171	\$4,006,217	\$67,353	\$4,073,570	-\$1,374,398	-\$755,527
DECEMBER	-\$755,527	\$3,498,453	\$195,081	\$250,000	\$3,943,534	\$3,830,155	\$354,249	\$4,184,405	-\$240,870	-\$996,397
2011 Summary	-\$2,093,251	\$37,008,855	\$12,345,482	\$10,400,000	\$59,754,337	\$47,196,106	\$11,461,377	\$58,657,483	\$1,096,854	-\$996,397

APPENDIX B

City of Harrisburg General Fund Cash Flows										
2012 Projected										
City of Harrisburg General Fund Cash Flows	Beginning Balance	General Fund Operating Revenues	Revenue Anticipated from City Utilities	Parking Authority Transfer	Total Revenues	General Fund Expenditures	General Fund transfers to DSR	Total Expenditures	Surplus/ (Deficit)	Ending Balance
JANUARY	(\$996,397)	\$1,331,033	\$2,897,567	\$0	\$4,228,600	\$2,498,654	\$359,094	\$2,857,748	\$1,370,852	\$374,455
FEBRUARY	\$374,455	\$3,250,807	\$867,429	\$0	\$4,118,236	\$3,095,278	\$0	\$3,095,278	\$1,022,958	\$1,397,413
MARCH	\$1,397,413	\$12,311,372	\$2,773,772	\$0	\$15,085,145	\$5,607,287	\$5,724,660	\$11,331,947	\$3,753,198	\$5,150,611
APRIL	\$5,150,611	\$1,776,641	\$62,282	\$650,000	\$2,488,923	\$4,183,178	\$0	\$4,183,178	(\$1,694,255)	\$3,456,356
MAY	\$3,456,356	\$3,516,995	\$65,410	\$0	\$3,582,406	\$3,558,584	\$517,658	\$4,076,242	(\$493,837)	\$2,962,520
JUNE	\$2,962,520	\$1,420,212	\$1,144,325	\$600,000	\$3,164,538	\$3,718,071	\$0	\$3,718,071	(\$553,533)	\$2,408,986
JULY	\$2,408,986	\$1,580,948	\$869,859	\$0	\$2,450,807	\$3,656,224	\$359,094	\$4,015,318	(\$1,564,511)	\$844,475
AUGUST	\$844,475	\$2,103,634	\$1,299,599	\$0	\$3,403,233	\$3,438,509	\$0	\$3,438,509	(\$35,276)	\$809,199
SEPTEMBER	\$809,199	\$4,510,881	\$880,498	\$0	\$5,391,378	\$3,936,184	\$3,811,558	\$7,747,742	(\$2,356,363)	(\$1,547,164)
OCTOBER	(\$1,547,164)	\$1,063,558	\$974,930	\$750,000	\$2,788,488	\$5,543,039	\$351,812	\$5,894,851	(\$3,106,363)	(\$4,653,527)
NOVEMBER	(\$4,653,527)	\$1,685,947	\$314,032	\$750,000	\$2,749,979	\$3,993,521	\$67,866	\$4,061,388	(\$1,311,409)	(\$5,964,935)
DECEMBER	(\$5,964,935)	\$3,607,198	\$195,070	\$250,000	\$4,052,268	\$3,818,018	\$356,948	\$4,174,966	(\$122,698)	(\$6,087,633)
TOTAL		\$38,159,226	\$12,344,774	\$3,000,000	\$53,504,000	\$47,046,547	\$11,548,690	\$58,595,237		