



HOUSE COMMITTEE ON APPROPRIATIONS

FISCAL NOTE

HOUSE BILL NO. 2557

PRINTERS NO. 4196

PRIME SPONSOR: Rothman

COST / (SAVINGS)

FUND	FY 2018/19	FY 2019/20
General Fund	\$100,000	See "Fiscal Impact"
Municipalities Financial Recovery Revolving Aid Fund	See "Fiscal Impact"	See "Fiscal Impact"
City of Harrisburg Funds	See "Fiscal Impact"	See "Fiscal Impact"

SUMMARY: Creates the Intergovernmental Cooperation Authorities Act for Cities of the Third Class. This legislation would take effect immediately.

ANALYSIS: This legislation establishes intergovernmental cooperation authorities (ICAs) for certain cities of the third class; provides the powers and duties of these authorities; makes an appropriation; and imposes extensions and limitations on taxing powers.

City Eligibility: A city would be eligible to enter into an intergovernmental cooperation agreement if it had a population of between 48,000 and 55,000 based on the most recent federal decennial census, is under "financial distress" under Act 47 of 1987 and has been in receivership in the past. This would make the City of Harrisburg the only eligible city.

ICA Boards: A five-member board is created to govern the authority, consisting of members appointed by the following parties: Governor, Senate President pro tempore, House Speaker, Senate Minority Leader, and House Minority Leader. The Secretary of the Budget and Controller of an assisted city shall serve ex-officio. Except for the Secretary of the Budget, the board members must be residents of the assisted city or have their primary place of employment or business within the assisted city. Board members shall not receive compensation or remuneration but are entitled to reimbursement for expenses.

Purpose of an ICA: An authority is established to assist third class cities in solving their budgetary and financial problems. The authority has the duty to assist cities to achieve financial stability, avoid defaults and deficits, negotiate intergovernmental cooperation agreements and make reports.

ICA Termination: An ICA shall terminate December 31 of the fourth full calendar year following the year in which an intergovernmental cooperation is entered into.

Budget Submission and Review: The annual budget of an authority shall be submitted to the Governor and the General Assembly and may be afforded an opportunity to appear before the Governor and the respective Appropriations Committees. The General Assembly is empowered to limit the operating expenses of the authority by concurrent resolution.

If possible, the assisted city shall provide office space to the authority at no cost to the authority as part of an intergovernmental cooperation agreement.

Financial Plan: An assisted city is not permitted to borrow or receive funds unless the city has entered into an intergovernmental cooperation agreement with the authority and an approved financial plan is in effect. The financial plan must meet the following criteria: include five-year projections of revenues and expenditures, balance the budget, eliminate projected deficits, and enhance the ability of the city to access the credit markets. The financial plan must also account for the elimination of the enhanced taxation after five years and establish a trust to fund the benefit obligations of other post-employment benefits (OPEB) of the assisted city.

A new five-year plan must be approved each year, and the city must submit such plan for the approval of the authority at least 100 days prior to the beginning of the fiscal year. The approval of a financial plan shall not impair a contract or collective bargaining agreement in existence prior to the approval of the financial plan.

The Commonwealth must withhold funds from the assisted city in the event of non-compliance with the financial plan. The authority is required to petition the Secretary of the Budget for a certification of non-compliance, allowing the Commonwealth to withhold grants, loans, entitlements or payments from the assisted city.

Act 47 Status: The legislation provides that Harrisburg's status as a distressed city under Act 47 of 1987 will continue until Harrisburg enters into an intergovernmental cooperation agreement with the ICA. At the time the agreement is entered into, the Act 47 "distressed status" shall terminate.

Taxing Power of City: An assisted city that is levying or has been authorized to levy within the previous three fiscal years a local services tax in excess of \$52 and a tax on earned income in excess of 1% on residents of the city shall be authorized to levy, until the termination date:

- a local services tax at a rate which does not exceed \$156 per year; and
- an earned income tax on residents which does not exceed 2%.

A city which is or has been an assisted city shall not levy a tax or fee on earned income of nonresidents in excess of the amount authorized under the Local Tax Enabling Act.

Appropriation: The legislation provides a Commonwealth appropriation of \$100,000, which shall be used for the operating expenses of the authority. Any unencumbered funds remaining shall lapse June 30, 2019.

FISCAL IMPACT: This legislation provides for a General Fund appropriation of \$100,000 in FY 2018/19 for operating expenses for an intergovernmental cooperation authority that will be created for the City of Harrisburg. It is presumed that this will cover the operating expenses of the authority for the remainder of the current fiscal year. Expenses of the authority in future fiscal years could be covered by additional General Fund appropriations by the General Assembly. For a point of comparison, the Intergovernmental Cooperation Authority for the City of Pittsburgh was created by Act 11 of 2004 with the purpose of fostering the fiscal integrity of the City. This Authority had expenses totaling \$311,239 for FY 2016/17 which included \$60,780 for salaries, benefits and payroll taxes according to audited financial statements.

According to DCED, the legislation would provide savings of approximately \$43,750 annually for the Municipalities Financial Recovery Revolving Aid Fund since the fund will not have to provide Act 47 coordinator assistance to the City of Harrisburg after the City enters into an intergovernmental cooperation agreement.

This legislation extends the court-approved annual \$156 local services tax and the 2% earned income tax on residents for two years beyond what Act 47 would permit. There would likely be no additional administrative costs for the City as officials within their government would provide technical assistance related to financial and budgetary matters to the newly created authority.

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House Appropriations Committee (R)

DATE: October 12, 2018

Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.