

**SENATE APPROPRIATIONS COMMITTEE
FISCAL NOTE**

BILL NO. House Bill 2557

PRINTER NO. 4247

AMOUNT

See Fiscal Impact

FUND

General Fund
Municipalities Financial Recovery Revolving Aid Fund
Local Funds

DATE INTRODUCED

October 2, 2018

PRIME SPONSOR

Representative Rothman

DESCRIPTION AND PURPOSE OF BILL

House Bill 2557 establishes the Intergovernmental Cooperation Authorities Act for Cities of the Third Class. The legislation makes a \$100,000 appropriation from the General Fund and imposes extensions and limitations on certain taxing powers of an affected city.

Purpose

House Bill 2557 provides certain cities of the third class with the legal tools needed to continue providing essential municipal services while fostering sound financial planning and budgetary practices. The term "city" is defined as a city of the third class with a population of at least 48,000 and not more than 55,000. Therefore, the legislation applies only to the City of Harrisburg, which the bill charges with the responsibility to exercise efficient and accountable fiscal practices in concert with an independent authority composed of members experienced in finance and management that advises the city, the General Assembly and the Governor concerning solutions to fiscal problems cities of the third class may face.

Governing Board

The powers and duties of the Intergovernmental Cooperation Authority (ICA or authority) shall be exercised by a governing board composed of five members appointed as follows:

1. One member shall be appointed by the Governor;
2. One member shall be appointed by the President Pro Tempore of the Senate;
3. One member shall be appointed by the Minority Leader of the Senate;
4. One member shall be appointed by the Speaker of the House of Representatives; and
5. One member shall be appointed by the Minority Leader of the House of Representatives.

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The Secretary of the Budget and the director of finance of an assisted city shall serve as ex officio members of the board. Except for the Secretary of the Budget, all board members must be residents of the Commonwealth and must be either residents of the assisted city or have their primary places of business or employment in the city. The legislation provides for administrative and operating procedures of the board, including for its ability to hire employees and appoint one advisory committee comprised of professionals engaged in municipal management and finance or other experts as the board deems necessary.

Intergovernmental Cooperation Authority

The ICA is established for the purpose of assisting the city in solving its budgetary and financial problems. Such assistance shall include avoiding defaults, eliminating and financing debts and deficits, negotiating intergovernmental cooperation agreements, preparing required annual reports that describe the city's financial condition and monitor its progress, establishing and maintaining a publically accessible internet website, and adopting and publishing a records retention policy.

In addition, the ICA shall have further specific powers with regard to duties such as obtaining reports and information from the city, making factual findings concerning the assisted city's budgetary and fiscal affairs, receiving revenues from any source, and making recommendations to the assisted city, Governor and General Assembly concerning the budgetary and fiscal affairs of the city in issue areas including, but not limited to, the following:

- Consolidation or merger of services with school districts, counties or other municipalities;
- Appropriate staffing levels;
- Pensions and other post-employment benefit obligations of the city;
- Reduction or restructuring of debt obligations;
- Collective bargaining agreements;
- Elimination, sale or transfer of assisted city services or property;
- Reevaluation of tax exemption policies with regard to real estate taxation;
- Implementation of user fees for services such as sewage, water treatment and refuse collection;
- Sale of the assisted city's workers' compensation fund;
- Legislation or resolutions that relate to the assisted city's fiscal stability.

House Bill 2557 prohibits an ICA from pledging the credit or taxing powers of the Commonwealth.

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The ICA shall exist until the termination date, which is defined as December 31st of the fourth full calendar year in which an intergovernmental cooperation agreement is reached under the act. Upon termination of the ICA, records and documents of the authority shall be transferred to the assisted city. The ICA shall submit a final report on its activities and the assisted city's financial condition to the Governor and General Assembly within 60 days of termination.

Financial Plans and Oversight

House Bill 2557 provides for budgetary oversight of the authority by the Governor and General Assembly, a limit on operating expenses, and the examination of its books by the Appropriations Committees of the Senate and House of Representatives.

The legislation specifies that an assisted city and its corporate entities may not borrow or receive funds unless the city has entered into an intergovernmental cooperation agreement with the ICA and there is an approved financial plan in effect. The financial plan must include a balanced five-year projection of revenues and expenditures, eliminate any projected deficits, restore special fund accounts, provide procedures to avoid a future fiscal emergency condition, and enhance the ability of the assisted city to access short-term and long-term credit markets. The financial plan must also eliminate the enhanced taxation on or before the ICA's termination date. If recommended by a coordinator's plan under Act 47 of 1987, the financial plan must establish a trust to fund the benefit obligations of other post-employment benefits of the assisted city.

A financial plan must be submitted annually, and the chief fiscal officer of the city must prepare and submit the city's five-year plan at least 100 days prior to the beginning of the assisted city's fiscal year. Each year's submission shall also include a proposed annual operating budget and capital budget, and the governing body of the assisted city shall adopt a balanced budget each year consistent with the city's governing law. A contract or collective bargaining agreement in existence prior to the approval of a financial plan shall remain in effect until the contract or agreement expires. The legislation also puts procedures in place to address arbitration settlements.

The assisted city's balanced budget may not rely on revenues that require enactment by the General Assembly of new taxing powers or the approval of a court of common pleas of the county in which the assisted city is located. If an assisted city fails to meet these criteria, the Commonwealth shall withhold certain grants, loans, entitlements or payments to the assisted city from the Commonwealth, pending compliance as specified under section 210 of this act.

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Review and Approval of Financial Plan by the ICA

House Bill 2557 requires the ICA to review each financial plan, proposed operating budget, and capital budget submitted to it by the assisted city. Within 30 days after submission, the authority shall determine whether the financial plan and budgets are adequate, and, if so, the ICA shall approve the financial plan. The legislation provides remedial procedures for instances where the authority fails to take action or disapproves the financial plan of the assisted city. The legislation requires an assisted city to file supplemental periodic reports, including reports on debt service requirements, with the authority within 45 days of the end of each fiscal quarter.

Under House Bill 2557, an assisted city shall remain a distressed city under the Municipalities Financial Recovery Act (Act 47 of 1987) until such city enters into an intergovernmental cooperation agreement with the ICA, at which time the distressed status of an assisted city will terminate.

Taxing Powers of City

House Bill 2557 authorizes an assisted city to levy certain taxes. The following taxes may be levied until the termination date of the ICA (i.e. five years):

- A local services tax (LST) at a rate which does not exceed \$156 per year; and
- An earned income tax (EIT) on residents which does not exceed 2%.

The legislation prohibits an assisted city from levying a tax or fee on the earned income of non-residents that is not already in place.

The act shall take effect immediately.

FISCAL IMPACT:

House Bill 2557 appropriates \$100,000 from the General Fund to an authority under the condition that it holds its initial organizational meeting by May 1, 2019. The funds appropriated are to be used as operating funds for the ICA.

According to the Department of Community and Economic Development, the legislation could provide savings of approximately \$44,000 annually for the Municipalities Financial Recovery Revolving Aid Fund because the fund will no longer provide Act 47 coordinator assistance to the City of Harrisburg upon entry into an ICA agreement.

The legislation authorizes an assisted city (Harrisburg) to continue levying a local services tax of up to \$156 annually. In addition, the city is authorized to impose an earned income tax on residents not to exceed the rate of 2%. House Bill 2557 extends these levies for an additional two years beyond what is presently allowable under Act 47.

Presumably, the City of Harrisburg will not realize additional administrative costs beyond those already being incurred with regard to financial and budgetary matters.