Office of Mayor Eric Papenfuse
MLK Government Center
10 N. Second St.
Harrisburg, PA 17101

Mayoral Testimony for the September 25, 2018, Joint Hearing of the House Finance, Local Government, and Urban Affairs Committees concerning the Special Taxing Authority and Act 47 in the City of Harrisburg

Chairpersons Harper, Keller, O'Neill and distinguished committee members, I am Eric Papenfuse, Mayor of the City of Harrisburg since 2014. I am here today to testify in support of House Bill 2557. This morning, I would like to emphasize three main points for your consideration:

1.) **First, I will highlight many of the extraordinary achievements that the City and State have accomplished in working together since receivership status was granted for Harrisburg in 2011.**
2.) **Second, I will make the case for why we should secure and build on those accomplishments by acting now to pass House Bill 2557.**
3.) **Third, I will show how House Bill 2557 provides both a sustainable future for Harrisburg and a successful exit strategy for the capital City under Act 47**

When I took office in 2014, the City of Harrisburg had recently sold or transferred each of its three major assets – the trash-burning incinerator, the parking system, and the water and sewer system. Together, these transactions retired hundreds of millions of dollars in long-term debt for the City and allowed Harrisburg, which had been on the brink of bankruptcy, to begin to repay its debts, rebuild its operational capacity, and invest in its aging and long-neglected infrastructure.

This could not have been accomplished without the assistance of the Commonwealth, and, on behalf of the citizens of Harrisburg, I want to take this opportunity to thank the Legislature, the Governor's Office, and the Department of Community and Economic Development for your focused attention and dedicated support during Harrisburg's dire financial crisis.

When the City of Harrisburg entered Act 47 in 2010, there were 569 full-time City employees and that number was already much less than during the decade before. Today, the City has stabilized at a basic level of 425 employees. That number is up slightly from the dark days of 2013, a year everyone retired who could, and the beleaguered City was unable to recruit or fill essential vacancies. But, over the past five years, with the helpful support of the office of the Coordinator, the City has reorganized and found

efficiencies wherever it could. Working together, we have effectively right-sized City government. See **Exhibit 1**.

Under Receivership, new contracts were negotiated with two of the City's three unions. The Fire Department, however, was a holdout even after Receivership ended in February 2014. One of the most difficult jobs I had to do as a newly elected Mayor was to close a fire station and convince the IAFF to make major concessions regarding health care and staffing levels. Since then, working together with the Commonwealth, we have negotiated new contracts with each of our three bargaining units. These offer modest annual pay increases of 1 or 2%, preserve the necessary concessions achieved under Receivership, set the stage for the establishment this year of an OPEB trust to address long-term healthcare obligations, and, most importantly, provide the City with predictable, sustainable, basic wage growth in future years.

When I took office, the City of Harrisburg had defaulted on its debt obligations. I was presented with over 4.5 million in unpaid bills and handed a budget that was so unbalanced it had been presented to City Council with a 4 million dollar "negative expenditure" or "plug," which meant we would have to underspend by at least that much in 2014 just to break even. Underspend we did, and every year that I have been in office we have significantly underspent our budget. Strict scrutiny of all purchasing, fundamental reforms to city contracting, and fiscally conservative spending policies have allowed us to build a cash-fund balance, which we are now positioned to use for long-neglected City infrastructure, much needed facility improvements, and essential IT upgrades. Only in 2017 and 2018, with the approval and oversight of the Coordinator's office, did we begin to draw down significantly on this fund balance. That is why capital spending has increased in recent years, but only in a fiscally responsible way, using cash-on-hand saved through careful budget management. See **Exhibit 2**.

We remain today a City with extremely high rates of poverty. Nearly half of our population lives at or below the poverty line. We have the largest percentage of tax-exempt property anywhere in the Commonwealth. As a City, more than half of our assessed value cannot be taxed, and over 40% of the property that is not taxed is owned by the Commonwealth. We have a higher ratio of commuters by far than any other major city in Pennsylvania. In fact, as Chamber President and CEO Dave Black will elaborate on in his testimony, more people commute into Harrisburg on a daily basis (approx. 50,533) than the City's total population as of the last census (49,395).

Property taxes represent the largest single component of the City's revenue stream. We have a split millage rate for land (30.97) versus buildings (5.16) and a school-tax millage rate of 27.8. Raising property taxes higher is not a feasible option for our severely stressed tax base, which already saw the earned income taxes for City residents double under Receivership. Our City's school district, which is comprised of the exact same tax base as the City, has affirmed publicly that it expects to continue raising property taxes to the maximum amount allowed by law every year. Likewise, the City's water and sewer rates have increased dramatically and will continue to rise higher, in order to fund the necessary infrastructure upgrades mandated by a consent decree with the federal government. Most shockingly, City residents already pay one of the highest tipping fees ($190/ton) to dispose of our trash anywhere in the United States – more than double what municipalities in Pennsylvania just outside the City limits have to pay. And this rate also will rise even higher in 2019.

Given these hardships and tough realities, the City chose to petition the Commonwealth Court in 2016 to raise the Local Services Tax paid by individuals who work in Harrisburg but do not necessarily live here. This two-dollars-a-week extra contribution results in about $3.8 million in enhanced revenues

each year and offers urgently needed assistance by balancing a structural deficit on the City's books that was never addressed or fixed in Receivership. This roughly corresponds to the 4-million-dollar "plug" that awaited us when I first took office and fills that gap in a sustainable, balanced way. Former officials hid this structural deficit by engaging in risky and irresponsible borrowing and illegal fund transfers from water and sewer revenues, which finally stopped under state oversight. In fact, I would argue it was this very structural deficit that drove past administrations to propose a money-making incinerator scheme and to enter into ever riskier financial borrowings. The LST today simply allows the City's revenues to equal its necessary expenditures, without resorting to risky get-rich schemes, illegal fund transfers, or irresponsible accounting tricks. It is a far better and less painful solution for the Capital Region than massive, crippling property tax increases with diminishing returns.

Which brings me to my second theme: *why we urgently need the Legislature to act now in support of House Bill 2557.* As you will hear in testimony today from members of the business community and the Greater Harrisburg Association of Realtors, the threat of a 100% property tax increase - whether now or when Harrisburg eventually exits from Act 47 - understandably causes private investors to remain on the sidelines until there is greater, long-term certainty about the City's finances. Over the past five years, we've slowly begun to grow both the City's population and its tax base. The pace of this growth could be significantly accelerated with the passage of HB 2557.

As a consequence of our past financial crisis, the City of Harrisburg does not have a credit rating and will not be able to get one unless rating agencies feel comfortable that we have a stable and predictable revenue model. This means we can't responsibly borrow or refinance several long-term debt obligations that could save taxpayers significant dollars. Being able to restructure a Receivership-era bond insurance settlement liability could save several million dollars in interest over the next decade – but this requires the long-term stability that, in my opinion, only HB 2557 can provide.

Similarly, the uncertainty of ACT 47 makes it difficult for Harrisburg to recruit or retain qualified staff. You can see this most clearly in the Harrisburg Police Department, where the most popular question among young recruits is, "When will the City be out of Act 47?" Why, they ask, should they risk taking a job in a City that already pays significantly less than surrounding municipalities, if the City's finances are so uncertain? They are willing to build a career in Harrisburg but only if there is a clear exit plan and sustainable financial future for our capital City.

House Bill 2557 works because it doesn't ask for anything that the City doesn't already have. In fact, it would cut taxes for workers in the first year by lowering the LST from $156 to $150. It requires mandatory annual reporting of the City's finances and provides for a review in five years should the City's financial outlook improve to the point that the elevated Local Services Tax would no longer be essential. HB 2557 responsibly provides for the long-term funding of an OPEB Trust, positioning the City to meet its obligations for retirees' healthcare. As the City grows, excess revenue beyond the current-year general fund obligation would go into the trust and, once it is funded to 85% of the actuarial liability, Harrisburg's extra taxing authority would sunset.

House Bill 2557 is fair, responsible, and frankly a much better choice for the Capital Region than the enactment of a commuter tax, even if that might have greater short-term benefits for the City. This bill prevents the City from ever enacting a commuter tax as part of an exit plan from Act 47.

Finally, I promised to show *how House Bill 2557 would put Harrisburg on a sustainable path for the future.* Projecting only 1% revenue growth and a 3% inflation of yearly expenses, including our

mandatory obligations and modest collectively-bargained wage increases, the City currently has enough in cash reserves to ensure balanced budgets for the next seven years with the enactment of House Bill 2557. That projection allows for 3 million a year to be spent on necessary capital projects, which honestly is the bare minimum required to address essential IT upgrades and the most urgent transportation infrastructure needs. See **Exhibit 3**.

It is my sincere belief that this long-term projection for Harrisburg, which assumes the retention of its taxing authority as provided by HB 2557, is fiscally conservative. Once granted a credit rating and allowed to refinance or restructure significant portions of our long-term debt, Harrisburg could have an even brighter future. Increased economic development, after the cloud of Act 47 has lifted, could provide valuable new revenues to maintain our aging roads, repair our structurally deficient bridges, and address the challenges of the Dock Street Dam.

Today, you can ensure the future success of the Harrisburg region, if the Legislature will continue to work together with the City, our workers, our residents, the business community, and state leaders to advance reasonable, common-sense solutions like those offered by HB 2557. Thank you for taking the time to call this hearing and your willingness to study the details of Harrisburg's financial situation. I am eager to answer any questions you may have and to provide you with any information you may need to assist you in evaluating the proposed legislation, which is so important to the health and future of the City of Harrisburg.

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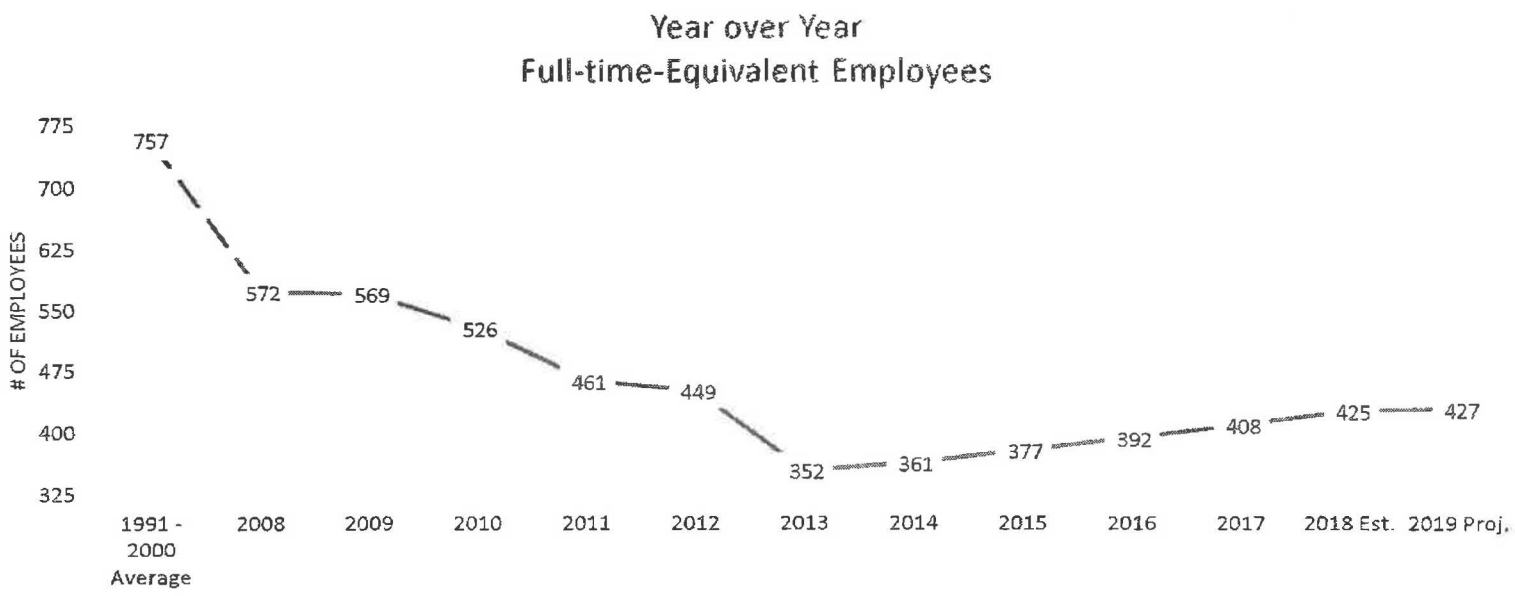
Exhibits: 1-3

City of Harrisburg, Pennsylvania

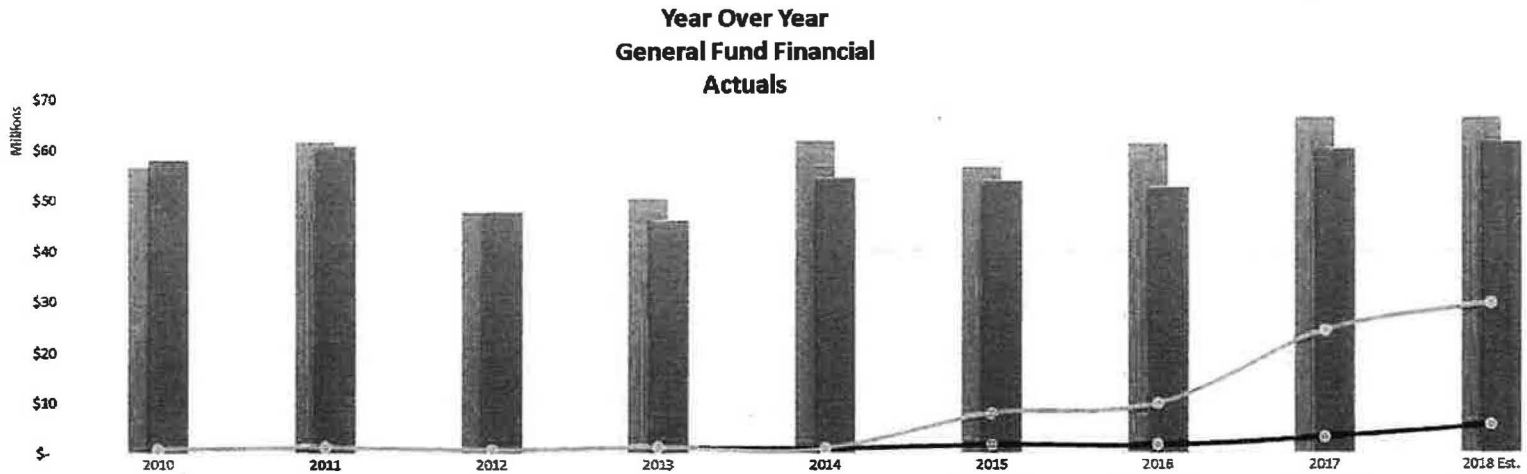
Exhibit 1



Department - Office/Bureau	Full-time-Equivalent Employees as of December 31, 1991 - 2000 Average	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 Est.	2019 Proj.
Total Employees	757	572	569	526	461	449	352	361	377	392	408	425	427

City of Harrisburg, Pennsylvania

Exhibit 2



	2010	2011	2012	2013	2014	2015	2016	2017	2018 Est.
Operating Revenue	$56,537,954	$61,472,416	$47,583,922	$50,291,387	$61,714,170	$56,660,686	$61,197,596	$66,299,496	$66,375,000
Operating Expenditures	$57,909,363	$60,808,946	$47,718,668	$45,919,095	$54,429,172	$53,870,990	$52,448,664	$60,219,783	$61,502,098
EOY Fund Balance						$6,223,895	$8,285,220	$21,171,703	$24,000,000
Capital Expenditures	$713,985	$1,168,861	$640,056	$1,161,646	$850,276	$1,667,763	$1,577,108	$3,140,142	$5,600,000

Exhibit 3a General Fund Rev/Exp/Cash Projection Schedule
7-yr Projection

	Projected 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2022	Projected 2023	Projected 2024
Recurring Revenue	$ 66,375,000	$ 63,834,000	$ 64,472,340	$ 65,117,063	$ 65,768,234	$ 66,425,916	$ 67,090,176
Minus Act 47 Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Baseline Revenues	$ 66,375,000	$ 63,834,000	$ 64,472,340	$ 65,117,063	$ 65,768,234	$ 66,425,916	$ 67,090,176
Minus Baseline Operating Expenditures Prior to Debt Service	$ 51,364,000	$ 53,328,584	$ 54,928,442	$ 56,576,295	$ 58,273,584	$ 60,021,791	$ 61,822,445
Net Income Available for Debt Service	$ 15,011,000	$ 10,505,416	$ 9,543,898	$ 8,540,769	$ 7,494,650	$ 6,404,125	$ 5,267,731
Minus Total Debt Service	$ 10,138,098	$ 10,065,416	$ 10,301,819	$ 10,312,024	$ 10,315,834	$ 5,669,441	$ 5,376,436
Minus Cap-Ex	$ 5,600,000	$ 3,000,000	$ 3,000,000	$ 3,000,000	$ 3,000,000	$ 3,000,000	$ 3,000,000
$ needed to maintain positive fund balance for next fiscal year	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Estimated % increase in real estate taxes to maintain BOY postive fund balance	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Assumptions:

Revenues grow by 1% annually
Expenditures grow by 3% annually
There is no variance between budgeted expenditures and actual expenditures annually
There are no other extroidinary expenditures needed
Cap-ex spend equals operating surplus/deficit + fund balance
This projection does not take into account any debt refinance/workout

Exhibit 3b General Fund Rev/Exp/Cash Projection Schedule
7-yr Projection

	Projected 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2022	Projected 2023	Projected 2024
Recurring Revenue	$ 66,375,000	$ 63,834,000	$ 64,472,340	$ 65,117,063	$ 65,768,234	$ 66,425,916	$ 67,090,176
Minus Act 47 Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ (11,836,577)
Baseline Revenues	$ 66,375,000	$ 63,834,000	$ 64,472,340	$ 65,117,063	$ 65,768,234	$ 66,425,916	$ 55,253,598
Minus Baseline Operating Expenditures Prior to Debt Service	$ 51,364,000	$ 53,328,584	$ 54,928,442	$ 56,576,295	$ 58,273,584	$ 60,021,791	$ 61,822,445
Net Income Available for Debt Service	$ 15,011,000	$ 10,505,416	$ 9,543,898	$ 8,540,769	$ 7,494,650	$ 6,404,125	$ (6,568,847)
Minus Total Debt Service	$ 10,138,098	$ 10,065,416	$ 10,301,819	$ 10,312,024	$ 10,315,834	$ 5,669,441	$ 5,376,436
Minus Cap-Ex	$ 5,600,000	$ 3,000,000	$ 3,000,000	$ 3,000,000	$ 3,000,000	$ 3,000,000	$ 3,000,000
$ needed to maintain positive fund balance for next fiscal year	$ -	$ -	$ -	$ -	$ -	$ -	$ (14,623,925)
Estimated % increase in real estate taxes to maintain BOY postive fund balance	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	88.8%

Assumptions:

Revenues grow by 1% annually
Expenditures grow by 3% annually
There is no variance between budgeted expenditures and actual expenditures annually
There are no other extroidinary expenditures needed
Cap-ex spend equals operating surplus/deficit + fund balance
This projection does not take into account any debt refinance/workout