

To: City Council Members
From: Marc Woolley, Business Administrator
Subject: City of Harrisburg Mid-Year Fiscal Review
Date: August 16, 2021

Summary

The City of Harrisburg (“Harrisburg” or the “City”) entered 2021 with a high degree of uncertainty related to the global COVID pandemic and its effect on the City’s fiscal position. The budget impacts of the health crisis and related economic shutdown in 2020 are well documented. The City experienced significant revenue losses and budget challenges which necessitated immediate corrective action including furloughs, a hiring freeze, and reduction of discretionary spending. These mitigation efforts, along with federal COVID relief through the CARES Act relief, enabled the City not only to cope with the crisis, but actually achieve an operating surplus.

While the local economy has showed signs of improvement since late 2020, the pace and magnitude of the recovery is very hard to predict. The City approached the 2021 revenue budget with caution, generally forecasting a modest recovery in most revenue sources, but still below pre-COVID levels. Budgeted expenses included an expansion of City services including the implementation of the Community Services Division in the Bureau of Police and new Neighborhood Services Fund partnership activities with nearby communities. These new expenses, along with the budgeted repayment of a significant portion of the City’s outstanding debt, required the City to budget a fund balance transfer (or “cash carryover”) to balance the 2021 budget.

As the City enters the second half of the year, it is on track to outperform the amended budget. Revenue collections through June were 55% of the budget and almost \$3 million more than through the same period last year. However, it should be noted that the City collects the majority of its Real Estate Tax revenues (its largest revenue source) by May, which means second half collections will likely not match the first half. Moreover, parking-related revenues continue to struggle as employers consider return-to-work policies that impact commuting into the City. Many City employers, including the Commonwealth, Harrisburg’s largest employer, are still not requiring regular in-office work, which has a materially negative impact on parking revenues. While the City’s budget anticipated a slow recovery from these sources, revenues are even lower than expected.

Nonetheless, total revenues are on pace to exceed the budgeted amount for the year, with particularly strong performance from Earned Income Tax and Business Privilege Tax revenues. A summary of the City’s key revenue sources is shown in Table 2.

Total General Fund expenses were just 34% of budget through June and on track to finish below budget for the full year. Lower than budgeted personnel expenses are the main reason for the lower total expenses. Since many of the positions are expected to remain unfilled, 2021 expenses will likely finish the year well under budget. The City has several significant expenses anticipated in the second half of the year including over \$8 million in General Obligation debt payments, approximately \$5 million in budgeted capital expenditures, and \$4.6 million in pension payments. In addition, the City has budgeted approximately \$7.1 million to prepay other City debts and obligations.

Fiscal performance through June indicates the City will be in position to meet all budget priorities and maintain a fund balance level equal to at least two-months of operating expenses, which is the target established in the adopted five-year plan.

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Table 1
General Fund Summary, 2021 Mid-Year

	Actual 6 months 6/30/2020	Actual 6 months 6/30/2021	Difference	Amended Budget 2021*	Percent of Budget
Revenues	33,062,159	35,981,180	2,919,021	65,043,841	55%
Expenses	24,087,255	24,902,089	814,834	76,834,472	32%
Surplus (Deficit)	8,974,904	11,079,091	2,104,187	(11,790,631)	
Capital expenditures	237,080	1,411,005	1,173,924	6,714,094	21%
Change in fund balance	8,737,824	9,668,086	930,262	(18,504,725)	
Beginning fund balance ^	28,394,997	32,118,943	3,723,946	32,118,943	
Ending fund balance ^	\$37,132,821	\$41,787,029	\$4,654,208	\$13,614,218	

* 2021 Budgeted revenues are net of \$18,567,162 of "Cash Carryover."

^ Does not include encumbrances

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Table 2
General Fund Key Revenue Sources, 2021 Mid-Year

	Actual 6 months 6/30/2020	Actual 6 months 6/30/2021	Difference	Amended Budget 2021	Pct of Budget	Notes
Real Estate Taxes	14,105,643	15,226,844	1,121,201	17,379,268	88%	Outpacing 2020 collections likely in part because of COVID-related payment deadline extensions last year and improved 2021 delinquent collections.
Earned Income Taxes	6,614,086	6,712,280	98,194	12,337,934	54%	Better than expected performance in first half, on pace to exceed 2019 (pre-covid) collections.
Local Services Taxes	3,223,130	3,257,252	34,122	6,775,107	48%	Lagging budget, despite strong EIT performance.
Mercantile Business Taxes	2,304,268	3,123,802	819,533	2,817,100	111%	Much stronger than budget; budgeted expecting 2020 COVID impacts to hurt 2021 MBT filings.
Hotel Fee	0	1,000,000	1,000,000	1,000,000	100%	No additional revenue expected in second half. Will match budget.
Realty Transfer Tax	346,708	392,943	46,235	800,000	49%	Tracking close to budget.
Parking Taxes	1,929,536	1,621,228	(308,308)	3,810,000	43%	Below budget as parking activity has not rebounded as expected.
Ground Lease	287,388	0	(287,388)	0	0%	No revenue from this source expected for 2021.
Priority Payment	231,331	0	(231,331)	0	0%	No revenue from this source expected for 2021.
Parking Tickets	95,205	218,973	123,768	425,102	52%	Tracking about to budget despite reduced parking activity.
State Public Safety Contr	99,133	34,581	(64,552)	5,100,000	1%	Contribution will be received in late 2021. Will meet budget.
Pension Aid	0	0	0	3,306,117	0%	Aid will be received in September. Will meet budget.
Fees/Permits	867,600	1,669,067	801,467	2,144,346	78%	Well ahead of budget likely due to pent up development demand.
TV Franchise License	262,697	258,651	(4,046)	550,000	47%	Expected to meet budget.
Medical/Employee Contr	392,971	386,035	(6,936)	819,879	47%	Tracking under budget due to unfilled positions.

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Police Extra Duty	588,085	492,959	(95,127)	1,000,000	49%	Tracking to budget.
PILOTS	513,304	405,556	(107,748)	840,000	48%	Tracking to budget.
Vehicle Maint Charge Backs	147,958	221,164	73,207	283,500	78%	Tracking ahead of budget through mid-year, likely to finish year modestly ahead of budget.
Transfers from Other Funds	0	0	0	162,000	0%	Transfer expected from Neighborhood Services Fund in second half.
Federal Grants	0	0	0	2,516,434	0%	Receipt expected in second half.
Other	1,053,116	959,847	(93,269)	2,977,054	32%	Variety of sources expected to be realized by year-end incl Street Cut Insp, Grants, Reimbursements.
Total	\$33,062,159	\$35,981,180	\$2,919,021	\$65,043,840	55%	

Table 3
General Fund Key Expenses, 2021 Mid-Year

	Actual 6 months 6/30/2020	Actual 6 months 6/30/2021	Difference	Amended Budget 2021	Pct of Budget	Notes
Personnel (less Medical)	13,682,078	14,170,334	488,257	36,275,555	39%	Significantly under budget; not expected fill all vacancies by year-end. Pension payment due in Oct.
Medical	3,709,960	4,791,863	1,081,903	9,763,864	49%	Tracking close to budget despite unfilled positions.
Services	2,720,482	2,959,716	239,234	8,206,416	36%	Expect to finish below budget, but anticipate increased expenses in second half of year.
Supplies	889,309	982,569	93,260	3,772,709	26%	Vehicle related supplies significantly under budget. Overall "Supplies" category will finish under budget.
Debt Service	1,854,139	1,189,139	(665,000)	11,618,638	15%	Will reach budgeted levels; \$8MM GO debt payment due in September.
Other (incl transfers)	1,231,288	808,468	(422,820)	7,197,290	4%	Budget includes approx. \$5.2MM transfer payment to Senators Fund in second half. Will near budget.
Subtotal	24,087,255	24,902,089	814,834	76,834,472	32%	
Capital Expenditures	237,080	1,411,005	1,173,924	6,714,094	21%	All capital projects expected to be funded and executed in second half.
Total	\$24,324,335	\$26,313,094	\$1,988,758	\$83,548,566	31%	

Neighborhood Services Fund

Neighborhood Services Fund (“NSF”) revenues were on pace with the budget through mid-year. The fund’s primary revenue sources, Garbage and Refuse Collections and Disposal Charges, which combined represent 88% of the budget, were 51% of the budget through June.

NSF expenses were just 44% of the budget through June. Personnel costs, which represent 32% of operating expenses, were just 43% of the budget as the City gradually filled positions included in the 2021 budget. Disposal charges were \$3.2 million through June compared to \$6.3 million budget. The City spent just \$330,000 of \$920,000 budgeted for Vehicles Equipment expense, but expects to spend to the full budgeted amount by year end.

There is \$2.7 million in fund balance (cash carryover) to balance the 2021 NSF budget.

Table 4
2021 Neighborhood Services Fund
Mid-Year Results

	Actual 6 months 6/30/2020	Actual 6 months 6/30/2021	Difference	Amended Budget 2021*	Percent of Budget
Total Revenues	8,162,047	8,053,116	(108,931)	16,224,162	50%
Total Expenses	7,230,430	8,374,386	1,143,956	18,932,367	44%
Surplus (Deficit)	\$931,617	(\$321,270)	(\$1,252,887)	(\$2,708,205)	

* 2021 Budgeted revenues are net of \$2,708,205 of “Cash Carryover.”

Conclusion

Like every municipality across the country, the City is still dealing with the impacts of the COVID pandemic, which should not be taken lightly even as an economic recovery appears promising. The City will continue to exercise the fiscal discipline that has put it in position to exit Act 47 and officially emerge from distressed status. The City will continue to monitor its fiscal position and developments in the local economy effecting key revenues sources as it begins the 2022 budget process.

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Appendix – Other Fund Summaries

Other Fund Summaries

The City maintains several non-major and special funds that account for financial activity for a variety of purposes. The following are mid-year result summaries for each of those funds. Expenses for each fund do not include encumbrances.

Capital Projects Fund

	Actual 6 months 6/30/2020	Actual 6 months 6/30/2021	Difference	Amended Budget 2021	Percent of Budget
Total Revenues	2,413,105	769,301	(1,643,805)	16,584,548	5%
Total Expenses	1,471,199	1,976,981	505,782	16,584,548	12%
Surplus (Deficit)	\$941,906	(\$1,207,680)	(\$2,149,586)	\$0	

Debt Service Fund

	Actual 6 months 6/30/2020	Actual 6 months 6/30/2021	Difference	Amended Budget 2021	Percent of Budget
Total Revenues	1,862,084	1,189,344	(672,741)	12,518,638	10%
Total Expenses	1,854,139	1,639,139	(215,000)	12,518,638	13%
Surplus (Deficit)	\$7,946	(\$449,795)	(\$457,741)	\$0	

State Liquid Fuels Tax Fund

	Actual 6 months 6/30/2020	Actual 6 months 6/30/2021	Difference	Amended Budget 2021	Percent of Budget
Total Revenues	1,411,133	1,284,991	(126,142)	4,204,063	31%
Total Expenses	1,015,436	786,833	(228,603)	4,204,063	19%
Surplus (Deficit)	\$395,697	\$498,158	\$102,461	\$0	

Host Municipality Fee Fund

	Actual 6 months 6/30/2020	Actual 6 months 6/30/2021	Difference	Amended Budget 2021	Percent of Budget
Total Revenues	177,577	171,272	(6,305)	604,239	28%
Total Expenses	80,996	172,103	91,107	604,239	28%
Surplus (Deficit)	\$96,581	(\$831)	(\$97,412)	\$0	

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Harrisburg Senators Fund

	Actual 6 months 6/30/2020	Actual 6 months 6/30/2021	Difference	Amended Budget 2021	Percent of Budget
Total Revenues	335,293	584,460	249,167	5,800,000	10%
Total Expenses	513,990	527,500	13,509	5,800,000	9%
Surplus (Deficit)	(\$178,697)	\$56,961	\$235,657	\$0	

Sanitation Fund

	Actual 6 months 6/30/2020	Actual 6 months 6/30/2021	Difference	Amended Budget 2021	Percent of Budget
Total Revenues	5,849	33,481	27,632	0	0%
Total Expenses	0	0	0	0	0%
Surplus (Deficit)	\$5,849	\$33,481	\$27,632	\$0	

Neighborhood Mitigation Fund

	Actual 6 months 6/30/2020	Actual 6 months 6/30/2021	Difference	Amended Budget 2021	Percent of Budget
Total Revenues	33,455	28,982	(4,473)	192,546	15%
Total Expenses	9,159	11,322	2,164	192,546	6%
Surplus (Deficit)	\$24,296	\$17,659	(\$6,637)	\$0	

Special Projects Fund

	Actual 6 months 6/30/2020	Actual 6 months 6/30/2021	Difference	Amended Budget 2021	Percent of Budget
Total Revenues	10,616	16,819	6,202	21,300	79%
Total Expenses	0	0	0	20,000	0%
Surplus (Deficit)	\$10,616	\$16,819	\$6,202	\$1,300	

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Fire Protection Fund

	Actual 6 months 6/30/2020	Actual 6 months 6/30/2021	Difference	Amended Budget 2021	Percent of Budget
Total Revenues	6,929	6,683	-245	247,833	3%
Total Expenses	3,100	15,000	11,900	245,533	6%
Surplus (Deficit)	\$3,829	(\$8,317)	(\$12,145)	\$2,300	

Police Protection Fund

	Actual 6 months 6/30/2020	Actual 6 months 6/30/2021	Difference	Amended Budget 2021	Percent of Budget
Total Revenues	98,602	5,878	(92,724)	209,300	3%
Total Expenses	45,000	40,000	(5,000)	205,300	19%
Surplus (Deficit)	\$53,602	(\$34,122)	(\$87,724)	\$4,000	

Parks and Recreation Fund

	Actual 6 months 6/30/2020	Actual 6 months 6/30/2021	Difference	Amended Budget 2021	Percent of Budget
Total Revenues	93,343	54,748	(38,594)	420,314	13%
Total Expenses	29,313	16,866	(12,447)	420,214	4%
Surplus (Deficit)	\$64,030	\$37,882	(\$26,148)	\$100	

WHBG-TV Fund

	Actual 6 months 6/30/2020	Actual 6 months 6/30/2021	Difference	Amended Budget 2021	Percent of Budget
Total Revenues	194	28	(166)	5,000	1%
Total Expenses	21,010	0	(21,010)	5,000	0%
Surplus (Deficit)	(\$20,816)	\$28	\$20,844	\$0	

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Special Events Fund

	Actual 6 months 6/30/2020	Actual 6 months 6/30/2021	Difference	Amended Budget 2021	Percent of Budget
Total Revenues	32,014	83,558	51,544	323,000	26%
Total Expenses	30,576	28,526	(2,050)	322,100	9%
Surplus (Deficit)	\$1,438	\$55,032	\$53,594	\$900	