



February 14, 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 2<sup>nd</sup> Street  
Harrisburg, Pennsylvania 17101

Mayor Thompson and Council President Roberts:

The Act 47 Team appreciates the efforts that you, your colleagues and appointees have made to assist us in the initial phases of the Act 47 process. We have begun preliminary cash flow analysis, and based on the initial review, we believe it appropriate to offer a series of recommendations in advance of the full plan. Preliminary analysis indicate that the City's expenditures will outpace revenue collection as early as March of 2011. At that time a transfer from any available surplus fund into the General Fund will be necessary to meet current operational and City debt obligations until sufficient tax receipts are received by the City.

Because of the very delicate nature of the City's immediate financial picture, it is critical that all expenditures be carefully scrutinized prior to obligating the City for payment. We understand that the City has been forced to carefully examine and curtail expenditures during the past year, and we would ask that your staff be directed to continue this practice in 2011. Only expenditures that are essential to the health, safety and welfare of City residents should be approved.

It is necessary to mitigate any shortfall in FY2011 and limit any additional liabilities that the City would have to address in addition to implementing a Recovery Plan. In our role as Act 47 Recovery Plan Coordinator, we request that the City undertake the following steps commensurate with the financial crisis it faces:

- **Spending freeze for discretionary purchases:** The City should 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 approval should be required for all discretionary purchases over \$2,500.

- **Hiring freeze and overtime restrictions:** Finance Director approval should be required for any exceptions to a general hiring freeze, including filling temporary, seasonal or paid intern positions in the FY2011 budget. Advance Finance Director approval of overtime should be required, although we understand unforeseeable events may occur, particularly for public safety departments. Bureau Directors should work closely with the Finance Director to monitor and manage overtime throughout the year.
- **Prepare contingency plans:** Each Department/Office or Bureau should prepare financial contingency plans for the rest of the year showing budgeted spending levels and an alternative “spending reduction” scenario that incorporates the steps recommended in this memo
- **Limit capital project expenditures:** The City should review capital spending on non-emergency projects. Critical, non-emergency priorities should be identified and funded 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.
- **Maintain flexibility to exercise all available strategies:** We urge the Mayor and City Council to avoid taking 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. As the preparation of the Recovery Plan is just beginning, limiting the scope of options available at this time would be detrimental to the City’s long-term fiscal health.

Although expenditure items are of great concern as noted above, we would also suggest that management be diligent 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.

Please note that our recommendations contemplate cases where essential service delivery, grant recovery, or net revenue generation benefits may justify exceptions. Please contact me or Gerry Cross from our team if you have specific questions about such exceptions. We understand that the steps we are urging you to take are drastic, but it is our view that they are commensurate with the seriousness of the City’s fiscal distress. It is imperative for the Administration and City Council to take every possible step to reduce expenditures and monitor its cash flow needs very closely throughout 2011.

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

Sincerely,



Julia D. Novak, President  
The Novak Consulting Group  
Act 47 Coordinator

cc: Daniel C. Miller, City Controller  
City Councilmembers  
Beth Gabler, City Clerk  
Bob Kroboth, Director, Bureau of Financial Management  
Fred Reddig, Executive Director, Governor's Center for Local Government Services  
Gerald Cross, PA Economy League  
Robert O'Donnell