

1 HOUSE OF REPRESENTATIVES
2 COMMONWEALTH OF PENNSYLVANIA

3 * * * *

4 Joint Hearing House Bill 2557

5 * * * *

6 House Finance, Local Government &
7 Urban Affairs Committee

8 Main Capitol Building
9 Majority Caucus Room 140
Harrisburg, Pennsylvania

10 Tuesday, September 25, 2018 - 9:00 a.m.

11 --oOo--

12
13 URBAN AFFAIRS MEMBERS PRESENT:

14 Honorable Mark K. Keller, Majority Chairman
15 Honorable Seth Grove
16 Honorable Barry J. Jozwiak
17 Honorable Jim Marshall
18 Honorable Christopher B. Quinn
19 Honorable Greg Rothman
20 Honorable James R. Santora
21 Honorable Martina White
22 Honorable Carolyn Comitta
23 Honorable Isabella Fitzgerald
24 Honorable Carol Hill-Evans
25 Honorable Brian Kirkland

1300 Garrison Drive, York, PA 17404
717.764.7801

Key Reporters

keyreporters@comcast.net

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

FINANCE MEMBERS PRESENT:

Honorable Bernie O'Neill, Majority Chairman
Honorable George Dunbar
Honorable Keith Greiner
Honorable Aaron Kaufer
Honorable Fred Keller
Honorable John Lawrence
Honorable Duane Milne
Honorable Frank Ryan
Honorable Jake Wheatley, Minority Chairman
Honorable Mary Jo Daley
Honorable Margo L. Davidson
Honorable Michael Driscoll
Honorable Jordan A. Harris
Honorable Sid M. Kavulich
Honorable Stephen Kinsey

LOCAL GOVERNMENT MEMBERS PRESENT:

Honorable Kate Harper, Majority Chairwoman
Honorable Gary W. Day
Honorable Russ Diamond
Honorable Lee R. James
Honorable Thomas Mehaffie
Honorable Parke Wentling
Honorable David Zimmerman
Honorable Robert Freeman, Minority Chairman
Honorable Carolyn Comitta
Honorable Carol Hill-Evans
Honorable Patty Kim
Honorable Perry Warren

NON-COMMITTEE MEMBERS PRESENT:

Honorable Brian Kirkland

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

INDEX OF TESTIFIERS

TESTIFIERS	PAGE
Opening comments by Majority Chairman Keller.....	4
Remarks by Representative Greg Rothman	6
Remarks by Representative Patty Kim....	12
Local Government Commission Former State Representative Chris Ross Prime Sponsor of Act 199	24, 29
Philip Klotz, Executive Director.....	24
Kristopher Gazsi, Esquire.....	34
Associate Legal Counsel	
Mayor Eric Papenfuse.....	35
Police Commissioner Thomas Carter.....	89
Fire Chief Brian Enterline.....	--
Marita J. Kelley, Recovery Coordinator DCED	98

SUBMITTED WRITTEN TESTIMONY

(See other submitted testimony and handouts
online.)

1 MAJORITY CHAIRMAN M. KELLER: I'm a
2 stickler on starting on time. I see it is
3 9 o'clock. What has happened is, one of our chairs
4 has been way laid off the turnpike because of
5 accidents and weather and those types of things.
6 They'll be joining us.

7 Some opening remarks that I have as
8 Chairman of the Urban Affairs as Mark Keller. For
9 the information for all of those in attendance,
10 this public hearing is being videotaped by the
11 broadcasting office of the House Bipartisan
12 Management Committee. The video is also being made
13 available for the news media and for streaming on
14 the House's websites.

15 I want to welcome everyone to this
16 important hearing concerning House Bill 2557,
17 prohibiting a commuter tax in Harrisburg and
18 maintaining Harrisburg's extraordinary Act 47 tax
19 as well, at the same time not being covered under
20 the act.

21 Without much further ado, I'd like to
22 thank Chairman O'Neill and, of course, Chairman
23 Harper is not with us. She'll be coming. Chairman
24 Bob, thank you for being here; members of the
25 committee for being with us. I'd like to thank the

1 testifiers for their time to share their expertise
2 and their views on the bill.

3 Would any of the Chairs like to say
4 anything?

5 CHAIRMAN O'NEILL: Thank you.

6 Is Representative Milne here?

7 Representative Milne has a guest he'd like to
8 introduce.

9 MAJORITY CHAIRMAN M. KELLER: Sure.

10 REPRESENTATIVE MILNE: Actually, after
11 the Chairman's comments (inaudible; can't hear).
12 If any of you don't know, there's an extremely bad
13 accident on the turnpike heading west. It's
14 completely shut down. Thank you, Representative
15 Keller.

16 MAJORITY CHAIRMAN M. KELLER: Thank you
17 very much. Starting to my left, if members would
18 identify themselves and the district they
19 represent.

20 REPRESENTATIVE WENTLING: My name is
21 Parke Wentling. I represent parts of Erie,
22 Crawford, Mercer and Lawrence counties.

23 REPRESENTATIVE SANTORA: Jamie Santora,
24 Delaware County.

25 REPRESENTATIVE KELLER: Fred Keller,

1 parts of Snyder and Union counties.

2 REPRESENTATIVE WHITE: Martina White,
3 Philadelphia County.

4 REPRESENTATIVE DIAMOND: Russ Diamond,
5 Lebanon County. We have many commuters who work in
6 Harrisburg.

7 REPRESENTATIVE QUINN: Chris Quinn, part
8 of Delaware County.

9 MINORITY CHAIRMAN WHEATLEY: Good
10 morning. State Representative Jake Wheatley
11 representing Allegheny and City of Pittsburgh,
12 19th Legislative District.

13 MAJORITY CHAIRMAN M. KELLER: I'm sure
14 there will be other members. In fact, we have two
15 that are gonna be testifying here in front of us,
16 joining us, and we'll try to make their presence
17 known as they come forth.

18 Members will have an opportunity to
19 question the testifiers immediately following his
20 or her testimony. So, let's begin. Representative
21 Rothman, would you please describe your bill?

22 REPRESENTATIVE ROTHMAN: Thank you,
23 Chairman Keller, Chairman Freeman and Chairman
24 O'Neill for convening this joint hearing on this
25 important and necessary legislation to allow the

1 City of Harrisburg to exit Act 47, and leave with
2 it the pejorative distress status. But make no
3 mistake about it, my legislation is aimed at
4 protecting taxpayers; taxpayers of the City of
5 Harrisburg and the taxpayers of the Commonwealth of
6 Pennsylvania.

7 I was born in the City of Harrisburg
8 50 years ago; a little more than 50 years ago. And
9 as a child, I spent my Saturdays at the YMCA on
10 Front Street and my Sundays at Market Square
11 Presbyterian Church, and also sat in my father's
12 car as he drove around the City selling houses.

13 Later my father was instrumental in
14 starting an organization called CREDC, which was
15 part of the development of the Harrisburg Hilton in
16 Market Square. My family understood that the City
17 is the heart of this region, and for a body to be
18 healthy, the heart needs to be healthy too.

19 After I graduated from college, I
20 returned to my hometown where I started selling
21 real estate. Later, I was one of five founders of
22 Harrisburg Young Professionals, an organization
23 that started 20 years ago in an effort to
24 revitalize the City. I was involved in the birth
25 of Restaurant Row on Second Street, as a real

1 estate broker, appraiser, developer, investor,
2 cheerleader and patron. And I helped hundreds of
3 people buy homes and invest in the City of
4 Harrisburg.

5 I even had a hand in bringing
6 professional baseball back to Harrisburg when I
7 helped to convince my UMASS college professor and
8 academic advisor, Jerry Mileur, to bring the
9 Senators to City Island from New England. Since
10 2006, I have been part of the team ownership, which
11 has been successful on and off the field. The
12 Harrisburg Senators are a vital part of this
13 community.

14 As a state Representative and Chairman
15 of the Subcommittee of Urban Affairs on Third-Class
16 Cities, I've been watching with concern about the
17 lack of private investment in the City, but I'm not
18 surprised. Why would investors take a risk on a
19 distressed city? Would you eat in a distressed
20 restaurant? Would you fly on a distressed
21 airplane?

22 I know investors and what they want.
23 They want certainty, and they want to mitigate
24 risk.

25 My legislation, House Bill 2557, would

1 also prohibit a commuter tax, which is an
2 additional income tax on the 45,000 plus
3 nonresidents who come into the City every day.
4 This tax would crush private investment in the
5 City. I've talked to some of the largest private
6 employers in the City, and they will exit the City,
7 leaving government, federal, state and county, as
8 the sole employers left in the City.

9 We need not look any further than our
10 neighbors to the west in Michigan to see the
11 potential side effects of a commuter tax. Detroit
12 was once a bustling center of commerce, marble
13 office buildings, banks, automotive and other
14 industrial plants. It was called the Paris of the
15 West, but today it is now one of the most dangerous
16 cities in America.

17 Mayor Jerome Cavanaugh enacted a
18 commuter tax in the 1960s with his Model Cities
19 Program, with an additional income tax on
20 residents, which promised to stimulate the economy
21 of Detroit. Instead, by 1966, more than 22,000
22 middle- and upper-income residents moved to the
23 surrounding suburbs. Businesses and industries
24 left the City in droves and never returned,
25 creating the shell of a city we once knew.

1 Cities in Pennsylvania that have a
2 commuter tax include Philadelphia, Scranton and
3 Reading. Each one of these municipalities has seen
4 better economic days. Let's not repeat the same
5 mistakes in our State Capitol.

6 Harrisburg is a special city.
7 Harrisburg has historic significance. It played a
8 critical role in American history during the
9 Westward Migration, the Underground Railroad, the
10 American Civil War and the Industrial Revolution.
11 The City is unique in its status as a capital city.

12 There are less than 50,000 people living
13 in the City of Harrisburg. However, it doubles in
14 size Monday through Friday when the commuters
15 arrive. It's also the smallest Capital in the
16 nation in a ratio of population between the size of
17 the City and the size of the state; at less than
18 .038 percent.

19 Without my legislation, the City of
20 Harrisburg will be forced to raise property taxes
21 by a hundred percent. Not only will this drive out
22 private investments, creating more stress on the
23 City's finance; empty buildings equals more crime
24 and more fleeing of private investment from the
25 City. This is exasperated by the City's property

1 tax imbalance.

2 More than 55 percent of the real estate
3 in the City of Harrisburg is tax exempt, including
4 40 percent of the real estate value that is owned
5 by the Commonwealth of Pennsylvania. We need to
6 reform the payment in lieu of taxes and tax-exempt
7 policies in Pennsylvania, but that is a debate for
8 another day.

9 The City will continue their recovery
10 only by private investment, by individuals and
11 businesses moving into the City. My legislation
12 will help the City attract private investment,
13 while avoiding raising real estate taxes or
14 implementing a devastating commuter tax.

15 The entire Commonwealth of Pennsylvania
16 is a working partner to the City of Harrisburg. It
17 has been a mutually-beneficial relationship since
18 1812. We owe it to each other to work together to
19 ensure a vibrant capital city for the next
20 200 years.

21 Last night was a prime example of how
22 bipartisanship can work in the City of Harrisburg
23 when we played softball together on City Island.
24 My colleague, who represents the City of
25 Harrisburg, is here today. I want to say I've been

1 a long admirer of Patty Kim long before I got here,
2 and I appreciate her allowing me to -- to work with
3 me on this important piece of legislation. Patty.

4 MAJORITY CHAIRMAN M. KELLER: Before
5 there's any questions of Representative Rothman, we
6 want to give Representative Kim, since she does
7 represent the City, a moment for a few comments.
8 Patty.

9 REPRESENTATIVE KIM: Thank you,
10 Chairman. Chairman, thank you for allowing all
11 three committees to come here to listen to this
12 bill that Representative Rothman has brought up.

13 I need to publicly thank Representative
14 Rothman for all of his work. As he mentioned, his
15 family and himself have been huge supporters of
16 Harrisburg. I appreciate his leadership on this.

17 About eight years ago when I was on
18 Harrisburg City Council, we were desperately trying
19 to avoid bankruptcy and receivership. My mantra on
20 city council, while we're trying to help the City,
21 was one of Warren Buffet's quotes: The most
22 important thing you can do if you find yourself in
23 a hole is to stop digging.

24 We stopped digging and that allowed us
25 to get help from the state, and it was essentially

1 a sinkhole. With the leadership with the Mayor,
2 Mayor Papenfuse, and his team CREDC, they've been
3 nose to grind on filling up this hole;
4 painstakingly cutting, leasing, selling to fill up
5 this massive stranded debt that we were
6 experiencing.

7 Fast forward about it's about eight
8 years now, it's a pothole. It's essentially a
9 pothole. We're almost there, but we need a little
10 bit more to get us to smooth sailing.

11 My only regret is not sharing the
12 progress Harrisburg has made. We've done a lot of
13 good things. We've made enemies along the way
14 because there's no easy answer to fill this massive
15 hole, but today we see a brighter future. With
16 this bill, with Rothman's bill, this can get us
17 over the last hump that we need to be a viable
18 city. As Greg Rothman said, a stable city is a
19 thriving community, a thriving region. That's what
20 we're looking for today.

21 I look forward to the presenters today.
22 They've been with us in the ditches on dark nights
23 trying to get us back. They know full well of what
24 we've done and what our future looks like.

25 Thank you again so much for having us

1 today.

2 MAJORITY CHAIRMAN M. KELLER: Thank you,
3 Representative. Appreciate the comments.

4 Do any of the members have any
5 questions? Representative O'Neill.

6 MAJORITY CHAIRMAN O'NEILL: Thank you.

7 I'm not sure, Greg, if this is a
8 question for you or not. But yesterday I met,
9 along with Chairman Kate Harper, we met with the
10 Mayor and the Police Chief and Fire Chief. He had
11 talked about the LST going down from 156 to 150.

12 How did you come up with that number?

13 Do you know --

14 REPRESENTATIVE ROTHMAN: Yeah. So right
15 now, I think for the last three or five years, the
16 LST has been actively enhanced 156, which is three
17 times the 52 that other people pay. I wanted to do
18 something to lower it.

19 I know that maybe six dollars isn't a
20 lot. But, it will be my first time in three years
21 being here that I actually get a chance to vote to
22 cut someone's taxes. And every time we go to raise
23 someone's taxes they say, oh, it's only a penny
24 here or Starbucks coffee. Well, six dollars is six
25 dollars.

1 We landed on a number when I asked the
2 Mayor, is there a dollar amount that he could live
3 with less than 156. I know it's a considerable
4 amount of money, because if you think about 45,000
5 people or 50,000 people, every dollar is \$50,000.
6 So you're talking close to \$300,000 that it will be
7 reduced by. But, that's where the number came
8 from, Mr. Chairman.

9 MAJORITY CHAIRMAN O'NEILL: Thank you.

10 And to follow up on that, one of the
11 things that I'm hearing from people is that, that
12 150 is going to be dedicated to the OPEB until it
13 reaches what, 85 percent or something like that?
14 We're hearing that could be 20 plus years before it
15 reaches that. What I'm hearing from people is
16 that, really what that is is a back-door tax
17 increase.

18 Can you address that issue?

19 REPRESENTATIVE ROTHMAN: So the money is
20 dedicated to their post-employment benefits and the
21 trust. Right now, I believe, and I'll let the
22 Mayor's staff and the Mayor give you exact details.
23 My understanding is, most of their pensions are in
24 pretty good shape relative to the rest of the
25 municipalities in Pennsylvania, or even the State

1 of Pennsylvania.

2 But, they do have a hole. I mean,
3 somewhere between 85 and 150 million --

4 MAJORITY CHAIRMAN O'NEILL: Right.

5 REPRESENTATIVE ROTHMAN: -- I've been
6 told. I'll remind you that, compared to our
7 state's pension crisis, that's nothing. But this
8 is dedicated; the money will go to that.

9 We don't know if it will be 20 years or
10 even longer. But my point is, the City will never
11 grow its way out of their fiscal crisis, in their
12 case, only on tax dollars. It has to be about
13 growth. It has to be about more people coming into
14 the City; more businesses coming into the City,
15 because there won't be people paying the taxes.

16 And if you think about the way the taxes
17 are paid, if only the federal government, state
18 government, Dauphin County and the City are the
19 only employers left, we're gonna be paying that
20 through increasing their wages to make up to pay
21 for these things.

22 So, I believe that it is not a static
23 model. I believe that if they get private
24 development, they will grow and they will figure
25 out a way to grow. But, just to rely on taxes that

1 exists now and rely on the investments there's now,
2 obviously, it's not going to happen. That's why I
3 want to attract more private business.

4 MAJORITY CHAIRMAN O'NEILL: Thank you
5 very much.

6 REPRESENTATIVE ROTHMAN: Thank you,
7 Mr. Chairman.

8 MAJORITY CHAIRMAN M. KELLER:
9 Representative.

10 MINORITY CHAIRMAN FREEMAN: Thank you,
11 Mr. Chairman.

12 I guess this is to both of you. Ian --
13 and you mentioned in your testimony, Representative
14 Rothman, the City has roughly 55 percent of its
15 assessed property is rated tax exempt. Is that not
16 one of the highest, if not the highest tax-exempt
17 rates of the entire list of third-class cities in
18 the Commonwealth of Pennsylvania?

19 REPRESENTATIVE ROTHMAN: I can't imagine
20 there's another city in the state, let alone the
21 country, that has as much taxes in real estate as
22 we do. I did an analysis. I took every state in
23 the nation and looked at their population of their
24 capital city compared to their state. The average
25 is 6 percent. Albany, I think, is like 2 percent.

1 We're less than a half a percent.

2 So, when you look at the real estate --
3 And we all know, because the City -- we work here
4 when we're here. The state is the largest owner,
5 the largest tenant, the largest landlord, the
6 largest user.

7 There's a story this week about PSERS
8 tearing down the old Patriot News building. It's
9 gonna be likely tax exempt if we don't figure out a
10 way to reform our pilot program, too. So, I think
11 you're right.

12 MINORITY CHAIRMAN FREEMAN: What I was
13 getting at, too, I think one of the strongest
14 points for both of your legislation is the fact
15 that, since such a high percentage of tax-exempt
16 properties exist in Harrisburg, largely because of
17 the presence of state government, your proposal
18 really is a way of compensating a community that is
19 bearing the burden of the host community that takes
20 away its tax base. So, in a sense, it's a way of
21 sort of compensating them for the lack of ability
22 to tax those properties in any way, shape or form.

23 REPRESENTATIVE KIM: Chairman Freeman,
24 this structural deficit has been here for years,
25 for decades. We even, unfortunately, had some

1 mayors who performed creative financing; taking
2 high risks on projects that didn't work.

3 MINORITY CHAIRMAN FREEMAN: It's a very
4 diplomatic term, by the way.

5 REPRESENTATIVE KIM: We have a Mayor now
6 that's an open book, transparent. We want to do
7 things the right way. And I believe with growth,
8 that this exemption will be temporary as Harrisburg
9 continues to do well and better.

10 MINORITY CHAIRMAN FREEMAN: And again, I
11 think it's a good compensation for really having
12 one hand tied behind your back and having so many
13 properties off the tax rolls. So, I commend both
14 of you.

15 MAJORITY CHAIRMAN M. KELLER:
16 Representative Wheatley.

17 MINORITY CHAIRMAN WHEATLEY: Thank you,
18 Mr. Chairman.

19 And I appreciate your testimony, both of
20 your statements. I apologize if I'm missing
21 something.

22 So, the City wants to come out of
23 distress status, but you have a long-term projected
24 financial need. And the request, as I see it, or
25 your proposal allows for some additional taxability

1 that is normally only given under the conditions of
2 Act 47, and a tradeoff is for the commuters to be
3 taken out of that mix.

4 Do I get the general gist of what you're
5 doing?

6 REPRESENTATIVE ROTHMAN: So, the current
7 -- the current taxes --

8 MINORITY CHAIRMAN WHEATLEY: I'm sorry.
9 Go ahead.

10 REPRESENTATIVE ROTHMAN: The current
11 taxes exist now. The people are paying them now,
12 so the enhanced income tax on the residents of the
13 city is being paid. I think it's been in place for
14 five years. And for three years, the LST enhanced.
15 The three times the LST has been paid.

16 So, the City is asking for those to
17 continue to be in there. It won't be additional
18 taxes.

19 MINORITY CHAIRMAN WHEATLEY: And so,
20 just for the clarity of what the staff said,
21 commuters aren't being taxed now, correct?

22 MR. GAETNER: There is no dedicated
23 commuter EIT right now. Commuters do pay the LST.

24 MINORITY CHAIRMAN WHEATLEY: So they
25 will be taken out of this one?

1 MR. GAETNER: No. They would continue
2 to pay the LST under this bill at 150 instead of
3 156.

4 MINORITY CHAIRMAN WHEATLEY: Okay. All
5 right. All right. That's just the clarity I
6 wanted. Thank you.

7 MAJORITY CHAIRMAN M. KELLER:
8 Representative Santora.

9 REPRESENTATIVE SANTORA: Part of my
10 question was just answered.

11 My concern, when I'm hearing this is,
12 what other municipalities and cities are going to
13 be looking to do the same without the Act 47 status
14 as well. And, is there sunset in here?

15 REPRESENTATIVE ROTHMAN: In my bill, as
16 it's written now, Representative, there is a
17 proposal for a review in five years and annual
18 reporting to a board set up between members of the
19 business community, and I think Local Government
20 Commission and chairmen of various committees in
21 the House and Senate and our leadership. I'll let
22 Representative Kim address the first part of your
23 question.

24 REPRESENTATIVE KIM: Thank you for that
25 question. I'm going to take it at a different

1 angle.

2 Act 47 has been so important for the
3 City of Harrisburg and also with the receivership
4 program. It gave us guidance. We got a strong
5 plan and we're following it to the T.

6 But, Act 47 in itself is a good concept,
7 but it's not perfect. Once you get into Act 47,
8 you receive these special taxing authorities to
9 help us stay above water, but when you exit, you
10 lose that taxing authority. So, you're kind of
11 left without any tools.

12 I'm so glad to see Representative Chris
13 Ross here who has, when he was serving here with
14 us, proposed a package to give local communities
15 like ourselves more tools to continue on without
16 the Act 47 status. So, we need to have more reform
17 with Act 47. Again, it's a great program, but it
18 doesn't get us out in the clear all the way. So,
19 that's why we're asking for this.

20 Scranton has done this in the past. And
21 yes, I think other commuters are going to be like,
22 what about us, whatnot? I think there needs to be
23 an overall Act 47 reform to help all third-class
24 communities struggling with the same issues as
25 Harrisburg.

1 REPRESENTATIVE SANTORA: Well, I go
2 beyond third-class cities. I come from a first-
3 class township of 82,000 residents bordering the
4 City of Philadelphia. And because we have an
5 island, we cannot be a third-class city, so we
6 cannot subscribe to some of these things.

7 I thought Act 47 was, the intention was
8 so you could implement that plan and eventually
9 come off of it and not need these requirements
10 anymore. I look forward to hearing the testimony
11 and understanding it better. Thank you.

12 MAJORITY CHAIRMAN M. KELLER: Thank you.
13 And I want to thank both testifiers, Representative
14 Kim and Representative Rothman, for your testimony.

15 We will be moving on. First I want to
16 identify some members that I see have joined us:
17 Representative Mehaffie, Representative Quinn,
18 Representative Kirkland, Representative Carol
19 Hill-Evans, Representative Fitzgerald,
20 Representative Greiner, Representative Lawrence and
21 Crystal.

22 Our next testifier --

23 Representative Dunbar. Excuse me.

24 Our next testifier from the Local
25 Government Commission, a former state

1 Representative Chris Ross, prime sponsor of Act 199
2 of 2014, which modernized Act 47. We're so happy
3 to have representative -- retired Representative
4 Chris Ross with us to testify, the author of Act
5 47. We'll turn it over to him.

6 I see we have one other, Representative
7 Kinsey is here also.

8 FORMER REPRESENTATIVE ROSS: I'm old,
9 but not that old. I didn't do Act 47. I don't
10 know, what year was that? 1980 or something. 1987
11 I was alive, but I wasn't in the Legislature at
12 that point. I'm going to defer initially to my
13 friends from the Local Government Commission where
14 I served for 20 years.

15 To give you a little background
16 information, I'll make a couple comments myself.
17 Thank you all for having us here today, and I'm
18 very interested in this particular subject. Phil.

19 MR. KLOTZ: Thank you very much. Good
20 morning, Chairs, and members of the three
21 committees, and thank you for wanting us to testify
22 here today. Our testimony highlights the
23 background, purpose, and contents of Act 47.

24 The municipality --

25 MAJORITY CHAIRMAN M. KELLER: Excuse me.

1 Could you pull the mike closer?

2 MR. KLOTZ: Sure. Is that better?

3 MAJORITY CHAIRMAN M. KELLER: Yes.

4 MR. KLOTZ: The Municipalities Financial
5 Recovery Act, or Act 47, was enacted in 1987 as the
6 product of a Local Government Commission-sponsored
7 task force, convened to look for solutions for
8 growing financial problems among municipalities in
9 Pennsylvania. Many municipalities face, and still
10 struggle with financial challenges related to
11 changes in the business cycle and shifts in
12 population and economic opportunity, as well as
13 inadequate local management and rising legacy
14 costs, and other cyclical and structural issues.

15 Act 47 was enacted to provide a process
16 for the distressed municipalities to work with the
17 Department of Community and Economic Development,
18 or DCED, and reestablish financial stability.
19 Under Act 47, DCED may issue a declaration of
20 distress after it finds a triggering event has
21 occurred, either automatically, as in the case of a
22 bankruptcy filing, or after a party with standing
23 petitions the Department to apply a set of
24 statutory criteria under Chapter 2 of the act to
25 assess the fiscal condition of the municipality.

1 After a declaration of distress, DCED
2 appoints a coordinator to analyze the financial
3 situation, issue a report on findings, and propose
4 a plan for recovery. The coordinator is given
5 broad authority to inspect records related to the
6 municipality's operations and finances.

7 An adopted plan must be implemented by
8 the coordinator directly or by other designated
9 person with the coordinator's oversight. However,
10 where a municipality fails to adopt or implement a
11 plan proposed by the Recovery Coordinator or
12 develop an alternative plan with the Secretary of
13 DCED's approval, the Department may suspend certain
14 funding sources to the municipality from the
15 Commonwealth or recommend more significant action
16 to the Governor.

17 The Governor may declare a fiscal
18 emergency upon a finding that the municipality has
19 become insolvent and is unwilling or unable to
20 adopt or implement a recovery plan. A fiscal
21 emergency has only been declared once, shortly
22 after the provisions were first adopted into Act 47
23 in 2011, in response to a period of crisis in
24 Harrisburg when the City's financial situation
25 threatened an imminent possibility of bankruptcy.

1 In a fiscal emergency, the Department
2 must develop an emergency action plan that ensures
3 the maintenance of defined vital and necessary
4 services. Thereafter, the Secretary of DCED may
5 appoint a receiver to implement the emergency
6 action plan and form a more permanent recovery plan
7 subject to court approval.

8 Following Senate and House Joint
9 Committee hearings on Act 47 in the fall of 2011,
10 precipitated by Harrisburg's financial crisis, and
11 recognition that the act proved to be
12 insufficiently ineffective in putting distressed
13 municipalities back on firm financial footing, the
14 Commission empaneled a task force in the 2013-2014
15 legislative session, which resulted in Act 199 of
16 2014, comprehensively revising Act 47 for the first
17 time in 25 years.

18 Key among the findings of the task force
19 was that, the Act 47 program has succeeded in
20 stabilizing distressed municipalities, but largely
21 struggled to move municipalities from stabilization
22 to sustainable recovery. Thus, many Act 47
23 municipalities remained in recovery for decades
24 under state intervention.

25 Among other things, Act 199 added a

1 formal structure to an existing regulatory early
2 intervention program designed to help
3 municipalities avoid formal intervention under Act
4 47, establish a five-year time period for recovery
5 with an option to adopt a three-year exit plan,
6 diversified tax revenue enhancements available
7 during recovery with court approval, and created an
8 alternative to the recovery process by which a
9 nonviable municipality could voluntarily wind down
10 its affairs.

11 In many respects, these amendments
12 sought to ensure that where a municipality could
13 not avoid the Act 47 program all together, it would
14 be required to plot a course with the Recovery
15 Coordinator to plan for a future where it would
16 need to operate without the special tools available
17 during Act 47 recovery.

18 This fall, five years have passed since
19 Harrisburg adopted and began the implementation of
20 the recovery plan formed by the receiver. Together
21 with the recovery coordinator, the City is engaged
22 in the choices posed by Act 199 when a municipality
23 considers a three-year exit plan. About half of
24 the 17 distressed communities with Act 47 recovery
25 plans have either adopted exit plans or will

1 consider them during the upcoming year.

2 Since the enactment of Act 199, five
3 municipalities have emerged from Act 47 recovery.
4 All but one of them have done so with Home Rule
5 charters that support greater tax rate flexibility.

6 This concludes our testimony. I'll pass
7 the mike to Chris Ross.

8 FORMER REPRESENTATIVE ROSS: Thank you.
9 I know you've got to get on the floor, so I'm going
10 to try to keep you on your schedule, being
11 sympathetic having been in your seat before trying
12 to run these.

13 A couple of general observations. First
14 of all, no municipality willingly goes into Act 47.
15 Typically, they all have had a degradation of their
16 tax base, and they have had a degradation in their
17 fiscal condition that often has happened over time
18 where they lose core businesses from the City
19 center where some of their wealthier residents
20 leave town and they're left with poor residents who
21 generally need substantial services, but their tax
22 base has difficulty in supporting that.

23 Many of you know of municipalities that
24 are in that condition in your district and are
25 familiar with the kinds of problems they have

1 struggled with. As Representative Rothman has
2 suggested, economic development in the long haul is
3 a critical piece to try and bring them back into a
4 more balanced situation, but there also were some
5 very tough political decisions that have to be made
6 to downsize services to match up with revenues so
7 that municipalities can actually operate on a
8 fiscally sound basis.

9 Most of those decisions are politically
10 extremely difficult. You're taking services away
11 from people. You are taking, often, critical
12 services down in the level in which they're being
13 offered, and very few -- or you're raising taxes.
14 Any of these choices are politically difficult.

15 And it wasn't surprising to me that once
16 they got extra taxing powers under the old Act 47
17 before we adopted changes under Act 199, the
18 municipalities were reluctant to make the tough
19 political decisions needed to get onto a sound
20 fiscal footing. That's the reason why we included
21 the time restrictions in Act 199 that the General
22 Assembly adopted and got signed into law.

23 I'm pleased to see that, generally, that
24 seems to be working. It's forced the challenges to
25 be faced.

1 One of the key elements is the outside
2 coordinator. This is meant to be someone that DCED
3 appoints to essentially, neutrally and accurately
4 analyze plans that are being proposed for the
5 municipality, to make sure they actually do what
6 they say they're going to do, and that they are
7 correctly balanced and fiscally real.

8 We all have seen occasions where some of
9 us like to be hopeful, and plan something that
10 looks good on paper or, if you don't analyze it
11 very carefully, seems to be a great idea. But, you
12 need someone to get down into the details and make
13 absolutely sure that the plan works.

14 This is one of the reasons why I
15 encourage you to listen carefully to the
16 coordinator here for Harrisburg. The idea of
17 skipping or avoiding any of the recommendations of
18 the coordinator to me is troubling. I would urge
19 you to be extremely cautious about that.

20 Most of us want dessert and don't
21 necessarily want to eat our peas.

22 Secondly, as Representative Santora has
23 brought up, this doesn't just apply to third-class
24 cities. This essentially is going to be a model
25 for others.

1 As Chairman Freeman has pointed out,
2 there's many municipalities that have substantial
3 tax-exempt property due to the location of major
4 hospitals; due to the location of universities and
5 other not-for-profit financial institutions; due to
6 the presence of county governmental offices or
7 state or federal governmental offices within their
8 boundaries, particularly third-class cities, but it
9 happens in boroughs and townships as well, can be
10 somewhat dominated by not-for-profit institutions,
11 which reduce their real estate tax base and put a
12 burden on the citizens who remain.

13 Although as pleased with much of what we
14 did in Act 199, as Chairman Freeman will know, I
15 was not satisfied that we resolved all the
16 problems. These problems are endemic to many
17 places; not just Harrisburg.

18 So, I think it's a mistake to craft a
19 solution that is a one-off for Harrisburg and turn
20 your back on the other problems that exist out
21 there. You want to have a uniformity in how you
22 treat the municipalities in this Commonwealth. If
23 a class of them, whether they be third-class
24 cities, boroughs or townships, or first- or second-
25 class cities for that matter, have explicit

1 problems, plan and go to the problem to crafting a
2 correct solution that will apply neutrally and
3 generally across the board.

4 Finally, I know that we're nearing the
5 end of the session. I remember those days. So,
6 there's a wonderful saying, act in haste, repent at
7 your leisure. Please do this carefully. Think it
8 through. Make sure that you've done it right,
9 because you will not necessarily get an opportunity
10 to come back at it. It took us a very long time to
11 get the corrections that we got so far into Act 47.

12 When you're dealing with taxing
13 authority for local municipalities, that's
14 politically dynamite, as you all know. And also
15 some of the other things that you're considering in
16 here; an extension of taxes and some of the other
17 prohibition of taxes are complicated and very
18 difficult.

19 So, if you do something that's a
20 one-off, you may very well find that your local
21 citizens, even though very few of you are directly
22 involved with Harrisburg, you may find your local
23 citizens questioning why you didn't fix their
24 problems, too.

25 So, I'm still on time as long as the

1 questions don't go too long.

2 MAJORITY CHAIRMAN M. KELLER: Thank you
3 both. Thank you all for your testimony. I'll
4 entertain one or two questions. Christine, my
5 executive director, has a question.

6 FORMER REPRESENTATIVE ROSS: Don't make
7 it too hard.

8 MS. GOLDBECK: I'll do my best.

9 One is, I want to make sure I understand
10 this correctly in a clarification. Under Act 1999,
11 reforming Act 47, after the five initial years, if
12 recommended by the coordinator, the municipality
13 can stay in the act for another three years?

14 FORMER REPRESENTATIVE ROSS: That's
15 correct.

16 MR. KLOTZ: That's correct.

17 MS. GOLDBECK: And during that extension
18 of three years can keep the existing extraordinary
19 LST and EIT that it is collecting, correct?

20 FORMER REPRESENTATIVE ROSS: That's
21 correct.

22 MS. GOLDBECK: And how many did you say,
23 municipalities, have come out of Act 47 since the
24 introduction and placement of --

25 MR. GAZSI: There have been 14 total

1 recisions from Act 47; eight of them since the
2 beginning of 2014. So there was a number that came
3 out during the Act 199 revision process, and of
4 those eight, five of them have followed since the
5 enactment of 199.

6 MS. GOLDBECK: Were any of them under
7 three-year extensions?

8 MR. GAZSI: No, because three-year
9 extensions wouldn't have taken place yet. I know
10 there are a few municipalities on exit plans, and I
11 think DCED could better speak to that. But all of
12 them would have been within the last year, or maybe
13 two at the very most.

14 MS. GOLDBECK: Thank you.

15 MAJORITY CHAIRMAN M. KELLER: Thank you
16 all the testifiers. Thank you very much for taking
17 the time to come in and testify.

18 Our next testifier is Mayor Eric
19 Papenfuse, Mayor of Harrisburg. Mayor, the mike is
20 yours.

21 MAYOR PAPENFUSE: Thank you, everyone.
22 I think we are handing you a copy of exhibits. It
23 should look like this, 1 through 3. I'm going to
24 go through my testimony and refer to the exhibits
25 and I'll walk you through them. I'm sorry we

1 didn't have those in time for circulation earlier.

2 Chairpersons Harper, Keller, O'Neill,
3 distinguished committee members: I'm Eric
4 Papenfuse, Mayor of the City of Harrisburg since
5 2014. I am here today along with our Fire Chief
6 Brian Enterline and our Police Commissioner Thomas
7 Carter to testify in support of House Bill 2557.

8 I've got three main points that I want
9 to emphasize this morning. First, I'm going to
10 highlight some of the extraordinary achievements
11 the City and the state have accomplished working
12 together since receivership status was granted for
13 Harrisburg in 2011. I think it's important to
14 review some of that history.

15 Second, I will make the case for why we
16 should secure and build on those accomplishments by
17 acting now to pass House Bill 2557.

18 And thirdly, I will show how House Bill
19 2557 provides both a sustainable future for
20 Harrisburg and a successful exit strategy for the
21 capital city under Act 47. So that's the plan.

22 A little history. When I took office in
23 2014, the City of Harrisburg had recently sold or
24 transferred each of its major three assets; the
25 trash-burning incinerator, that you've heard much

1 about; the parking system, which you use today, and
2 our water and sewer system. Together, those
3 transactions retired hundreds of millions of
4 dollars in long-term debt for the City. And it
5 allowed Harrisburg, which had been on the brink of
6 bankruptcy, to begin to pay its debts, rebuild its
7 operational capacity and invest in aging and
8 long-neglected infrastructure.

9 This could not have been accomplished
10 without the assistance of the Commonwealth, and on
11 behalf of the citizens of Harrisburg, I want to
12 take this opportunity now formally and officially
13 to thank the Legislature, to thank the Governor's
14 Office, to thank the Department of Community and
15 Economic Development for all of your focused
16 attention and dedicated support during Harrisburg's
17 dire financial times.

18 Now, if you turn to the first exhibit
19 that I've handed out, you're going to see a graph
20 of employees. When the City of Harrisburg entered
21 Act 47 in 2010, there were 569 full-time city
22 employees, and that number was already much less
23 than during the decade before. You see that on the
24 chart.

25 Today, the City has stabilized to the

1 basic level of 425 employees, and that number is up
2 slightly from the dark days of 2013, the year in
3 which everyone retired who could and the
4 beleaguered city was unable to recruit or fill
5 essential vacancies. But over the past five years,
6 with the helpful support of the Office of the
7 Coordinator, the City has reorganized, found
8 efficiencies where we could, and working together
9 we have effectively right-sized government.

10 Now, I show you this chart in part
11 because I know that there's an executive summary
12 which I don't think really tells the whole
13 story.

14 If you look at the increasing number of
15 employees, which is very modest since 2013, the
16 overwhelming majority of those are emergency
17 workers and first responders. I'm going to give
18 you an example. We've hired 23 new firefighters.
19 That's the bulk of that increase; 23 new
20 firefighters since 2013.

21 In doing that, we have reduced overtime
22 in the City of Harrisburg for what was approaching
23 \$3 million a year, down to only about \$600,000 this
24 year--two and a half million in overtime savings by
25 hiring more employees. That's an example of how,

1 actually, hiring smart has saved the City money.

2 We'll move forward. Under receivership,
3 speaking of fire, new contracts had to be
4 negotiated with two of the City's three unions.
5 The fire department, however, was a hold-out even
6 under receivership. And when receivership ended in
7 February of 2014, there was no contract. One of
8 the most difficult jobs I had to do as a
9 newly-elected Mayor was to close a fire station,
10 and convince the IAFF to make major concessions
11 regarding health care and staffing.

12 And since then, working together with
13 the Commonwealth, we have negotiated three new
14 contracts, one with each of our three bargaining
15 units that set us up for the future with only
16 modest annual pay increases of 1 or 2 percent.
17 They preserved the necessary concessions that were
18 made under receivership, and they set the stage for
19 the establishment this year of an OPEB Trust, which
20 will address the long-term health care obligations
21 and, importantly, provide the City with
22 predictable, sustainable and basic wage growth for
23 future years.

24 Importantly, when I took office of the
25 City of Harrisburg--and let's not forget this--had

1 completely defaulted on its debt obligations. I
2 was presented with over four and a half million
3 dollars in simply unpaid invoices upon taking
4 office, and I was handed a budget that was so
5 unbalanced that it had already been presented to
6 City Council with a 4-million-dollar negative
7 expenditure, or a plug which basically meant that
8 we would have to underspend the budget by at least
9 \$4 million just to break even. That's where we
10 were.

11 But, underspent that budget we did, and
12 every year that I have been in office, we have
13 significantly underspent our budget. Strict
14 scrutiny of purchasing; fundamental reforms to City
15 contracting; fiscally conservative spending have
16 allowed us to build a cash-fund balance, which we
17 are now in position to use for long-neglected city
18 infrastructure; much needed facility improvements,
19 essential I.T. upgrades.

20 Only in 2017 and 2018, with the approval
21 and oversight of the Coordinator's Office, did we
22 begin to draw significantly on this fund balance,
23 and that's why spending has increased in recent
24 years. It's capital spending, but it's only
25 increased in a fiscally responsible way using cash

1 on hand saved through careful budget management.

2 So I'm going to take you to slide
3 number 2 now, and you'll see the bar graph there.
4 Again, I think this corrects, or at least puts in
5 context some of what had been written in the
6 executive summary.

7 First you'll note that there's a dip in
8 spending in 2012 and 2013. I want to say, that's
9 because we weren't paying our bills, or budgeting
10 accordingly. That's because there were million of
11 dollars in unpaid invoices. So, of course, when
12 you start paying your bills, which is what we all
13 want to do, and in honoring your obligations,
14 you're gonna increase your spending.

15 The second thing you'll notice on the
16 graph is that, the difference between the blue line
17 and the red line every year has been significant,
18 and that is the underspending of the budget which
19 has built up a fund balance. And that fund budget
20 balance is represented by the gold line, which you
21 see is sort of growing on the lower margins of that
22 map.

23 Then if you look at the very final line,
24 capital expenditures, you'll see that's where we
25 increased our spending. We spent about a little

1 over \$3 million in capital expenditures in 2017,
2 and we're spending over 5 million in capital
3 expenditures in 2018. But, that was done by
4 spending the cash we saved in the previous years by
5 underspending the budget. And, frankly, those
6 capital expenditures are for new roofs for a fire
7 station, a new roof for City Hall, and basic things
8 that have been neglected for absolute decades, so
9 that's a graph for your consideration.

10 So, a few facts about Harrisburg, some
11 of which have already been mentioned. We remain
12 today a city with extremely high rates of poverty.
13 Nearly half of the population of Harrisburg lives
14 at or below the poverty line. We have the largest
15 percentage of tax-exempt property anywhere in the
16 Commonwealth. I realize others have it too, but
17 they don't have it to the same extent Harrisburg
18 has.

19 As a city, more than half of our
20 assessed value cannot be taxed, and over 40 percent
21 of the property that is not taxed, frankly, is
22 owned by the Commonwealth.

23 So, we also have a higher ratio of
24 commuters by far than any other major city in
25 Pennsylvania. In fact, as Chamber President CEO

1 Dave Black will elaborate in his testimony, and
2 he's got a wonderful exhibit there, this is a
3 startlingly fact: More people commute to
4 Harrisburg on a daily basis, about 50,533 than the
5 city's total population, which is 49,395, which
6 goes to show that, yes, the city's population
7 absolutely doubles during the course of the day.

8 Property taxes represent the largest
9 single component of the city's revenue stream. We
10 have a split millage rate for land, which is much
11 higher than for buildings. For land it's 30.97.
12 We also have a school tax millage rate of 27.8.

13 I know some say, well, why not raise
14 property taxes? Raising property taxes higher is
15 simply not a feasible option for our severely
16 stressed tax base, which already saw the doubling
17 of earned income taxes under receivership. Our
18 city school district, which is comprised of the
19 exact same tax base as the City, has affirmed
20 publicly and repeatedly that it expects to continue
21 raising property taxes to the maximum amount
22 allowed by law every year.

23 Likewise, the City's water and sewer
24 rates have increased dramatically, and will
25 continue to rise higher in order to fund the

1 necessary infrastructure upgrades mandated by
2 consent degree with the federal government.

3 So, school taxes increasing, water and
4 sewer rates increasing, but most shockingly, city
5 residents already pay one of the highest tipping
6 fees to dispose of our trash anywhere in the United
7 States, \$190 a ton. That is more than double what
8 municipalities in Pennsylvania, just outside the
9 city in Dauphin County alone, have to pay to do
10 their trash. And this rate is gonna rise even
11 higher in 2019, and even higher.

12 Now, that rate was not set in place by
13 me. That was established under receivership as a
14 condition of sale for the incinerator. So, to sell
15 the incinerator, we had to promise to bring them a
16 certain annual tonnage at a certain rate per ton,
17 which is as high as anywhere in the United States
18 of America.

19 So given these hardships and these tough
20 realities, the City chose to petition the
21 Commonwealth Court in 2016 to raise the local
22 services tax, which is paid by individuals who work
23 in Harrisburg but don't necessarily live here.
24 This two dollars a week extra contribution results
25 in about \$3.8 million in enhanced revenues every

1 year, and it offers urgently-needed assistance by
2 balancing the structural deficit of the city's
3 books that was never addressed under receivership.
4 This roughly corresponds to that \$4-million plug
5 that I said I was presented with when I first took
6 office. But it fills that gap in a sustainable and
7 balanced way.

8 Former officials hid this deficit by
9 engaging in risky and irresponsible borrowing and
10 illegal fund transfers from water and sewer
11 revenues. Did you know that in Harrisburg, for
12 seven years the previous Administration took
13 \$12 million a year illegally from water and sewer
14 and used that to balance the budget? That is more,
15 incidentally, than the entire extraordinary taxing
16 authority EIT and LST combined that we're talking
17 about.

18 Now, that was stopped, appropriately so,
19 under state oversight. But, I would argue that
20 with this structural deficit, and it's important
21 for you to understand this, that actually drove
22 past Administrations to propose things like the
23 money- making incinerator scheme, and it drove us
24 to enter into ever-riskier financial borrowings.

25 What the LST today does is, it simply

1 allows the City's revenues to equal its necessary
2 expenditures without resorting to risky get-rich
3 schemes or illegal transfers or irresponsible
4 accounting tricks. That's what you want and that's
5 what this does. It's a far better and less painful
6 solution for the capital region than massive
7 crippling property tax increases which have
8 diminishing terms. So that's the history.

9 Now I want to talk about why we need to
10 do this now. Why we need to enact House Bill 2557
11 now. As you'll hear the testimony today from
12 members, the business community, the Greater
13 Harrisburg Association of Realtors, the threat of
14 100 percent of property tax increases, whether now,
15 or in three years or in five years, whenever
16 Harrisburg eventually exits from Act 47,
17 understandably causes private investors to remain
18 on the sidelines until there's greater long-term
19 certainty about the City's finances.

20 Now, over the past five years we have
21 slowly begun to grow both the City's population and
22 the tax base. We know this because slowly, but
23 surely every year, revenues have been increasing,
24 but the pace of this growth would be significantly
25 accelerated with the passage of House Bill 2557.

1 Also, as a consequence of our past
2 financial crisis, the City of Harrisburg doesn't
3 have a credit rating and is not going to be able to
4 get one unless rating agencies feel comfortable
5 that we have a stable and predictable revenue
6 model. What that means is, we can't responsibly
7 borrow or refinance several long-term debt
8 obligations that right now, if we did have that
9 predictability, could save taxpayers significant
10 dollars.

11 Being able to restructure a
12 receivership-era bond insurance settlement
13 liability, just one of our debt obligations, could
14 save several million dollars in interest over the
15 next decade, but this requires the long-term
16 stability that only House Bill 2557 can provide.

17 Similarly, the uncertainty of Act 47
18 makes it difficult for Harrisburg to recruit or
19 retain qualified staff. You can see this most
20 clearly in the Harrisburg Police Department, where
21 the Commissioner will attest the most popular
22 question among young recruits is, when will the
23 City be getting out of Act 47?

24 They understand the concept of last one
25 in, first one out. And why should they risk taking

1 a job in a city that already pays significantly
2 less than surrounding municipalities if the city's
3 finances are so uncertain? They are willing to
4 build a career in Harrisburg, but only if there's a
5 clear exit plan and a sustainable financial future
6 for our capital city.

7 House Bill 2557 works because it doesn't
8 ask for anything that the City doesn't already
9 have. In fact, it would cut taxes for workers in
10 the first year by lowering the LST from 156 to 150.
11 It requires mandatory annual reporting of the
12 City's finances, and it provides for a review in
13 five years should the City's financial outlook
14 improve to the point that the elevated local
15 services tax would no longer be essential.

16 House Bill 2557 responsibly provides for
17 the long-term funding of an OPEB Trust, positioning
18 the City to meet its obligations for retirees'
19 health care. As the City grows, any excess revenue
20 beyond the current-year General Fund obligation for
21 this health care would go into the trust. And,
22 once the trust is funded to 85 percent of the
23 actuarial liability, Harrisburg's extra taxing
24 authority would sunset.

25 House Bill 2557 is fair. It is

1 responsible. It is thoughtful and, frankly, it is
2 a much better choice for the capital region than
3 the enactment of a commuter tax, even if that might
4 have greater short-term benefits for the City. But
5 I want to stress, we want to be good partners for
6 the region, and this bill prevents the City from
7 ever enacting a commuter tax as part of its exit
8 plan from Act 47.

9 Finally, I'll bring up the final exhibit
10 which is slide 3. I promise to show how House Bill
11 2557 would put Harrisburg on a sustainable path for
12 the future. Projecting 1 percent revenue growth,
13 very modest, and a 3 percent inflation of yearly
14 expenses, including our mandatory obligations,
15 modest collectively-bargained wage increases, the
16 City currently has enough to ensure balanced
17 budgets for the next seven years with the enactment
18 of House Bill 2557. That projection allows for 3
19 million a year to be spent on necessary capital
20 projects, which is honestly the bare minimum
21 required to address essential I.T. upgrades and the
22 most urgent transportation and infrastructure
23 needs.

24 If you look at that chart, you'll see
25 that we can do that without any additional tax

1 increases for the next seven years; still
2 maintaining a positive fund balance. That's a
3 healthy and sustainable city if we pass this bill.

4 On the other hand, if we don't pass the
5 bill, and you flip it over to Exhibit 3B, and you
6 take the authority away, whether it's in three
7 years or five years, we would immediately have to
8 raise property taxes by a hundred percent to fill
9 the gap. That's what everyone is talking about,
10 this being so dangerous, and that's why we
11 shouldn't have a three-year plan or a five-year
12 plan. We should have a long-term sustainable
13 solution.

14 So it is my sincere belief that this
15 long-term projection for Harrisburg that you see on
16 the graph, which assumes the retention of the
17 current taxing authority provided by House Bill
18 2557 is fiscally conservative. Once granted a
19 credit rating and allowed to refinance or
20 restructure significant portions of our long-term
21 debt, Harrisburg could have an even brighter
22 future. Increased economic development, after the
23 cloud of Act 47 has lifted, could provide valuable
24 new revenues to maintain our aging roads, repair
25 our structurally deficient bridges, and address the

1 challenges of the Dock Street Dam.

2 Today, you can ensure the future success
3 of the Harrisburg region, if the legislature
4 continues to work together with the City, our
5 workers and our residents and the business
6 community and the state leaders to advance
7 reasonable, common-sense solutions like those
8 offered in House Bill 2557.

9 Thank you for taking the time to call
10 this hearing, for your willingness to study the
11 details of Harrisburg's financial situation. I am
12 eager to answer any questions that you may have,
13 provide you with information you may need to assist
14 you in evaluating proposed legislation which is so
15 important to the health and future of the City of
16 Harrisburg. Thank you for listening.

17 MAJORITY CHAIRMAN M. KELLER: Thank you,
18 Mayor. I appreciate it. I'll start the
19 questioning now.

20 According to the information given to us
21 by the Coordinator, in 2016, the City ended the
22 year with \$12 million in surplus which is 2 million
23 more than the 10 million collected through Act 47
24 that year. The following year you increased
25 expenditures by 10 million and still had a surplus

1 of \$3 million.

2 Now you've claimed that the City is in a
3 dire financial situation without these taxes. So
4 how do you explain this surplus? I mean, question.

5 MAYOR PAPENFUSE: We have a balanced
6 budget in terms of revenues and expenses. What we
7 have to be able to address is our long-term capital
8 needs for the City. That means, roads; that means
9 structurally deficient bridges; that means traffic
10 lights; it means facilities, roofs on buildings.

11 In a normal situation, a municipality
12 might borrow and have a long-term plan to be able
13 to address those infrastructure and capital needs.
14 Harrisburg can't do that. So, as a result, because
15 we can't access the markets and we don't have a
16 credit rating because of the dilemma that I have
17 outlined. Because of that, we have to underspend
18 our budget to save up cash to be able to then spend
19 on those capital needs, and that's exactly what
20 we've done.

21 So, by underspending our budget and by
22 taking a portion of that money, we've been able to
23 -- we've been able to not only spend it on roofs,
24 but we've also been able to spend a little bit on
25 reducing our long-term debt obligation. So

1 \$2 million of that spend this year, that additional
2 spend, is going to prepay future debt which is
3 going to save the City tremendous interest.

4 Would I rather restructure or refinance
5 that debt long term, sure, but I can also pay off
6 some of the high interest debt, and that's what
7 we've been doing.

8 MAJORITY CHAIRMAN M. KELLER: Okay.
9 Thank you. Chairman Wheatley.

10 MINORITY CHAIRMAN WHEATLEY: Thank you.
11 I appreciate the testimony, Mr. Mayor. For the
12 record, I typically support the local
13 representatives from the area for whatever they
14 want to do for their municipalities and townships.
15 So I probably would follow that in this as well.

16 But, Chris Ross made a comment that I
17 would love to get your response to about making
18 sure we don't craft special legislation for one
19 municipality or township when we know there are
20 plenty other municipalities and townships that are
21 coming behind them. Pittsburgh just came out. I'm
22 sitting next to my good colleague here where
23 Chester has been in since 1977, and just went into
24 a three-year extension.

25 So, with that being said, how would you

1 respond to that? That this is more of a local
2 solution for one municipality that doesn't cover
3 the tons of other municipalities, townships and
4 boroughs who are also faced with financial
5 struggles?

6 MAYOR PAPENFUSE: I would say you need
7 both a short term and immediate solution for the
8 problems that are facing Harrisburg, and a longer
9 term solution for problems facing other
10 municipalities.

11 One of the reasons we have to act now
12 for Harrisburg is because of the specific timelines
13 that were set in place when you amended the Act 47
14 law. Chester, I think, has been in Act 47 for
15 23 years or something like that. When Harrisburg
16 entered Act 47, there was no timeline. So we could
17 have potentially had 10 years or 15 years to be
18 able to slowly grow our tax base and get out.

19 But the Legislature, and I think I
20 understand why because you don't want people to
21 stay in Act 47 forever, put a time clock on the
22 law. And after we sold all of our assets, they
23 said you only got five years, and that is expiring
24 at the end of December of this year, which means
25 that our taxing authority could expire in December

1 and we could be left with a massive crisis in
2 January. That's why we're asking you to act now
3 for Harrisburg.

4 I'd argue that Harrisburg has some
5 special circumstances which makes it a little bit
6 different, but I'd also argue that probably all
7 cities have their own special circumstances. So,
8 as you move forward, we'd be happy to participate
9 in crafting a law that has greater flexibility on a
10 case-by-case basis for how to help our third-class
11 cities and others emerge from Act 47.

12 I also note that legislative change is
13 recommended by the Coordinator. It is a part of
14 our plan, and that's because we all recognize the
15 structural taxing deficit that is happening in
16 Harrisburg. So we're following our plan by coming
17 here today and asking you to pass House Bill 2557.

18 MINORITY CHAIRMAN WHEATLEY: Thank you.
19 Thank you, Mr. Chair.

20 MAJORITY CHAIRMAN M. KELLER: Chairman
21 Freeman.

22 MINORITY CHAIRMAN FREEMAN: Thank you,
23 Mr. Chairman.

24 Mayor, thank you for your testimony
25 today. It was very thorough. I appreciate that.

1 A quick observation and a quick question for you.

2 I think it's been clear with the
3 testimony we heard from you, from Representative
4 Rothman and from former Representative Ross, too.
5 One of those systemic problems we're facing with a
6 lot of our Act 47 communities is the high
7 percentage of tax-exempt properties that exist
8 within a jurisdiction.

9 I've introduced legislation for a couple
10 sessions in a row now that would provide a means
11 for the state to compensate those communities that
12 have a high percentage of tax-exempt properties. I
13 think we really need to look at that, because,
14 unless we address how you make up for that,
15 communities either in Act 47 or coming out of Act
16 47 with a high percentage of tax-exempt properties
17 are gonna continue to stumble fiscally because it
18 just takes too much away from the tax base to be
19 able to stay afloat.

20 In the research we did, the vast
21 majority of Act 47 communities, anywhere from 25 to
22 33, or in the case of Harrisburg, 55 percent, of
23 the total assessed value of property was tax
24 exempt, because of the existence of either state
25 government facilities, county facilities,

1 institutions of higher learning, nonprofit
2 hospitals. Those are all very important regional
3 assets, but a host community shouldn't have to
4 suffer for providing a place for regional assets.
5 It really is something the state has to play with
6 (inaudible word). Just that observation.

7 By the way, the poster child for that
8 issue actually is Gettysburg. Eighty percent of
9 Gettysburg's total assessed value is tax exempt,
10 because of the Battlefield, the county hospital,
11 the county courthouse and whatnot. So, it's not
12 just big cities. There's a lot of small
13 communities, too.

14 With that being said, the one question I
15 do want to put before you, I know the exit plan on
16 several occasions talked about going Home Rule.
17 And I wanted to know what your feelings are about
18 that; whether there's progress towards convening a
19 Home Rule charter study commission and seeing if
20 that can help in addressing some of the problems
21 the City is facing?

22 MAYOR PAPENFUSE: Yes. I strongly
23 support the Home Rule initiative. The problem with
24 Home Rule is that it's a minimum time frame of at
25 least three years. There's multiple ballot cycles.

1 You have to establish a commission. It has to be
2 voted on. They have to revise, write a new
3 charter. That charter then goes up for referendum.
4 It takes place over multiple years.

5 So, it is not a fix that we can do in
6 time for our sort of ticking deadlines at the end
7 of this year, but it is something we can look at
8 long term, because Home Rule would not only allow
9 us to address taxing authority, but maybe allow us
10 to address fundamental restructuring of how
11 government works in Harrisburg.

12 City Council has introduced legislation
13 to begin the Home Rule process. It is a
14 recommended suggestion in the Coordinator's plan
15 which we intend to follow, but it won't address in
16 time what we have to do with House Bill 2557.

17 I will say that I would love to work
18 with you on promoting legislation that would deal
19 with this issue of tax-exempt properties. I think
20 this could be a potential solution long term. If
21 we were able to pass something over the course of
22 the next five years, then that would potentially
23 allow us within the review framework of this bill
24 to either completely sunset or reduce the LST.

25 What we're doing now doesn't have to be

1 the solution forever. We can continue to work
2 together on common sense additional solutions that
3 could help bridge the gap and find other revenue
4 sources for cities like Harrisburg.

5 MINORITY CHAIRMAN FREEMAN: I fully
6 appreciate your desire for 2557. Obviously, you
7 have a fiscal situation to deal with now.

8 I would recommend Home Rule. We did
9 that in Easton, my hometown. I chaired our Home
10 Rule Study Commission in 2006 to 2007. We were
11 able to complete our work in two years.

12 MAYOR PAPENFUSE: Good.

13 MINORITY CHAIRMAN FREEMAN: Out of that
14 came a very good experience, because we did end up
15 taking the cap off of the EIT to reduce the
16 pressure on rising property taxes.

17 But, more importantly, we took a really
18 strong look on how we could fundamentally change
19 the structure of city government in Easton to make
20 it less combative. Typically, with the separation
21 of powers between the executive and legislative,
22 you find conflicts arise between those two
23 branches.

24 We solved that by having the Mayor serve
25 as president of council and still being the head

1 executive, but it became much more cooperative.
2 And through our process, we made a number of
3 fundamental changes that professionalized the
4 operation of City Hall, brought in a city
5 administrator to work in tandem with the Mayor in
6 terms of the administrative side of things; and we
7 also provided that three out of the six City
8 Council seats would end up being district seats.
9 So neighborhoods that felt neglected in terms of
10 representation on council were guaranteed at least
11 one person who would be a voice for them. So I'd
12 recommend you pursue that.

13 MAYOR PAPENFUSE: Good suggestion. I
14 think it's easier to achieve some of those
15 fundamental reforms to government if you sort of
16 take the immediate tax pressures off the table.
17 The thumb rule is all about taxing authority. It
18 has much less of a likelihood to be successful on
19 the ballot than if it is about fundamental reforms
20 that benefit taxpayers.

21 MINORITY CHAIRMAN FREEMAN: Absolutely.
22 And that was our experience in Easton. That's why
23 we went broader. Thank you.

24 MAJORITY CHAIRMAN M. KELLER: Thank you.
25 Chairman O'Neill. If we could keep our

1 questions and responses brief because of time
2 constraint. Thank you.

3 MAJORITY CHAIRMAN O'NEILL: Thank you,
4 Mayor, for your testimony. You served your city
5 well this morning.

6 Real quick. What is the percentage of
7 your tax exempt?

8 MAYOR PAPENFUSE: Over 50 percent of the
9 value of the City. And frankly, 55 percent. We
10 have the special symbiotic relationship with state
11 government. And if you look at the expansion of
12 the Capitol Complex over the years, and the
13 expansion, it has come as -- actual whole
14 neighborhoods of Harrisburg were demolished, and
15 so, our tax base and our population has decreased
16 while the State Capitol Complex has increased.

17 We have a very small sort of square
18 footage for our Capital. We can't expand our
19 boundaries. We can't change that dynamic, so we're
20 in a unique position. With that much tax-exempt
21 property, it does limit what we are able to do.

22 MAJORITY CHAIRMAN M. KELLER: Do you
23 know the average millage rate or average tax bill
24 for your residential taxes?

25 MAYOR PAPENFUSE: I cited the millage

1 rates in my report. What I can say is, especially
2 with the high rates of poverty that we have in the
3 City of Harrisburg with half of our population,
4 essentially impoverished, and with all these other
5 rising rates, we would have diminishing returns.

6 Even if you said, okay, double your
7 property taxes, which would be a very unwise thing
8 to do, people would default on their homes. They
9 would not be able to pay their bills, and you would
10 not be able to get that return that you would
11 theoretically hope for on paper.

12 MAJORITY CHAIRMAN O'NEILL: Thank you
13 very much. Thank you, Mr. Chairman.

14 MAJORITY CHAIRMAN M. KELLER:
15 Representative Santora.

16 REPRESENTATIVE SANTORA: Mayor, you had
17 brought up the sale of the garbage incinerator plan
18 and the contract. You used the word scam or
19 scheme, I believe. Have you tried to sue to get
20 out of that contract of having to pay those tipping
21 fees?

22 MAYOR PAPENFUSE: So, I was referring to
23 the whole incinerator fiasco. Frankly, right now
24 the Commonwealth is suing all of the financial
25 advisors, law firms and others that recommended the

1 doubling down and continued investment in that
2 incinerator. So, we support the separate --

3 REPRESENTATIVE SANTORA: -- you as a
4 City to get yourself out of that contract?

5 MAYOR PAPENFUSE: That contract was
6 necessary in order to get the City out of the
7 hundreds of millions of dollars in debt that was
8 very unwisely entered into by the previous
9 Administration, and it's that -- it's that debt
10 which is being, basically, which the Commonwealth
11 is leading a suit to try and --

12 REPRESENTATIVE SANTORA: So your
13 Administration sold the incinerator?

14 MAYOR PAPENFUSE: No, no. It was sold
15 under receivership by the Commonwealth in 2013
16 before I took office.

17 REPRESENTATIVE SANTORA: Understood.
18 Your Coordinator has said there should be more
19 effort in expanding the pilot program and
20 negotiating new pilots.

21 Does the City intend to pursue that?
22 And more important, what are you collecting now in
23 pilots?

24 MAYOR PAPENFUSE: It's about 600,076.
25 Since I've been in office, I have negotiated a more

1 than doubling of the pilot with our major health
2 care provider. I have added at least one major new
3 pilot with the Commonwealth Connections Charter
4 School.

5 It is very difficult to voluntarily get
6 nonprofit organizations to pay a pilot. I will
7 note that the majority, sort of property holder is
8 the Commonwealth. So, if we want to start with the
9 Commonwealth today by pledging a pilot, I would be
10 very pleased.

11 MAJORITY CHAIRMAN M. KELLER: To make
12 the record clear here, the Commonwealth does give
13 \$5 million a year.

14 REPRESENTATIVE SANTORA: Well, that was
15 going to be my next thing is, what's your overall
16 budget?

17 MAYOR PAPENFUSE: So the General Fund
18 budget is about \$60 million a year. You can see it
19 on the graph, which is -- And you can see it
20 projected on Exhibit 3. So, you see it holding
21 steady at about anywhere from 63 to 67 million over
22 the course of the next seven years.

23 REPRESENTATIVE SANTORA: Okay. Thank
24 you very much.

25 MAJORITY CHAIRMAN M. KELLER:

1 Representative White.

2 REPRESENTATIVE WHITE: Thank you, Mr.
3 Chairman.

4 First question that I have, and I do
5 have a few questions if you don't mind indulging me
6 for a minute. The vast majority of your remaining
7 debt is held by Ambac?

8 MAYOR PAPENFUSE: Correct.

9 REPRESENTATIVE WHITE: Can you just
10 share with us what negotiations have taken place
11 and how they're going? What are the results thus
12 far?

13 MAYOR PAPENFUSE: Sure. There was a
14 representation made, I think also in the executive
15 summary, that somehow we haven't involved the
16 Coordinator in those discussions, and that's not
17 true. What the City did was, we hired a
18 professional financial advisory firm. We issued an
19 RFP; we interviewed multiple firms. We hired
20 somebody who's actually a Coordinator who's worked
21 with other Act 47 municipalities; has a good
22 relationship with our current Coordinator to work
23 with Ambac to try to negotiate a payout.

24 Our bonds, our general obligation bonds,
25 are not callable, so that means they can't be

1 prepaid. And that runs out for the next four
2 years, which is beyond the time frame of even a
3 three-year exit plan if that were to be done. We'd
4 still have debt payments in year 4.

5 What is potentially negotiable is what
6 they call the long-term settlement obligation. I
7 reference this in the -- We pay a high interest
8 rate on that. It is about \$20 million. What it
9 represents is basically the money that the City
10 didn't pay when it tried to go bankrupt and
11 defaulted on its bills in 2011 and 2012.

12 When we restructured receivership, we
13 agreed to pay it, but we were going to pay it back
14 10 years in the future at an interest rate.

15 Now, we believe that Ambac is willing to
16 restructure that and potentially negotiate on the
17 interest rate, but they are also looking at you and
18 wondering if the City will have the long-term
19 stability via its tax revenue for the next decade.
20 We're basically stuck in our negotiations with
21 Ambac until we act on House Bill 2557.

22 REPRESENTATIVE WHITE: Thank you for
23 your response. I have another question.

24 You said that you came into office in
25 2014?

1 MAYOR PAPENFUSE: That's right.

2 REPRESENTATIVE WHITE: Okay. And in
3 2014, the City had 365 full-time employees?
4 According to this, approximately --

5 MAYOR PAPENFUSE: 361, yeah.

6 REPRESENTATIVE WHITE: And now you have
7 approximately 454 full-time employees?

8 MAYOR PAPENFUSE: 427. So we've grown
9 by about 60 employees total since I've taken
10 office. As I mentioned, 23 of those are in fire.
11 More than a third of them are in fire. Others are
12 emergency workers.

13 I can explain, but in fire alone, by
14 hiring, we reduced overtime and that ended up
15 saving money.

16 Also in -- 2014, basically everyone had
17 left the city, so the City wasn't -- If you were a
18 city resident you'll remember this. Crime was
19 through the roof. There were -- The City was not
20 delivering any services, so we had to get back to
21 sort of a basic level of sustainability. Where
22 we've leveled off now --

23 REPRESENTATIVE WHITE: Could you just
24 hold for one second? So two-thirds of the
25 employees are under now your Administration, public

1 works employees, approximately?

2 MAYOR PAPENFUSE: A chunk of those are
3 also public works employees, people like the people
4 who plow our streets in the winter. When I took
5 office in 2014, we had nobody to plow our streets
6 at all, and we had to outsource snow plowing. This
7 is absolutely true. Here I am a new Mayor in
8 January and nobody to plow the streets. We had to
9 outsource snow plowing, so, of course, we needed to
10 hire people who would snow plow.

11 Outsourcing snow plowing, by the way, is
12 very expensive. You can easily spend millions of
13 dollars a year.

14 REPRESENTATIVE WHITE: It all depends on
15 how the contract is.

16 The reason for my question is, the
17 population in the City of Harrisburg has not
18 increased necessarily over the past five years --
19 four years.

20 MAYOR PAPENFUSE: It is slowly
21 increasing, and we know that from the tax revenue.

22 REPRESENTATIVE WHITE: It's held pretty
23 steady. My concern is that this increase in
24 government employees, you know, expenditures, given
25 the state of the population size, you have Upper

1 Darby that has 82,000 residents and a total of 400
2 employees that's managing the entire vocation.

3 So, I just urge that you keep an eye on
4 that and keep things in check, especially given the
5 financial circumstances of the City.

6 MAYOR PAPENFUSE: I would just say --

7 REPRESENTATIVE WHITE: And you request
8 here today.

9 MAYOR PAPENFUSE: -- I don't understand
10 -- I don't know if they have a professional fire
11 department in Upper Darby.

12 REPRESENTATIVE WHITE: Yes, they most
13 definitely do. There's 56 members of their fire
14 department.

15 MAYOR PAPENFUSE: I don't know how large
16 the police department is, but those are our two
17 largest --

18 REPRESENTATIVE WHITE: 133 is their
19 police department. I just encourage you to take a
20 look around, and I encourage you to keep that in
21 mind because, being a fiscal steward, we are
22 responsible for helping taxpayers. Okay?

23 MAYOR PAPENFUSE: No, that's absolutely
24 fair.

25 REPRESENTATIVE WHITE: So thank you very

1 much for your testimony. Those are all the
2 questions that I have.

3 MAJORITY CHAIRMAN M. KELLER:

4 Representative Diamond.

5 REPRESENTATIVE DIAMOND: Thank you,
6 Chairman Keller.

7 Mayor, thank you for your testimony. I
8 think you're aware, I'm a co-sponsor of this bill.
9 Reason I co-sponsored this bill is because
10 Representative Rothman called me, talked to me
11 about it. I fully understand his love for the City
12 of Harrisburg.

13 My district borders another third-class
14 city, so I understand that issue. A lot of people
15 from my district commute to the City here to work.
16 Quite frankly, I want to help you out. I really
17 do.

18 So, we met. You and I met in my office
19 on September 11th, and we had a very nice
20 conversation about this bill and about the
21 prospects for Harrisburg going into the future.
22 But I was a little dismayed a couple days later
23 when I saw an article--maybe it was wrong--that
24 claimed that you were opposing, in a general sense,
25 the first major retailer to come in and wanted to

1 do new construction in Harrisburg since the 1970s.

2 In my mind, I like to help those who
3 help themselves. It kind of turned me off a little
4 bit. I said, why wouldn't you want any kind of
5 development whatsoever in Harrisburg? I mean, we
6 would be grateful, I know, in Lebanon County, for
7 anybody who wants to come in and develop an acre of
8 vacant land and turn it into tax generate -- you
9 know, generate more property taxes and retail
10 business, and that sort of thing.

11 I just want to give you a chance to talk
12 about why you opposed that project and why you
13 wouldn't be more willing to take on any project
14 that anybody who wants to come? They're not
15 actually asking for any tax breaks or incentives or
16 anything like that. They want to come in on their
17 own dime and build that project. It's a pretty big
18 deal when nobody has done that since the 1970s.

19 MAYOR PAPENFUSE: Well, that's a good
20 example of a story that was sort of not properly
21 reported and sort of thrown out in the media to
22 sort of generate controversy and clicks.

23 I have no problem with Auto Zone as a
24 company. I hope it comes to Harrisburg. I hope it
25 builds in the area. What we were talking about was

1 a subtlety in a plan, and that's what got missed,
2 which is, we'd like to see a development plan for
3 that area which isn't just blacktop and single-
4 story, suburban-like buildings.

5 We need a greater density in our city.
6 We want buildings that are higher. We want mixed-
7 use buildings. In fact, what we really want is an
8 area plan for that area; not just a series of
9 one-off proposals. This is in an area of
10 Harrisburg, you know where it is, which has a lot
11 of potential, and which is really deserving of a
12 larger plan.

13 Now, that was a -- that was a sort of a
14 design critique; not a critique of Auto Zone, and
15 it can easily be fixed. In fact, it's quite
16 common. They haven't even come up for a land
17 development plan yet.

18 REPRESENTATIVE DIAMOND: Right.

19 MAYOR PAPENFUSE: So, what's very common
20 is, developers will come into the city; they'll
21 make a proposal, and the planning staff or the
22 Mayor, they'll weigh in and say, you know what?
23 Have you thought about this? Have you thought
24 about going higher; maybe putting some apartments
25 above? Have you thought about sheltering the

1 parking or putting the parking in back?

2 So, that was the state of the
3 conversation that we were having. As I say, it
4 hasn't even come up for a vote or consideration.
5 And somebody, I think, just used it for click bait.
6 I'm sorry that you read that. But I'm confident
7 we'll be able to get something that will work well
8 for Auto Zone and work well for the City.

9 REPRESENTATIVE DIAMOND: Okay. I'm glad
10 I had a chance to clear that up here on record.
11 Thank you.

12 MAJORITY CHAIRMAN M. KELLER:
13 Representative Quinn.

14 REPRESENTATIVE QUINN: Thank you,
15 Mr. Chairman.

16 I think I want to follow up on
17 Representative Diamond's comments, Mr. Mayor.

18 Taxes, in general, concern me. You
19 mentioned the idea of sustainability a number of
20 times. Taxes seem to have a way of stifling
21 economic growth.

22 You took office in 2014, and that was
23 the same time the five-year limit on Act 47 was put
24 in place. Did you do anything to try to increase
25 revenue during that time? I mean, we knew Act 47

1 was supposed to be a temporary situation.

2 Could this situation have been avoided,
3 and the prospect of this extreme tax increase been
4 avoided?

5 MAYOR PAPENFUSE: Are you suggesting I
6 should have raised taxes? It's sort of the
7 opposite of what you're --

8 REPRESENTATIVE QUINN: No, I'm not
9 suggesting you should have raised taxes. But this
10 Auto Zone situation, I mean, how do you attract
11 more business to the City? How do you generate
12 more revenue than what you have.

13 MAYOR PAPENFUSE: Absolutely. So, we
14 have done that. We have been successful in doing
15 that. If you look at the business revenue that's
16 come in, the number of people that are living
17 there, the income tax, all that's gone up, so
18 people are earning more money in the City and
19 there's more business.

20 In order to see that grow up
21 significantly, what people are looking for is the
22 long-term certainty, and this bill is actually an
23 anti-tax bill because it prevents a commuter tax;
24 it lowers the LST; and, most importantly, it
25 prevents us from having to have a hundred percent

1 property tax increases. So that's what we're
2 working to avoid.

3 The local services tax two dollars a
4 week by people who work in the City, that is a
5 much, much better solution than a hundred percent
6 taxes on property which would stifle economic
7 development.

8 REPRESENTATIVE QUINN: Thank you, Mr.
9 Mayor.

10 MAJORITY CHAIRMAN KELLER: Christine,
11 Executive Director.

12 MS. GOLDBECK: Thank you.

13 Riding on the question posed by
14 Representative Quinn, one of the recommendations in
15 the Coordinator's report is to look at Home Rule as
16 a viable option during your three-year extension.
17 That is also recommended in the Coordinator's
18 report right now.

19 Where are you in the Home Rule process
20 which would give you, as a City Authority, local
21 authority over your own destiny concerning EIT and
22 all other 511 taxes that you could work with in
23 minor and moderate ways, as compared to you saying
24 there has to be a 100 percent real estate tax?
25 Bottom line is, where are you at Home Rule right

1 now as recommended in the Coordinator's report?

2 MAYOR PAPENFUSE: Sure. And also
3 recommended in the Coordinator's report is
4 legislative change, which is what we're pushing for
5 here today.

6 MS. GOLDBECK: Not recommended. She
7 does note, however -- She does not recommend it.
8 She notes that the City is pursuing it. But, I
9 don't recall in all of the pages of that where she
10 recommended it as the solution.

11 MAYOR PAPENFUSE: All right. We
12 addressed it as -- We're going to disagree on that.

13 We addressed the issue of Home Rule
14 already, which is, that it has been introduced by
15 City Council and that we're going to be moving
16 forward, but it's a multi-year process. Right now
17 we have the question of what to do about
18 Harrisburg.

19 So, I'm not against Home Rule. I've
20 been in favor of Home Rule. It is something that
21 is somewhat beyond our control because, ultimately,
22 the public has to vote on it. Again, as I was
23 discussing with Representative Freeman, if the
24 referendum is all about taxes, it's unlikely to be
25 successful. Whereas, if the referendum is about

1 substantive change to government, it's much more
2 likely to be successful.

3 So, I think Home Rule would be -- it
4 would have a much greater likelihood of succeeding
5 if we passed House Bill 2557.

6 Thank you.

7 MAJORITY CHAIRMAN M. KELLER:
8 Representative Mehaffie.

9 REPRESENTATIVE MEHAFFIE: Thank you,
10 Mr. Chairman. Mayor, over here.

11 MAYOR PAPENFUSE: There he is.

12 REPRESENTATIVE MEHAFFIE: All right.
13 Good deal. Okay.

14 So, in your comments you made that, you
15 know, Act 47 was changed so that you wouldn't be in
16 forever, correct?

17 MAYOR PAPENFUSE: There was a five-year
18 time frame that was put on Act 47 that didn't exist
19 when we entered Act 47.

20 REPRESENTATIVE MEHAFFIE: But the way
21 this legislation is worded, I mean, you would be in
22 Act 47 in perpetuity without any oversight, because
23 you're receiving almost the exact same taxing
24 authority that you were given when you were in Act
25 47. Is that not correct?

1 MAYOR PAPENFUSE: This legislation would
2 allow us to get out of Act 47.

3 REPRESENTATIVE MEHAFFIE: It would allow
4 you to get out of Act 47, but it's still you're in,
5 basically, Act 47 because you're receiving exactly
6 what you got in Act 47. I think the whole idea and
7 premises of Act 47 is to get you to a place where
8 you can sustain without having these taxes and
9 moving forward.

10 Now, in that, your debt, if I'm correct
11 when we talked -- when we spoke before we had our
12 meeting, your total debt is somewhere in the
13 vicinity of \$72 million; is that correct?

14 MAYOR PAPENFUSE: It might be a little
15 under.

16 REPRESENTATIVE MEHAFFIE: Okay. Is any
17 of that debt coming true as far as being paid off
18 in the near future? Do you see -- What I was under
19 the understanding was that, about half of that was
20 at its point where those bonds will be paid off.

21 MAYOR PAPENFUSE: So, if you go to
22 Exhibit 3, which I think is a good exhibit, you
23 will see the debt service -- the total debt service
24 for the City of Harrisburg for this year moving
25 forward through '20-23. And you'll see the debt

1 service is about \$10 million a year, and that is
2 continuing all the way up to about 2023 when we
3 have paid off our general obligation bonds.

4 So, actually, it's a high percentage of
5 the City's budget. It doesn't decrease for at
6 least four more years, and it's not eligible to
7 decrease because that's the non-callable bonds that
8 we have to pay.

9 The 5 million or so which is projected
10 from 2023 and would go all the way for the next
11 decade out to 2033, that is potentially able to be
12 restructured and refinanced, if we can get out of
13 Act 47. So, that would save the City money, but
14 only five years out, and that's what we would hope
15 to do.

16 REPRESENTATIVE MEHAFFIE: Okay. In the
17 DCED study, there was talk about the OPEB and
18 putting together I think a panel to take care of
19 your 80-million-dollar debt in OPEB. Now, for
20 everybody, OPEB is post retirement health benefits.

21 If you lowered the 156 to 150, or
22 whatever, do you expect to have money left to put
23 into your OPEB to get that reduced and get that to
24 a manageable state?

25 MAYOR PAPENFUSE: I think so. We talked

1 about -- Representative Rothman asked me if we
2 could live with a decrease from 156 to 150. It's
3 about \$270,000 that represents on a yearly basis to
4 the City. I think we can.

5 The way to fund the OPEB is to increase
6 the number of people that are working and paying
7 taxes in the City. So, our belief is, with a
8 predictable future, a sustainable future as House
9 Bill 2557 represents, no longer the threat of a
10 hundred percent property increases. You'll see
11 investment. Ask the realtors what they think. Ask
12 the economic development people what they think.
13 You'll see investment in the City. That will
14 increase the tax revenue to the City, and that will
15 then allow us to put into the OPEB Trust. And
16 funding the OPEB Trust is really -- that's really
17 the gold standard of proper municipal financing.

18 Since our pensions are in pretty good
19 shape; if we can make sure that we live up to our
20 long-term health care in this City, we would be a
21 model for all of Pennsylvania.

22 REPRESENTATIVE MEHAFFIE: My last
23 question. You spoke about hiring 23 new
24 firefighters. How many police officers have you
25 put on new since 2014?

1 MAYOR PAPENFUSE: So we have tried hard
2 to hire new police officers, and we haven't been
3 able to move the needle. We are in the 130s right
4 now, down from what used to be about 210 police
5 officers.

6 The reason that we haven't been able to
7 hire more police officers, frankly, is because of
8 Act 47 and the uncertainties which would be solved
9 in this bill.

10 That said, our Commissioner has worked
11 very well on a regional and partnership basis with
12 the Capitol Police, with the Pennsylvania State
13 Police, with the federal authorities to do joint
14 operations and programs in the city, and we've been
15 able to bring crime down significantly in the City
16 of Harrisburg, especially, by every measure over
17 the past five years it has gone down, including
18 this year. That's a real testament to the hard
19 work of the Harrisburg Police Department and what
20 they're able to do with the resources they have.

21 I would like to hire more police
22 officers. I've tried to hire more police officers,
23 and we will be able to hire more police officers if
24 we can get out of Act 47.

25 REPRESENTATIVE MEHAFFIE: Okay. My very

1 last question is: In 2014, your total budget with
2 capital in there was 57 and some change million
3 dollars. Right now, in 2018, your proposed budget
4 is \$76 million.

5 Now, for a municipality that's in
6 distress, how do you answer for the huge increase
7 from 2014 to 2018?

8 MAYOR PAPENFUSE: So, first of all,
9 we've talked about, when you're looking at the
10 overall spend, you're conflating funds that are
11 more than just the General Fund. Also, you're
12 looking at the capital spend when you cite the 76.
13 You're looking at the money we are spending on the
14 roofs which we saved from the previous years, so
15 you're not exactly comparing apples to apples in
16 doing that.

17 That said, there have been some costs
18 which have increased over the past four or five
19 years. Health care is one. Even at a 1 or
20 2 percent contractual obligation for our employees,
21 salaries have grown and compounded over the past
22 four or five years, so there is going to be a rate
23 of inflation which has to be built into any budget.

24 In Exhibit 3, in that model, we built in
25 a 3 percent inflationary rate, which I think is

1 about right. So, if you take out the capital spend
2 and the money we're spending on debt reduction and
3 you look at just the General Fund, you'll see that
4 tracks against a very reasonable inflation rate.

5 REPRESENTATIVE MEHAFFIE: Okay. Thank
6 you, Mr. Chairman.

7 MAJORITY CHAIRMAN M. KELLER:
8 Representative Ryan, please. And please remember,
9 keep your questions brief and your responses brief.
10 We're on a time constraint.

11 REPRESENTATIVE RYAN: Mr. Chairman,
12 thank you. At my age I have to keep them brief.

13 Mr. Mayor, thank you very much for being
14 here. A few questions, if I could. The
15 comprehensive annual financial report that would be
16 shown, I would presume since there is an Act 47, is
17 there still a going concern, opinion that the
18 auditors have rendered on the financials?

19 MAYOR PAPENFUSE: No, not a going
20 concern.

21 REPRESENTATIVE RYAN: Okay. Under the
22 report --

23 MAYOR PAPENFUSE: We are caught up in
24 our audits. One of the things that we weren't when
25 we took office was, we were behind by many years in

1 our audits. We worked tirelessly to be caught up
2 with the audits; to work closely with our audits
3 reform aspect of City spending.

4 REPRESENTATIVE RYAN: On the
5 comprehensive financial report and other audits you
6 have done, are there material weaknesses that have
7 been shown in the management letter?

8 MAYOR PAPENFUSE: Some historic and
9 institutional ones?

10 REPRESENTATIVE RYAN: If it be possible,
11 I'm a CPA --

12 MAYOR PAPENFUSE: Yeah, sure.

13 REPRESENTATIVE RYAN: -- and I'm raising
14 that question, and I do bankruptcy for a living.
15 The reason I'm asking the question is, the nature
16 of those material weaknesses can have a significant
17 impact, and I would ask you if you might share
18 those with the Chairs and various committees.
19 Perhaps they can get that to us.

20 MAYOR PAPENFUSE: They've already been
21 shared. I believe you have copies of all of our
22 financial statements for the past decade, at least.

23 REPRESENTATIVE RYAN: In terms of the
24 GASB 75 for the reporting of the post-employment
25 benefits, most of that is relatively brand-new for

1 munci -- not relative. It is brand-new for
2 municipalities. When you combine that with
3 actuarial assumptions that are used on the pension
4 funds, which, for municipal and state plans are
5 significantly higher than we are permitted to use
6 in the private sector, have you stress tested your
7 pension obligations for what a more commercially
8 reliable actual earning rates would be for your
9 pension plans?

10 MAYOR PAPENFUSE: So two out of three
11 pension plans, the one for ASCME and fire are run
12 by PMRS. They're over-fully funded and they're in
13 good shape with excellent calculations.

14 Our police pension is the one pension
15 that's underfunded, although we have been making
16 our contributions every year. But the return on
17 investment for the police pension has actually
18 exceeded our estimates every year since 2012.

19 REPRESENTATIVE RYAN: One of the
20 problems of that actuarial earning rates is that,
21 when you look at a period of time, you have to look
22 at it from the peak to the trough to the peak. I
23 encourage you to be careful as a CPA that, just for
24 your own benefit, that could come back to bite you
25 at some point in time if you're not careful.

1 The debt service question was asked
2 before the debt service dropping off. That would
3 come up in year 2022 to 2023. Is there a
4 possibility that you will have to have other
5 structural replacement work done for infrastructure
6 repair that might necessitate an additional bond
7 offering so that, in fact, you will have no
8 beneficial savings for paying off the debt?

9 MAYOR PAPENFUSE: That is more than
10 possible. It is -- It is something we really have
11 to consider. The estimate from our engineer, just
12 with regard to streets and roads is that, we need
13 to be putting in about \$10 million a year moving
14 forward just to maintain them at their current
15 rate, and we've got millions of dollars in I.T. and
16 other structural deficiencies in our bridges and
17 whatnot.

18 And so, properly, there would be a
19 longer term offering that would be able to address
20 some of those transportational needs that we can't
21 do currently now without a credit rating or without
22 the ability to borrow. So that could fill in the
23 gap. But, the amount that we owe could also be
24 lowered by renegotiating the interest rate. The
25 interest on those is with well north of 6 percent

1 currently.

2 REPRESENTATIVE RYAN: If Chicago were to
3 file the equivalent of a bankruptcy, they don't
4 have an Act 47 in Illinois. But the equivalent of
5 a bankruptcy, would that alter the ability of a
6 municipality in your opinion to raise additional
7 debt borrowing?

8 MAYOR PAPENFUSE: I don't think I have
9 an opinion on that.

10 REPRESENTATIVE RYAN: We have been told
11 -- many on the committee been told that the
12 commuter tax would generate nowhere near the
13 revenue that's been projected.

14 Do you know why people might believe
15 that revenue projection might be inaccurate?

16 MAYOR PAPENFUSE: I think it would
17 actually generate near the revenue projected. I
18 don't think it's been nowhere near. I think the
19 concern is that, it would have a potentially much
20 more negative effect on the region than the LST,
21 which is sort of a more manageable tax and only
22 paid by people who earn above a certain threshold.

23 REPRESENTATIVE RYAN: If you look at the
24 Philadelphia area and the migration of businesses
25 to Valley Forge and other areas, particularly

1 financial services companies, does that give you
2 any pause for concern about some of the
3 recommendations you might be interested in pursuing
4 for additional tax revenue?

5 MAYOR PAPENFUSE: My recommendation is
6 that we pass the bill and not implement a commuter
7 tax. I agree with the concern that a commuter tax
8 could see the migration of businesses to --

9 REPRESENTATIVE RYAN: That's essentially
10 why I'm asking the question.

11 MAYOR PAPENFUSE: I think that's what
12 this bill addresses.

13 REPRESENTATIVE RYAN: One last question
14 is: Did you anticipate any potential savings from
15 going to a regionalization of your police, fire
16 services, that might provide some savings and
17 reduce financial stress on the City?

18 MAYOR PAPENFUSE: No, and -- but that
19 doesn't mean we're not willing to continue to be a
20 partner in the talks for regionalization.

21 If you look at fire, I know there's a
22 recommendation of billing for shared services. We
23 provide a lot of shared services to the surrounding
24 municipalities, but they do to us as well. If we
25 started billing back and forth, I think that would

1 be a wash and not something that would generate
2 additional revenue.

3 REPRESENTATIVE RYAN: Okay.

4 MAYOR PAPENFUSE: With regard to police
5 regionalization, while we're open to it, you have
6 to have the buy-in of the surrounding
7 municipalities. Susquehanna Township, for
8 instance, do they want to merge with the City of
9 Harrisburg? No, they don't.

10 So, the concept of a regional police
11 force is a good one, and the City will be a voice
12 and a partner at the table, but it's a solution
13 that is beyond the control of just Harrisburg.

14 REPRESENTATIVE RYAN: Mr. Mayor, thank
15 you. And, Chairman, thank you.

16 MAJORITY CHAIRMAN M. KELLER:
17 Representative Jozwiak.

18 REPRESENTATIVE JOZWIAK: Thank you,
19 Mr. Chairman. I have a few questions.

20 I'd like to hear from the Police
21 Commissioner. I just want to tell you, I think
22 your officers are doing a nice job.

23 COMMISSIONER CARTER: Thank you.

24 REPRESENTATIVE JOZWIAK: What's your
25 total complement you're allowed?

1 COMMISSIONER CARTER: Under Act 47?

2 REPRESENTATIVE JOZWIAK: Yeah.

3 COMMISSIONER CARTER: I believe it's
4 154. 155 according to Act 47.

5 REPRESENTATIVE JOZWIAK: I believe the
6 Mayor said your complement is allowed to be 210.

7 COMMISSIONER CARTER: No. That was the
8 highest complement that was ever there.

9 REPRESENTATIVE JOZWIAK: Commissioner,
10 what are you allowed to have? 154?

11 COMMISSIONER CARTER: About 154, yeah.

12 REPRESENTATIVE JOZWIAK: What do you
13 have now?

14 COMMISSIONER CARTER: 134.

15 REPRESENTATIVE JOZWIAK: So you're down
16 20.

17 COMMISSIONER CARTER: We had 113
18 officers.

19 REPRESENTATIVE JOZWIAK: So, when you
20 hire officers, are they already under Act 120? Are
21 they trained already, or do you train them?

22 COMMISSIONER CARTER: Both. We do both.
23 If I can get good officers who are 120 certified, I
24 will hire them. That will save the City on
25 training. The City is five months of --

1 REPRESENTATIVE JOZWIAK: So they'll save
2 you five or six months of wages --

3 COMMISSIONER CARTER: Yes.

4 REPRESENTATIVE JOZWIAK: -- and not
5 having them at your service.

6 COMMISSIONER CARTER: Yes.

7 REPRESENTATIVE JOZWIAK: So how many
8 officers have you hired this year?

9 COMMISSIONER CARTER: I believe that we
10 hired 10. It's not the hiring. It's the officers
11 that are leaving, sir, and they're leaving because
12 of the Act 47, because we don't make the same
13 monies that surrounding areas make. Our benefits
14 are way lower than what other agencies are, so we
15 cannot keep officers due to that fact.

16 My agency is becoming a training ground
17 for new officers. After two years, a township will
18 come in and talk to my officers, snatch them off,
19 because a two-year city officer is worth a 10-year
20 township officer, sir.

21 REPRESENTATIVE JOZWIAK: So what did you
22 lose -- did you lose 10 people this year and you
23 replaced them with 10, or did you lose less?

24 COMMISSIONER CARTER: I believe that we
25 hired 10. It could have been less, but retirements

1 and officers leaving.

2 REPRESENTATIVE JOZWIAK: That was my
3 next question. How many of the officers leaving
4 retired? That wouldn't be because of going to
5 another municipality. That would just be through
6 retirement.

7 COMMISSIONER CARTER: (Simultaneously
8 talking) -- be retiring. Officers are retiring
9 because of Act 47, too. They're scared. They
10 don't know what their future is gonna bring because
11 of Act 47.

12 REPRESENTATIVE JOZWIAK: But they have
13 the time and they have 25 years in and 55 years
14 older.

15 COMMISSIONER CARTER: Some have 20.
16 They have 20, they're not quite 55. They're in
17 their 40s, but they want to start other journeys in
18 their life because of Act 47. They don't want to
19 leave, but they're being forced to because of the
20 uncertainty.

21 REPRESENTATIVE JOZWIAK: Is your pension
22 system 20 years and out?

23 COMMISSIONER CARTER: 27. You can do as
24 many years as you actually want to.

25 REPRESENTATIVE JOZWIAK: Combination of

1 age and years of service?

2 COMMISSIONER CARTER: Yes.

3 REPRESENTATIVE JOZWIAK: So how much
4 overtime does your officers put in? What's your
5 overtime budget?

6 COMMISSIONER CARTER: I believe that
7 this past year our overtime budget was 580,000.

8 REPRESENTATIVE JOZWIAK: The Mayor
9 testified that he cut the overtime from 3 million
10 to 600,000. So --

11 MAYOR PAPENFUSE: That was for fire.

12 REPRESENTATIVE JOZWIAK: Pardon me?

13 MAYOR PAPENFUSE: That was for fire.

14 REPRESENTATIVE JOZWIAK: Oh, that was
15 strictly fire.

16 What about the police department? Has
17 your overtime gone up or down.

18 COMMISSIONER CARTER: It's been pretty
19 steady.

20 MAYOR PAPENFUSE: We haven't been able
21 to cut it because we haven't been able to increase
22 the --

23 So, from where we were in 2013, it was
24 113 officers. We got the complement up. We're now
25 into the 130s. We'd like to be in the 150s, and

1 that's what's budgeted for. That's what we --
2 That's where we'd like to be.

3 We haven't been able to move the needle
4 on overtime with regard to policing because we
5 haven't been able to -- As fast as we have hired
6 new officers, they have left or retired, and that
7 is --

8 Police and fire are very different
9 because, in fire we were able to solve the solution
10 because we are the professional fire department for
11 the whole region. People want to come to
12 Harrisburg, and we have not had any recruitment
13 problem, so we were able to save millions of
14 dollars in overtime.

15 Police is different. There's so many
16 more choices. The surrounding municipalities all
17 pay higher salaries. It is harder to retain, and
18 that's one of the themes here, which is, if we can
19 have that certainty and remove the cloud of Act 47,
20 we will be able to rebuild slowly the police
21 department and there could be savings there, you're
22 right.

23 REPRESENTATIVE JOZWIAK: Commissioner,
24 what is your average -- You hire somebody new, how
25 long do they normally stay? You have a turnover

1 rate. Do they stay two years, five years,
2 10 years? What do they stay?

3 COMMISSIONER CARTER: Three years maybe.

4 REPRESENTATIVE JOZWIAK: Three?

5 COMMISSIONER CARTER: Three years.

6 But one of the biggest strains for my
7 police agency is the people coming into the city to
8 work every day; the commuters that come into the
9 city because my population grows, so it puts a
10 double burden on the already small agency that I
11 have.

12 The resources, you know, that they use
13 that -- we don't get compensated for. It just puts
14 a bigger strain on my agency.

15 REPRESENTATIVE JOZWIAK: So being a
16 former law enforcement officer, I think your
17 department is doing a really good job --

18 COMMISSIONER CARTER: Thank you, sir.

19 REPRESENTATIVE JOZWIAK: -- with the
20 minimum amount of people.

21 I have one more question for the Mayor.
22 I think you testified that your local service tax
23 was 3.2 million that you take in from your two
24 dollar --

25 MAYOR PAPENFUSE: The extra was about

1 3.8 million.

2 REPRESENTATIVE JOZWIAK: 3.8 million,
3 okay. Sorry about that.

4 So, despite having no new revenue
5 besides the local service tax, how did you grow
6 your General Fund from a budget of 60 million in
7 2016 to 76 million in 2018, when you're just under
8 \$4 million a year?

9 MAYOR PAPENFUSE: So there has been some
10 increases in revenues that we've seen. What you're
11 talking about is, you're talking about the capital
12 spending which is money that we elected to spend
13 this year with cash that we had saved, so you're
14 not looking at year-to-year recurring expense.
15 You're looking at one-time expense.

16 You're also looking at the fact that we,
17 for instance, took \$2 million this year. We felt
18 we were in a position to do that this year because
19 we saved \$2 million in previous years, and we paid
20 off some of that and back long-term debt. The more
21 we could pay off now, the less we'll have to pay
22 down the line.

23 You're sort of conflating a variety of
24 spends and not looking at the baseline which has
25 remained relatively steady.

1 REPRESENTATIVE JOZWIAK: Thank you.

2 Thank you, Mr. Chairman.

3 MAJORITY CHAIRMAN M. KELLER: Thank you,
4 Mayor. Thank you very much for your testimony
5 today.

6 There's a change going to happen here in
7 the agenda. We're going to call Marita Kelly,
8 Recovery Coordinator for the City of Harrisburg.
9 While she's coming up, I just want to explain that
10 we're on time constraints.

11 And David Black, President and CEO of
12 the Harrisburg Regional Chamber; Edwin Tichenor,
13 President, Greater Harrisburg Associates of
14 Realtors; Dave Butcher, President of WCI Partners
15 and Secretary of Harrisburg Downtown Improvement
16 District Board of Directors; and Brad Jones,
17 President and CEO of Harristown Enterprise, we have
18 your testimony.

19 All the members have your testimony and
20 we'll be reviewing that. We thank you for being
21 here. Unfortunately, our time -- I don't rule the
22 House floor. This is a very important subject, and
23 we need to have that discussion.

24 Also, at the same time, while Marita is
25 getting herself ready, I want to acknowledge the

1 fact that there have been many members of the three
2 committees come and go because of other things that
3 are taking place here. We didn't mention them when
4 they were in and left. There has been big
5 participation, large participation from the members
6 of the three respective committees that are holding
7 this hearing. We want to thank them for that.

8 With that, Marita, the mike is yours.

9 MS. KELLEY: Good morning, members of
10 the House, Local Government Committee, Urban
11 Affairs Committee and Finance Committee. Thank you
12 for the community to be able to speak with you
13 today.

14 My name is Marita Kelley. I'm the
15 Recovery Coordinator for the City of Harrisburg, as
16 many of you know. I do have an extensive
17 background in both government finance and municipal
18 management. I have worked for the City of Houston,
19 Texas as a budget analyst and finance analyst.
20 I've worked for the City of Harrisburg as the
21 Budget Director from 1988 to 1991. And I was a
22 municipal manager, as Representative Keller knows,
23 in Marysville Borough. So, I have a 35-year,
24 almost 40-year experience in this business.
25 Hopefully, I can bring some valid information to

1 you.

2 In July of 2017, I was appointed the Act
3 47 Coordinator for the City of Harrisburg. As
4 such, it has been my responsibility to properly
5 manage and implement the continued effort of the
6 Harrisburg Strong Plan. During the past few weeks,
7 my team has been busy developing and introducing to
8 the City of Harrisburg the Act 47 Three-Year Exit
9 Plan, which, at this time, has been on a temporary
10 suspension due to a stipulation by the courts to
11 permit some time for this type of activity to
12 review other options.

13 I hope that in the next three years as
14 the Recovery Coordinator, I can work with the Mayor
15 and the City Council, as I have worked for the past
16 year, to stabilize the City's financial condition
17 and see the City through a recession from Act 47
18 program. Our shared goals are to put on a path to
19 -- put Harrisburg on a path to a secure, prosperous
20 financial future, and then ensure the health,
21 safety, and welfare of the citizens.

22 I'm happy to answer any questions.

23 MAJORITY CHAIRMAN M. KELLER: Any
24 questions? Representative Day.

25 REPRESENTATIVE DAY: Thank you, and

1 thank you for being here. I'd be very interested
2 in your thoughts on some of the things that have
3 been brought up today by many of my colleagues.
4 Those things include the growth in the budget from
5 '14 to '18. Is that the proper path to be on?

6 Even if you take out the capital
7 spending as the Mayor just testified, you still
8 have a 12 to 14 percent increase over a four-year
9 period I think. And then also, head count as well.
10 All my colleagues, many of them who talked about
11 employees, either have direct experience in
12 budgeting in a municipality and know that head
13 count is an important thing. So, on those two
14 issues, do you think Harrisburg is on the correct
15 path, or do you think there's a better way or a
16 more moderate spending path to be on?

17 MS. KELLEY: Well, I think the City has
18 had extraordinary deferred maintenance and deferred
19 capital investment over the past dozen years or so.
20 That being the case, the Coordinator has worked
21 with the City to help to focus and focus the
22 funding towards major capital investment.

23 Their I.T. structure is not good. Their
24 buildings were crumbling, and some still are. And,
25 of course, their rolling stock has been an

1 extraordinary expense given the number of police
2 and fire vehicles that they have on the street.

3 Now, in terms of their general
4 operating, which is what I think you're discussing,
5 we have, as closely as possible, Mr. Reddick, the
6 Coordinator before myself, and myself have closely
7 monitored their operating expenses. There always
8 can be prudence in any budget, and there always can
9 be efforts to control expenses. I think there's
10 certainly been an effort, and they're under the
11 auspices of the Strong Plan.

12 So, I do think that, budgetary, it's
13 been a tough approach over the last several years
14 to try to manage expenses and keep expenses in
15 check.

16 REPRESENTATIVE DAY: Just to stay with
17 what the Chairman asked to try to ask the same
18 questions, I'll just ask one more question. And
19 that's about the payment in lieu of taxes, and also
20 the state's contribution to the City of Harrisburg.

21 When you look at, I think in this
22 document that we were presented, there's about
23 \$650,000 pilots' payment in lieu of taxes,
24 5 million from the Commonwealth of Pennsylvania.
25 Then the Police Commissioner was saying that he

1 doesn't receive compensation for the influx of
2 employees in the City.

3 Could you make any comments about what
4 you think about that; 5 million, plus the \$650,000,
5 do you think that's a reasonable amount of dollars
6 to receive from nontaxable properties to compensate
7 for that, or do you think that that number should
8 be higher?

9 MS. KELLEY: Well, I think in general
10 terms, in terms of pilots, I think that all
11 organizations can contribute towards the City
12 whether they're taxed or nontax, and they have.

13 My own church, which is just a few
14 blocks away from here, has increased their pilot,
15 and I hope to see other churches set that same
16 example and other nonprofit organizations.

17 I think the Commonwealth has been very
18 fair in the \$5 million that they have provided to
19 the Commonwealth for public safety; primarily for
20 public safety support. Of course, you do get --
21 You know, they support us if there's a fire. The
22 firemen are there. If there's an accident, the
23 police officers are there.

24 I do think that's fair and equitable,
25 and I would like to see and work with Mayor

1 Papenfuse and his team to strengthen the pilot
2 opportunities and options, and my team stands ready
3 to do that.

4 REPRESENTATIVE DAY: Thank you for your
5 testimony today and the answers to my questions.

6 I do want to take an opportunity to
7 thank the committee Chairs and also the Mayor for
8 being here. There's the Mayor. Thank you for your
9 testimony as well. I appreciate the situation that
10 you're in and look forward to how we can help you.
11 Thanks.

12 MS. KELLEY: Thank you.

13 MAJORITY CHAIRMAN M. KELLER: I just
14 want to point out that Chairwoman Harper has been
15 with us. She's been sitting over there on the side
16 listening very intently. I want to thank her for
17 being here. I'm glad you made it here safely.

18 With that, Chairman O'Neill.

19 MAJORITY CHAIRMAN O'NEILL: And I
20 understand she didn't get a speeding ticket,
21 either.

22 Real quick question. It is my
23 understanding your recommendation has been to
24 continue Act 47 as structured for the next three
25 years with developing an exit plan at the end of

1 those three years? Is that what your
2 recommendation was?

3 MS. KELLEY: Well, it was my
4 responsibility to provide a recommendation based on
5 Act 199 that we discussed before. So I spent the
6 entire summer with my team developing first a
7 proposal for an exit plan, and we sat through
8 public meetings and hearing the municipality's
9 efforts and how they felt, and then we revised it
10 and we submitted a second plan that recommends
11 three more years, that's correct.

12 MAJORITY CHAIRMAN O'NEILL: Okay. Thank
13 you. I appreciate it.

14 MAJORITY CHAIRMAN M. KELLER:
15 Representative Fred Keller.

16 REPRESENTATIVE F. KELLER: Thank you,
17 Mr. Chairman.

18 I guess it sort of answers one of my
19 questions about the plan and the extension. But,
20 it's unfortunate that our cities have to go through
21 Act 47 that they get in that shape.

22 But the question I have, we had other
23 cities that have come out of Act 47. How many of
24 them succeed with the plan that you give them when
25 they come out? Do you have a high success rate?

1 MS. KELLEY: Well, we've only had --
2 Since 2014, we've had five third-class cities and
3 one second-class city, which is pretty impressive.
4 So far, cities like Pittsburgh, my hometown, is
5 doing very well. Of course, they have the meds and
6 the edge to help shore them up, and they're doing a
7 very good job.

8 The City of Altoona was only in for a
9 total of five years and exited, and they also are
10 very healthy. Clairton, they have their challenges
11 given the loss of some of the steel mill related
12 jobs, but they're doing quite well as far as I'm
13 familiar. I don't have my ear to the ground every
14 day when they're no longer in Act 47, but we try to
15 stay as close as possible.

16 So, we have seen successes in Act 47,
17 and we've seen cities' successes, so we're very
18 proud of them.

19 REPRESENTATIVE F. KELLER: So my
20 question would be, why do we think we need to treat
21 Harrisburg differently than those other ones that
22 have come out and succeeded?

23 MS. KELLEY: Differently in?

24 REPRESENTATIVE F. KELLER: With this
25 legislation.

1 MS. KELLEY: Oh, I see what you're
2 saying.

3 REPRESENTATIVE F. KELLER: Why don't we
4 employ the same things for Harrisburg that have
5 worked in those other areas?

6 MS. KELLEY: Well, my primary job is to
7 be Coordinator, and the Coordinator is looking at
8 the long-term approach. And so, I think the three
9 years that we are recommending can bring strength
10 and can continue to allow them to follow the same
11 path as those other third-class cities.

12 The other concern that I have, there's
13 at least five significant bond documents that are
14 tied to the Strong Plan, so we would have to find a
15 mechanism to work through those plans outside of
16 Act 47. I'm not a lawyer, but I assume that's not
17 impossible. But, those are some things in the
18 Strong Plan that we will have to continue to
19 execute.

20 As well, on Monday I have to submit a
21 report to the Court on the success of the Act 47
22 for the City of Harrisburg. That report is 60 plus
23 pages which mentions things that still have to be
24 done, so there still are many activities that have
25 to be done and can be done in cooperation and

1 collaboration with the Coordinator, and we
2 certainly stand ready to work with the City of
3 Harrisburg and the Mayor in whatever means this
4 particular body would decide would be best, because
5 I follow orders and I follow the directions from
6 those that establish the legislation and the
7 activities that I must execute.

8 REPRESENTATIVE F. KELLER: It was my
9 understanding, though, that the bill that we're
10 talking about didn't expire; the \$150 didn't expire
11 in three years. Does that go on longer than that?

12 MS. KELLEY: The \$156, which is
13 currently under the plan, will not -- can stay in
14 place until September -- approximately September
15 30th, 2021. So that is possible for that to remain
16 in place for that three-year period. But, at the
17 close of that three-year period, then that tax
18 would have to go away.

19 REPRESENTATIVE F. KELLER: The bill
20 we're looking at right now doesn't -- I mean, if it
21 moves it to \$150, does that end in three years
22 then, too, or can that go on longer?

23 MS. KELLEY: According to what 2557
24 says, it looks like it can go on as long as the
25 OPEB Trust is underfunded by 85 percent. Once it

1 reaches 85 percent, that would be the termination,
2 I believe.

3 I'm not an expert on that bill. I just
4 laid my eyes on it for the first time yesterday, so
5 please excuse me for not being an expert on 2557.
6 All due respect to the Mayor and his team, this is
7 just the first time that I've had a chance to see
8 it.

9 REPRESENTATIVE F. KELLER: Whenever we
10 look at treating one thing differently, it sort of
11 brings a concern, especially when we've had cities
12 come out of this that have been successful. Thank
13 you.

14 MS. KELLEY: You're quite welcome.

15 MAJORITY CHAIRMAN M. KELLER: Christine.

16 MS. GOLDBECK: Representative Keller, I
17 can't see you, but I can hear you.

18 To further clarify what the Coordinator
19 was saying based on your question, right now under
20 her exit plan, Harrisburg stays in for another
21 three years as provided by Act 47 and collects the
22 LST at its triple rate at 156, and its current
23 Court appointed higher EIT on the residents. The
24 legislation says that it would collect six dollars
25 less from all the nonresident commuters; that's the

1 LST; continue its EIT as it exists heightened right
2 now under the act, and that would exist as long as
3 it took to get the OPEB to 85 percent, I believe is
4 in the bill.

5 In a meeting with the -- in various
6 meetings with the Mayor, we have been given various
7 numbers, and the latest number that we have had
8 heard for how long that 150-dollar LST without
9 being under the act would occur is a minimum of
10 20 years. There are statistics that prove that
11 could be longer.

12 So, it would be under the current act
13 \$156. The normal LST is \$52. Harrisburg, being
14 under Act 47, collects the rate at \$156, triple
15 folds under the act, and the enhanced EIT on its
16 residents, of course. That's for three years under
17 the recommendation of the Coordinator to remain in
18 the act for three more years, as it's coming down
19 off of its five years.

20 The bill does not have a timeline. The
21 timeline is when the -- It does have a timeline. I
22 stand corrected. The timeline is when the OPEB is
23 85 percent funded. It's unclear on when that
24 becomes funded. The Mayor has told members that
25 20 years. I hope that helps.

1 REPRESENTATIVE KELLER: If I can, I
2 guess it just points out -- it reaffirms the point
3 I was making. It's different how we handle other
4 things, and that could take longer, depending on
5 performance of markets and how things do for our
6 post-employee benefits. Just some thoughts to
7 consider. Thanks.

8 MAJORITY CHAIRMAN M. KELLER:
9 Representative Mehaffie.

10 REPRESENTATIVE MEHAFFIE: Thank you,
11 Mr. Chairman.

12 Marita, it's always a pleasure working
13 with you. I worked with you as a local official,
14 so it's always good --

15 MS. KELLEY: Thank you.

16 REPRESENTATIVE MEHAFFIE: -- talking to
17 you. Two questions.

18 Is Scranton and Harrisburg the only ones
19 that receive the EIT and the LST that were in
20 Act 47?

21 MS. KELLEY: It's my understanding that
22 only Harrisburg receives both.

23 REPRESENTATIVE MEHAFFIE: Okay. Is
24 Scranton still in Act 47?

25 MS. KELLEY: Yes, they are.

1 REPRESENTATIVE MEHAFFIE: Okay. And
2 they did not receive LST, then?

3 MS. KELLEY: They receive LST, but I
4 don't believe they receive earned income. Well,
5 they won't receive the earned income tax until they
6 exit.

7 MAJORITY CHAIRMAN M. KELLER: I think we
8 have the answer to that question.

9 REPRESENTATIVE MEHAFFIE: Oh, I
10 apologize.

11 MAJORITY CHAIRMAN M. KELLER: Christine.

12 MS. GOLDBECK: Representative Mehaffie,
13 under the current Act 47, a distressed municipality
14 is authorized to collect either the enhanced LST up
15 to \$156; up to. Harrisburg collects the 156, or
16 the increased EIT; one or the other.

17 Indeed, right now and for several years,
18 the Court awarded Harrisburg to collect both.
19 Despite that the law says one or the other,
20 Harrisburg has been collecting both. No other city
21 does that.

22 REPRESENTATIVE MEHAFFIE: Okay.

23 MS. KELLEY: Thank you for the
24 clarification.

25 MS. GOLDBECK: You're welcome.

1 REPRESENTATIVE MEHAFFIE: Is Scranton
2 still in Act 47?

3 MS. KELLEY: Yes, they are.

4 REPRESENTATIVE MEHAFFIE: Now, the
5 question that I'm concerned about, if we don't act
6 on legislation or we don't pass legislation here at
7 the General Assembly, is it possible that the City
8 will not receive its three-year extension?

9 MS. KELLEY: The current exit plan
10 requires a three-year extension; I mean, assuming
11 that it gets adopted by the City Council. But the
12 current exit plan that's been drafted has been
13 fully vetted twice. It is recommending a
14 three-year extension.

15 REPRESENTATIVE MEHAFFIE: Okay. So the
16 process is that the City Council has to adopt that?

17 MS. KELLEY: That's correct.

18 REPRESENTATIVE MEHAFFIE: And if they do
19 not?

20 MS. KELLEY: Well, I'm not an attorney,
21 as I said before. But there are not a lot of
22 options after that. There's some limited options.

23 MAJORITY CHAIRMAN M. KELLER:
24 Representative Mehaffie, I think we also have the
25 answers to those questions. Christine, if you

1 would please.

2 MS. GOLDBECK: Yes, sir.

3 Under the act, they could go with their
4 recommended -- Coordinator recommended three years
5 under Act 47. The act also provides for various
6 other strategies. Let me back up one second.

7 The Coordinator recommends the three
8 years; plus, that it looks at reducing costs,
9 increasing revenues, and Home Rule, which was
10 brought up earlier in this hearing; looking at Home
11 Rule, which other municipalities in Act 47 have
12 successfully done; gone Home Rule, and that is --

13 Under Home Rule, any of the Act 511
14 taxes, which are the taxes on the residents, okay,
15 dealing solely with the residents, can be increased
16 without a cap, so that the destiny of the
17 municipality is where the intent of Act 199 was,
18 take care of yourself by dealing with the act as
19 the guide; take care of yourself; go Home Rule,
20 which you have the authority to do. That is one of
21 the recommendations in her report.

22 Am I making things clear?

23 REPRESENTATIVE MEHAFFIE: Perfect.

24 Thank you. Thank you, Mr. Chairman.

25 MAJORITY CHAIRMAN M. KELLER: Chairman

1 Freeman.

2 MINORITY CHAIRMAN FREEMAN: Thank you,
3 Mr. Chairman. Just a quick follow-up.

4 Ms. Kelly, one of my colleagues,
5 Representative Fred Keller, had mentioned that the
6 issue of why this unique circumstance for
7 Harrisburg, and I appreciate the point you raised.
8 And I appreciate the point raised by former
9 Representative Chris Ross as well about trying to
10 be as uniform as possible in addressing an approach
11 to Act 47 communities.

12 But wouldn't you say that in many
13 respects there is some uniqueness to Harrisburg? I
14 mean, one, you have the highest proportion of tax-
15 exempt properties of any community in the state;
16 55 percent of assessed value. No other community
17 comes that close.

18 Two, you have a tremendous number of
19 state employees and state property which makes up
20 that tax-exempt status.

21 Three, you also have state employees who
22 come into city more than doubling the population of
23 the city during a Monday-through-Friday situation,
24 and the fact that there's an awfully high-poverty
25 level amongst the population. Doesn't that give it

1 sort of an unique status in the array of other
2 Act 47 communities to some extent?

3 MS. KELLEY: I think to some extent it
4 does. Obviously, the tax-exempt properties is very
5 high. We have some that are similar. But I do
6 think there is an uniqueness as you bring forth,
7 and I would concur with that.

8 MINORITY CHAIRMAN FREEMAN: Thank you.
9 Thank you, Mr. Chairman.

10 MAJORITY CHAIRMAN KELLER:
11 Representative Jozwiak.

12 REPRESENTATIVE JOZWIAK: Thank you,
13 Mr. Chairman.

14 I have one question. Maybe I should
15 have asked the Police Commissioner, but I think you
16 have the answer.

17 The Capitol Police also assist the
18 Harrisburg Police; is that correct?

19 MS. KELLEY: That is correct.

20 REPRESENTATIVE JOZWIAK: They go out on
21 patrol with them. Do you know how many officers
22 that is?

23 MS. KELLEY: I do not.

24 REPRESENTATIVE JOZWIAK: Is that any
25 cost to the Harrisburg Police Department?

1 MS. KELLEY: No, it is not.

2 REPRESENTATIVE JOZWIAK: So, summing it
3 up, the Capitol Police assist Harrisburg Police at
4 no cost?

5 MS. KELLEY: Yes, the Harris -- Capitol
6 Police do assist the Harrisburg Police even in
7 traffic-related issues.

8 REPRESENTATIVE JOZWIAK: Okay.

9 COMMISSIONER CARTER: I can --

10 REPRESENTATIVE JOZWIAK: Commissioner.

11 COMMISSIONER CARTER: -- answer that
12 question for you, sir.

13 REPRESENTATIVE JOZWIAK: Sure. Is that
14 okay, Chairman? Chairman, is that okay?

15 MAJORITY CHAIRMAN KELLER: Yes.

16 COMMISSIONER CARTER: Thank you, sir.

17 The only time Capitol Police assist us
18 is when we have something major going on; a
19 homicide, the El-Mofty incident; when U.S. Marshal
20 Chris Hill was killed. That's the only time. They
21 don't go out with us patrolling or things like
22 that.

23 REPRESENTATIVE JOZWIAK: Well, when
24 there's incidents nearby, do they respond?

25 COMMISSIONER CARTER: Downtown

1 incidents? Yes, they do.

2 REPRESENTATIVE JOZWIAK: Do you know how
3 many officers that is on occasion? Is that like a
4 supplement to your department?

5 COMMISSIONER CARTER: I wouldn't say
6 that, sir.

7 REPRESENTATIVE JOZWIAK: Well, if
8 they're responding to incidents, I would think
9 they're assisting. That's what police do. You
10 know that and I know that.

11 COMMISSIONER CARTER: They are
12 responding because they are mobile just like we
13 are. If they come across an incident, then they
14 ask if they can take it. But, as far as patrolling
15 with us, they don't do that.

16 REPRESENTATIVE JOZWIAK: Okay. Thank
17 you.

18 COMMISSIONER CARTER: Thank you.

19 MS. KELLEY: Thank you for the
20 clarification.

21 MAJORITY CHAIRMAN M. KELLER: Christine.

22 MS. GOLDBECK: Representative Mehaffie,
23 I apologize. I did not finish answering your
24 question. My caffeine level is not where it needs
25 to be, and I was stuck in traffic, and I quit

1 smoking earlier this year, but I'm ready to start
2 again.

3 You had asked what happens if City
4 Council chooses not to abide by the Coordinator
5 recommended three-year extension. The act provides
6 for a number of things to happen. The City could
7 also choose to become an unincorporated service
8 district, whereby, it's pretty much run like a
9 Title 68 communities, run by a citizens' advisory
10 group that handles basic essential services for
11 itself.

12 The City could also be placed back into
13 receivership. Harrisburg, indeed, we created
14 receivership to rescue Harrisburg back in 2009,
15 2010, 2011; one of those years. Marita spent an
16 entire summer creating the rescue.

17 So, Harrisburg is unique in that
18 situation. It's been the only one in receivership.
19 Successfully came out of receivership; went into
20 the act; could be placed back in the act, if
21 absolutely necessary, if it were to go belly-up
22 again, so to speak. Unincorporated service
23 district, there could be merger or consolidation.

24 But if you read the latest report from
25 the Coordinator, from Marita, Home Rule is one of

1 the recommendations as in looking at other options
2 for local taxation.

3 Sorry for not answering the first time.

4 MAJORITY CHAIRMAN M. KELLER: All right.
5 With that, I just want to say thank you to the
6 Chairmen and the committees of the House Finance,
7 Local Government, and Urban Affairs committees;
8 also the testifiers, and for Dave Black and Edwin
9 Tichenor and Dave Butcher and Brad Jones for
10 understanding that we do have their testimony, and
11 all the testifiers today. It's very important that
12 we have this in front of us, and we will take this
13 under consideration.

14 So thank you again.

15 MS. KELLEY: Thank you.

16 (At 11:10 a.m., the public hearing
17 concluded).

18 * * * *

19

20

21

22

23

24

25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

C E R T I F I C A T E

I, Karen J. Meister, Reporter, Notary Public, qualified in and for the County of York, Commonwealth of Pennsylvania, hereby certify that there came before me the deponent/witness, who was duly sworn by me to testify to the truth of his/her knowledge concerning the matters in controversy in this cause.

The questions and answers were recorded by me in stenotype, to the best of my ability, and subsequently reduced to computer printout under my supervision, and that this copy is a true and correct record of the same.

I further certify that I am not a relative or employee of counsel or the parties hereto. This certification does not apply to any reproduction of the same by any means unless under my direct control and/or supervision.

Dated this 24th day of October, 2018.

Karen J. Meister, Reporter
Notary Public