

## **TESTIMONY**

### **Regarding determination of Act 47 status for the City of Harrisburg**

#### **Submitted by**

**A. William Schenck  
President  
TriState Capital Bank**

**Brian A. Hudson  
Executive Director and CEO  
Pennsylvania Housing Finance Agency**

Mr. Secretary, thank you for the opportunity to provide written testimony to be considered in determining Act 47 status for the City of Harrisburg (City). We have been assisting the current City Administration over the past ten months at the request of Governor Rendell and Mayor Thompson, providing advice and guidance regarding the City's financial situation. The City is sole guarantor of approximately \$138 million and co-guarantor with Dauphin County of an additional approximately \$144 million of debt related to the Resource Recovery Facility (RRF). Total annual payments related to the RRF facility debt are approximately \$20 million, the facility generates net revenue of approximately \$1.5 million after operating expenses, excluding debt payments, which leaves the City legally obligated to meet the annual payments. We had begun negotiating forbearance agreements with the parties involved in the transactions, Covanta (operator of the facility), Assured Guaranty (bond insurer), Dauphin County (co-guarantor), and the Harrisburg Authority (owner of the RRF). These discussions stalled with the inability to appoint an additional board member to the Harrisburg Authority Board. We recommended that a financial advisor be retained by the City to assist in developing a restructuring plan that would include a review of the budgeting and cash flow projections of the City. A financial restructuring firm was chosen by the Administration through a Request for Qualifications, and Request For Proposals process, ultimately City Council voted by majority to not apply for the funding to pay the advisor. In September 2010, the City served notice to the insurer of its general obligation bonds (AMBAC) that it would not make the required approximately \$3.2 million payment due September 15. The Commonwealth accelerated payments to the City through year end and the payment was subsequently made on the general obligation bonds. More recently, the City requested accelerated payments from the Harrisburg Parking Authority to meet its bi-weekly payroll of approximately \$1.2 million. The City is currently projecting a year end deficit of approximately \$5 million, and continues to have

difficulty meeting payroll. Approximately \$66 million of the debt related to the RRF matures in December 2010, \$56 million of that debt is held by one investor that continues to be willing to explore restructuring options. Due to the inability to secure the services of a qualified financial advisor, and given the dire financial condition of the City, we strongly recommend that the City be granted Act 47 status.

We sincerely believe that under Act 47, the City can move forward in developing a comprehensive restructuring plan including but not limited to:

- A complete review of the City's cash flow
- Negotiating forbearance agreements with applicable parties
- Restructuring outstanding debt
- Exploring legal options available to the City

Thank you for the opportunity to provide comments, and we will be pleased to answer any questions.

  
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**A. William Schenck**

  
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**Brian A. Hudson**