

Text Comparison

Documents Compared

Debt Summary-Overview I.pdf

Debt Overview II.pdf

Summary

208 word(s) added

443 word(s) deleted

2779 word(s) matched

27 block(s) matched

To see where the changes are, scroll down.

~~Debt Summary~~

Overview

The City of Harrisburg has outstanding General Obligation (GO) debt that includes publicly issued bonds, capitalized leases and various other loans and obligations. The annual debt service requirements of the indebtedness amounted to approximately \$12 million in the City's FY2011 budget, or approximately 20% of the total expenditures for the 2011 fiscal year, as evidenced in the table below. The annual debt service of the City is nearly four times greater than the annual earned income tax collection and more than two thirds of the City's annual current real estate tax revenues. When compared to other expenditures of the City, the annual debt service is greater than annual expenditures for the Fire Bureau and is three-quarters of the Police Bureau expenditures.

General Obligation Debt Service, 2011

Series	FY2011 Debt Service
1997 Series D GO Bonds	\$4,495,000
1997 Note Series F GO Bonds	\$4,175,000
2004 A, B and C GO Notes	\$70,000
2006 Guaranteed Revenue Note	\$841,709
2008 GO Note	\$297,742
Series A-2 2005 Stadium	\$653,329
Capitalized Leases	\$1,661,971
Other Loans (DCED)	\$23,475
Total 2011 Debt Service	\$12,218,227

Projected City Debt Service, 2011 - 2015

	2011	2012	2013	2014	2015
Bonds Series D 1997	\$4,495,000	\$4,500,000	\$4,500,000	\$4,495,000	\$4,495,000
Note Series F 1997	\$4,175,000	\$4,165,000	\$4,170,000	\$4,175,000	\$4,175,000
PIB and Infrastructure (2004/2008)	\$367,742	\$367,740	\$367,741	\$297,742	\$297,743
Stadium Bonds A-2	\$653,330	\$656,825	\$654,513	\$651,518	\$652,730
2006 Guar. Revenue Note	\$841,709	\$808,701	\$775,693	\$742,684	\$709,676
DCED Loan	\$23,475	\$23,475	\$23,475	\$23,475	\$23,475
Capital Leases	\$1,661,971	\$1,537,049	\$730,599	\$730,598	\$125,962
Total	\$12,218,227	\$12,058,790	\$11,222,021	\$11,116,017	\$10,479,586

Debt

Overview

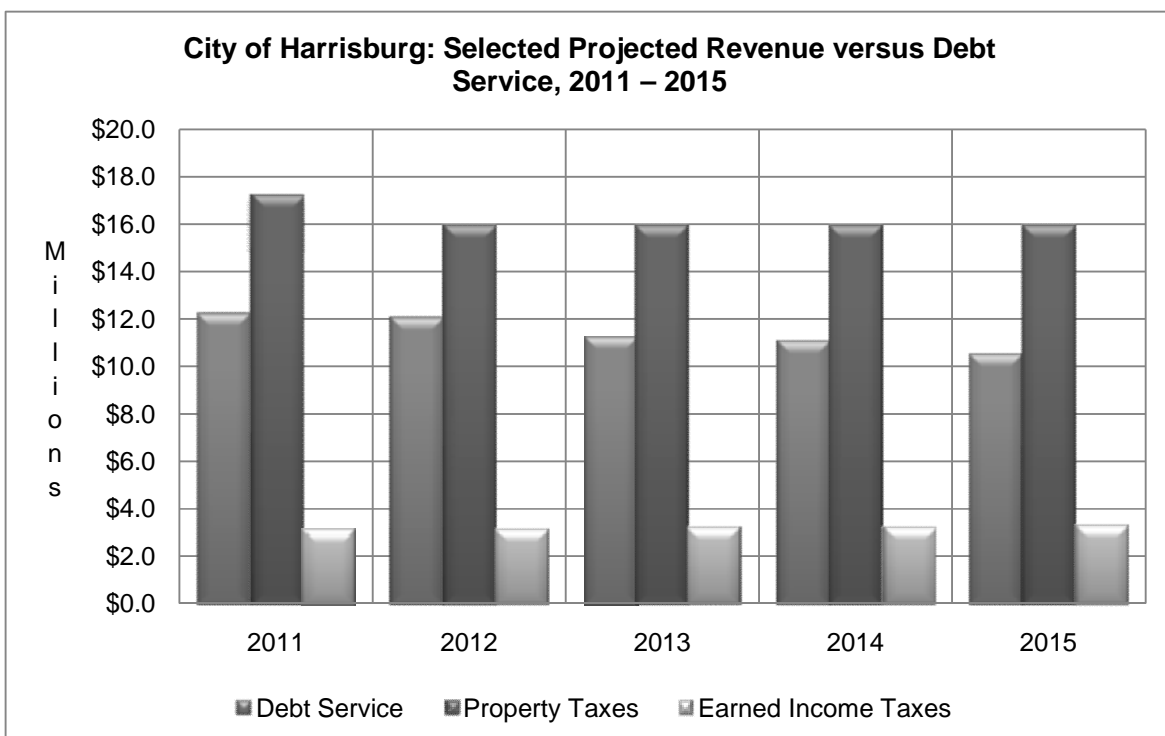
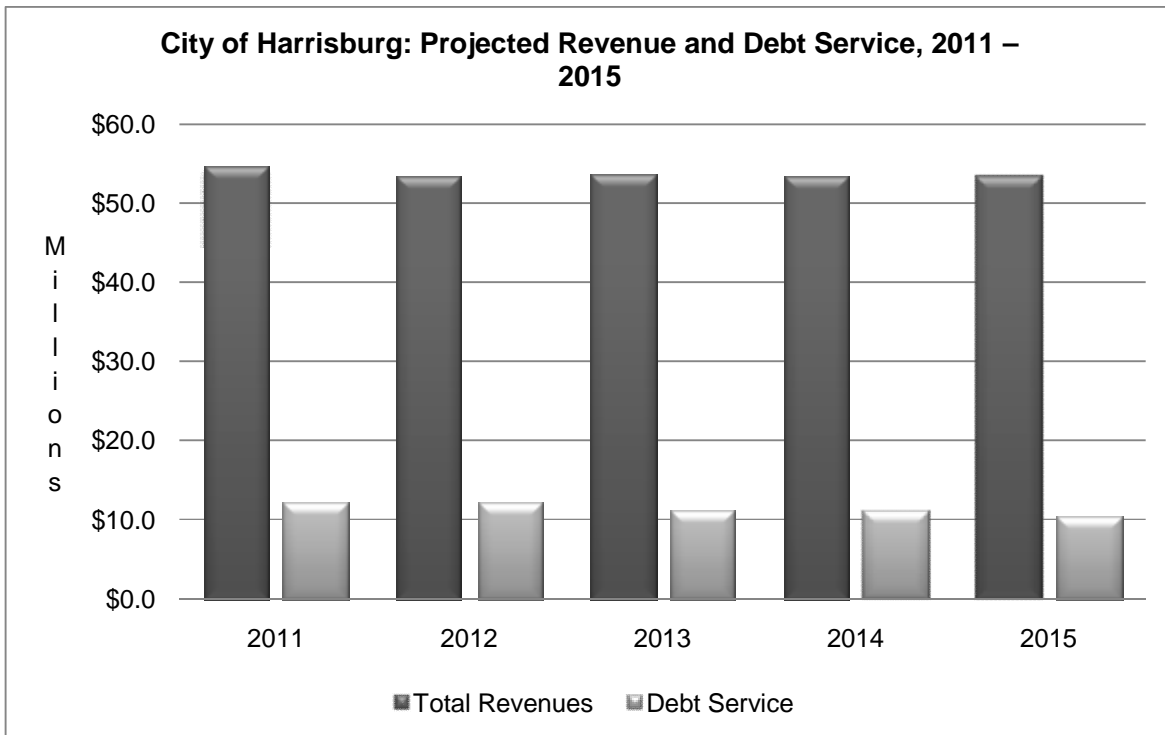
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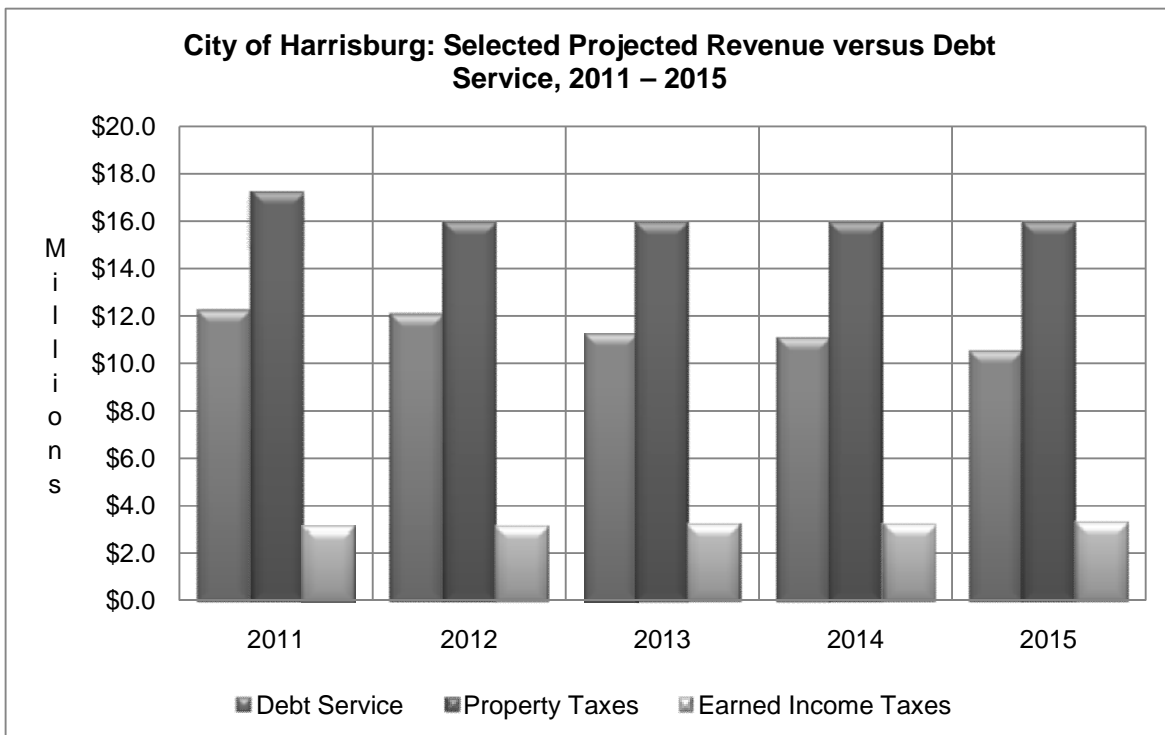
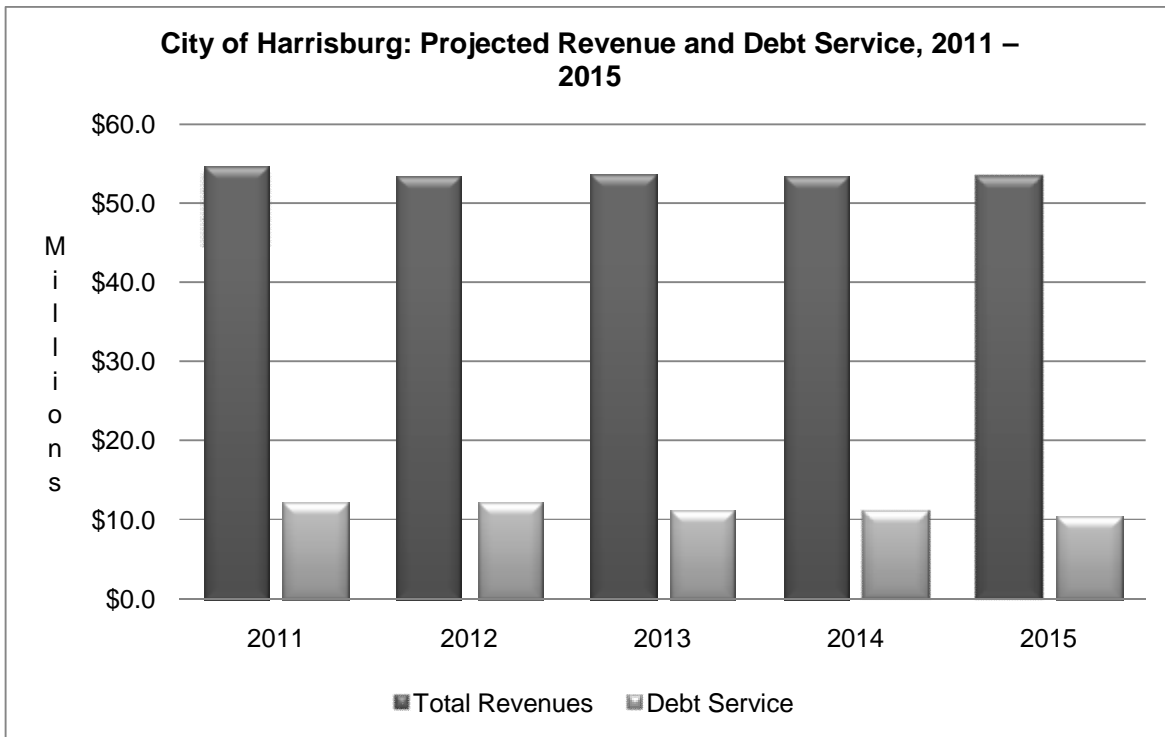
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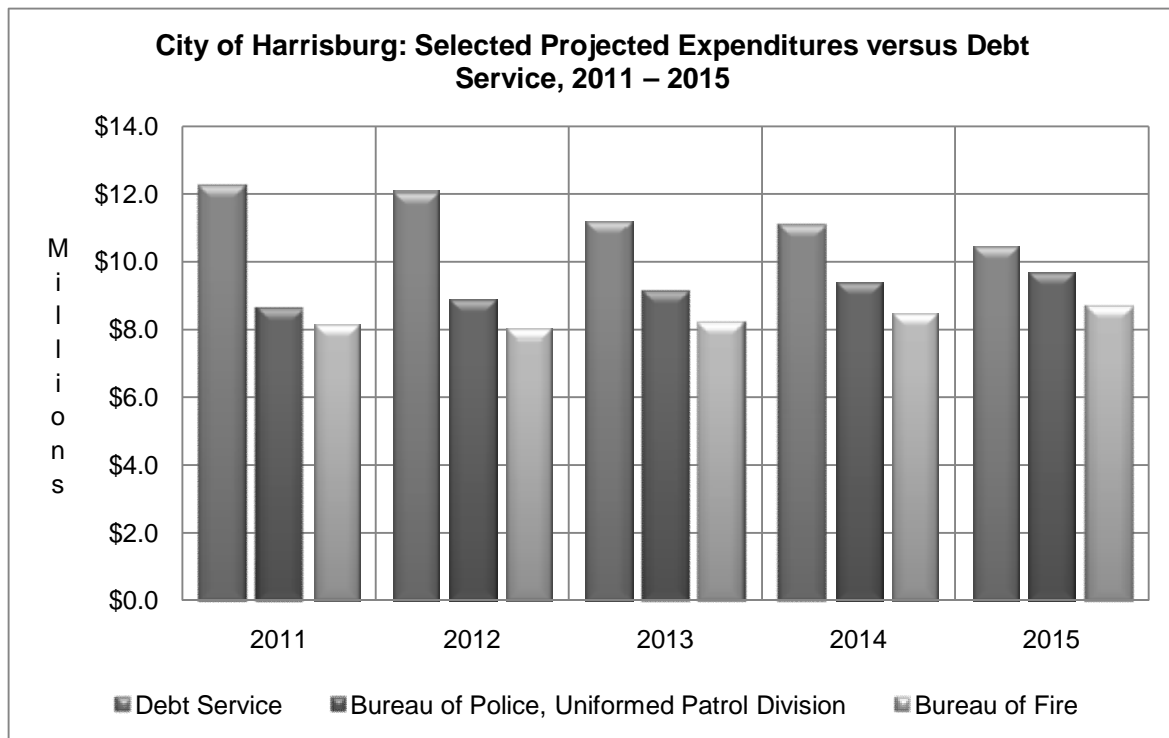
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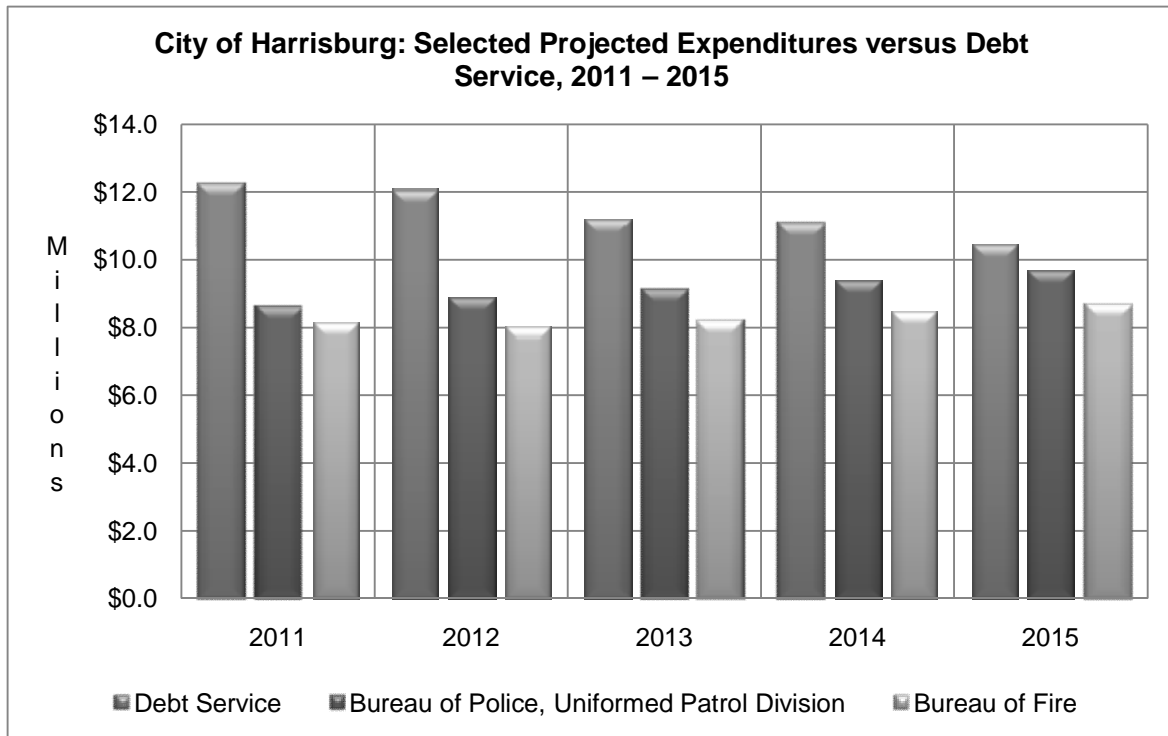


The City has also provided, as permitted by the Local Government Unit Debt Act (LGUDA), its GO guaranty to debt issued by various component units of the City. Simply put, the City has promised to pay the debt service of obligations if the guaranteed party does not pay its debt service when due. The City's guarantees have been extended to the debt obligations of THA, HPA and HRA, as well as to selected sewer revenue debt and other obligations issued by THA. The table below includes a list of the City's guaranteed debt obligations.

Publicly Issued General Obligation and Guaranteed Debt Principal Amounts Outstanding as of January 1, 2011

Guaranteed Debt	Principal Amount Outstanding
City GO Debt	\$30,864,747
Guaranteed Lease Rental Debt	\$3,960,982
Guaranteed Stadium Debt	\$8,110,000
Guaranteed THA Resource Recovery Facility Debt - Series 1998, 2002, 2003	\$220,585,000
Guaranteed Parking Authority Debt	\$112,560,000
Guaranteed THA Sewer Debt	\$3,460,000
Guaranteed Redevelopment Authority Debt	\$83,805,000
Total Outstanding City GO and Guaranteed Debt	\$463,345,729

The principal amount of the City's GO debt and guaranteed debt totaled over \$463 million dollars for FY2011. The City's annual General Fund budget in 2011 totaled \$55 million, which included approximately \$12 million to service the City's current portion due on its outstanding GO debt,



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capitalized leases and other loans. Under the terms of LGUDA, the City's borrowing base for debt is determined by the ~~average~~ annual revenue received and averaged over a three year period. That revenue base is then multiplied by specific percentages depending on the structure and type of proposed debt to determine the City's legal borrowing base. LGUDA does allow the City to exclude from the determination of its debt limit borrowing base any debt deemed to be self-sustaining or self-liquidating debt. Self-sustaining or self-liquidating debt is excluded because the City has submitted documentation (such as a feasibility study) to show that the debt will be paid by revenues generated from the project to be financed, such as parking garage fees, sewer system rates or revenue from the Resource Recovery Facility (RRF). Substantially all of the City's guaranteed debt has been originally deemed to be self-sustaining or self-liquidating and did not count against the City's legal debt limits at the time of issuance of such debt. The City's most recent borrowing base calculation, based on the 2008 Comprehensive Annual Financial Report (CAFR) and annual audit, estimates that the City has a remaining non-electoral debt capacity of \$72 million. The City's remaining non-electoral and lease rental debt capacity, based on 2008 numbers, is estimated at \$117 million.

The City has issued GO and guaranteed lease rental debt through a variety of structures, including serial and term bonds and notes, variable rate bonds and notes and capital appreciation bonds (zero coupon bonds) and notes. The City and THA have also ~~used~~ Qualified Interest Rate Management Agreements (QIRMA) to enter into interest rate swap agreements to manage or "hedge" the interest rate risks of the variable rate bonds and notes. The City and THA have constructed debt portfolios that require professional management by personnel familiar with the operations of the capital markets and in particular the municipal market. ~~Regular and vigilant management of these debt portfolios has not occurred.~~ The debt portfolios, as structured, are unnecessarily complicated for a municipality of the size and with the resource capacity of the City and THA.

Assessment

The City's Dilemma

The RRF is the major factor in the City of Harrisburg's financial problems. The City has guaranteed all of THA's RRF debt. A portion of the RRF debt is also guaranteed by Dauphin County. AGM insures all of the RRF publicly issued debt obligations.

The annual debt service obligations and the operating expenses of the RRF facility exceed the revenues of the facility. In 2008, the last year for which there is a completed independent audit, the RRF generated total revenues of \$22,198,705 and operating expenses of \$25,053,307 for an operating loss of \$2,854,602. In addition to the operating expenses, the RRF had non-operating expenses of \$14,641,609, primarily debt service payments. The total loss for the RRF adjusted for extraordinary items was \$13,915,302.

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Assessment of the City's Default on its Guaranty

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Resource Recovery Facility Debt Principal Amount Outstanding as of 1/1/11

Debt	Principal Amount Outstanding
Series 1998	\$11,165,000
Series 2002A	\$14,080,000
Series 2003A	\$22,555,000
Series 2003B	\$29,085,000
Series 2003C	\$24,285,000
Series 2003D1	\$31,480,000
Series 2003D2	\$65,000,000
Series 2003E	\$11,655,000
Series 2003F	\$11,280,000
RRF Bonds Outstanding	\$220,585,000
Covanta Loan	\$23,587,500
County Working Capital	\$34,685,000
Total RRF Outstanding Debt	\$278,857,500

The debt issued by THA for the purposes of the RRF comprises the largest portion of the component unit debt guaranteed by the City. The total principal amount of the RRF bonds currently outstanding is \$220,585,000. In addition to the outstanding bonds, Dauphin County refinanced the Guaranteed Resource Recovery Facility Limited Obligation Notes, Series C and D of 2007 (the 2007 Notes) in December 2010. The principal amount due on the 2007 Notes in December 2010 was \$34,685,000. Covanta also has made a loan that is guaranteed by the City in the original principal amount of \$25,500,000. The total principal amount of outstanding RRF debt is \$278,857,500. ~~The City is the first guarantor on all of THA's outstanding bond indebtedness, and Dauphin County is the secondary guarantor on THA's outstanding 2003 D and 2003 E Bonds only. Dauphin County also refinanced the \$34,685,000 Series C and D Notes of 2007.~~

~~The City of Harrisburg~~ has guaranteed to pay the debt service on all publicly issued RRF debt. Dauphin County has guaranteed to pay debt service on the RRF Series 2003 D and E bonds if the City is unable to pay under its guarantee. Dauphin County and AGM have paid various debt payments on the RRF debt, and Dauphin County has paid various swap payments to avoid default on the swap obligations.

Since 2008, the RRF has been unable to generate sufficient operating income to pay the debt service on the RRF obligations. In 2009, THA was unable to make scheduled debt service payments. Some of the debt service payments were made by Dauphin County pursuant to its guaranty. Other payments were made out of the various debt service reserve funds. By FY2010, THA had depleted various debt service reserve funds and needed to pay the 2007 Series C and D Notes due in full in December 2010. THA and the City were unable to pay and Dauphin County refinanced these Notes privately through a financial institution.

As stated, the RRF cannot generate sufficient revenue to pay its operating expenses and the current debt service obligations. ~~Without some form of intervention, the burden of making the debt service payments will fall~~ to the City of Harrisburg, Dauphin County and AGM. AGM and Dauphin County have already made several payments. Dauphin County, AGM and TD Bank (the Trustee on a portion of the RRF debt) have filed proceedings in Dauphin County Court of Common Pleas to recover the payments from the City.

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The Resource Recovery Facility

The RRF began operations in 1972 as a City facility. It was sold by the City to THA in the early 1990s. THA took on debt to complete the purchase. The facility underwent a major upgrade

~~Dauphin County~~

~~The Act 47 Coordinator has had multiple meetings with the Dauphin County Commissioners and Dauphin County's Counsel and Financial Advisor with respect to Dauphin County's financial obligations incurred as the secondary guarantor on a portion of the RRF debt. According to the County Commissioners, their Counsel and Financial Advisor, Dauphin County has paid approximately \$8.9 million in debt payments from 2009 through 2011 to date for its obligations under the various indentures and guarantees, due to the City's failure to make its payments as required by the City's guarantees to support the RRF debt service obligations. As noted above, the County also has refinanced the Guaranteed Resource Recovery Facility Limited Obligation Notes Series C and D of 2007 in December 2010 and expects to be repaid for the principal amount of the Series C and D Notes as well as the interest.~~

~~The County has expressed no interest in purchasing the RRF. The County does expect that any restructuring of the outstanding RRF obligations would immediately repay and reimburse the County for all outlays under the County's guaranty, including any legal expenses. The County would also expect that any restructuring would defease the outstanding bonds and release the County of any continuing obligation to guarantee any future debt service on RRF debt.~~

~~The Resource Recovery Facility~~

~~The RRF began operations in 1972 as a City facility. It was sold by the City to THA in the early 1990s. THA took on debt to complete the purchase. The facility underwent a major upgrade beginning with the issuance of long-term financing in 2002 and 2003 to deal with persistent operating and pollution problems. In 2007, the THA engaged Covanta Inc., a private management contractor to operate the RRF. In addition to the RRF, THA is responsible for the operation of the City's water and sewer systems.~~

At full operation, the facility has the capacity to process 800 tons of waste per day. The facility is currently operating near capacity. The RRF disposed of 279,639 tons of municipal waste and 17,106 tons of residual and construction waste during FY2010. Various municipalities within Dauphin County, including the City of Harrisburg, accounted for 163,756 tons, or 59%, of the total municipal waste. Significant municipal waste tonnage came from other areas including Cumberland County (20,089 tons), Northumberland County (12,040 tons), New Jersey (63,670) and West Virginia (11,503).

~~Part of the RRF's operations is controlled by the Dauphin County Flow Control Ordinance. This ordinance obligates the City of Harrisburg and other municipalities in Dauphin County to dispose of their municipal waste at the facility. The ordinance also sets the tipping rates for the disposal. The City currently pays approximately \$200 per ton, and the other municipalities within Dauphin County pay \$72.60 per ton. The facility can also take municipal waste from other sources at market rates. Market rates are currently between \$40 and \$65 per ton~~

The 2005 upgrade was not completed on time and was over budget. THA owed \$104 million before the project started and initially borrowed \$125 million to pay for the upgrade. Additional debt was taken on after the project ran over budget. By the time the project was completed, THA owed \$280 million. In 2008, THA sought an increase to \$100 per ton rate from Dauphin County to deal with this additional debt problem. Dauphin County refused to grant the increase and following arbitration, THA received only a small increase of \$1.58 per ton.

The RRF also has a planned steam unit operation that would deliver produced steam to customers. This planned operation however will need an estimated \$15 to \$20 million in capital expenditures to become operational. ~~If the steam unit were to become operational, the estimated annual additional revenue from this operation would be up to \$3 million per year.~~

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The Dauphin County Flow Control Ordinance obligates all waste generated in the county (except for the City of Harrisburg, Highspire Borough and Swatara Township) to be delivered to the facility. The City of Harrisburg is not covered by the County ordinance but is required by contract to deliver waste to the RRF. Swatara Township and Highspire Borough have pre-existing contracts with another incinerator that expire in 2016. The County ordinance also sets the tipping rates for the disposal of County controlled waste. As of June 1, 2011 the County set rate was \$74.29 per ton. The City currently pays \$200 per ton. The facility can also take municipal waste from other sources at market rates. Market rates are currently between \$40 and \$65 per ton.

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The RRF also has a planned steam unit operation that would deliver produced steam to customers. This planned operation however will need an estimated \$15 to \$20 million in capital expenditures to become operational. THA has recently selected a consultant to evaluate the best use of the energy output of the RRF along with potential cost savings / revenue generation opportunities.

The Harrisburg Authority Swaps

The City is the first guarantor (Dauphin County is the secondary guarantor) on three interest rate management agreements (swaps) that currently hedge certain RRF bond indebtedness. An exact amount of the payments owed by the City and the County under the outstanding swaps cannot be calculated before the periodic payments are made. This is due to the variable rate indices used under the terms of the outstanding swaps. In every outstanding swap agreement, a portion of the net payments due to or by THA are based on variable rate indices that fluctuate daily. Until the final variable rate under the terms of the specific swap agreement resets, the net swap payments due to or by THA can only be estimated. A brief description of THA's outstanding swaps is described below:

- THA executed a fixed-to-variable swap related to THA's outstanding 2003 D-2 Bonds where THA makes periodic payments to RBC (counterparty) based upon a variable rate equal to the SIFMA Index and RBC making periodic payments to THA based upon a fixed rate equal to 3.37%. The total current outstanding notional amount of the swap is \$65,000,000 and terminates on December 1, 2013.
- THA executed a variable-to-fixed swap related to THA's outstanding 2003 D-1 and D-2 Bonds where THA makes periodic payments to RBC (counterparty) based upon a fixed rate

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- THA executed a variable-to-fixed swap related to THA's outstanding 2003 D-1 and D-2 Bonds where THA makes periodic payments to RBC (counterparty) based upon a fixed rate equal to 3.35% and RBC making periodic payments to THA based upon a variable rate equal to 68% of the 1-Month London Interbank Offered Rate (LIBOR). The total current outstanding notional amount of the swap is \$96,480,000 and terminates on June 1, 2011.
- THA executed an interest rate cap related to THA's outstanding 2003 D-1 and D-2 Bonds with RBC (counterparty). Under the terms of the cap, THA makes semi-annual fixed payments to RBC, and RBC makes incremental payments to THA based upon the spread between 68% of the 6-Month LIBOR rate and 6.00% during the periods where 68% of the 6-Month LIBOR rate is greater than 6.00%. The total current outstanding notional amount of the cap is \$96,480,000 and terminates on December 1, 2033.

Resource Recovery Facility Trust Indentures

The existing RRF bond indebtedness has been issued by THA pursuant to the following four Trust Indentures:

1. Trust Indenture dated as of August 1, 1998 (1998 Indenture) between THA and Chase Manhattan Trust Company, National Association, which secures the outstanding 1998 A Bonds;
2. Trust Indenture dated as of August 15, 2002 (2002 Indenture) between THA and AllFirst Bank, which secures the outstanding 2002 A Notes;
3. Trust Indenture dated as of June 4, 2003 (2003ABC Indenture) between THA and Commerce Bank/Pennsylvania, National Association, which secures the outstanding 2003 A Bonds, the 2003 B Notes and the 2003 C Notes; and
4. Trust Indenture dated as of December 1, 2003 (2003DEF Indenture) between THA and Commerce Bank/Pennsylvania, National Association, which secures the outstanding 2003 D Bonds, the 2003 E Bonds and the 2003 F Bonds.

Under the 1998 Indenture, the 1998 A Bonds are secured by a pledge of the Receipts and Revenues of the RRF. The 1998 Indenture provides in Section 7.07 that so long as any of the 1998 A Bonds are outstanding, THA may not enter into any contract or take any action by which the rights of the Trustee or of the Registered Owners of the 1998 A Bonds might be impaired or diminished. Section 7.07 also provides for a limited sale of fixed properties having a value in excess of \$100,000 by THA, but only permits such properties to be sold with the delivery of a consulting engineer's certificate that the sale is in the best interests of THA and will not impair the security of the 1998 A

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1. Trust Indenture dated as of August 1, 1998 (1998 Indenture) between THA and Chase Manhattan Trust Company, National Association, which secures the outstanding 1998 A Bonds;
2. Trust Indenture dated as of August 15, 2002 (2002 Indenture) between THA and AllFirst Bank, which secures the outstanding 2002 A Notes;
3. Trust Indenture dated as of June 4, 2003 (2003ABC Indenture) between THA and Commerce Bank/Pennsylvania, National Association, which secures the outstanding 2003 A Bonds, the 2003 B Notes and the 2003 C Notes; and
4. Trust Indenture dated as of December 1, 2003 (2003DEF Indenture) between THA and Commerce Bank/Pennsylvania, National Association, which secures the outstanding 2003 D Bonds, the 2003 E Bonds and the 2003 F Bonds.

Under the 1998 Indenture, the 1998 A Bonds are secured by a pledge of the Receipts and Revenues of the RRF. The 1998 Indenture provides in Section 7.07 that so long as any of the 1998 A Bonds are outstanding, THA may not enter into any contract or take any action by which the rights of the Trustee or of the Registered Owners of the 1998 A Bonds might be impaired or diminished. Section 7.07 also provides for a limited sale of fixed properties having a value in excess of \$100,000 by THA, but only permits such properties to be sold with the delivery of a consulting engineer's certificate that the sale is in the best interests of THA and will not impair the security of the 1998 A Bonds and that the retention of said property is not necessary for the efficient operation of the RRF. The 1998 Indenture does not contemplate or permit the sale of the entire RRF as long as the 1998 A Bonds are outstanding. Section 7.13 of the 1998 Indenture requires THA to maintain the RRF and continuously operate the same. Section 13.04 provides that no amendment or modifications may be made to the 1998 Indenture without the prior written consent of the Bond Insurer. Section 13.05 of the 1998 Indenture provides that no contract shall be entered into by THA nor any action taken by which the rights of the Bond Insurer or the security for or sources of payment of the 1998 A Bonds may be materially adversely impaired or prejudiced except upon obtaining the prior written consent of the Bond Insurer.

The substance of the provisions of Sections 7.07, 7.13, 13.04, and 13.04 described above from the 1998 Indenture are repeated in each of the 2002 Indenture, the 2003ABC Indenture and the 2003DEF Indenture.

Bonds and that the retention of said property is not necessary for the efficient operation of the RRF. The 1998 Indenture does not contemplate or permit the sale of the entire RRF as long as the 1998 A Bonds are outstanding. Section 7.13 of the 1998 Indenture requires THA to maintain the RRF and continuously operate the same. Section 13.04 provides that no amendment or modifications may be made to the 1998 Indenture without the prior written consent of the Bond Insurer. Section 13.05 of the 1998 Indenture provides that no contract shall be entered into by THA nor any action taken by which the rights of the Bond Insurer or the security for or sources of payment of the 1998 A Bonds may be materially adversely impaired or prejudiced except upon obtaining the prior written consent of the Bond Insurer.

The substance of the provisions of Sections 7.07, 7.13, 13.04, and 13.04 described above from the 1998 Indenture are repeated in each of the 2002 Indenture, the 2003ABC Indenture and the 2003DEF Indenture.

~~Debt Related Initiatives~~

~~The solution to the City's debt problems are fully described in the Debt Solution chapter of this Recovery Plan.~~

