

MINUTES

MUNICIPAL FINANCIAL RECOVERY ADVISORY COMMITTEE FOR THE CITY OF HARRISBURG

January 9, 2013

8:30 a.m.

Council Chambers

Present: William B. Lynch, Receiver

Mayor Linda Thompson

Wanda Williams, City Council President

Fred W. Lighty, Esquire (Alternate), Dauphin County Board of Commissioners

Anne Morrow (Recording Secretary)

Reports

Mr. Lynch called the Municipal Financial Recovery Advisory Committee meeting to order at 8:36 a.m.

Mr. Lynch asked the Committee members if there were any corrections or addendums to the minutes from the December 12, 2012 Committee meeting.

Hearing none, Mr. Lynch said the minutes stand approved and would be posted to the Receiver's website.

Committee Comments

Mr. Lynch asked the committee for any comments.

City Council President Williams had no comments.

Mr. Lighty noted the county is looking forward to increasing the speed of the negotiations and making good progress.

Mayor Thompson had no comments.

Mr. Lynch asked Mr. Reddig to provide an update on the implementation of the confirmed Recovery Plan.

Operational Issues

- Mr. Reddig noted the Office of the Receiver has continued to work with the City on a variety of operational and financial issues over the last month. The quarterly update on the status of the initiatives has been completed and was filed with both the City and Commonwealth Court on December 21, 2012. It has also been posted to the Receiver's website for public review.
- No new positions have been approved or advanced since the last meeting. The reorganization of the Finance Bureau is part of the 2013 budget and will better integrate the professionals and provide for cross-training of responsibilities in the Finance Bureau. With the filling of these two critical positions the City's overall financial management capacity has been strengthened considerably. The new hires

are currently working with Trout, Ebersole & Groff LLP (TEG) on the audit preparation work for the 2011 audit and then will assume these responsibilities as we move further into 2013.

- Maher Duessel completed work on the 2010 audit and filed it with the City just prior to the holidays. It is also available on the City's website. The TEG team continues their work in preparing for the 2011 audit and it's anticipated their work will be completed later this month so Maher Duessel can move forward with the 2011 audit. Our goal is to get the City fully caught up with all of the audits including the 2012 audit by later this year.
- A review of the City's fleet operations continues. The results of this analysis will be recommendations on the elimination of excess equipment as well as consolidation and efficiency in operations and should result in direct and indirect savings to the City on such things as insurance coverage.
- The Novak team has been working with the City to develop a position control system that will be integrated into the budget process and will provide better control over positions, vacancies and recruitment efforts.
- The development of an RFP for sanitation service is complete. Input has been received from the City's DPW Director, The Harrisburg Authority and Lancaster County Solid Waste Municipal Authority (LCSWMA). That input has been incorporated into the RFP and it's now awaiting the return of the City's Purchasing Director from leave before it can be issued. We anticipate that it will be out on the street later this month. The goal is to effect further cost containment in City operations.
- Negotiations continue with all three bargaining units in the City. Receiver Lynch issued a directive to the City that the contracted salary increases for 2013 would not go into effect for the bargaining units. That message has been communicated to the bargaining units.

Cash Flow

- The Receiver's office continues to monitor expenditures including the review of payables on a biweekly basis. The City was able to make it through the end of the year in meeting all of their payroll requirements and critical vendor payment issues. The Receiver's office reviewed the January 3rd check-run and provided a response prior to the end of the year to proceed with the payments. The run totaled \$681,511 with the largest payments to various insurances including Highmark of \$218,000 and Express Scripts of \$339,000. Those payments were through October. The insurance payments totaled approximately 92% of the total check-run.
- In January the City is to receive approximately \$757,000 from The Harrisburg Authority due to certain adjustments caused by the incorrect posting of utility payments and those funds should be available to meet the upcoming January 18th payroll as well as the check-run that should be received from the City later this week.
- The City is also in the process of transferring administrative fees from the utility funds in January that will assist to meet the January 18th payroll and other critical creditor obligations.

- The City is currently holding approximately \$2.8M in payables with the largest payment being for various employee insurance coverages. Of these invoices approximately \$950,000 are greater than 30 days and involve insurance coverage as well as payments to Capital Area Transit, Rogele and various legal fees. The payment to Rogele is currently being accommodated so that it doesn't have an adverse impact on Rogele's work in dealing with the sinkhole issue that has been front and center over the past week and a half.
- We've also reviewed the actual revenue and expenditure numbers through November and preliminary numbers for December. Based on these preliminary numbers for December the City ended the year with approximately \$47,742,000 in revenue and had expenditures of approximately \$57,999,000 for a deficit of \$10.2M. Of that deficit approximately \$9M is represented by debt service that was not paid during the year on the City's General Obligation Bonds. That payment is being negotiated with the bond insurer, AMBAC. Considering the approximately \$2.8M deficit from 2011 the cumulative deficit is estimated to be \$13M.
- The City had sufficient cash to meet payroll and critical creditor payments through December. Efforts over the last several weeks have focused on the City's short-term cash flow needs and obtaining interim financing for the early months of 2013. Efforts to secure a TRAN for 2013 continue though they've not been successful to date. A short-term transfer from the utility funds was approved by Council last night and will be used to bridge the City's cash flow needs through March when the City's real estate revenues flow into the City coffers.
- The City is expediting the real estate billing process so that the receipt of those funds is received as early as possible in the new year. The Receiver's office assisted the Administration with various 2013 budget preparation duties and testified at Council's Budget hearing in December. That was followed by Council's action to pass the 2013 budget on December 18th.
- The Receiver's office has also worked with the City in dealing with the recent sinkhole situation to address creditor related issues so that work could continue without interruption in restoring utility services and repairing the damage caused by the sinkhole.

Asset Monetization

- Negotiations with the Lancaster County Solid Waste Management Authority (LCSWMA) on the sale of the RRF continue. Discussions have also continued with Department of General Services (DGS) on the service purchase agreement which is a key component of the LCSWMA proposal. As of early this year, the power purchase agreement has been finalized and we're now moving that purchase agreement through DGS's contract process. That should allow us to finalize the terms for the LCSWMA sale and move towards a closing later this quarter.
- The Receiver's office has also continued negotiations with Harrisburg First, the selected party for the parking monetization. Discussions continue with DGS to address the Commonwealth's parking needs as part of a multi-year agreement that

will be folded into the parking monetization. We also talked with the Pennsylvania Economic Development Finance Authority (PEDFA) to serve as the financing vehicle for the parking monetization. Understanding that it is a tax-exempt process. PEDFA has agreed to do that and discussions with Capital Regional Economic Development Corporation (CREDC) to serve as the applicant as a development corporation needs to be the applicant. We're hopeful that this monetization will also move towards a closing late in the first quarter of this year.

- The water and sewer monetization efforts continue on a separate track. We had ongoing discussions with the surrounding municipalities to maintain communications in terms of what is happening in addressing the City's financial situation. Dialog has continued with the Department of Justice, EPA and DEP to further discuss an approach that will result in regaining market access to finance the upgrade to the sewage treatment plant/waste water treatment plant and to address the Clean Water Act requirements.
- Discussions have continued with AGM and Dauphin County to keep them apprised of the asset monetization processes as well as what is happening on the operational front. We're looking towards another meeting with those creditors later in January.

Mr. Lynch asked Mr. Mendez-Saldivia, Chief Operations Officer and Chief of Staff, to provide an update on the Act 47 implementation for the City of Harrisburg.

- Mr. Mendez-Saldivia noted the City has complied with the financial recovery plan requirements completing the implementation of 25 initiatives last year or approximately 33% in the following areas:

WORKFORCE & COLLECTIVE BARGAINING

1. WF02 Used professional assistance for labor negotiations

RETIREMENT

2. RET02 Froze benefit levels for all plans
3. RET05 Prevented implementation of 2007 enhanced service increments
4. RET06 Aggressively defended 2009 enhanced service increments
5. RET09 Amended Non-Uniformed collective bargaining agreement

DEPARTMENT OF ADMINISTRATION

6. ADMIN03 Implemented a standard budget development calendar
7. ADMIN05 Conducted comprehensive review of City purchasing policies
8. ADMIN06 Modified existing chart of accounts to track State and Federal grants
9. ADMIN07 Hired COO
10. ADMIN09 Hired a Senior Accountant

POLICE DEPARTMENT

11. POL04 Implemented a proactive crime analysis and crime reduction strategy
12. POL05 Increased complement of VICE Unit
13. POL10 Replaced electronic parking ticketing devices
14. POL14 Evaluated consolidation of Specialized Units
15. POL15 Enhanced leave supervision

FIRE DEPARTMENT

16. FIRE09 Established formal in-house training program
17. FIRE10 Partnered with HACC Public Safety Center regarding training

PUBLIC WORKS

18. PW03 Increased recycling efforts through education, accessibility, and enforcement

BUILDING HOUSING & DEVELOPMENT

19. BH03 Contracted for demolition of blighted structures
20. BH05 Adopted legislation requiring local agent for rental properties within the City

HOUSING

21. HS01 Designated a Housing Coordinator

ECONOMIC DEVELOPMENT

22. ED04 Improved management of the City's MOED Loan Portfolio

REVENUE

23. REV01 Increase (EIT)
24. REV02 Increased Real Estate Tax rate
25. REV10 Improved Taxpayer Information

- Currently the Administration is working with the Novak Consulting Group on the following initiatives:
 1. RET03 Consolidation of the Administration of the City's three retirement plans
 2. I&RM03 Engaging an actuarial firm to perform an independent and objective evaluation of the City's liability and projected payments
 3. ADMIN02 Developing comprehensive Citywide financial policies
 4. ADMIN04 Establishing Standard Position Control System
 5. POL01 Restructuring Patrol Duty Schedule
 6. POL06 Assigning representative to the District Attorney's Office
 7. POL07 Participating in Dauphin County Forensic Team
 8. FIRE08 Mandating formal Safety Committee review of work-related injuries
 9. PW01 Implementing container based collection system for residential solid waste and recycling
 10. PW02 Enforcing City's right to commercial collection and contract with private collector
 11. PW04 Aggressively managing our fleet make-up and quantity
- We are accomplishing our objective with our 2011 audit which is to have the TEG, Maher Duessel and the Administration working concurrently. The Treasurer's Office has provided all but one item as of last night.
- The Department of Building and Housing Development (DBHD) has been supplying a significant amount of information to TEG in regards to the grant deliverables.

- Our goal is to complete all 2011 audit preparation activities which will include providing an adjusted general ledger trial balance and send all work paper files to the Auditors on or before January 31st.
- Maher Duessel came in with three staff auditors and worked from last Wednesday through yesterday to get a head start on things and began work on the 2011 single audit, SEFA Report (Schedule of Expenditure of Federal Awards) since this was the segment of the 2010 audit that gave us the most difficulty.
- DBHD, Human Resources and our Grants sections have provided large amounts of information to the auditors over the last week.
- We are trying to exercise foresight by planning the work with the Fire Department and PA Urban Search & Rescue personnel who helped us gather and reconcile deployment information for the PA Task Force I Grant expenditures for the 2010 audit
- The Administration continues to work hard in providing information and coordination efforts with the auditors, TEG and the different department and bureaus to allow the process to move forward.
- The auditors have provided the following proposed schedule for the completion of the 2011 audit which infers they are coming back to the City to continue audit field work the first week of April, with 2011 audit issuance by May 17th.
- Based on audit preparation information provided by the City by January 31st and the Harrisburg Parking Authority's willingness to help the City by moving their audit field work back, the auditors are concerned that the timing will be extremely tight. They feel they can provide the City with a final draft report by April 22, 2013. This is based on the City providing the following:
 - Confirmations, related party spreadsheet, component unit checklists, and internal control narratives (all reviewed and updated) by January 28, 2013 (all was provided via email on Monday).
 - All other items requested on the 2011 audit checklist by January 31, 2013.
 - Analytic explanations by March 4, 2013 (our target is to provide this on February 4, 2013).
 - All single audit requested items by February 4, 2013
 - Should anything delay the provision of these items, the final drafts would be moved back to June 30th.
- The following proposed schedule assumes that the auditors will have everything that they need in order to issue the final drafts by April 22 including:
 - Attorney letters sent on April 6, 2013,
 - Final drafts provided from Maher Duessel to the City on April 22, 2013 and
 - Attorney letters due back on May 6, 2013.

- By May 8, 2013 the City will need to provide the following:
 - Management's discussion and analysis,
 - Introductory section,
 - Statistical section,
 - Mayor's foreword,
 - Responses to any single audit findings and
 - Responses to any management letter comments (optional).
- The City also has the following deadlines:
 - Final changes to any of the draft documents by May 10, 2013,
 - Corrective action plan by May 17, 2013,
 - Signed representation letter by May 17, 2013,
 - Issuance by May 17, 2013 and
 - Public issuance by May 22, 2013.
- This is an extremely aggressive time frame based on your request to have the 2011 audit done. With your support I believe we can achieve this goal.
- Maher Duessel got started on the \$247,500 EIP-Phase II Grant audit today. They have informed us that additional information will need to be provided.
- The payroll and check-run for January 3rd were funded and processed. The full 2013 Sewer Fund administrative service charge payment advance was wired to the General Fund on January 3rd. This will allow most of the General Fund's January 17th payroll to be covered.
- City Council passed a Resolution at last night's Legislative Session allowing a short-term \$4M Inter-fund Tax and Revenue Anticipation Loan from the Sewer and Water Funds to supplement the General Fund payrolls, health benefits and critical operations from mid-January till mid-March when our real estate taxes start coming in. The \$4M loan would need to be paid back in two \$2M installments plus 0.5% interest on or before March 20th and June 20th, respectively.
- The City continues to prioritize payments and manage relationship with our vendors. Training for our new hires in the Finance Bureau also continues.
- We are meeting our reporting and compliance obligations including:
 - Material event notices,
 - Annual statements of taxes levied (PA DCED) due on January 15th,
 - Annual surveys of financial condition (PA DCED) due on March 15th,
 - Pension reporting obligations (various Act 205 reports),
 - Public utilities (realty report due April 5th),
 - Certification renewals (workers compensation which was due on January 1st) and
 - Insurance renewals.
- We also engage our labor unions in negotiation meetings and our Administration continues to make progress in the following:
 - Implementation of the Act 47 initiatives,

- Completion of the 2011 and other audits and
- Stabilization of the City's financial management operations & reporting obligations.

Mr. Lynch complemented Mr. Mendez-Saldivia and the Finance Bureau on the 2010 audit being completed on the schedule that was set up. It's a significant accomplishment and I encourage your continued work with the Finance Bureau on the 2011 audit. I will reiterate how important that is to everyone here because it gives the City access to financial opportunities that are otherwise unavailable without the audit. You are doing good work and we thank you and appreciate it.

Mr. Mendez-Saldivia noted the City is cross-training a team and building their capacity to complete these audits in-house and on time. We are creating a new culture leading by deadlines, identifying our priorities, meeting our goals and measuring our performance. It will take some time. It took TEG a great deal of hours with 10 professional trained auditors.

Mr. Lynch noted its these small victories that are important. He also reminded everyone that part of the initiative here is to have the City's finance people working with the outside auditors in preparation for the audit so in the future the City can do it without bringing people in.

Mr. Lynch complimented DPW and the Mayor and her team on handling the sinkhole issues. Positive feedback has been received. When you're without water for a short period of time it becomes difficult especially if you are the small number of people who are affected. For you it is hard so I complement everyone involved in this emergency. DPW and the rest of City personnel performed well in this emergency. Communicating the status of the emergency was particularly important and well done.

Public Comments

Bill Cluck, resident of Harrisburg

- Mr. Cluck noted he heard Mr. Reddig say that the Receiver said current raises for the three bargaining units for this current year were not implemented. Did I hear that correctly?
 - Mr. Lynch noted Mr. Cluck heard it correctly.
- Mr. Cluck noted even though the contract called for a rate increase the Receiver has made that determination. They have been notified but have they responded?
 - Mayor Thompson noted the FOP responded and they are filing their objections to it. We have not heard from AFSCME or the Firefighters.
- With respect to non-union City employees, are there any salary increases for this year?
 - Mayor Thompson responded, no. This Administration has reduced personnel by 20% and its operational cost by 10%. In doing so we haven't given any managers pay raises. What we did in the Finance department in 2012 was to decrease a particular position's salary and increase another person's salary so it had a neutral impact.
- Mr. Cluck noted Mr. Mendez-Saldivia had mentioned an EIP-Phase II Audit. What is EIP?
 - Mr. Mendez-Saldivia responded it is the Early Intervention Program.

- Mr. Reddig noted the Early Intervention Program was the grant that preceded Act 47.
- Mr. Cluck said he heard the revenues for 2012 were approximately \$47M as of December which Mr. Reddig noted included the preliminary numbers. Mr. Cluck asked how those numbers are projected as he recalls it used to be \$66M to \$67M.
 - Mayor Thompson noted those were the years when it was inflated projections.
 - Mr. Reddig noted in those years there were sizable water and sewer transfers which have now been eliminated.
- Who is the Housing Coordinator?
 - Mayor Thompson replied its in-house and shared responsibility among the Deputy Director in Housing.
- Does the City have a contract with someone to take the recyclables that are collected and do we make money or lose money on the transfer of recyclables?
 - Mayor Thompson noted over the years we've known that there's never been an aggressive recycling campaign throughout the entire City. Most of the businesses, particularly the school district and some of the hospitals and hotels are not really aggressive in separating. We have started a campaign and there's more to come with the hope of engaging the entire community in getting more people to become more responsible. With limited effort then certainly we haven't gained the type of revenue the City can potentially gain. The recycling system was built based on the incinerator. The county received the grant money and is the party that manages the recycling system. Going forward let's hope we can get everyone to be more participatory and gain revenue from it.
- We give our recyclables to the county? We don't have a separate contract with another company where either they pay us for our recyclables or we pay them?
 - Mayor Thompson replied she would need to get back to Mr. Cluck with an answer to his question about recyclables.
- Mr. Cluck congratulated everyone on the hard work on getting out the 2010 audit but emphasized that the 2011 audit was due last June. We need to keep this in perspective and it's critical that these deadlines are met. As you know it's not just the City that can't go to market to get financing, The Harrisburg Authority can't go to market. The 2012 audit is due this June so we're playing big time catch up ball and it needs to continue to be a priority.
 - Mr. Lynch responded it is a priority and pointed out that 6 months ago the 2009 audit had not been completed. We've made some significant progress. I understand precisely what you're saying and I agree and will continue to make it a priority. That's why I took time to comment on it earlier today.
 - Mr. Mendez-Saldivia noted the City now has the most aggressive realistic schedule that the City can have. We are hopeful to complete our goals and continue our successful system with all the contributions from all the parties involved.

Nad Smith, resident of Harrisburg

- Mr. Smith noted some of the technical language is hard for the common person to understand. In regards to the asset monetizations, General Lynch, if you could briefly summarize what that means to the City. What assets are being sold, to whom and what that means to the City? What revenue had been generated by that asset and how will that be replaced?
- Mr. Lynch responded, monetization is a lawyer's word. It means assigning a value to an asset which can either be sold or leased or somehow have that value realized in a meaningful way. The assets we talk about are the incinerator, parking assets and the water and sewer assets. The incinerator has always received the most attention. The truth is the incinerators' value is dependent on how much you can get someone to pay you for it. As it sits there, the physical client doesn't appear to be worth much yet there's some \$340M in debt that's associated with that facility. Part of our effort has been to raise the value of that asset so that someone would find it valuable enough to purchase. That's what Mr. Reddig's discussion of the Power Purchase Agreement and the financing through tax-free avenues of financing all go to increase that value. The incinerator burns trash and creates electricity so purchasing that electricity by the Commonwealth will have been a tedious process. We are very close to an agreement now with the Commonwealth, who will purchase the power that's produced by the incinerator over a long term. When the company that purchases the incinerator can go to market for financing with a government contract that makes them a much more attractive borrower because they have a predictable income stream. It also gives them the opportunity for financing that can be tax-free. That means they don't have to pay debt service because they have more money upfront for the facility. Once we get through that we're a long way from \$340M so now we talk about the parking assets. Now we believe we have crafted a unique public private partnership and the parking assets will be leased to a conglomerate financial and operational group. Standard Parking is the largest parking operator in the country and an asset management group that will manage the assets. For some period of years, the City will achieve more income through the various ramifications of this transaction than the City does now the way the parking is currently constituted and operated. Even without the incinerator debt we believe this would be a prudent move for the City under any circumstances. Those two are ongoing. Water and sewer has evolved to where we are looking at what is the best solution is a reconstituted authority that is focused on the water and sewer business rather than some of the things the authority has done in the past and has some opportunities for suburban sewer and water customers to be part of that process. That brings communities that surround us into a position where we can borrow through them because they all have better credit ratings than the City. They can contribute to the EPA mandated restructuring of the sewage treatment plant. Part of this recent sinkhole business makes it clear that the only way to operate for the City of Harrisburg is to anticipate problems like that and have some money set aside for that but more importantly to have a maintenance program whereby maintain is not fixed to some immediate problem but problems are anticipated and don't occur because you've taken care of it in the first place.
- In regards to the incinerator's debt and it's over-value. How did that come about and how did we get to that place?

- Mr. Lynch responded that it's a very long story and that the forensic audit would take you through the information. The forensic audit is also posted the Receiver's website or we can get you a copy.
- It would seem to me that we would want to uncover the fraud and corruption that occurred so that the problem and value would be assessed and those that committed the inflation of the incinerator would be corrected so the City isn't on the line for paying that inflated price. I heard there are millions of dollars of fees that was tacked on from the companies that are involved. Why should it be assisted to the value of the debt? That needs to be corrected so the citizens don't have to pay for that fraudulent amount of money.
 - Mr. Lynch noted this is a philosophical debate that could go on for a very long time. Who is responsible vs. who is here now and has the task of fixing it. No matter how you got here we're here and there's a lot of people that say it's up to us and it is up to us to fix this for ourselves. Whether there are bad guys involved that should be prosecuted there are a whole lot of options on that and what we need to do is to get on with business and fix thing. We're beginning that process and we're actually in pretty good shape. You heard somebody say by the end of the first quarter we should probably have the incinerator and parking just about concluded.
- We shouldn't reward corruption or fraud. We shouldn't be paying money out to guys that perpetrated these kinds of things. They should be held accountable and the companies that ran up these fees and such shouldn't be given any type of compensation for what they did.
 - Mr. Lynch responded that no one would disagree with you. I will tell you that none of that is anticipated as far as we can see.

Mayor Thompson responded to a question Mr. Cluck had from our last meeting on the Other Post Employee Benefits (OPEB) whether it was going to go up.

- Mayor Thompson noted the average payouts have been between 3.1, 3.2, 3.6 and that it varies. The highest year will be 2012 because we delayed hiring particular ranking positions in the police department. That has been all put back into the 2013 budget so the OPEB will go up and the new hires. Whenever we have new hires and fill those positions that when it fluctuates up. After 2013, you will see it stabilize again to 3.6, 3.8, 3.2 levels.

Mayor Thompson responded to a question Mr. Cluck had from our last meeting on the Securities and Exchange Commission (SEC) matters.

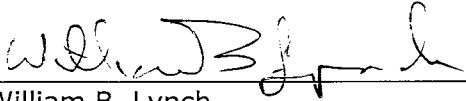
- Mayor Thompson noted the City has had our policies completed. A Mayoral Executive Order has been executed and posted on different websites. A call was received from our attorney to take down the posting until the SEC Commissioners sign off on it. A Settlement Agreement was signed and should be made public in several months to a year.

Mayor Thompson responded to a question Mr. Cluck had from our last meeting on the Economic Development position.

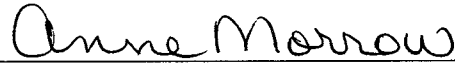
- Mayor Thompson noted the City received our clearance from HUD and will now be positing the Economic Development position.

Mr. Lynch asked if there were any other comments. There were no other comments.
Mr. Lynch called this meeting adjourned at 9:20 a.m.

Approved this 9th day of January 2013.



William B. Lynch
Receiver for the City of Harrisburg



Secretary - Anne Morrow