

THA Comments on Act 47 Plan dated June 13, 2011.
Submitted to PEL July 1, 2011

Comparison to Updated Act 47 Plan dated July 8, 2011

1. Executive Summary (page 5) – “Addressing the Short Term Cash Need”

Act 47 Text: As previously stated, COH will be out of cash to pay current expenses in the fourth quarter of 2011. The consensual solution put forth by Dauphin County and AGM includes an escrow of \$6 million in the first year, those monies and monies from the immediate sale or lease of City parking assets shall be used to make up the projected \$5 million shortfall.

THA Comment: If sale of the RRF (or parking assets) does not close before the end of the year, will AGM and the County still provide that funding to COH?

Addressed (page 4) – “Due to the immediate nature of the City’s cash shortage, the escrow may be comprised of funds advanced to the City prior to the actual sale or lease of assets. The City has had conversations with HPA regarding the potential for financing assistance prior to the disposition of assets.”

2. Introduction (page 9) – “Resource Recovery Facility Guaranteed Debt”

Act 47 Text: Beginning in 2007, THA failed to make its debt service payments.

THA Comment: This is only correct for the RRF debt. Debt service payments for water and sewer were, and continue to be, made.

Act 47 Text: In partial fulfillment of its guarantee of the RRF, COH of Harrisburg paid approximately \$4.0 million (based on City audit reports) in both 2007 and 2008 and additional payments totaling about \$4.55 million in 2009.

THA Comment: It is worth noting that COH also received reimbursements in the following amounts according to the closing memorandum for the notes issued by THA in 2007:

- \$250,000 for advance to Covanta
- \$600,000 for debt service payment on 11/1/07
- \$3,456,097 for debt service and swap payments on 6/1/07 and 9/1/07

Addressed (page 9)– “The City had received reimbursements (debt service payments and advances) of more than \$4.2 million from notes issued by THA in 2007”

3. Introduction (page 14) – “Administrative Charges, Transfers and Parking Payments”

Act 47 Text: These administrative charges, transfers and parking revenues are dependent on whether the individual fund’s operation has sufficient revenue to meet costs and produce a surplus so that a transfer to COH’s General Fund is possible.

THA Comment: This is not precise and is further described as follows:

Sewer (Conveyance & Treatment and Collection): COH has traditionally included their “General Admin Charge” as an operating expense in their budget making it independent of any “surplus”; however this is counter to the definition in the Lease of Operating Expenses. Additionally, any "surplus" beyond operating expenses, debt service, and funding reserves is to be paid to THA as additional rental under the Lease Agreement. This has not occurred in at least the last few years and has resulted in diminished/depleted available funds for capital

projects and extraordinary repairs. Upon further accounting, it may be determined that COH owes money to THA that would be used for ongoing capital projects.

Water: "Direct Operating Expenses" of COH are included in the Operating Expenses of the budget, while "Indirect Operating Expenses" (i.e. COH's "General Admin Charge") is separate from Operating Expenses and subordinate to the Operating and Debt expenses. Thus, the administrative charges and transfers from the water fund are dependent upon surplus revenues.

It is THA's assertion that the administrative charges should be based on actual expenses incurred plus a modest fee (possibly in the range of 5-10%).

Addressed in part (page 14)– "The City has traditionally included the Sewer administrative charge as an operating expense in its budget. Water and Parking Fund administrative charges and transfers are dependent on ..."

4. **Introduction (page 20) – "Process and Methodology for this Act 47 Recovery Plan"**

Act 47 Text: Act 47 Team members met with elected and appointed officials from Dauphin County and the Commonwealth of Pennsylvania and board members and staffs of THA and the HPA.

THA Comment: Although THA Board members met separately with a representative of the Act 47 team during the drafting of the plan, the Act 47 team did not meet with the THA Board (despite our request to do so) until 6/23/11 (i.e. after the draft plan had been issued). We feel strongly that the Board's input would have better informed the Act 47 team on a number of issues which are unclear in or omitted from the plan (namely THA debt and specifically in relation to THA's litigation with CIT which could result in an additional debt service obligation of \$25 - \$35 million on the RRF).

No changes made to Plan (page 20)

5. **Introduction (pages 22 and 24) – "2011 Projected Revenues"**

Act 47 Text: The following assumptions were used to determine the [2011] projected revenues:

- The Act 47 Coordinator held Administrative Charges and Transfers at the 2011 budget level (3rd bullet item on page 22).
- Importantly, other fund administrative charges, transfer payments and parking authority payments are held constant through the period (last bullet item on page 24).

THA Comment: This is not realistic since city's administrative charges will likely be reduced to maintain proper operation and maintenance without raising rates.

Addressed (page 25) – Inserted: "It is possible that future annual administrative charges may be reduced from the projection amounts to maintain proper subsidiary operations and to keep rate increases to a minimum."

6. **Introduction (page 28) – "General Fund Expenditure Projections, 2011 – 2015"**

Act 47 Text: Sewer Fund – Accounts for transactions dealing with City's operation in the collection and treatment of sewage.

THA Comment: This is inaccurate. While a portion of the revenues are attributed to the Collection System, collection system expenses are not paid out of this Fund. Collection system expenses are paid out of the General Fund Public Works Budget. There is also a

separate Sewer Maintenance fee revenue source directed to the General Fund for this purpose. Presumably, the Collection System revenues from the Sewer Fund are transferred to the General Fund via General Administrative Charge. Since THA does not have control of the Sewer Fund, the exact mechanisms are not clear to us.

Addressed (page 28) – “Sewer Fund – Accounts for certain transactions dealing with City’s operation in the collection and treatment of sewage not covered in other City General Fund categories”

7. Introduction (page 30) – “Projections for All Funds, 2011 – 2015”

Act 47 Text: The very large decrease in the Sewer Fund of \$2 million between the 2011 budget and the 2012 projection is the result of the termination of lease rental payments to THA for sewer bonds.

THA Comment: To clarify, this is a result of termination of certain lease rental payments, not all lease rental payments.

Addressed (page 30)– “...termination of certain lease rental payments...”

Also note that the Projection for All Funds table was revised to show \$0 Surplus/(Deficit), which is in line with the Operation and Maintenance agreement in that any surplus/deficit is on THA’s books, not the City’s.

Recovery Plan Implementation (page 36) – “Organizational Structure and Accountability”

Act 47 Text: In particular, this Recovery Plan recommends a significant change in the organizational structure of The Harrisburg Authority with the creation of a new Stormwater Management Utility, as seen in the figure below.

THA Comment: THA supports the proposed organization change. We suggest referring to stormwater management as a “division” instead of a “utility” and note that “sanitary sewer” generally refers to the collection system, not the conveyance system. If the Act 47 team intends for THA to take over management of the sanitary sewer system (including combined and separate sewers), then THA suggests incorporating stormwater management into the wastewater division.

Addressed in part (page 36) – Changed “Utility” to “Division”.

8. Debt Summary (page 48) – “Principally Issued General Obligation and Guaranteed Debt – Principal Amounts Outstanding as of January 1, 2011”

Act 47 Text: COH 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 COH and THA.

THA Comment: THA disagrees that “regular and vigilant management” of its debt portfolios has not occurred and that the debt portfolios are unnecessarily complicated.

No changes made to Plan.

9. Debt Summary (page 49) – “Assessment”

Act 47 Text: Since 2008, the RRF has been unable to generate sufficient operating income to pay the debt service on the RRF obligations. 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 COH were unable to pay and Dauphin County refinanced these Notes privately through a financial institution.

THA Comment: The RRF budget for 2011 provides for payment of approximately \$5.5 million in debt service payments. COH and Dauphin County recognized when the 2007 Notes were issued that THA would use best efforts to refinance the notes and all parties fully understood that THA would be unable to pay the Notes when they came due in 12/10.

No changes made to Plan.

10. Debt Summary (page 50) – “Assessment”

Act 47 Text: Part of the RRF’s operations is controlled by the Dauphin County Flow Control Ordinance. This ordinance obligates COH 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. COH currently pays approximately \$200 per ton, and the other municipalities within Dauphin County pay \$72.60 per ton.

THA Comment: This paragraph demonstrates a fundamental misunderstanding of Act 101 and the County waste plan. The RRF’s obligations are not controlled by the county’s flow control ordinance. The ordinance obligates all waste generated in the county, except COH, Swatara Township and Highspire, to be delivered to the RRF. COH is not part of the County waste plan but it does have its own ordinance requiring waste to be disposed at RRF. Swatara Township and Highspire have pre-existing contracts with York incinerator that do not expire until 2016. The County ordinance sets tipping fees for County waste, not City waste. As of June 1, 2011, the County’s rate increased to \$74.29.

Addressed (page 51) – Deleted “Part of the RRF’s operations is controlled by the Dauphin County Flow Control Ordinance. This ordinance obligates COH 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. COH currently pays approximately \$200 per ton, and the other municipalities within Dauphin County pay \$72.60 per ton.”

Inserted “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. They 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.”

Act 47 Text: 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.

THA Comment: It is unclear how the potential revenue amount of \$3 million per year was determined. Preliminary studies prepared in 2008 and 2009 indicate that net revenues could be as high as \$3 million per year but could also create a net deficit of \$800,000 (due to a number of factors). THA has recently selected a consultant to evaluate the best use of the energy output of the RRF and expect to receive their report this fall, which will provide further information as to potential cost savings / revenue generation.

Addressed (page 51) – Deleted “If the steam unit were to become operational, the estimated annual additional revenue from this operation would be up to \$3 million per year.”

Inserted “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.”

11. Administration and Professional Services (page 143) – “Department of Administration”

Act 47 Text: The Credit and Collection Unit bills utility payments on behalf of The Harrisburg Authority.

THA Comment: This is not accurate. Water bills are sent by COH to residents and businesses on behalf of THA per the Operation and Maintenance Agreement. However, other utility bills are on behalf of COH.

Addressed (page 153) – “The Credit and Collection Unit bills utility payments on behalf of The City and THA.”

12. Administration and Professional Services (page 169) – “Initiatives”

Act 47 Text: IT07. Conduct a needs assessment for an Enterprise Resource Planning system. COH shall hire a consultant with expertise in evaluating and implementing government Enterprise Resource Planning (ERP) systems to assess the current Sungard Pentamation ERP system and the major mainframe applications. The consultant shall also explore a shared services model with the County or another government entity similar to the arrangement that Allegheny County and COH of Pittsburgh have in place. The IT requirements of COH’s authorities shall also be explored as part of this process.

THA Comment: THA looks forward to cooperating in this assessment.

No response or revision required.

13. Public Operations and Authorities (page 246) – “Overview”

Act 47 Text: DPW shares responsibility with THA for both water and sewer. THA is the owner of the DeHart Dam, the WTP (including main lines and pump stations), and the AWTF (including conveyance lines). COH leases these facilities from THA and is responsible for daily operations and maintenance (see THA chapter of this report for additional information).

THA Comment: COH leases THA's sewer conveyance and treatment facilities and owns and subleases from THA the sewer collection system. COH is responsible for the water system pursuant to an Operation and Maintenance Agreement.

Addressed (page 258) - “The City leases THA’s sewer conveyance and treatment facilities and owns and subleases from THA the sewer collection system and is responsible for daily operations and maintenance. The City is responsible for the water system pursuant to an Operation and Maintenance Agreement.”

14. Public Operations and Authorities (page 252) – “Aging Infrastructure”

Act 47 Text: DPW has struggled with antiquated infrastructure, poorly designed systems and a lack of capital improvement funding for much of the past 15 years. Generally, infrastructure maintenance is only performed in response to system failures. A comprehensive preventative maintenance plan does not exist. Resource constraints have limited the Department's ability to effectively address infrastructure needs. In the short term, some of the issues in DPW are surmountable with a thoughtful strategy to deal with staffing and financial management. In the longer term, the Department must find a way to invest in and sustain its infrastructure systems.

THA Comment: The issues outlined in the “Aging Infrastructure” section have been observed and documented by THA and the water issues addressed by enforcing the budget approval process and redirecting funds to operating expenses and away from the General Fund, allowing the water system to thrive under the existing rate structure. The sewer issues could be dealt with in a similar manner with changes to the THA/COH relationship.

No response or revision required.

15. Public Operations and Authorities (page 254) – “Environmental Compliance”

Act 47 Text: In June 2010, the Commonwealth Department of Environmental Protection (DEP) and the U.S. EPA conducted inspections of Harrisburg’s wastewater and stormwater systems. These inspections are expected to lead to significant obligations for stormwater management and combined sewer overflow improvements. Staff-suggested improvement costs could total tens of millions of dollars. These hurdles will force COH, in many cases, to update its policies and procedures to comply with Commonwealth and Federal environmental requirements before receiving further funding. This will be expensive and labor intensive for DPW.

THA Comment: The inspections were held in March 2010 (not June). THA agrees that the improvements will be expensive / labor intensive and will work closely COH to secure adequate funding and improve management processes.

Addressed (page 266) – Revised from “June” to “March”

16. Public Operations and Authorities (page 255 and 256) – “Initiatives”

Act 47 Text: Initiative PW01 – Implement container based collection system for residential solid waste and recycling: The up-front cost of purchasing the vehicles and equipment is estimated to be approximately \$1.5 million - \$3.5 million for the purchase of containers and \$2.0 million for the purchase of new vehicles. However, there is no existing vehicle fund reserve. In order to fund this initiative, THA, in coordination with COH, shall issue revenue bonds. Annual debt service is expected to be approximately \$500,000 to \$600,000 to be paid with customer charges for collection and disposal (page 255).

If these savings and efficiencies are not realized, or if THA is unable to secure the necessary financing for this new system, COH and THA shall investigate contracting out for residential collection services to ensure a reasonable cost per collection (page 256).

THA Comment: THA does not believe that any benefit will be derived by COH with the involvement of THA in sanitation. Further, we are not certain we could float revenue bonds to fund this initiative and feel that a transfer of responsibilities would create an unnecessary/unproductive burden on COH and THA resources.

Not Addressed (page 267)

17. Public Operations and Authorities (page 257) – “Initiatives”

Act 47 Text: Initiative PW03 – Increase recycling through education, accessibility and enforcement: Currently, COH imposes a collection charge and a disposal charge to City residents. The collection charge pays for specific collection expenses from the Sanitation Utility Fund. The disposal charge is passed directly through to THA as payment for tipping fees at the RRF. Currently, COH is required to take all solid waste to the RRF, though there is no tonnage requirement dictated by the contract. The reduced level of general refuse collection will decrease the current charges for refuse disposal charged by THA to COH. Under less dire circumstances, this would then trigger a reduction in the fee charged to the customers for disposal. However, COH shall maintain the sanitation disposal fee at the current level, and use the additional funding to support sanitation operations.

THA Comment: This initiative, while exhibiting responsible stewardship, is financially detrimental. A reduction in tip fee revenue to THA results in less money available for Debt Service payments requiring COH to pay through its guarantee agreements. Under a put or pay sale scenario, COH must ensure that the benefits outweigh the costs.

Addressed in Part (page 270) – Removed the language “Under less dire circumstances, this would then trigger a reduction in the fee charged to the customers for disposal. However, COH shall maintain the sanitation disposal fee at the current level, and use the additional funding to support sanitation operations.”

18. Public Operations and Authorities (page 262) – “Capital Improvement Program”

Act 47 Text: THA is responsible for identifying and funding the capital improvements for the WTP and Distribution System, AWTF and major interceptor sewers and the RRF.

THA Comment: Per the lease agreements for sewer, COH is responsible for identifying and funding capital projects and seeking funds from THA for those projects and extraordinary repairs only if the expenses cannot be paid from the Sewer Revenue Account.

Addressed (page 274) – Revised language from “THA is responsible” to “The City is responsible”. Added “The City is responsible for seeking funds from THA for those projects and extraordinary repairs only if the expenses cannot be paid from the Sewer Revenue Account.” Should have also included “Water Utility Account” but it could be implied as is.

Act 47 Text: Responsibility for the sewer collection system currently belongs with COH. While separate CIPs should be maintained for COH and THA, the two entities must work cooperatively to identify all current and future capital needs. Through operating and lease-sublease agreements, COH shares responsibility for these facilities and is responsible for approving the Wastewater System budget. Coordinating work will assure that important projects will be identified and budgeted. This joint planning will also ensure appropriate staging and phasing of construction. For example, the repair and replacement of water and sewer lines must be coordinated with the repair and replacement of City roads to mitigate the number of street cuts in one location.

THA Comment: THA concurs that the CIP development process should be collaborative and that this plan should be funded on an ongoing basis from the Sewer Revenue Fund and, only as necessary, through revenue bonds.

No response or revision required (page 274).

19. Public Operations and Authorities (page 263) – “Capital Improvement Program”

Act 47 Text: COH has not had an adequate capital improvement program for many years.

THA Comment: In the last few years, THA has worked with the Water Bureau to develop a 5-year Capital Improvement Plan and has worked with the Sewer Bureau to identify priority projects. THA looks forward to working with COH to undertake long-term capital planning and asset management efforts.

No response or revision required (page 275).

Act 47 Text: GIS mapping should be continued and improved upon by the City. This investment in GIS mapping will allow COH to monitor and select critical infrastructure repairs which need capital funding.

THA Comment: THA is currently seeking PENNVEST funding to improve GIS mapping capabilities for the water system and nearby utilities. We will work with COH to ensure that there is no overlap of effort and that needs are adequately addressed.

No response or revision required (page 275).

20. Public Operations and Authorities (page 264 -269) – “Initiatives”

Act 47 Text: Initiative CIP01 – Establish and maintain a multi-year Capital Improvement Program, Initiative CIP02 – Establish a CIP development process, Initiative CIP03 – Establish and maintain an asset management system

THA Comment: THA concurs with the analysis and recommendations given, has been working toward these goals, and looks forward to working with COH to develop and implement such asset management and capital improvement planning efforts.

No response or revision required (page 276 - 281).

21. Public Operations and Authorities (page 281) – “Overview”

Act 47 Text: THA has the authority to set water, sewer and solid waste disposal rates for residents of Harrisburg and the surrounding jurisdictions. Through contract and lease arrangement with COH of Harrisburg, THA has been given rate setting authority for the sewer system. This power allows THA to raise rates as needed to finance significant capital improvements.

THA Comment: THA does not set sewer or solid waste disposal rates. COH sets sewer rates per the Lease Agreement. THA sets tipping fees for disposal at the RRF but COH sets the solid waste disposal rates for City customers. Tipping fees for Dauphin County are limited to contracted amounts adjusted for CPI annually. Any tip fee increase beyond the CPI adjustment must be approved by Dauphin County. Customer rates are set by the haulers servicing the County.

Addressed (page 293) – Revised language to: “THA has the authority to set water rates and tipping fees under contracts for solid waste.” Deleted “THA has the authority to set water, sewer and solid waste disposal rates for residents of Harrisburg and the surrounding jurisdictions. Through contract and lease arrangement with COH of Harrisburg, THA has been given rate setting authority for the sewer system. This power allows THA to raise rates as needed to finance significant capital improvements.”

Act 47 Text: It contracts with other local governments to provide water and sewer services.

THA Comment: THA does not contract with other local governments for water service. It provides water service outside of COH limits through the powers granted in the Municipal Authorities Act. Because the sewer rates are set by COH and not THA, contracts with other local governments are necessary for the provision of sewer service outside COH limits. These are multi-party agreements including both THA and COH.

Addressed (page 293) – Revised language to: “It provides water service outside of the City; it also provides sewer services under contracts to other local governments.”

22. Public Operations and Authorities (page 281) – “Harrisburg Resource Recovery Facility”

Act 47 Text: The RRF has an electrical generating capacity of 24 megawatts.

THA Comment: While the rated capacity is 24 megawatts, it is only producing on average 15 megawatts due to its current condition.

Addressed (page 293) – Revised language to: “The RRF has an electrical generating capacity of 24 megawatts; in its present condition, it is producing an average of 15 megawatts.”

23. Public Operations and Authorities (page 282) – “Advanced Wastewater Treatment Facility”

Act 47 Text: The AWTF has been in operation since 1976 and is responsible for maintaining the quality of the water on the Susquehanna and Chesapeake Bay through wastewater processing, including preliminary, primary and advanced secondary treatments. The AWTF has a permitted capacity of 37.7 million GPD and serves an estimated 122,000 residents in Harrisburg, the Boroughs of Paxtang, Penbrook and Steelton, Susquehanna Township and portions of Lower Paxton and Swatara Townships. It currently runs close to capacity, with rain events causing CSOs into the Susquehanna River and Paxton Creek.

THA Comment: The AWTF has been in operation since 1958 and was upgraded in 1976.

Addressed (page 294) – Language revised to: “The AWTF has been in operation since 1958, upgraded in 1976, and is responsible...”

The AWTF runs much lower than design capacity during dry weather conditions but high flow wet weather events can cause CSOs and bypass operations at the AWTF.

Addressed (page 294) - Deleted: “It currently runs close to capacity, with rain events causing CSOs into the Susquehanna River and Paxton Creek.” Inserted: “The plant runs lower than design capacity during dry weather conditions. Because the sewer and stormwater systems are combined, high flow and rain events can cause combined sewer overflows (CSOs) into the Susquehanna River and Paxton Creek.”

Act 47 Text: THA currently has a staff of six FTEs. The Authority is run by an Executive Director; however, as of June 2011 this position is vacant. Current staff include a Facilities Director and Facility Site Manager supervising and working with Covanta at the RRF, an Engineering Director and three administrative support personnel.

THA Comment: THA currently has a staff of 5 FTEs plus two consultants (Facility Director and Interim Finance Director). The Executive Director position is held on an interim basis by the Engineering Director while a search for a permanent replacement in that position is underway.

Addressed (page 294) – Language revised to: “THA currently has a staff of five FTEs. The Authority is run by an Executive Director; however, as of June 2011 this position is vacant and is being held on an interim basis by the Engineering Director. Current staff includes a Facility Site Manager supervising and working with Covanta at the RRF, an Engineering Director and three administrative support personnel. Two consultants perform as Facilities Director and interim Finance Director.” Actual month of Executive Director resignation was May 2011, not June 2011.

24. Public Operations and Authorities (page 282) – “Assessment”

Act 47 Text: Currently there are two outstanding studies that will directly impact the needs for capital improvements: the Watershed Report, regarding watershed violations issued by the EPA in relation to the Chesapeake Bay Watershed which is anticipated to significantly impacting the AWTF;

THA Comment: The need for capital improvements at the AWTF are driven by Pennsylvania’s Watershed Implementation Plan to meet EPA’s Chesapeake Bay TMDL.

There are no violations issued to the AWTF by EPA in relation to the Chesapeake Bay watershed.

Addressed (page 294) - Revised language from “watershed violations issued” to “watershed requirements issued”.

Act 47 Text. ...and the Municipal Separate Storm Sewer System Report, a preliminary report regarding general EPA/DEP stormwater violations at the RRF and throughout COH.

THA Comment: THA is not aware of any violations at the RRF for stormwater.

Addressed (page 294) – Revised language from “violations” to “requirements”. Deleted “at the RRF”.

Act 47 Text: COH is in the process of pricing the Watershed Report upgrades and repairs; the current estimates range between \$35 million and \$60 million for the needed upgrades.

THA Comment: The Chesapeake Bay TMDL upgrades are anticipated to cost between \$35-\$45 million. Additionally, THA must make improvements to the CSO system as a part of a Long Term Control Plan unrelated to the Chesapeake Bay. Those improvements are currently estimated at between \$20-30 million.

Addressed (page 294) – Revised to “current estimates range between \$35 million and \$45 million. CSO mitigation is estimated at between \$20 [sic] and \$30 million for the needed upgrades.”

Act 47 Text: For the RRF, regulatory compliance requires the elimination of air pollution and groundwater pollution in both the incinerator complex and the ash landfill. Both these sites were addressed in the EPA/DEP report, which cited significant violations. In particular, lack of proper filter maintenance has led to offsite groundwater contamination.

THA Comment: THA is not aware of an EPA/DEP report regarding significant violations nor are we aware of any indication of offsite groundwater contamination. THA monitors groundwater on an ongoing basis to detect any such contamination and has not found any levels of concern.

Addressed in part (page 295) – Revised to: “Both these sites were addressed in the EPA/DEP report.” Deleted: “, which cited significant violations. In particular, lack of proper filter maintenance has led to offsite groundwater contamination.”

25. Public Operations and Authorities (page 283) – “Assessment”

Act 47 Text: It is estimated that approximately \$5 to \$10 million in additional capital investment would be needed to bring the RRF to peak operating performance.

THA Comment: While it is agreed that a \$5-\$10 million investment could bolster *operating* performance, we believe that achieving required environmental performance can be accomplished with a significantly smaller investment.

Addressed (page 295) – Inserted: “THA believes that required environmental performance can be accomplished with a capital investment under \$5 million.”

Act 47 Text: One of the major issues for the AWTF is stormwater overflows into the Susquehanna River.

THA Comment: Combined sewer, not stormwater, overflows are an issue at the AWTF.

Addressed (page 295) – Revised language from “stormwater” to “combined sewer”.

Act 47 Text: As such, the EPA mandates are focused on stormwater improvements to eliminate or reduce CSOs into the Susquehanna River,

THA Comment: EPA's CSO control measures are not focused on stormwater, but on maximizing storage and treatment of the combined sewage.

Addressed (page 295) – Deleted “stormwater”.

Act 47 Text: Stormwater is currently managed and financed through wastewater operations and justified because of the heavy reliance on combined sewers.

THA Comment: Stormwater is not currently managed and financed through AWTF operations. Stormwater is managed by City Services via (presumably) the General Fund and “sewer maintenance charges” on customer utility bills. Because of the impacts of stormwater on the combined system, THA believes that stormwater should be managed and financed with those impacts in mind. As noted previously, THA is in support of becoming a stormwater utility with the appropriate planning and execution.

Addressed (page 295) – Revised language from “wastewater operations” to “sewer maintenance charges”.

Act 47 Text: The RRF is heavily debt burdened. A report from R.W. Beck indicates that the facility has negative value as an operating entity, without consideration of debt service obligations.

THA Comment: The RRF has a positive value as an operating entity before debt service.

Addressed (page 295) – Revised language from “without consideration of debt” to “with consideration of debt”.

Act 47 Text: The administrative fee levied by COH on the wastewater system has been challenged by neighboring communities served through contract and is likely to require revision.

THA Comment: THA agrees that it will be difficult to maintain the current administrative fee without significantly raising sewer rates.

No response or revision required (page 295).

26. Public Operations and Authorities (page 284) – “Initiatives”

Act 47 Text: Initiative THA01 – Expand THA responsibilities to include stormwater management and combined sewers and create a Stormwater Management Utility

THA Comment: THA agrees that the inclusion of stormwater and collection sewers (both separate and combined) into its roles and responsibilities is a logical and mutually beneficial extension of those currently handled under THA's wastewater division. However, there are significant legal and financial challenges in the creation of a stormwater utility and associated fees in the state of Pennsylvania. THA recommends that this Initiative be revised to (1) include separate sewers, (2) investigate the transfer of all storm and sanitary assets to THA, and (3) study the feasibility of creation of a Stormwater Management Utility. Such an investigation would ensure that the needs of COH, THA and our customers are adequately represented and the costs/benefits fully developed. Without such study, it is premature to suggest the discontinuation of the sewer maintenance fee in lieu of a stormwater fee.

Addressed in part (page 296) – Inserted the following language to the first paragraph below the initiative “This transfer will require renegotiation of the contracts between THA and the

City and will result in THA ownership of the systems with a contract arrangement with the City to provide operation and maintenance services. This would be very similar to the current agreement between THA and the City for the water system. The City and THA will need to be poised to adjust future rates to address DEP/EPA mandates which may be forthcoming.” Also Inserted: “after the creation of a Stormwater Management Utility” to the last sentence in the last paragraph: “It is assumed that implementation of stormwater fees would occur in 2012.”

27. Public Operations and Authorities (page 285) – “Initiatives”

Act 47 Text: THA02 – Negotiate payment in lieu of tax (PILOT) agreements with COH of Harrisburg.

THA Comment: THA agrees that the concept of a PILOT is reasonable and that the fees should not replace the current administrative fees. However, THA believes that the administrative fees should be based on actual services provided plus a modest fee (possibly in the range of 5-10%). THA questions the assessed values used to generate the financial impact as it appears that the plan assumes an identical value for the AWTF and the WTP and also the classification of a PILOT (the classification of such a payment together with the appropriate Indenture requirements will impact whether or not these are permitted and how they will or will not actually result in additional revenues to COH). Depending on the definition and the permitted uses outlined in the appropriate Indentures, such a payment may or may not be permitted. For the RRF, the classification as a fee would place it below debt service on the financial waterfall, thus becoming impossible to pay under the current scenario. For the AWTF, all such fees, regardless of classification are the responsibility of COH. If the fee were determined to be a liability of THA, then the only financial means to pay for it would be via an increase in THA’s administrative fee which comes out of COH’s wastewater fund – presumably reducing the amount available for COH’s Admin Fee.

No response or revision required (page 297).

28. Public Operations and Authorities (page 286) – “Initiatives”

Act 47 Text: Initiative THA03 – Expand the Stormwater Management Ordinance regarding discharges.

THA Comment: While THA agrees that these Ordinances should be expanded, we believe this item should be removed from this chapter since those ordinances are a responsibility of COH (not THA). We will, however, work with COH to develop such ordinances if THA begins oversight of the stormwater systems.

No changes made to Plan. (page 298)

Act 47 Text: Initiative THA04 – Develop a capital plan for THA to ensure the viability of assets.

THA Comment: THA agrees that asset management and capital planning are critical to ensure the long term viability and sustainability of assets and looks forward to working with the appropriate parties to develop plans beyond those already created by THA for the water system and the RRF (if not sold per the “Debt Solution” chapter of the Plan). As noted previously, capital planning for the wastewater system is currently the responsibility of COH.

No response or revision required (page 298).

Throughout this Plan, there are indications that COH and its water and sewer customers could benefit if THA expanded its role. Therefore, THA recommends that COH, THA and Act 47 coordinator study, analyze, and evaluate the possibility of THA becoming a true operating authority and develop an implementation/transition plan within next twelve months. There may likely be significant cost savings to COH while at the same time improving management of the utilities and service to customers. This structure could also greatly improve THA's ratings (Moody's) ensuring that needed upgrades and improvements can be made without requiring significant financing premiums.

Addressed (page 298) – Inserted: “The City, THA and the Act 47 Coordinator shall study, analyze and evaluate the possibility of THA becoming a true operating authority. If this change is feasible and beneficial to the City, an implementation/transition plan to THA as an operating authority should be developed. Benefits to the City of the transition should emphasize cost savings and improvement of the management of the utilities and service to the customers.” However, there is no funding requested in Appendix C for such a study.

29. Public Operations and Authorities (page 287) – “Initiatives”

Act 47 Text: Several critical projects have been identified to improve the efficiency of RRF operations. Specifically, a damaged turbine blade must be repaired, estimated at \$1.3 million. To improve pollution controls, there is a computer SIMS system that needs to be upgraded, estimated at \$600,000. Also, there is a steam line that currently is inoperable and causing a reduction in efficiency at the RRF. The repair cost is \$15 million. The current ash landfill needs to be expanded, estimated at \$2.5 million. There is currently no ash house at the RRF. If one is built, the landfill expansion will not be necessary because ash can be transported directly from the ash house to local landfills without the intermediate step at the ash landfill. The cost for an ash house has not been determined.

THA Comment: Our most recent estimate for repair of the turbine is approximately \$750,000 (not \$1,300,000) and for the CEMs upgrade is approximately \$450,000 (not \$600,000). Also, it is implied that there would be no need to expand the landfill and the expansion cost would be saved if a new ash house is built – however, the plan doesn't incorporate the cost of a new ash house (estimated at \$2,500,000) and the ongoing cost of ash disposal at an off-site landfill, which would be required if there was no landfill expansion.

No changes made to Plan. (page 299)

30. Revenue (page 376) – “Initiatives”

Act 47 Text: Initiative REV19 – Evaluate and develop valuations for city owned property and operations

THA Comment: THA objects to the sale of watershed acreage as it would likely jeopardize the quality of our system's source water and have no financial benefit to COH since there is no legal mechanism to transfer such funds from THA (we also believe that the \$1,500 per acre estimated sale price is considerably higher than the value we would expect for this land). We therefore request that this Initiative be removed from consideration. THA does continue to seek revenue from the watershed (i.e. through timber harvesting) while maintaining its intent of protecting the drinking water.

Addressed in part (page 387-388) – Revised language (deletions shown via strikethrough, additions shown via underline):

~~“The amount of property exceeds may exceed what is necessary to protect the watershed and much of it can be considered may be declared surplus.”~~

~~“Accordingly, the City shall:~~

- ~~• Coordinate the sale of any excess acreage with THA and the Pennsylvania Game Commission and take the necessary steps to complete the real estate transaction in the shortest possible time; and~~
- ~~• Establish reasonable watershed protection boundaries, based on an assessment by a qualified consultant; and~~
- ~~• Appraise excess property and sell off excess acreage.~~

~~The Coordinator is unable to determine the value without an appraisal. However, \$1,500 per acre is a reasonable estimate for hunting properties.”~~

31. Solution (page 380) – “The Harrisburg Authority Debt Guarantees”

Act 47 Text: The annual debt service requirements of the outstanding RRF debt as of January 1, 2011 through 2015 are listed in the table below.

THA Comment: THA has the following suggested revisions to the table:

- (1) Potential CIT obligation should be considered in any sale of assets or refinancing.

~~Not Addressed (page 53-58)~~

- (2) THA has outstanding obligations to vendors who performed work on the RRF Construction Completion project but could not be paid due to a dispute between Covanta and THA. These obligations should also be contemplated in the evaluation.

~~Not Addressed (page 58) – Uses of Funds includes “Pay off Covanta Loan” in the amount of \$23,587,500, which appears to be the originally contemplated \$25,500,000 amount less the \$1,912,500 paid to Covanta by the City per their guarantee agreement (July 2009, October 2009 and January 2010). To date, THA has drawn down \$21,736,000 and has not received requested funds for approximately \$1,848,200 owed to vendors, the sum of which is \$23,574,200. Should Covanta release the funds for the vendors, the amount owed on the Covanta Loan (plus any interest fees or penalties) would be approximately \$21,661,700 (\$1,925,800 less than in the Uses of Funds). If Covanta does not release the funds for the vendors, the amount owed on the Covanta Loan (plus any interest fees or penalties) would be approximately \$19,823,500 (\$3,764,000 less than in the Uses of Funds).~~

- (3) The following Debt Obligations should be indicated as “Estimated”
 - a. 2003B Notes
 - b. 2003D-1 Bonds
 - c. 2003D-2 Bonds

~~Not Addressed (page 54)~~

- (4) The numbers included in the schedule do not all match THA’s records. We encourage the Act 47 team to consult with our financial advisors at PFM to ensure accurate information is included.

~~Not Addressed (page 54)~~

32. Solution (page 382) – “Initiatives”

Act 47 Text: Initiative DS01 - Sell assets related to the Harrisburg Parking Authority and the Resource Recovery Facility; negotiate with Dauphin County to restructure the stranded debt

THA Comment: THA is willing to pursue a sale of the RRF and, as a seemingly credible offer for such a sale has already been received from the Lancaster County Solid Waste Management Authority (LCSWMA), will work initially with that entity to engage in a non-binding due diligence / negotiating period in which to develop the most financially and otherwise advantageous deal for THA. Note that (1) this will require revision to the Memorandum of Understanding (MOU) previously issued by LCSWMA to THA (we are currently working with LCSWMA on those revisions) and (2) we reserve the right to pursue a sale / lease of the RRF to other entities should we not be able to come to terms on a deal with LCSWMA and/or we are able to secure a better deal from another entity. Note also that the timing and mechanisms of the suggested initiative will need to be more fully defined and proposed to ensure that all obligations are properly addressed (i.e. we understand that certain bond requirements prohibit the sale of the RRF until all obligations are defeased).

No changes made to Plan. (page 59)