

# **THA Recommendations for City Recovery**

Prepared for Consent Agreement Meetings

October 31, 2011

## **THA to Sell Resource Recovery Facility (Initiative DS01)**

1. Continue to include Sale or Lease of Resource Recovery Facility as long as the purchase price is higher than the net present worth of maintaining ownership.
  - a. Unsolicited Proposals from LCSWMA in March and May 2011
    - i. Currently in "Due Diligence" phase with LCSWMA
  - b. Unsolicited Proposal from LambdaStar in May 2011
    - ii. LambdaStar hasn't shown further interest outside of the proposal which was tied to a potential Parking Authority Lease
  - c. Solicitation of Letters of Interest sent to 12 entities in July 2011
    - i. Receipt of one Letter from Interested Party in August 2011
      1. Negotiating Due Diligence/Confidentiality Agreement
    - ii. Receipt of an email from Interested Party in late October originally sent to incorrect email address
      1. Provided Due Diligence Agreement
  - d. Additional Interested Party contacted Mayors office in mid-October
    - i. Exchanging information in advance of possible Due Diligence Agreement
  - e. THA negotiation team finalized October 26, 2011. Kick off meeting November 2, 2011
    - i. Financial – Public Resources Advisory Group (PRAG)
    - ii. Legal - Klehr Harrison Harvey Branzburg (Klehr)
    - iii. Technical/Engineering – Camp Dresser & McKee (CDM)
    - iv. Bid/Auction process and timing to be developed and communicated
2. Include landfill and steam facilities in purchase/lease
3. Include outstanding financial obligations of THA in the sources and uses of funds (i.e. operating expenses and Retrofit Completion Vendors). New law requires THA legal financial obligations to be considered as part of Consent Decree.
4. Consider potential CIT liability in plan. Legality of potential liability is currently in litigation.
5. Negotiate increased revenues and reduced debt as provided in Act 47 Plans in short term
  - a. "Concessions" from Dauphin County and AGM
  - b. Acceptance of LCSWMA excess waste at HRRF in lieu of "Spot market" waste

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## **City and THA to Expand role and responsibility of THA**

### **(Initiatives PW01, PW02, PW03, CIP01, CIP02, CIP03, THA01, THA04)**

1. Transfer Operations and Management of the following facilities/functions from the City to THA (As also envisioned in Public Works Director September 21, 2011 Report):
  - a. Water
  - b. Sewer - Storm, Sanitary and Combined
  - c. Wastewater Conveyance and Treatment
  - d. Sanitation & Recycling
  - e. Street Sweeping
  
2. Modify Initiatives to effectuate the transfer with request of state funds to develop transition plan.

#### **Issues Addressed:**

1. Regulatory / Mandated projects
  - a. Chesapeake Bay TMDL, Combined and Sanitary Sewer Overflows, Municipal Separate Storm Sewer System Regulations, Surface Water Treatment Rules, Disinfection Byproduct Rules, Solid Waste and Recycling Management Acts
  - b. Risk of Violations and associated fines
  
2. Proper operation and maintenance
  - a. EPA Inspection of sewer operations found numerous deficiencies - concluded that the condition of Harrisburg's sewer infrastructure is "deteriorated and dismal"
  - b. Mountain Line and DeHart Dam deterioration and lack of maintenance
  
3. Funding
  - a. Full Cost Pricing
  - b. Use of Enterprise Funds for their intended purpose
  - c. Ability to Borrow:
  - d. Need City Guarantee as Rate Setter for Sewer
    - i. Need Independent Rating without guarantee - improbable with City's involvement. Impending Loss of Moody rating for water despite financial health and management due to :
      1. Lack of Financial Audit due to dependency on City
      2. Perception that THA is controlled by the City and the
      3. City does billing and collection for THA
  - e. Reduction in General Admin Fees vs. Rate Increases
  - f. Budgets for Capital Projects have been zero for too many years
  - g. Consistently reduced staffing

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4. Management
  - a. Financial Audit Completion (2009 and 2010 overdue)
  - b. Open Management Position(s)
  - c. Difficulty recruiting and maintaining qualified staff
  - d. Difficulty working cost effectively within the current City Union contracts
  
5. Capital Improvement Planning and Asset Management
  - a. Transfer of Operations of Water, Sewer (Wastewater, Stormwater and Combined) and Sanitation as contemplated above relieve the burden on the City for the planning and management of these systems, thus providing the City the ability to focus more resources on other core services

## **THA to Work with City to minimize structural deficit (Initiatives THA02, REV16, REV18)**

1. PILOT
  - a. Not a revenue generator from sewer under current scenario as THA revenues originate at the City. Water and RRF are possibilities under current scenario.
  - b. All facilities could contribute under the proposed scenario. The exact amounts can be negotiated
  
2. General Administrative Charges
  - a. Gradual Reduction
  - b. Have been disputed by outlying municipalities
  - c. Must be reduced to pay for necessary projects or raise revenue (rates)
  
3. Sale of Water and/or Sewer Assets
  - a. Water has a high level of debt vs. value
  - b. Sewer has expensive liabilities that likely deter possible purchasers
  - c. DeHart watershed acreage may have value - Include evaluation of possible value of any "excess acreage (However it may not be possible to improve City finances via this mechanism)

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## **SUMMARY**

THA's reputation has been damaged due to its involvement in the financing of Incinerator upgrades that resulted in the significant unsustainable debt obligations contributing to the crippling financial burden facing the City. Unfortunately, it is likely that the only solution to the debt is to sell the associated assets.

One must recognize however, that THA's involvement with the RRF was one of a support role for the City's already failing operations of the facility. Since THA took over the Incinerator, with Covanta as the operator, the facility has greatly improved operations, revenue, reliability, and environmental compliance.

When THA took over it found that sufficient funds and oversight were not allocated to the operation of the asset. As THA has slowly broken away from the past practice of operating under the control of the City, we have recognized that the City has systematically slashed true operating expenses (labor, supplies, etc) in exchange for exceptionally large contributions to the City's General Fund (i.e. using Enterprise Funds paid by customers for a particular service to make up for tax revenues).

Unfortunately, it is becoming more and more apparent that the same philosophy, coupled with an unwillingness to increase user rates, is affecting other City infrastructure, such as storm/sanitary/combined sewers and water transmission and distribution. One must only look to the pattern of infrastructure failure over the last year. The City's own Public Works Director pointed out in his discussion of the Mayor's Act 47 Plan that "the City's management of the systems has been understaffed, underfunded and under-managed with weak administrative and professional support".

THA is in a position to improve the City's infrastructure by operating as an entity with the resources to support proper planning, operations, maintenance, improvements and management. The purpose of a Municipal Authority in Pennsylvania is to not only finance municipal utilities, but to do so as an independent agent ensuring protection of the infrastructure regardless of political pressures that could roadblock necessary expenditures.

While in the short-term, the City will need to make adjustments to facilitate transfer of water, sewer and sanitation management and operations to THA, service to the City and community will greatly improve - helping to maintain Harrisburg as a great place to live, work and play.