

STATEMENT OF  
THA BOARD MEMBER NEIL A. GROVER  
ON A DEBT RESTRUCTURING PROPOSAL

May 26, 2010

The Harrisburg Authority and the City of Harrisburg are struggling to pay their bills. While there are many reasons why this Authority has been unable to make various debt payments, the fact remains that the struggle to overcome defaults has lingered far too long. The City is openly considering Bankruptcy and that fact is directly because of the debts of this institution that they guaranteed.

To address the problem head on, I hereby propose a Restructuring Plan for the consideration by this Board and this community. A Restructuring Plan must be a real attempt to find a complete solution to this correctable financial problem. A Plan that is less than complete will leave mischief for another day.

The restructuring elements and workout concepts here are straightforward:

- There exists roughly \$288 million in Incinerator-related debt.
- The Incinerator also has exposure for roughly another \$30 to \$35 million in other potential obligations and liabilities.
- The Incinerator needs a reserve fund to assure continued uninterrupted services to ratepayers.
- The City's own fiscal issues limit their ability to support the current

guarantees on Authority debts; and

- Significant expenses must be incurred to complete a restructuring deal.

By my calculation, the estimated sum needed from everyone to solve this crisis is roughly \$335 million.

In order to fully address the financial insolvency of the Resource Recovery Facility – to reach a \$335 million solution – I ask the Board to review and recommend a six-part Restructuring Plan that includes the following:

1. That the Bondholders, through Assured Guaranty, contribute – by forgiving and foregoing debt – the sum of \$130 million of the principal owed them. This is the equivalent of taking 50 cents on the dollar. They will be able to write-off or otherwise offset their losses from that transaction, while at the same time removing themselves from this situation and receiving a much accelerated payment of the remaining principal of bond proceeds.
2. That Dauphin County contribute the sum of \$50 million, through solely assuming the \$34 million Bear Sterns obligation and adding another \$16 million to the settlement fund for debt service. This will potentially save the County taxpayers almost \$100 million in principal payments alone, because if they await a City Bankruptcy, the County could be liable and solely able to pay on their full guarantees. The County would be free to issue new

general obligation debt, sell or lease their assets or fund the obligation outright. The manner in which it satisfies the \$50 million commitment would be up to County officials.

3. That the City of Harrisburg contribute the sum of \$50 million to put toward Incinerator debt service payments. The City could satisfy this commitment through its own refinancing, the sale or lease of assets or in whatever manner the Mayor and City Council can agree upon. The taxpayers of Harrisburg would be free of more than \$200 million in current, pending debt guarantees.
4. That The Harrisburg Authority contribute the sum of \$90 million to the repayment of debt service, the creation of appropriate capital and operational reserve funds, a contingency fund and expense payments. The Authority would accomplish this through refinancing its debt over 30 years, if possible, or through the sale or lease of the Resource Recovery Facility. The current fact-based projections of future revenue show such payments over 30 years should be manageable. In the event that the alternate sale or lease option is employed, the use of any excess funds received from a sale or lease would be subject to an agreement of the stakeholders.
5. That Covanta, as the Operator of the Incinerator, contribute – by forgiving

and foregoing debt – the sum of \$7.5 million of construction loan repayments, with the reduced lump sum balance due on their loan being repaid as part of the restructuring.

6. That the outside professional advisors hired by the Authority, the County and the City, including (1) those who facilitated the financial, legal and mechanical entry into or oversight of any aspect of the 2003 Incinerator project, which improperly proceeded without a performance bond and inadequate oversight, and (2) those same or other professional advisors who facilitated the incurrence of unpayable new debt in 2007, all collectively contribute – either through professional liability or E&O insurers, or independently – a combined \$7.5 million toward the repayment of debt obligations.

Those combined contributions would equal the needed \$335 million.

If any group balks at entering a Restructuring Plan, their simply will be no Plan. Bankruptcy will then be the remaining option and through the forced Bankruptcy process, another Plan will emerge. Such a judge-approved Plan can be obtained without the agreement of all the parties in this proposed Plan. In other words, through this proposed Restructuring process, each party's concerns and needs can be considered and addressed. In Bankruptcy, the same concerns and

needs of any given party may be satisfied or may be completely dismissed.

This framework should end the current debt crisis. It can result in no new real estate or income taxes, depending, of course, on the respective decisions of the City and County on how to fund their reduced obligations. Such a Plan should alleviate the significant potential expenses associated with entering a Chapter 9 Bankruptcy or Receivership.

I ask the Board members here to consider the Restructuring Plan, to adopt it and to send it on to the other parties for their respective consideration. I specifically ask that it be put forth directly to:

- Mayor Thompson
- our seven (7) members of City Council and the City Clerk
- our three (3) County Commissioners and the Chief Clerk
- our bondholders and trustees, through the management of Assured Guaranty, who is our Bond insurer
- Covanta, our contracted Operator of this Incinerator project and related facilities; and
- the various professionals who performed work on any aspect of the 2003 project or the 2007 financings.

I do not seek a vote tonight, but I do ask this Board that we proceed together with due haste; that we schedule a special executive session to review the proposed Restructuring Plan; and then hold a Special Meeting to vote on the final outline of our proposed Restructuring Plan. The goal should be for all parties to implement a final agreed Plan by the end of this year. To accomplish that objective, we should proceed now to the bargaining table.

Finally, if the other parties in these matters – or anyone else – has a better workable Plan or solution for the Citizens, Taxpayers, and Ratepayers of Central Pennsylvania, I ask them to put it forward and to do so now. The time to solve this problem is not some other day, but right now. Thank you.