

HARRISBURG STRONG PLAN

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PART ONE GUIDING PRINCIPLES

Harrisburg deserves a bright future. A financially strong pathway to that future and Harrisburg's preeminence as Pennsylvania's iconic capital city lie ahead with the plan that is today being presented for the Commonwealth Court's consideration and confirmation.

While Harrisburg's receivership plan is characterized as a "recovery plan" under the legislation adopted by the Pennsylvania General Assembly, and while that legislation formed the basis for reaching the plan being submitted, it seems more appropriate, as Harrisburg emerges from the financial challenges that it has faced in recent years, to refer to the proposed plan in a more positive and forward-looking manner; hence we chose to call that which is respectfully being submitted for this Court's consideration and confirmation the "Harrisburg Strong Plan."

The Harrisburg Strong Plan, unlike the preliminary recovery plan that had been confirmed by this Court in March 2012 (the "Preliminary Recovery Plan"), provides a comprehensive set of initiatives and funding to allow the City of Harrisburg (the "City") to address the myriad financial challenges that have for many years plagued the City and impeded its growth. The Preliminary Recovery Plan had pointed out the many and serious fiscal challenges faced by the City, and it had suggested, and this Court had confirmed as appropriate, numerous general approaches that would be pursued during the receivership designed to provide the City with near-term protection against its persistent annual budgetary shortfalls (what the Preliminary Recovery Plan referred to as the City's "structural deficit" – the amount by which the City's operating expenses exceed its revenues). The Preliminary Recovery Plan had also suggested various longer term initiatives that, if implemented, could permit Harrisburg to achieve meaningfully increased revenues generated by a thriving city – additional revenues that could provide the basis for the City's sustainable financial independence. Furthermore, the Preliminary Recovery Plan put forth guiding principles that the governor appointed receiver for the City (the "Receiver") would follow in an effort to address the very significant obligations arising from the City's ill-fated financial undertakings associated with its incinerator. In that regard, the Receiver's goal was to implement a comprehensive plan that would, once and for all, resolve those obligations, thus permitting Harrisburg to prosper free of the historic uncertainties regarding the City's obligations for incinerator-related debt – uncertainties that for much too long have dampened investment in the City and frustrated its growth.

The Harrisburg Strong Plan, it is submitted, accomplishes these previously announced goals. Importantly, while the Preliminary Recovery Plan was aspirational and could only be accomplished if all meaningfully affected and interested parties were to reach agreement, though under no legal obligation to do so, the Harrisburg Strong Plan can be implemented because virtually all materially affected parties have in fact agreed to the Strong Plan's terms. Stated differently, what the Receiver asks this Court to confirm is a plan that can and will be put in place if the financial transactions that are to fund the Strong Plan can be consummated without interference.

As the public evaluates the Harrisburg Strong Plan, the Receiver asks everyone to understand that achieving a consensual resolution has been challenging and has required material compromises by all interested constituencies. Moreover, making a plan workable has required more than well intended solutions; it has necessitated that parties not insist on receiving the full benefit of their legal or contractual rights. Providing meaningful solutions for one set of interests necessarily means that others need to agree to some accommodations; and this has been true for all the significant parties or interests that have come together to forge a workable resolution for Harrisburg's future.

The Strong Plan, if anything, illustrates how cooperation and leadership in a challenging environment can lead to workable solutions. Necessary to achieving the Harrisburg Strong Plan has been the commitment of all the parties to look at the positives that are being offered to them by their agreement to the Strong Plan rather than evaluating the Strong Plan by focusing on aspects of it that are not ideal or fail to satisfy each of their goals. Such is the nature of compromise. And by their willingness to work towards a plan from the perspective of what it affords me and my constituency, and not from what it does not, civic, community and governmental leaders, as well as creditor interests, have come together to achieve a resolution that as recently as this year many thought not possible. So, if the Strong Plan is confirmed and Harrisburg emerges from its challenging days, it is hoped that in the eyes of those looking for a template for solving persistent municipal distress, Harrisburg will be seen as a beacon – showing that a consensual path is much preferable to attempting a resolution in a dispute-laden environment that inherently brings with it protracted delays, substantial costs and uncertain results.

Before highlighting the significant components of the Harrisburg Strong Plan, a general cautionary comment should be made. No plan, no matter how comprehensive, can take the place of the dedicated and diligent services by public officials and other civic leaders that will have to perform their work with a focused commitment to implementing the Strong Plan and achieving its goals. For all who seek sustained growth for Harrisburg, please understand that the Strong Plan does not guarantee that Harrisburg will be financially vibrant and self-sufficient no matter how much positive effort to invest effectively the Strong Plan's resources are made; rather, the Strong Plan offers a significant opportunity to achieve financial independence and a vital future only if motivated elected and appointed leaders are allowed to do their jobs without compromising on the Strong Plan's mandate that spending be kept in check, during the four-year Strong Plan period, and beyond.

PART TWO
A SUMMARY OF THE BENEFITS THAT THE CITY AND ITS RESIDENTS ARE
EXPECTED TO RECEIVE UNDER THE HARRISBURG STRONG PLAN

While the detailed components of the Strong Plan will be extensively described below, it seems appropriate to first highlight the central elements of the Strong Plan that are most meaningful to the City of Harrisburg and its residents. In that respect, the public should understand that the Receiver's primary responsibility pursuant to the

Municipalities Financial Recovery Act of July 10, 1987, P.L. 246, (*as amended*), 53 P.S. § 11701.101, *et seq.* ("Act 47") mandate was to develop a plan that could remedy the City's persistent financial challenges. While it was incumbent on the Receiver to balance that primary goal against the separate need to be as fair as possible to the City's creditors and employees, the Receiver's motivation was to assure the City a solid and realistic opportunity to put its financial problems behind it and to achieve the goal of fiscal self-sufficiency best assured through economic growth. Hopefully, the populace will see the Harrisburg Strong Plan as significantly fostering the City's ability to reach that goal.

What then are the key components of the Harrisburg Strong Plan?

- A balanced budget in 2013.
- The expectation of three additional balanced budget years, i.e., through 2016 -- the "Harrisburg Strong Plan Period" --- where in each year the City can be comfortable that it will have sufficient revenues to meet all of its required operating expenses.
- A comprehensive resolution to the City's historic incinerator-related financial obligation; going forward the City will have no responsibility in the future to pay for any of the hundreds of millions of dollars of liabilities for incinerator-related debts – debts that have increased enormously since 2000 and fundamentally plagued the City and deterred investment in the City's revitalization.
- Ridding the City of its incinerator debt problems without requiring any increase in the real estate property tax rate currently imposed on the City's property owners.
- \$5.0 Million to serve as "working capital" and to pay down high levels of City payables owed to providers of goods and services. In addition to needed funds to be provided this year to address the City's anticipated operating shortfall, this additional \$5.0 Million will assure the City that it will have funds on hand to operate in a normalized fashion at all times in its fiscal year, something that in recent years the City has been unable to achieve because of its tight financial circumstances.
- The funding of up to \$10 Million to be made available over the next several years to foster meaningful economic development and investment within the City -- development designed to make the City once again vibrant and expand the City's revenues through new sources of tax revenues paid by successful new or expanded businesses or by individuals investing in housing and improvements within the City.
- The funding of up to an additional \$10 Million to be infused over the next several years for repairing, upgrading or building new City infrastructure,

with those investments meaningfully geared to improving the City's life quality which, too, can spearhead further investment in the City by businesses and the resident population.

- The Strong Plan contemplates the formulation of a task force to undertake decision making regarding the deployment of these economic and infrastructure development funds, with task force membership to be drawn in part from a diverse group of public officials, or their selected representatives, as well as from members chosen from leaders of civic, business, academic and community groups that are part of Harrisburg's future. It is anticipated that the teamwork that can be fostered through collaborative investment decisions designed to improve the City's economy should alone send signals to the investing public that Harrisburg is on the move, meaningfully fostered by cooperation and inclusiveness over investment decisions – hallmarks of a sophisticated, modern and growing City.
- The creation and funding of a trust fund to begin to address unfunded public employees post-retirement health care costs for active and retired city workers (often referred to as "Others Post-Employment Benefits" or "OPEB"), and the funding of the trust with up to \$6.0 Million as the first important step to a disciplined approach, manifested by a legislative commitment of the City, to address this significant municipal obligation. The vast majority of cities across the United States have not begun to deal with this problem; but Harrisburg can and should be a leader in doing so, and by following through on this initiative, it can better assure a financially stable and strong City.
- A meaningful reduction of City labor costs, through the cooperation of Harrisburg's public unions, and their agreement to material modifications to their labor contracts through 2016.
- A reworking of the City's obligations owed to the bondholders and creditors who have funded the City's general operations – i.e., the "general obligation" debts as opposed to incinerator-related obligations. These modifications to the indebtedness incurred as part of the City's normal operations will allow the indebtedness to be repaid over a longer period which the City can afford. By working cooperatively to restructure these obligations, Harrisburg will be in a good position in the future, and more promptly than otherwise might have been thought possible, to have reasonable access, on favorable terms, to the credit markets for the normal types of financing for capital improvement needs that cities like Harrisburg require from time to time.
- As soon as possible, the return of the City's control over its financial future to its elected officials, thus bringing the receivership to a conclusion.

PART THREE

A ROAD MAP TO THE PRESENTATION OF THE STRONG PLAN'S COMPONENTS

The components of the Harrisburg Strong Plan will be described in the following Parts:

Part Four of the Strong Plan will provide a description of the two key transactions – the sale of the incinerator and the monetization of the City's parking assets – the proceeds from which are to provide the sources for funding the Strong Plan distributions to be received by the City or to be used to pay the creditors on terms to which each meaningful creditor has agreed. The Strong Plan will describe the key components of each transaction, and the estimated proceeds to be realized from each transaction. Part Four will conclude with a brief description of the on-going efforts related to the City's waste and sewer systems, which are not part of financial consensual agreement with the creditors but are critically important to Harrisburg's future

In **Part Five**, the Strong Plan will present a summary of the sources and uses of City revenues that should provide for a stable budget for the City through the mandated four-year recovery period through the end of 2016. After describing the estimated revenues and expenses that would be anticipated in the absence of the funding that is to be made possible under the proposed Harrisburg Strong Plan, this Part will highlight the adjusted budgets through 2016 based on the Strong Plan, including the portions of the transaction proceeds that are to be distributed to the City during the Harrisburg Strong Plan Period. Each meaningful component of the sources and uses of funds contemplated by the Strong Plan to be relied upon or distributed to the City will be explained, such that all of the assumptions leading to the City's balanced budget and to the fundings to spur economic development, improve the City's infrastructure and create the initial capitalization of the OPEB trust fund will be explained. Referenced and discussed extensively in **Part Five**, and otherwise referenced throughout the presentation of the Strong Plan, is a comprehensive one page snapshot of most of the key components of the Strong Plan that are designed to directly benefit the City. This one page snapshot is attached hereto as **Addendum 1** and will be referred to herein as the Strong Plan's "Financial Snapshot."

In **Part Six**, the Strong Plan will set forth the distributions to be made to the City's creditors upon the Strong Plan's consummation and the material terms of the agreements between the Receiver and each creditor to resolve those creditor claims. To the extent any creditors are to receive payments in respect to obligations not fully satisfied at the time of the Strong Plan's consummation from proceeds of the parking transaction, those future payments will also be described. Furthermore, if payments are to be made to creditors during the Harrisburg Strong Plan Period or beyond from the primary fund of the City that captures all revenues and liabilities of the City that are not assigned to a special purpose fund, known as the "General Fund", the Strong Plan will likewise demonstrate how those payments are to be addressed with funds drawn from the City's annually budgeted revenues.

In **Part Seven**, the Strong Plan will describe in general terms the principles that are to govern the use of proceeds allocated to not-for-profit economic development and infrastructure improvement corporations and a health care trust fund. In addition, this Part will set forth the process by which the task force that is to oversee the funds is to be selected and describe how, pursuant to the guiding principles contained in the Strong Plan, the governance and operating policies and procedures and strategic action plan for each of the not-for-profit corporations and the healthcare trust fund will be established.

In **Part Eight**, the Plan will describe the conditions to the Plan's implementation that will need to be satisfied for the Plan's consummation to occur. In that Part, reference will also be made to supplemental filings and anticipated approvals of documents and agreements between parties which, while they will contain further details, will be entirely consistent with the Strong Plan.

In **Part Nine**, the Strong Plan will describe how in the Preliminary Recovery Plan, reference was made to the prospect that the Receiver would pursue efforts to negotiate the resolution of civil claims held by the City or any of its authorities that arose out of one or more incinerator-related financings that occurred in 2003 or thereafter (hereinafter the "Incinerator Claims"). When the Preliminary Recovery Plan was submitted, the prospects for recovery on any such Incinerator Claims and the timing of them were uncertain; and they remain so because the Receiver's focus to date has been to address the vast number of complex issues that required resolution for the Strong Plan to be negotiated and achieved. Once the Strong Plan is consummated, the Receiver intends to actively pursue Incinerator Claims. It is currently unknown whether the Receiver will be successful in efforts to recover sums in respect to the Incinerator Claims. For this reason, proceeds from Incinerator Claims were not relied upon as a source to fund the Harrisburg Strong Plan. Nonetheless, if Incinerator Claim recoveries were to occur, they could benefit additionally the City and its revitalization, and in Part Nine, the Plan will discuss the pursuit of such Incinerator Claims, and how the potential recoveries thereon could further support the City's growth and financial strength.

In **Part Ten**, the Strong Plan will contain a comprehensive summary of various operational efficiencies and other operational accomplishments that have been achieved to date pursuant to the Preliminary Recovery Plan, and which are in addition to the significant components otherwise discussed in the Strong Plan. Part Ten also presents information relative to the City's operating budget and revenues and discusses the collaborative efforts that will continue during the implementation of the Strong Plan to best assure the operational objectives of the Strong Plan. Finally, this Part of the Strong Plan sets forth various specific operational initiatives that are to be, or should be, implemented over the coming years. The specific details of Part Ten are set forth in the Operational Initiatives and Progress Report component of the Strong Plan, attached hereto as **Addendum 3**.

In **Part Eleven**, the Strong Plan will conclude with a brief discussion regarding the implementation of the Strong Plan, and this Court's retained jurisdiction with respect to the Strong Plan to, among other things, address any disputes that might arise.

PART FOUR FUNDING OF THE PLAN WITH PROCEEDS OF THE INCINERATOR AND PARKING TRANSACTIONS.

A. Introduction.

In this Part, we will provide a description of the sale of the Incinerator (hereinafter defined) and the monetization of the City's parking assets. The Proceeds from these transactions will provide the sources for funding the retirement of debt, distributions that will be received by the City, and distributions to the creditors pursuant to the Harrisburg Strong Plan. This Part will conclude with a brief description of the on-going efforts related to the City's water and sewer systems. The water and sewer systems, which were discussed in the Preliminary Recovery Plan, are not part of financial consensual agreement with the creditors but are critically important to Harrisburg's future.

Throughout the receivership, the Receiver has focused on maximizing the value of the assets in order to create the broadest opportunities possible to address both the long-term debt and the structural deficit of the City. As will be described in more detail below, the process started with finding the highest and best proposal for each of the assets and then working with the successful party and other third parties to enhance the value of the transaction. In short, the Receiver has explored many ways to increase the value of the assets with the aim of resolving the City's fiscal distress and the below descriptions summarize the net result of an extensive request for proposal ("RFP") process and the subsequent negotiations.

The pricing of bonds being used to fund the two transactions described in this Part Four has not yet occurred. Thus, the exact amount of funds from those transactions, which are necessary to the successful consummation of this Strong Plan, are not yet known, and are tied closely to the prevailing interest rates in the municipal bond market. Fluctuations in the municipal bond market have direct and immediate effect on the Incinerator transaction and the Parking Transaction (hereinafter defined), which effect can either be positive or negative and, if negative, could impact the ability to successfully consummate the Strong Plan.

On June 19, 2013 Federal Reserve Chairman Ben Bernanke spoke about the Federal Reserve's intention to phase out its quantitative easing efforts and those statements combined with other market conditions that had shortly before caused interest rates to increase, accelerated a rapid rise in interest rates in the municipal bond market. The rapid rise in interest rates, the continued uncertainty about whether or when the Federal Reserve might phase out its quantitative easing, as well as other market conditions, currently combine to create uncertainty and create the risk of further volatility in the municipal bond market. The rapid rise that was experienced in June, which has not abated, negatively impacted the amount available to fund the Strong Plan. The Receiver and the City's significant creditors, nonetheless have been working cooperatively to address the challenges created by the rise in rates and are and will continue to develop the possible means and mechanisms that best assure that the

proceeds to be obtained from the Incinerator and Parking Transaction are sufficient to satisfy the financial condition to the consummation of the Strong Plan.

B. Fair, Open and Competitive Process.

In the Preliminary Recovery Plan, the then-Receiver informed this Court that he would need to have a much better understanding of the actual value of the assets prior to negotiating with creditors and addressing the City's structural deficit. In order to ascertain that baseline value, the Receiver developed a process to solicit, receive and evaluate proposals that focused on the following key principles:

Fairness and Openness.

No one party has a monopoly on good ideas; no party should be favored for any reasons other than its ability to help the Receiver to develop solutions to the City's financial problems.

Confidentiality.

The Receiver desired proposers to deliver their most creative and best ideas including those viewed as proprietary to the proposer.

Competition.

In order to drive value up to the highest possible level, as much competition as possible was desired.

Long-term commitment to the City.

The Receiver was looking for a good fit for the City and the region with respect to both the Incinerator and the parking transactions.

The Receiver developed an extensive process to achieve the above goals. The Receiver issued Requests for Qualification in February 2012 and provided a systematic process by which potentially interested parties could obtain information. The Receiver established a unique three-member screening and evaluations team for each of the assets. The screening and evaluations teams were populated by individuals who brought industry expertise and were interested in the good of the public welfare so that they could provide the Receiver with independent advice, analysis and recommendations. The screening and evaluations teams provided input pursuant to established criteria, procedures, and protocols and, as described in more specificity below with respect to each asset, that process resulted in a counter-party being selected for each of the transactions. Final negotiations with those selected counter-parties, which included exploring additional enhancements of the transaction price, resulted in the two transactions described in Part Four, Sections C and D below.

C. The Resource Recovery Facility ("Incinerator").

1. Introduction.

The Incinerator is an 800-ton per day, three unit, mass burn, waste-to-energy facility. It is located on a 59.5 acre tract of land owned by The Harrisburg Authority ("THA") located within the City. Municipal waste from the City and surrounding areas, including waste Dauphin County is committed to provide to the Incinerator under its current County Solid Waste Management Plan, is transported to the Incinerator by haulers. The incineration process generates electricity and ash. The electricity is sold and the ash is disposed of on site or is transported for disposal to a landfill. The revenues of the Incinerator are primarily comprised of tipping fees (which are amounts paid by haulers to dispose of their waste and constitute approximately 76% of the revenues) and electricity sales (which constitute approximately 21% of the revenues). To a lesser extent, revenues are also generated by sales of ferrous metals and other fees. Although the Incinerator has been plagued by operating challenges in the past, it is functioning properly at this time, but the revenues generated only slightly exceed the operating expenses. Therefore, the Incinerator cannot afford to pay the debt service related to it. Standing alone, estimates are that the Incinerator is approximately 800% to 900% over-leveraged.

When the debt-service obligations are included, the Incinerator loses money every day. The Incinerator is a liability of the City, not an asset. Thus, the goal from the outset has been to extract the maximum amount in a transaction and use the proceeds to reduce the indebtedness to the greatest extent possible.

2. Selection of Lancaster County Solid Waste Management Authority.

In order to receive the best price possible, a request for qualifications was issued in February 2012 and, in addition to posting on applicable websites, the Receiver actively contacted potentially interested parties, provided access to information and established a process by which questions could be answered. The Receiver received five statements from potential counterparties and the screening and evaluations team recommended that the Receiver deem four to be qualified, which recommendation was accepted. After site visits and additional information, three selected interested parties submitted bids which were then evaluated by the screening and evaluations team. After input from the screening and evaluations team, the Receiver notified one party that it did not qualify to continue and requested additional information from the remaining two bidders so that the detailed assumptions behind each bid could be understood and analyzed. The Receiver directed in-person meetings with the remaining two bidders, and, subsequently, the screening and evaluations team recommended that the Lancaster County Solid Waste Management Authority ("LCSWMA") be selected for final negotiations. After consultation with the Board of THA, the Receiver accepted the recommendation of the screening and evaluations team and entered into exclusive negotiations with LCSWMA, which resulted in the proposed transaction described below.

3. Agreement as to the Terms of the Transfer.

After LCSWMA was selected, the Receiver, THA and LCSWMA negotiated a term sheet for the transaction based on the terms outlined in LCSWMA's proposal. Assured Guaranty Municipal Corp. ("Assured Guaranty") or ("AGM") and Dauphin County ("County"), the secured creditors of the Incinerator, were briefed and submitted a joint letter requesting changes to the term sheet. Negotiations among the parties continued and agreement was ultimately reached. The agreed-upon terms are reflected in an Asset Purchase Agreement (the "Incinerator Asset Purchase Agreement"), pursuant to which the Incinerator will be sold by THA to LCSWMA. The Incinerator Asset Purchase Agreement is included as **Exhibit 1** in the book of exhibits in support of the Strong Plan that is being filed contemporaneously herewith (the "Strong Plan Exhibit Book"). The Exhibits contained in the Strong Plan Exhibit Book are hereby incorporated by reference in their entirety and are hereby submitted to the Court for consideration and approval as part of the Harrisburg Strong Plan.

While the Incinerator Asset Purchase Agreement has been agreed to among the parties to it, and is expected to be approved by the boards of the parties prior to the hearing of this Court on confirmation of the Strong Plan, there remains one component of the purchase price for the Incinerator that fluctuates because the purchase price is based in part on the cost of borrowing. If tax-exempt interest rates rise, proceeds will be reduced. If tax-exempt interest rates decline, proceeds will be increased. A methodology for adjusting the purchase price based upon a sizing model and pricing model has been agreed to by the parties and is included within the Incinerator Asset Purchase Agreement. This methodology will be utilized to set the final purchase price on the date the tax-exempt bonds are sold to the capital markets. Based on market conditions that exist as of the filing of the Strong Plan, the purchase price is expected to be in the range of \$126 Million to \$132 Million. The price paid by LCSWMA could also be reduced if the assets of the Incinerator are materially diminished or there is a catastrophic event, but these latter events are believed to be unlikely. Part Six, Section C of the Strong Plan addresses how any increase or decrease in the estimated purchase price will affect the closing of the Incinerator Asset Purchase Agreement and the consummation of the Strong Plan.

In addition to the price for the Incinerator, the Incinerator Asset Purchase Agreement contains the other material terms and conditions pursuant to which the assets will be transferred from THA to LCSWMA and provides for the rights and obligations of THA and LCSWMA. In addition, the Incinerator Asset Purchase Agreement contains certain conditions precedent to the closing of the sale to and purchase by LCSWMA. Among those conditions are requirements that Dauphin County and LCSWMA establish the terms of their going-forward relationship. In order to do so, the County is filing with the Department of Environmental Protection a "Waste Management Plan Revision" which delegates to LCSWMA all the County's duties and powers under Act 101 with respect to the disposal and processing of all regulated municipal waste generated within Dauphin County, except certain waste from construction and demolition activity and responsibility for the operation of the County's Recycling program, pursuant to a delegation agreement between the County and

LCSWMA. In addition, prior to the closing of the sale of the Incinerator, the County and LCSWMA will enter into a 20-year cooperation agreement under which LCSWMA will agree to certain maximum per ton disposal fees and the County will ensure certain minimum revenues of the resource recovery facility. All of these documents have been negotiated and are in near final form and, along with the enabling ordinances, are expected to be approved in the coming weeks.

In addition, a condition of LCSWMA's obligation to complete the transaction is that a Waste Disposal Agreement (the "Waste Disposal Agreement") be entered into which will set forth the terms of the City's relationship with LCSWMA, including tipping fees, host fees, and minimum and bonus thresholds for delivered tonnage. The mechanism by which the parties will do so is that the City will restate the City's current waste disposal agreement with THA upon its assignment from THA to LCSWMA at the closing of the transaction. The Waste Disposal Agreement that will be entered into between the City and LCSWMA is included as **Exhibit 2** to the Strong Plan Exhibit Book and incorporated herein by reference.

It is anticipated that City Council of the City of Harrisburg (the "City Council") will adopt a resolution approving THA's transfer of the Incinerator through the Incinerator Asset Purchase Agreement and agreeing to amend and restate its current long term Waste Disposal Agreement. The resolution will be filed with this Court upon its approval.

4. Additional Value.

As noted above, LCSWMA, which is a strategic buyer with access to low cost tax-exempt debt and a nearby incinerator of its own, had the highest bid for the Incinerator. The Receiver sought out enhancements in order to maximize the amount available so that the parties would be in a position to arrive at a consensual resolution. By way of illustration, we highlight two of the enhancements here.

(a) RACP Grant.

A Redevelopment Assistance Capital Program ("RACP") grant of \$8.0 Million to benefit the Incinerator was authorized by the 2011 Capital Budget Act and initially was intended to be used for, among other things, improvement of the steam lines at the facility. Through efforts of the Receiver and the Department of Community and Economic Development, the RACP grant will be available to pay for other much needed improvements to the Incinerator and will be transferred from THA to LCSWMA as a condition of the closing of the Incinerator transaction. In addition, LCSWMA will be able to access approximately \$8.0 Million maintained under the THA trust indenture related to the THA Incinerator bonds as a match to the grant. The combination of these amounts will result in at least \$16 Million of improvements that are expected to be made during the next several years as well as a \$16 Million increase in the purchase price for the Incinerator. To assist in the RACP grant process, pursuant to a RACP Cooperation Agreement (expected to be executed on September 11, 2013) (the "RACP Cooperation Agreement"), Dauphin County will be the Applicant and Grantee for the RACP Grant,

and LCSWMA will be the sub-Applicant and sub-Grantee. The RACP Cooperation Agreement is in substantially final form. LCSWMA has prepared the grant application and associated business plan and it has been filed with the Commonwealth's Office of the Budget.

(b) Power Purchase Agreement with Department of General Services.

THA currently sells the electricity generated by the Incinerator into the spot market or procures short-term contracts if more economically beneficial. The ability to lock into a long-term contract with a state or municipal purchaser of the electricity generated by the Incinerator has significant value and increases the price LCSWMA is willing to pay by a material amount. There are two reasons for this. First, the laws and regulations relating to issuing tax-exempt bonds do not permit a municipal authority to issue tax-exempt bonds for electricity output, unless it is sold to a state or local government. Second, if LCSWMA were to take price risk for sale of electricity over the next 20 years, it would be forced to take a conservative view and use current rates (just over \$.04 per Kwh) to project revenue from electricity sales and set the purchase price accordingly. On the other hand, because current rates are historically low, it is advantageous to a purchaser of electricity to lock into a long-term contract with some predictable and affordable growth assumptions for rates.

Taking advantage of these realities, the Receiver, THA and LCSWMA have worked with Pennsylvania's Department of General Services to develop a win-win arrangement. LCSWMA will sell the steam output of the Incinerator to the Borough of Columbia, which will lease the Incinerator turbine from LCSWMA and sell the electric output to the Commonwealth of Pennsylvania (the "Commonwealth"). In turn, pursuant to the Intergovernmental Power Purchase and Sale Agreement (the "Power Purchase Agreement"), the Commonwealth agrees to take substantially all of the output from the Incinerator at prices that are fixed for the next 20 years, and also to purchase electricity capacity from the Incinerator. The arrangement enables the Commonwealth to lock in to an affordable, predictable cost for electricity and hedges against electricity price volatility or sharp spikes in prices. LCSWMA through this arrangement is able to issue tax-exempt bonds to fund the purchase price (which reduces the interest costs and thereby increases the upfront price they are willing to pay). LCSWMA can also monetize this payment stream at a significantly higher yield to the purchase price than that which would have been paid had LCSWMA had to assume the risk of future fluctuations in electricity pricing. The material terms of the Power Purchase Agreement include: A term of 20 years; range of prices per kWh are \$.04022 in the first year to \$.07169 in the 20th year; capacity charges are based upon agreed upon projections. To further protect the Commonwealth, the Power Purchase Agreement provides for certain "clawback" provisions if the kWh price under the contract exceeds the then market rate. This arrangement helps all parties to manage or reduce risk while increasing the value made available to the Strong Plan.

The execution and approval of an electric plant agreement between LCSWMA and the Borough of Columbia (expected to be approved by the Borough of

Columbia on September 9, 2013 and by LCSWMA on August 29, 2013) is one of the conditions of LCSWMA's obligation to close the transaction. The execution of the Power Purchase Agreement between the Borough of Columbia and the Commonwealth is also one of the conditions of LCSWMA's obligation to close the transaction. The Power Purchase Agreement is expected to be executed by the Borough of Columbia on September 9, 2013 and by the Commonwealth in September, 2013).

D. The Parking Transaction.

A transaction involving the City's and the Harrisburg Parking Authority's parking facilities (as further described below, the "Parking Transaction") includes a tax-exempt bond financing which provides current proceeds and includes future payments to meet the needs of the City in four ways – (1) by increasing the amount of annual parking tax revenue that had been available to the City's General Fund to 20% of the aggregate off-street parking revenue (as described in Part Four, Section D.4(d)(i) below); (2) by providing for enhanced annual cash payments from the operation of the Parking System (as described in Part Four, Section D.4(d)(ii) below); (3) by providing a lump sum of cash to the City at the closing of the Parking Transaction from the up-front portion of the transaction price (as described in Part Four, Section D.5 below); and (4) by providing that a portion of future surplus revenue from the Parking Transaction will be available to the City, (as described in Part Four, Section D.4(d)(iii) below).

1. Introduction; Parking Operating Revenues Before the Proposed Parking Transaction.

The Harrisburg Parking Authority ("HPA") and the City own and operate 10 public parking garages and five public parking lots, with approximately 9100 parking spaces. It is currently expected that nine of the public parking garages and four of the public parking lots will be included in the Parking Transaction (the "On-Street Parking Assets"). The City has approximately 1250 on-street parking meters in the Central Business District and adjacent areas. The revenues from these facilities are pledged to secure approximately \$106 Million of outstanding tax-exempt bonds issued by HPA. Payments by the HPA to the City of net parking revenues from the operation of the parking facilities and parking meters in the past were meaningful, but in recent years, for a variety of reasons, have been significantly less than in prior years. Moreover, the amount received in the past several years has been significantly less than was budgeted by the City. Specifically, payments have declined from historic highs of \$4.0-\$5.0 Million in 2005 and 2008 to approximately \$250,000 in 2012, with a similar amount expected in 2013. The significant declines in net revenues resulted from increased capital and maintenance expenses, increased bond debt service (including bonds used to fund City operating expenses in 2010 through an expensive long-term working capital bond issue), and unpaid amounts due from Harrisburg University with respect to the Harrisburg University garage. In addition, while parking tax revenues increased significantly in 2012 due to an increase in the parking tax rate to 20%, only about \$1.9 Million of the \$3.3 Million in parking tax revenue in 2012 was ultimately available to the City's General Fund. The remaining \$1.4 Million was used to supplement debt service on the 2010 Series U Bonds issued to raise cash for the City

and used to cover certain payments not received from Harrisburg University with respect to the 2007 Series R Bonds issued to finance the acquisition of the Harrisburg University garage.

2. Proposals for the Parking Monetization and Selection of Harrisburg First.

The Receiver issued a Request for Qualifications Related to the Assets of the Harrisburg Parking Authority (the "Parking RFQ") on February 10, 2012. Fourteen statements of qualification were received by the March 12, 2012 deadline. The Receiver established a three member screening and evaluations team to review the statements of qualification and report its recommendations to the Receiver as to which interested parties should be deemed qualified to submit proposals. The screening and evaluations team recommended, and the Receiver agreed, that 12 of the proposers were qualified to participate in the second phase of the selection process. Of those 12, nine teams actually submitted a term sheet and proposal by the deadline. The nine proposals fell primarily into two categories, the "concession model" and the "tax-exempt bond financing model." A number of the proposals included variations on these models.

The historical "concession model" provides a one-time upfront cash payment in return for giving "ownership" (usually in the form of a long-term lease) of the assets to a private party for a 50-75 year period in a transaction with a taxable capital structure. This structure is comprised of private equity and taxable debt. In return, the private party provides state-of-the-art technology and management of operations and assumes the cost and risk of capital expenditures. The private taxable financing structures have a higher cost of capital associated with them in return for the private investors assuming these risks. In addition, the private investors may benefit from the potential of the long-term operating income enhanced by the lower operating costs and advanced techniques for revenue optimization. The municipality's income during the concession term is typically limited to parking tax revenues and real property taxes. This structure has sometimes been criticized as a "give-away" of public assets at too low a price. Some of the concession model proposals included sharing a portion of the upside of the operating income to permit the City some of the benefit from the ultimate performance of the Parking System; however, this approach would have resulted in reduced up-front proceeds.

The historical "tax-exempt bond financing model" provides a lower available cost of capital by taking advantage of tax-exempt interest rates (assuming an investment grade credit rating for the bond issue). Under this model, the operating risk and the residual long-term operating income potential would be retained by the City. The City would retain the cost and risk of capital expenditures and operating income and long-term value could be limited by the absence of state of the art technology and operations management. Several of the proposals provided a variation of this model to include a coupling of private management and in certain cases, some level of private at-risk capital.

The screening and evaluations team and the Receiver's advisors engaged in an extensive evaluation and dialogue process with the proposers, including requests for additional information and submissions. Aware of the criticisms and pitfalls surrounding a prior proposal to monetize Harrisburg's parking assets as well as those surrounding several concession model parking transactions around the Country, the Receiver and screening and evaluations team worked to avoid many of the problems identified with those transactions. Due to the impact of the City's financial distress on the projected costs of private debt financing for the transaction and the need for returns on investment generally in excess of 11%, the projected proceeds from the concession model proposals were substantially lower than was previously thought and lower than those from several responsive and responsible tax-exempt bond financing proposals.

The screening and evaluations team and the Receiver's advisors favored the tax-exempt bond financing model with private management and some private at-risk capital due to the significantly higher up-front proceeds of the proposals and the opportunity for significantly higher continuing payments over time. In addition, this model provided for the possibility of minimizing the risk of closing because a subordinated unrated portion of the debt could be held by the participating financial institutions. The evaluation and review resulted in the recommendation by the screening and evaluations team and the determination by the Receiver on October 15, 2012, to select the "Harrisburg First" consortium as the finalist counterparty for the Parking Transaction. The Harrisburg First team is comprised of the individual firms Guggenheim Securities LLC, an affiliate of Guggenheim Partners ("Guggenheim"), Piper Jaffray & Co. ("Piper"), AEW Capital Management, L.P. ("AEW") and Standard Parking Corporation's subsidiary Standard Parking SP Plus Municipal Services ("Standard").

3. Increasing the Value of the Parking Transaction.

The Receiver was concerned that the projected proceeds from the proposals would still not be sufficient to achieve a consensual resolution with the City's creditors. Consequently, the Receiver worked over time to find ways to increase materially the value of the Parking Transaction. These efforts involve a number of different elements, with the two most significant being negotiating a long-term contract with the Commonwealth for the lease of a significant number of parking spaces and negotiating with Dauphin County and AGM for them to provide credit enhancement for a portion of the contemplated bond issue.

(a) Lease of Parking Spaces by the Commonwealth.

The Department of General Services of the Commonwealth ("DGS") has an existing parking contract covering 1500 spaces that expires in 2016. In addition, several other parking contracts with Commonwealth agencies or instrumentalities were identified by DGS and discussions began about a long-term contract consolidating the existing contracts and covering a significantly expanded number of spaces. The potential arrangement offered the Commonwealth stable and affordable parking with predictable pricing over a long-term period and it offered the

Parking Transaction a large predictable income stream backed by a credit-worthy entity, the Commonwealth. The long-term lease with DGS (the "Commonwealth Lease") is now expected to include more than 4,500 parkers. Initial monthly rates are expected to be \$140 per space per month, and after variable increases over the first four years, the price per space will increase by approximately 3% per year over the remainder of the term. DGS has been very helpful and cooperative in working out the proposed contract and will in turn benefit from a more cost-efficient and stable long-term pricing model and increased efficiency through the use of technology and data to maximize the utilization of Parking Assets. All or substantially all of the parking garages and parking lots owned and/or operated by the Harrisburg Parking Authority, and approximately 1250 metered parking spaces operated by the City, together with related contracts and personal property, will be transferred as part of the Parking Transaction. The Parking Transaction will benefit from significantly higher proceeds based on the lower interest cost of the portion of the parking revenue bonds that will be secured by the Commonwealth Lease. This win-win arrangement is one of the key elements of generating sufficient value from the Parking Transaction to make a consensual settlement with the City's creditors possible.

(b) Credit Enhancements.

The other material driver of increased value for the Parking Transaction are credit enhancement by Dauphin County and AGM of a portion of the bonds to be issued. Such credit enhancements will materially lower the interest cost on the enhanced bonds. In addition to credit enhancement on the bonds, AGM may provide a surety bond to replace or reduce the debt service reserve fund. The surety bond would be substituted for the bond proceeds that would otherwise have to be used to fund the debt service reserve fund, further increasing the available proceeds.

4. Structure of the Parking Transaction.

The Parking Transaction is being structured to minimize the interest cost and maximize the up-front proceeds, while maintaining a reasonable level of projected cash flows as debt service coverage and to provide future payments to the City for its fiscal needs and settlement of creditors' claims. The details of the Parking Transaction are provided in the Summary of Proposed Terms (the "Term Sheet"), which is attached hereto as **Exhibit 3** to the Strong Plan Exhibit Book and hereby incorporated into the Strong Plan.

In this Part Four, Section D.4 and the following Part Four, Section D.5, we will highlight what the Receiver considers the most salient aspects of the Parking Transaction. In this Part Four, Section D.4, we will discuss (a) the role of the Pennsylvania Economic Development Financing Authority ("PEDFA") in acquiring a leasehold interest in the parking assets; (b) the day to day operations of the Parking System and the roles of AEW and Standard; (c) the mechanism for monitoring, rate-setting and providing feedback regarding the operations of the Parking Transaction; and (d) the benefits to the City derived from the Parking Transaction and the distribution of

annual proceeds from operations. Part Four, Section D.5 will then conclude with the details of the bond issuance and the use of those proceeds.

(a) PEDFA's Role in the Parking Transaction.

The structure of the Parking Transaction with PEDFA is expected to qualify the parking revenue bonds to be issued by PEDFA (the "PEDFA Bonds") as tax-exempt bonds for federal income tax purposes, resulting in lower interest rates and higher proceeds, an absolutely essential element to producing enough proceeds from the transaction and payments over time to achieve a consensual settlement with the City's creditors. The Parking Transaction will involve a transfer of Parking Assets from HPA to PEDFA pursuant to an "Asset Transfer Agreement" and through a lease of the parking garages and lots and a ground lease of the underlying land, all under a 40-year lease (the "Lease") subject to extension until the PEDFA Bonds and certain other obligations are fully satisfied. The Lease may also be terminated earlier if turbo redemption of the PEDFA Bonds occurs as projected and the other obligations are satisfied sooner. Currently, title to three of the parking garages and one parking lot operated by HPA is in the name of the City, and these will be conveyed to HPA so that all of the Parking Assets can be transferred and covered by the Lease. Upon expiration or earlier termination of the Lease in accordance with its terms, all of the Parking Assets transferred to PEDFA will automatically be transferred to the City, without payment. The Parking Transaction will also require the City to transfer to PEDFA a long-term franchise/license for the operation of the On-Street Parking Assets meters and to delegate rate-setting authority to PEDFA or another entity. In addition, the Parking Transaction will require the delegation of parking enforcement powers by the City to a to-be-determined governmental agency which will in turn contract with Standard to perform these functions (the "Enforcement Delegation"). The Asset Transfer Agreement and the transfer of the parking garages and parking lot from the City to HPA, and the Enforcement Delegation will need to be approved by the City Council and are requirements to the closing of the Parking Transaction.

It is anticipated that City Council will enact an ordinance approving the transfer of the Parking Assets discussed above, the Asset Transfer Agreement and the Enforcement Delegation. The ordinance will be filed with this Court upon its approval.

(b) Day to Day Operations of the Parking System.

PEDFA is expected to delegate its operational responsibility and functions as follows. First, PEDFA is expected to select a qualified designee ("Designee") to perform certain administrative functions and responsibilities of PEDFA under the Asset Transfer Agreement and the Lease. PEDFA or the Designee will, in turn, enter into an "Asset Management Agreement" with AEW. AEW is headquartered in Boston and currently actively manages approximately \$23.7 billion of real estate assets and securities in North America on behalf of institutional and private investors. The Asset Management Agreement will have an initial term of up to 15 years and will govern AEW's role in asset management, property management and supervision of

operations of the Parking System. AEW will be paid a fixed base management fee, plus a performance management fee, under certain circumstances.

AEW on behalf of PEDFA is expected to enter into a Parking Management Agreement with Standard, which is the largest parking operator in the United States. Standard's corporate offices are in Chicago and it has regional offices throughout the Country, including in Philadelphia and Pittsburgh. Standard has approximately 130 operations in Pennsylvania, including greater Philadelphia, Scranton, Allentown, Pittsburgh, Wilkes-Barre, and Harrisburg (at the Harrisburg International Airport). Most of Standard's operations are at locations with less than 2,000 parking spaces, thus the Harrisburg Parking System will be a large and important operation for Standard. The Parking Management Agreement will have an initial term of up to 15 years and will govern the management of the operations of the off-street parking garages and lots and the On-Street Parking Assets. Standard will be paid a parking management fee of \$350,000 per year, increasing annually at the lesser of inflation or 3%, plus a performance management fee under certain circumstances.

Standard will offer employment to existing employees of HPA as well as six City parking enforcement employees. Initial wages rates and health benefits have been negotiated by the Receiver with Harrisburg First. The Receiver and HPA are also in the process of negotiating a transition agreement with the AFSCME bargaining unit representing HPA employees, which is a condition of the transaction. The proposed transition agreement with AFSCME includes a separation benefits package that will be offered by HPA to all of the unionized employees of HPA and some of the management employees. One important element of obtaining maximum value for the Parking Assets was substantially reducing operating costs. At the same time, the Receiver believes it is important to treat HPA employees fairly and to soften the impact of the transition to private operation of the Parking Assets.

(c) Monitoring, Rate-setting and Advisory Committee.

AEW will be responsible for providing detailed reports with respect to the finances and operations of the Parking System to the interested stakeholders, including the City, and Standard and AEW will be required to prepare annual operating and capital budgets for approval. AEW will also prepare and submit for approval a 10-year capital plan, which is updated annually and expected to be revised based on updated engineering studies every three to five years. The Parking System will be required to be maintained and operated in first class condition and repair.

As described in the Term Sheet, the City will agree to cooperate in a manner that is designed to best assure the success of the Parking Transaction. Additionally, as described in the Term Sheet, parking rates and parking fines will be increased at the outset of the Parking Transaction. As part of that initial rate adjustment, the relationships between parking rates for on-street parking and transient off-street parking rates and between parking rates for on-street parking and fines for overtime parking will be adjusted to make them more in-line with industry standards and best practices. Going forward, rates will be set with fixed increases for the first four years.

After the fourth year, increases in rates across the parking system are limited to the greater of inflation or 3% per year.

An "Advisory Committee" comprised of one representative of each of AEW, Standard, HPA, PEDFA's Qualified Designee, the Mayor, the City Council and DGS, will be established. The Advisory Committee will annually review operations and provide feedback and input to PEDFA's Designee, AEW, and Standard with respect to: (i) proposed expansion or contraction of the system or operations, (ii) contractual compliance, (iii) residential permit parking, (iv) enforcement, (v) technology and capital improvements, (vi) customer enhancements, (vii) rates and budgets, and (viii) community relations and outreach.

(d) Benefits to the City and the Distribution of Annual Proceeds.

As detailed above, the structure of the Parking Transaction permits the City to realize the potential benefits of low tax-exempt interest rates, a substantial up-front payment (as described in Section D.5), technology upgrades, more cost efficient private operation and management, not having to support a private capital return on equity of 11% or more, higher up-front proceeds, and the benefits over time of increased profitability via payments from surplus revenues. Standard will develop and implement strategies designed to create turnover of parking spaces to accommodate visitors, patrons and citizens conducting business, which promotes and ensures economic vitality, and residential parking permit programs promoting quality of life for residents by managing parking supply, reducing traffic congestion and creating a safer environment for neighborhoods. The City will receive the specific annual financial benefits described below:

(i) Priority Parking Payments.

The City will continue to receive parking tax revenue from all parking lots and garages open to the general public as well as certain payments from the Parking Transaction (the "Priority Parking Payments"). As noted in the Introduction to this Part Four, Section D, the City currently collects parking tax revenue, but only approximately \$1.9 Million in parking tax revenue was ultimately deposited to the City's General Fund in 2012 and 2013. The effects of the Parking Transaction and the ancillary agreements required to effectuate the Parking Transaction operate to make an estimated \$3.3 Million in annual revenues in the form of the Priority Parking Payments and parking tax revenues available for use in the City's General Fund. This increase in revenue, which is derived from a combination of increased revenue and the elimination of obligations requiring payment from parking meter revenues and parking taxes is expected to be fully realized starting in 2014 and is included in the new budget for the City as is described in Part Five of the Strong Plan.

(ii) Fixed Payments to the City from the Operation of the Parking System.

The City will receive a fixed payment of \$1.5 Million per year (increasing annually at the rate up to 3%) for each year of the term of the Parking Transaction. This amount, which is to be paid after operating expenses and debt service on the PEDFA Bonds and which commences at \$1.5 Million is comprised first of the current budgeted amount of parking meter enforcement revenue of \$1.1 Million; but that \$1.1 Million is increased by \$400,000 per year permitting the City to share in the anticipated increased parking revenue resulting from the expected rate structure, fines and gains in efficiency of operations. The fixed annual fee replaces the City's current reliance on the success of collecting budgeted enforcement revenue, thereby removing the uncertainty and fluctuation that have been a part of past annual budgets. Significantly, the City will no longer bear the costs of enforcement or maintenance of the meters.

In addition to the annual payment described above, after operating costs and debt service on the PEDFA Bonds are accounted for, the City will receive a new source of parking-related revenue in the nature of rent under the Lease of \$500,000 per year, increasing annually for the first six years at a rate up to 3% and thereafter continuing at a fixed amount throughout the term of the Parking Transaction. Starting in 2014 and continuing through 2018, the amount of rent is expected to be supplemented so that the aggregate of the amount of rent and the supplement are expected to equal \$1.0 Million in 2015, \$1.5 Million in 2016 and 2017 and \$2.0 Million in 2018.

(iii) Residual Payments from Excess Cash from the Operation of the Parking System.

As noted above, the Receiver preferred the tax-exempt bond structure in part because residual cash flow would not be required for a return on equity or to pay higher cost taxable debt. Under this structure of the Parking Transaction, annual revenue will first go to satisfy the operating expenses of the Parking System and then the management and administrative fees of the parties providing services to the Parking Transaction. Next, the debt service on the PEDFA Bonds (as described below) will be paid to the bondholders. Then, the City will be paid the two fixed payments described in subsection (ii) above. A portion of any remaining funds will then be used to fund and maintain a capital reserve fund, which is designed to ensure funds are available to maintain the Parking System. The projected residual cash flow (the "Future Parking Operations Net Proceeds") is significant and anticipated to grow over time, though most of the residual proceeds will not occur until a significant amount of the bond indebtedness has been satisfied. The Future Parking Operations Net Proceeds is expected to be used to both assist the City with its General Fund budget requirements and to provide additional payments over time to certain creditors as is more fully set forth in Part Six of this Strong Plan.

5. Bond Issuance and Use of Proceeds.

The PEDFA Bonds which will be issued to finance the acquisition of the Parking Assets will be tax-exempt parking revenue bonds and are anticipated to be rated in one of the two highest rating categories and issued in two or more series of bonds. The up-front proceeds will be applied first to redemption and satisfaction in full of the existing HPA bond indebtedness (currently estimated to cost approximately \$99 Million after the application of the funds in the existing debt service reserves). The proceeds will also be used to commence funding the capital reserve account and pay the costs of issuance related to the Parking Transaction. The remaining amount (the "Net Parking Proceeds") under current market conditions is expected to be between \$258 Million and \$268 Million. The uses of the Net Parking Proceeds are explored in depth in Parts Five and Six of the Strong Plan.

The final structure of the PEDFA Bonds, including the investment ratings of each series of the PEDFA Bonds, the interest rates on the PEDFA Bonds, the principal amount of the PEDFA Bonds and the necessary documentation will depend upon a number of factors, including review by the rating agencies and market interest rates in the tax-exempt municipal bond markets as of the date of pricing of the PEDFA Bonds and the approval of the transaction by the parties, including PEDFA's Board. There are a number of conditions precedent to closing which are being addressed by the Receiver and various parties as detailed in Part Eight of the Strong Plan. The Receiver anticipates closing the Parking Transaction in mid-November 2013, subject to possible delays with satisfaction of the conditions precedent to the closing which will be detailed in the Asset Transfer Agreement.

E. The Water and Sewer Systems.

As provided for in the Preliminary Recovery Plan, the Receiver analyzed the water and sewer systems and looked for ways to improve those systems' impact on the City and its finances. Although those systems will not be monetized as part of the Harrisburg Strong Plan, the Receiver has helped structure a path forward for those systems so that those systems are working in conjunction with and are supportive of the Harrisburg Strong Plan. The operational changes and THA's ability to access the credit markets, discussed below, relieve the City of a current stress on its budget while improving the physical condition of the water and sewer systems.

As background, THA owns and the City operates the water system which includes supply, treatment and distribution systems. The sewer system is comprised of both wastewater and stormwater systems. The wastewater system serves the City and the surrounding suburban communities and its ownership is divided between the City and THA. Its operations are governed by a series of arrangements between the City and THA. The stormwater system serves the City and is operated by the City with funds derived from the City's tax revenue. Some of the complexities of the ownership and operation structure work to exacerbate the challenges facing the water and sewer systems.

The water and sewer systems have suffered from a long period of under-investment in needed improvements and maintenance. Over the last few years, environmental regulators have engaged the City and THA in ongoing discussions regarding Harrisburg's sewer systems. Resulting from those discussions, THA and the Pennsylvania Department of Environmental Protection ("DEP") are parties to a Consent Order and Agreement (the "Consent Order") that sets the schedule for the commencement and completion of THA's "2013 Advanced Wastewater Treatment Facility Improvements Project". Under that Consent Order, the construction must begin by January 2014 and be complete by January 2016. This project will reduce ammonia nitrogen, total nitrogen, and total phosphorus loadings in accordance with local stream limits, the Chesapeake Bay improvement initiatives and Federal Clean Water Act requirements.

Additionally, the City and THA have been in ongoing discussions with the United States Environmental Protection Agency (EPA) regarding the City's compliance with the Nine Minimum Controls to limit Combined Sewer Overflows (CSO) and the six Minimum Control Measures to limit environmental impacts of the City's Municipal Separate Storm Sewer System (MS4). The outcome of these discussions will result in a significant increase in investment in these systems, both capital and operational. THA is currently updating their "Long Term Control Plan" for the CSO system and is incorporating into it necessary MS4 projects utilizing the EPA's "Integrated Planning" approach. This approach is intended to create a prioritized critical path to achieve water quality objectives and optimize benefits of infrastructure improvement investments with more sustainable and comprehensive solutions, such as green infrastructure, that improves water quality as well as enhance communities.

Failure to complete the above will place the City and the systems in violation of regulatory requirements; with resulting fines, penalties, and court action from the DEP and EPA likely. In order to complete these projects and initiatives, the City, THA or the City and THA together must be able to access the capital markets and sustain adequate rate revenues, both of which have been out of reach. The City's recent financial stress, failure to complete audited financial statements in a timely manner and lack of borrowing capacity have caused both the City and THA to lose access to the capital markets. Additionally, financial rating agencies point to the City's control of rates, revenues and budgets as significant credit-negative factors against THA. Further complicating the financial situation, there is a significant reduction of funds available to support operations because the suburban communities have taken action that resulted in reduced revenues into the Sewer Fund due to alleged past practices by the City that retained significant sewer revenues.

To overcome these barriers and position THA to access the capital markets, the City and THA have agreed to (1) terminate the existing agreements related to the City's operation of the THA-owned water and wastewater systems, (2) transfer all operating assets (including labor) and debt liabilities to THA and (3) transfer ownership of the City-owned sewer collection and stormwater systems to THA. THA will then serve as operator of all water and sewer facilities. As the operator, THA would set rates and budgets (including possible new stormwater fees), control billing and collections, and

undertake asset management, renewal and replacement, and capital improvement planning and implementation. THA will engage the City to provide certain services necessary for the proper operation and maintenance of the systems.

As an independent agency of the Commonwealth, THA is able to separate the utility operation from other responsibilities of local government and buffer the operation from other local political and financial decisions facing local governments. These utility operations are highly complex, demanding significant attention from the overseeing officials. THA Board members appointed by the City are able to concentrate on the financial, engineering and environmental decisions that impact the operation and maintenance of the infrastructure systems. This transfer of responsibility relieves the City from this burden and assures that the City can focus on the important process of fiscal recovery and the provision of core and essential services. This structure will provide comfort to (1) suburban customers, since operations are removed from the politics of local government, (2) government regulators, since THA will be able to focus solely and expertly on the utilities, and (3) lending agencies, since finances will be rate-supported and separate from the City's financial liabilities. THA and the City have been working cooperatively to negotiate governing agreements and legislation to effectuate this transition as soon as practicable and currently are targeting October 1, 2013 to finalize the transition agreements and legislation. Pennsylvania Infrastructure and Investment Authority ("PENNVest") has agreed to loan \$26 Million to the project conditioned upon, among other things, the transfer of operations occurring. Additionally, potential lenders are beginning to express interest in a water bond facility for THA, which if it can be closed upon in early 2014 as anticipated, has the possibility for saving rate payers nearly \$2.0 Million in 2014.

PART FIVE HOW THE STRONG PLAN BENEFITS THE CITY OF HARRISBURG

A. Introduction.

In this Part Five, we will provide a comprehensive description of the aspects of the Harrisburg Strong Plan that are of critical importance to the people who make the City of Harrisburg their home, as well the businesses located in the City, which, as such, have chosen to invest in Harrisburg's economic future. Accordingly, we will focus here on the financial benefits that the Strong Plan will provide to Harrisburg --- benefits that will best assure a balanced budget through 2016, remove the long-standing financial clouds over Harrisburg that arose from its many guaranties of the Incinerator-related debt, and provide meaningful capital to stimulate economic development, infrastructure improvements and initially fund an OPEB health care trust fund.

B. The City's 2013 Budget Before Considering the Benefits of the Harrisburg Strong Plan.

It is appropriate to start a discussion of the Strong Plan's benefits by looking at the City's budget before considering the funding that the Strong Plan is to provide.

In 2013, absent the financial infusions that are to be provided to the City under the Strong Plan, and before adding the revenues being generated by the City's already adopted and implemented increase in the earned income tax ("EIT") for 2013 from 1% to 2%, it is currently estimated that the City's revenues, will be approximately \$50 Million. That revenue estimate is based on projections made as recently as August 15, 2013. Correspondingly, and apart from expense reductions that are contemplated by the Strong Plan that have not as yet been implemented, and prior to even taking debt service into account, the City's 2013 operating expenses, as projected as recently as August 15, 2013, total \$51.3 Million. Details that support these estimates can be found in **Addendum 2** of the Strong Plan, attached hereto and titled the Projected 2013 Budget as of August 15, 2013 Showing Revenues and Expenses Before Debt Service and Before Consideration of Strong Plan Components (the "2013 Summary Pre-plan Budget"). The above-described currently estimated 2013 operating revenues and expenses for Harrisburg before the Strong Plan's implementation are the same as the amounts that appear in Column 1, Rows 1 and 7 respectively of the Financial Snapshot.

The first thing to observe about Harrisburg's 2013 operating revenues, before the Plan's modifications and the additional revenues that are being generated by the increase in EIT for 2013 are considered, is that they are meaningfully less than the City's operating expenses. Indeed, the City's operating costs, before even considering the City's contractual obligation to pay its debts – debts totally aside from any Incinerator-related obligations – well exceed the City's revenues. In that sense, before the Strong Plan is implemented, Harrisburg is now and has for many years been operating with a significant structural deficit. Necessarily, the first aspect of the Strong Plan was to effect efficiencies and cost containment measures in an effort to minimize, to the extent possible, the financial demands on the City's budget. Based on the projected impact of the efficiencies and cost containment measures, the next step in formation of the Strong Plan was to find sources to increase the City's operating revenues and to reduce its expenses so that during the Harrisburg Strong Plan Period the revenues would be sufficient to pay the aggregate of the City's operating costs and its debt repayment obligations, and, as such, allow the City's budget to be structurally balanced. The various components of revenue increases and expense reductions called for by the Strong Plan will be described in this Part Five and will provide the means to achieve that structural balance through at least 2016.

The starting point for determining what the City would require by way of additional revenues or reduced expenses to achieve a structurally balanced budget through 2016 was to first estimate the projected revenues and expenses that could be achieved by the City in the absence of a workable recovery plan, not only for 2013, but for each of 2014-2016 as well, and to also determine the debt repayment obligations that would otherwise be required in each of those years.

In developing the Harrisburg Strong Plan, and as reflected in the Financial Snapshot, the Receiver made revenue and expenses projections for each of 2014-2016 before considering the Strong Plan's effect, and those revenue projections appear in Columns 2 through 4 of Row 1 and expense projections on Row 7 of the Financial Snapshot. The 2014-2016 revenue and expense estimates were based on

assumptions as to how the City would likely perform in the ensuing three years based on the considerable actual experience to date in 2013 as well as the near-term projections for the balance of this year. The Receiver's projections of the City's General Fund revenues for 2014-2016 on Row 1 were premised on the conservative assumption that the City's economic growth and increased revenues would not happen immediately after the Strong Plan went into effect. Accordingly, during the Harrisburg Strong Plan Period, the Strong Plan assumes a very modest growth of revenues per year from the revenues that the Receiver has anticipated for 2013. The City's projected operating expenses for 2014-2016, which appear on Row 7 of the Financial Snapshot, and which are driven somewhat upward by the prospect of rising health care costs, were estimated to grow by 2% per year from the amount that the Receiver has projected in 2013.

C. Description of the Harrisburg Strong Plan Adjustments to the City's Projected Operating Revenues for 2013-2016.

1. The Debt Repayment Obligations.

Based on the pre-Strong Plan projected revenue and expense assumptions, the Receiver worked to shape the repayment of the City's general obligation debts, as well as other existing debt obligations, in a manner that would afford the City breathing room to repay those obligations over a period that the Receiver determined the City could realistically afford. A further description of those obligations is provided in Part Six of the Strong Plan. For now, and to understand how the structurally balanced plan was developed, the Financial Snapshot first reflects the amount of the annual debt payments that are to be paid on the City's general obligation debt in each of 2013 through 2016. These amounts are less than that which would have been required under the City's existing contractual obligations on its general obligation bonds. The adjustments to the schedule for repayment of the City's general obligation bonds has been agreed upon with the bond-insurer, despite the fact the City has been in default of its bond repayment obligations since early 2012. But, with the agreement of the bond-insurer, who will otherwise make the contractually required bond payments to the bondholders, all as more fully described in Part Six below, the City's obligations on its general obligation bonds in each of 2013-2016 are fixed. In 2013, the payment is set at \$5,970,000 and in each of 2014 through 2016 at \$7,670,000 per year. These payments, rounded, are reflected on Row 9 of the Financial Snapshot.

Row 10 of the Financial Snapshot reflects that the Receiver has estimated \$3.0 Million per year in each of 2013 through 2016, as the amount that the City is expected to pay on existing loans or leases for equipment and other short term capital needs and for the purchase of new replacement equipment and capital items over the Harrisburg Strong Plan Period. The terms of repayment of these existing obligations are addressed in Part Six of the Strong Plan.

Having estimated the projected pre-plan revenues and expenses, and having also estimated the aggregate total of debt payment obligations for the period through 2016, the Receiver then developed other Plan components which, taken together, would permit the City to be structurally balanced through 2016.

2. Priority Parking Payments and Parking Meter Enforcement Revenues.

The Financial Snapshot reflects an adjustment to the City's revenues based on the assumption that the Parking Transaction described in Part Four would be put in place late in 2013. First, by reason of the implementation of the Strong Plan, the City will receive the Priority Parking Payments from the parking operations. When combined with estimated parking tax revenues, these distributions will equal approximately \$3.3 Million per year in 2014 through 2016. These Priority Parking Payments were referenced above in Part Four, Section D of the Strong Plan. These payments are included in the City's General Fund Revenues that appear on Row 1 of the Financial Snapshot for 2014-2016.

Second, as addressed above in Part Four, Section D of the Strong Plan, parking meter enforcement revenues are expected to be at least \$1.5 Million per year starting in 2014, and are to grow at the rate of inflation, not to exceed 3% per year. In the past, while the parking meter enforcement revenues collected have been lower than budgeted, by reason of the Strong Plan's implementation, the parking meter enforcement revenues to be paid to the City after debt service are going to be paid to the City in an amount at least equal to \$1.5 Million annually, growing as part of the Parking Transaction. In the absence of the existing HPA bond issues and the Cooperation Agreement for Downtown Parking System, which will both be eliminated as part of the Parking Transaction, the City is at far less risk with respect to receipt of projected parking revenues. Moreover, the operator of the parking facilities will be responsible for meter collection and enforcement, reducing the cost of those functions previously the obligation of the City.

Because the City had budgeted \$1.1 Million of the parking meter enforcement revenues in its 2013 budget, in the hope that such revenues could be achieved, that portion of the \$1.5 Million in parking meter enforcement revenues is included among the City's General Fund revenues, in each year of the Strong Plan and constitutes part of the General Fund Revenues which amount appear on Row 1 of the Financial Snapshot. The additional \$400,000 per year of fixed parking meter enforcement payments to be made to the City under the Parking Transactions are reflected on the line denominated "Increase in Parking Meter Revenues" that appears on Row 4, Columns 2-4 of the Financial Snapshot.

3. Parking Lease and Additional Payments to be Received by the City Through 2018.

As referenced above in Part Four, Section D of the Strong Plan, under the Parking Transaction, the City is to receive a lease payment for the lease of the parking facilities which will be \$500,000 a year commencing in 2014, and which will grow by up to 3% a year for six years. The lease payment will be paid to the City for the entire lease term of the parking facilities.

In addition and through 2018, as part of the Strong Plan, and to further enhance its revenues during that period, the City is expected to receive additional sums that, when added to the lease payment, will provide the City with revenues that total \$1.0 Million in 2015, \$1.5 Million in each of 2016 and 2017 and \$2.0 Million in 2018. These amounts, which are inclusive of the lease payment, are reflected, for 2014-2016, on the Financial Snapshot at Row 5, Columns 3 and 4, and denominated "Lease Payment and Additional Parking Revenues".

4. Additional Funding to the City of Harrisburg by the General Assembly.

Already constituting part of the projected revenues reflected on Row 1 of the Financial Snapshot for each of 2013-2016, is the amount of \$5.0 Million per year that has been appropriated by the General Assembly to supplement the City's public safety operations. This additional amount is already reflected in the 2013 projected budget and is projected to be appropriated by the General Assembly in each year of the Harrisburg Strong Plan Period; and the City's balanced budget projections, at least through the end of 2016, are premised on those same amounts being similarly appropriated in each of 2014 through 2016.

5. Earned Income Tax.

In 2012, to be effective as of January 1, 2013, Harrisburg's City Council adopted, for a one-year period, an increase in the City's EIT, bringing the aggregate EIT to benefit the City's General Fund in 2013 to 1.5% (which amount is apart from the 0.5% per year separate EIT tax that is charged by and which benefits the Harrisburg School District). As was reflected in papers filed before this Court in conjunction with this court's 2012 approval of the EIT increase under Act 47, the additional 1% EIT was essential to assist the City in coming closer to achieving a structural balance in 2013, whether a recovery plan could or would be implemented this year. Clearly, absent the adoption of the 1% EIT increase, the City would have had substantially insufficient funds to meet its operating expenses and debt payment obligations it owed both on its general obligation bonds and on other capital expense borrowings related to the City's operations (i.e., excluding any payment on any of the City's Incinerator-related debts).

On Column 1, Row 2, the Financial Snapshot reflects \$5.9 Million of projected income that the Receiver has been advised the City could expect to receive in 2013 from the enacted 1% EIT increase. Revenues from the standard 0.5% EIT that existed before the EIT increase are already incorporated in the 2013-2016 pre-plan budgets that appear on Row 1 of the Financial Snapshot.

As a necessary element of the Harrisburg Strong Plan, and to assure that the City will have sufficient funds to operate on a balanced basis in 2014-2016, including its ability to make payment on the City's rescheduled debt obligations, the Strong Plan requires that the EIT increase remain in place through at least 2016. As such, a necessary component of the Strong Plan is City Council's approval of legislation extending the EIT increase through 2016. Between the filing of the Strong Plan and the

hearing by this Court to consider whether to confirm the Strong Plan, it is expected that City Council will enact that required legislation. That enactment is a condition of the Strong Plan consummation. If it does, the Receiver will file supplemental evidence reflecting City Council's approval with this Court. In compliance with, and pursuant to Chapter 7 of Act 47, and as part of the Strong Plan's confirmation, the Receiver will seek a court order from this Court approving the 1% EIT increase to be effective through 2016.

Referencing Row 2 and Columns 2-4 of the Financial Snapshot, the projected increase in the City's revenues attributable to the 1% increase of EIT in 2014-2016 are shown at \$7.9 Million per year. This amount is greater by one-third than the \$5.9 Million estimated increase in EIT revenues in 2013 because, as the testimony adduced at the hearing before this Court in August 2012, demonstrated, the proceeds in the initial phase of implementation of an EIT increase are materially less than the stabilized revenue stream that can be expected once implementation becomes fully effective.

Importantly, the increase in the EIT is the only obligation that residents or taxpayers of the City of Harrisburg will incur in order to effectuate the Harrisburg Strong Plan. As stated at the outset of the Strong Plan's presentation, no increase in any other locally imposed taxes, including any increase in the real property tax rates beyond those now in place, is a component or requirement of the Harrisburg Strong Plan.

Any decision regarding whether, subsequent to 2016, the City of Harrisburg should continue to impose an EIT in an amount greater than the standard .5% EIT to benefit the City's General Fund, and as a source to meet its then existing operating expenses, is something that the City Council will need to determine based on the then existing financial condition of the City. If, in the years following 2016, the revenues of the City derived from its property tax digest were to increase materially because of improved economic conditions in the City, generated in part by the economic development and infrastructure funding provided under the Harrisburg Strong Plan (as discussed below), or were the City's revenues otherwise to materially improve or expenses to decrease meaningfully, the continuation of all or a portion of the 1% increase in the EIT may not, as the City Council may then determine, be required. Any continuation of the EIT beyond 2016 would also require judicial approval by the Court of Common Pleas pursuant to Chapter 2 of Act 47.

Having reviewed the various revenue adjustments contemplated by the Strong Plan, we next turn to adjustments to the City's projected expenses during the Harrisburg Strong Plan Period.

D. Description of the Harrisburg Strong Plan Adjustments to the City's Operating Expenses for 2013-2016.

1. New Labor Union Contract Agreements.

From the inception of the receivership, and as reflected in the Preliminary Recovery Plan, it was anticipated and expected that modifications to the existing labor contracts that currently run through 2016 would need to be agreed upon by the three public unions whose membership are employed by the City. These anticipated and contemplated labor-contract modifications were consistent with the Receiver's view that to solve the City's financial challenges, all meaningful constituencies would need to contribute to a workable solution. As early as the Preliminary Recovery Plan, the Receiver anticipated that, in the aggregate, the labor-contract modifications would need to provide cost savings to the City of approximately \$4.0 Million to \$4.8 Million per year during the Harrisburg Strong Plan Period, increasing in later years to assist in covering increasing unfunded costs for post-retirement health benefits.

The Receiver is pleased to advise this Court and the public that two of the City's three public unions --- the Fraternal Order of Police ("FOP") and the American Federation of State County and Municipal Employees ("AFSCME") – have each reached agreements to reduce a combination of wages and other employment terms and benefits through 2016, with the result that the City can, starting in 2013, receive the benefit of those savings to the General Fund in an estimated annual aggregate amount of approximately \$2.4 Million to \$2.7 Million per year. In 2013, the City will recognize approximately \$800,000 in saving from the unions' willingness to hold wages at 2012 levels. In that sense, the goal set by the Receiver, and his challenge to each the three unions to help achieve that goal, has been already partially successful; and the FOP and AFSCME unions and their membership are to be sincerely applauded for their willingness and commitment to be part of the solution to the City's future financial stability and growth. No agreement has as yet been achieved with the International Association of Firefighters ("IAFF"). This circumstance, and its potential implications, are discussed below.

Helpful to the City's future economic stability is the fact that many of the modifications to the existing FOP and AFSCME labor contracts are in respect to reducing the City's obligations to pay for health care costs in the future. These labor contract modifications also eliminate post-retirement health care benefits for future employees, and limit post-retirement health care benefits for current employees. These adjustments, aside from the present savings they create, have a growing cumulative effect in the future and better protect the City against its obligations to fund those costs beyond the Harrisburg Strong Plan Period. These healthcare contract adjustments, coupled with the initial funding of an OPEB trust discussed below in Part Five, Section G, act as protection for Harrisburg against rising public employee health care costs – something most cities have as yet not meaningfully addressed.

In the aggregate, the reduction to the City's operating expenses resulting from the modifications to the FOP and AFSCME contracts and proposed modifications

to the IAFF contract, discussed below, are reflected on the Financial Snapshot in Columns 2-4 and on Row 11, denominated "Labor Contract Modifications." These adjustments are expected to have a more limited effect in 2013 of \$700,000, and they are reflected as ranging from approximately \$4.0 Million to \$4.8 Million per year in each of 2014-2016.

Included in the Strong Plan Exhibit Book as **Exhibit 4** and **Exhibit 5** are contract modification agreements approved respectively by the Harrisburg bargaining units of the FOP and AFSCME. It is anticipated that these modified agreements will be approved by the Mayor and City Council, and the Mayor's and Council's approval of them will be supplemented seasonably to the Strong Plan before the Court's consideration of its confirmability.

Although workable, cost-saving, and consensual resolutions have been achieved with both FOP and AFSCME, as noted above, no agreement has as yet been reached with IAFF. The Receiver continues to actively engage in negotiations with representatives of IAFF.

2. Payments to Be Made by the City of Harrisburg in Settlement of Suburban Community Sewer Overcharges.

Commencing in 2013, it is anticipated that certain settlement payments will be made under the Strong Plan to customers in various suburban municipalities who historically have been ratepayers and users of sewer treatment services. Those suburban customers, by contract and pursuant to Pennsylvania law, were to have been charged for sewer services at a cost that did not permit the servicing entity to charge a premium to the users, but, to the contrary, limited the servicing entity to recovering only from customers its costs for the use of its plant and equipment.

As this Court is aware, subsequent to the filing of the Preliminary Recovery Plan, and before a hearing was conducted to seek its approval, the initially appointed Receiver learned that the City of Harrisburg, based on policies and procedures that, unbeknownst to the current administration, had been implemented by prior City officials, had overcharged suburban ratepayers living outside the City of Harrisburg who received sewer services provided by the City and/or THA. These overcharges were a result of setting sewer rates in amounts greater than that which would allow the servicer to recapture its operating and capital costs, and, as such, contrary to applicable contracts and Pennsylvania law. Upon investigation, what became readily apparent was that the City of Harrisburg, which set the rates, had done so at levels higher than were authorized under Pennsylvania law and the applicable contract. By doing so, the City had been taking into its General Fund, on an annual basis, more than the suburban ratepayers in the aggregate should have been charged for their sewer services.

As this Court will recall, the Receiver immediately instructed the City to cease further use any of the sums in the account that already reflected proceeds from suburban user overcharges, freezing that sum, and he further advised this Court that

the sums previously estimated in his earlier submitted Receiver plan which he had filed only weeks before, and which had contemplated the continued receipt of overcharged rates, were being adjusted downward starting in 2012. The reality that the City would not perpetually have available to it the annually overcharged sewer revenues only further compounded Harrisburg's already serious budgetary shortfalls.

While the overcharging of sewer rates was to and did cease, the suburban customers served by THA, aggrieved by the years of significant overcharges, and represented by counsel (the "Suburban Claimants"), asserted an aggregate claim of approximately \$25 Million (the "Suburban Overcharge Claim") against the City of Harrisburg, which had benefited from the use of the overcharged amounts since 2006, or perhaps earlier.

The Receiver, with the cooperation and agreement of the Suburban Claimants, through their counsel, negotiated a compromise of the Suburban Overcharge Claim. In addition to the City's agreement to deposit the previously referenced frozen funds then on hand and to credit that amount as part of the Suburban Claimants' prospective financial commitments to the comprehensive overhaul of THA's water and sewer system (which is as discussed in Part Four, Section E of the Strong Plan presently being negotiated as a separate undertaking not comprehended by Harrisburg Strong Plan), the Receiver and counsel for the Suburban Claimants have negotiated an agreement that is intended to satisfy the Suburban Overcharge Claim and any other claims that Suburban Claimants may have for the overcharging of sewer rates, and counsel for the Suburban Claimants has and will recommend to the Suburban Claimants that they legislatively approve such negotiated settlement terms. More specifically, subject to obtaining the necessary legislative approvals by the Suburban Claimants (which is anticipated to happen in the near-term), and subject to the approval and consummation of the Strong Plan, the City will make payments as more fully set forth in the payment schedule included in the Strong Plan Exhibit Book as **Exhibit 6** (the "Suburban Claimants' Payment Schedule"). The payments to be made in respect to this settlement agreement during the four years of the Harrisburg Strong Plan Period are reflected on Row 13 of the Financial Snapshot. Payments will continue thereafter pursuant to the Suburban Claimants' Payment Schedule.

3. Reductions in Force Based on Changes in THA's Operations of the Water and Sewer Systems.

As part of anticipated changes in how THA's water and sewer operations are to be structured, the Receiver believes that the City will experience a reduction in its work force, effective likely in 2014, with employees historically employed by the City henceforth to be employed by THA with respect to water and sewer support staff and employees in charge of meter enforcement working for Standard Parking. The net financial effect of that reduced labor cost to the City's General Fund in 2014-2016 and, presumptively thereafter, is estimated to be approximately \$600,000 in each year, and that reduction is reflected on Row 12, Columns 2 through 4 of the Financial Snapshot.

E. Achieving a Balanced Budget in 2013-2016.

Adding the benefits of all of the various adjustments to the City's operating revenues and expenses budget that were above-discussed in Sections C and D of this Part, the Financial Snapshot reflects on Row 15 the net effect on the 2013 through 2016 budgets based on the various Strong Plan initiatives. These amounts do not include any proceeds of the one-time immediate infusion of revenues from the Parking Transaction that are to be provided to the City later this year upon the Strong Plan's consummation. Such infusions are discussed immediately below.

Focusing on Row 15, the Court and public should first discern that, based on the various Strong Plan contemplated adjustments discussed in Sections C and D of this Part, the City is expected to generate sufficient revenues in each of 2014 through 2016 to be structurally balanced in those years, with projected revenues equal to or greater than the City's anticipated operating expenses and debt repayment obligations. Columns 2 through 4 of Row 15 illustrate that expectation. This demonstration is key to satisfying a requirement of a receivership plan under Act 47.

In 2013, in contrast, it is apparent that the City, absent its receipt of substantial proceeds from the Parking Transaction upon the Strong Plan's consummation, would have insufficient revenues to meet its anticipated operating costs and scheduled debt repayment obligations. For calendar year 2013, the anticipated shortfall, short of receipt of Parking Transaction proceeds is estimated at \$8.2 Million. This shortfall is illustrated in Column 1 of Row 15 of the Financial Snapshot. Hence, the first benefit to the City from the Parking Transaction is to provide to it, from the consummated Parking Transaction, the sum of \$8.2 Million which will solve what otherwise would be the City's projected 2013 operating shortfall. With that distribution to the City, the City's budget will be structurally balanced in 2013, and have sufficient funds not only to pay all its operating expenses, but also to pay the scheduled debt repayment obligations that it has agreed to pay this year, as more fully set forth in Part Six below.

F. Working Capital and the Means to Reduce Chronically High Payables.

For many years, the City of Harrisburg's strained financial condition has translated into it not having sufficient funds on hand at various points in the year to pay for required services. In short, revenues flowing into the General Fund have frequently been less than amounts needed to meet current payroll and other expenses. In the past, that condition has led to some imprudent borrowing or challenging financial decisions that were necessitated to meet an immediate shortfall. The Harrisburg Strong Plan contains two immediate cash infusions that are designed to provide the City with adequate "working capital," so it can manage the intra-year low points which would otherwise create payment challenges even though the City may otherwise to be structurally balanced when a full year's revenues are matched against a full year's operating expenses and debt repayment obligations.

The Strong Plan calls for an immediate infusion from the Parking Transaction proceeds of \$5.0 Million in addition to the \$8.2 Million just referred to in Section E of this

Part Five, to balance the 2013 budget, affording the City the ability to operate in a professional manner throughout the year without the chronic concern about its liquidity that has frequently arisen in low-revenue months during the year. A portion of this \$5.0 Million is intended to permit the City, on a one-time basis, to reduce the level of its outstanding payables – the amount owed to creditors who regularly provide recurring goods and services to the City and whose products or services are needed as part of the City's normal day-to-day operations ("trade vendors"). As Harrisburg's distressed condition has worsened, and in order to allow the City to meet payroll, the obligations owed to these trade vendors have repeatedly been stretched, and instead of paying them regularly and consistent with the normal time for paying its bills, the City has been forced for several years to impose on its trade vendors by substantially delaying payments to them. This cash infusion is intended to bring immediately the stretched payment to the City's trade vendors back in line and, together with the working capital infusion next discussed, put the City in a position where it will not have to impose on its trade vendors in the future. This may allow the City to obtain better credit terms from its normal vendor community; and it will certainly be further evidence that Harrisburg is being run in a smooth and fiscally sound basis, and this, too, should help further the perception that the City is showing signs of financial health and independence.

In addition, the \$5.0 Million is also to be used to provide the City with adequate working capital. It is expected that the working capital that is being provided will be maintained at that level on an annualized basis, and while the amount of working capital will decrease during certain months of the year, the City's projected revenues are expected to be such that the full complement of working capital can be restored in revenue-positive months. As such, the portion of the \$5.0 Million dedicated to working capital is not to be used to satisfy annual operating shortfalls. The maintenance of the City's working capital, and its compliance with the purpose for funding it, will be an aspect of its operations reviewed from time to time.

The aggregate working capital and trade vendor payment amount of \$5.0 Million is reflected on the Financial Snapshot in Column 1, Row 16. This amount, when added to the infusion of \$8.2 Million in 2013 needed to balance the 2013 budget and appearing in Column 1, Row 15, constitute what the Financial Snapshot reflects as the "Total 2013 Budget Balancing Amount." That total, \$13.2 Million, appears on Row 17, Column 1 of the Financial Snapshot. When this Total 2013 Budget Balancing Amount is added to the three additional infusions of cash to be provided to the City in 2013 for other than structural deficit purposes, which are next discussed and total an additional \$16 Million, that aggregate sum constitutes the total amount of proceeds to be initially received by the City from the Parking Transaction upon the Strong Plan's consummation later this year.

In sum, under the Harrisburg Strong Plan, the City will receive initial cash proceeds from the Parking Transaction of \$29.2 Million in 2013 (hereinafter the "2013 Total Strong Plan Initial Cash Infusions"). Additional cash infusions derived from the Parking Transaction and from other sources, some certain and others contingent, are discussed further in this Part Five, and also in Part Four, Part Seven and Part Nine of the Strong Plan.

G. The Funding of Not-for-Profit Corporations for Economic Development and Infrastructure Improvements and for an OPEB Health Care Trust.

1. Description of the Initial Fundings and the Intended Use of the Funds to Benefit the City of Harrisburg.

Heretofore in this Part Five, the Strong Plan has focused on achieving a structurally balanced budget for the City in each of 2013 through 2016. We next turn to the additional financial benefits that the City is to receive under the Harrisburg Strong Plan --- amounts earmarked for economic development, infrastructure improvements and to fund an OPEB health care trust (referred to herein as the "Harrisburg OPEB Trust"). In Part Seven of the Strong Plan, the creation of the three entities to oversee the use of the funds committed to them consistent with their specific goals and investment criteria, the means for administering each of the oversight entities and the composition of the boards that will oversee these important aspects of the Strong Plan will be addressed. Here, the Strong Plan will focus on the amount and timing of the funding of the two Strong Plan not-for-profit corporations and one Strong Plan trust.

Upon the Strong Plan's consummation, the aggregate sum of \$16 Million will be placed into an account that, pending the creation of the three entities in compliance with Part Seven of with the Plan, will be controlled exclusively by the Receiver. The funds will be invested in a safe and risk free "money market" account, or other permissible investment of public funds pursuant to applicable law, pending further distribution to the respective entities, and any interest paid on said funds will be disbursed to the respective entities in a ratable amount upon their formation. The \$16 Million will be referred to below as the "Initial Harrisburg Growth Funding", as distinct from additional amounts that the City will receive under the Strong Plan, referred to as the "Supplemental Harrisburg Growth Fundings", as further discussed below.

Of the \$16 Million constituting the Initial Harrisburg Growth Funding, and upon the formation of the entities to oversee the respective allocations to them, \$3,692,308, will be contributed to the Harrisburg OPEB Trust; \$6,153,846 will be contributed to a not-for-profit economic development corporation, to be known as the "Harrisburg Strong Economic Development Corporation" (referred to herein as the "Strong EDC") and \$6,153,846 will be contributed to a not-for-profit infrastructure improvement corporation to be known as the "Harrisburg Strong Infrastructure Improvement Corporation (referred to herein as the "Strong IIC").

Under what circumstances the proceeds received by the Strong EDC and the Strong IIC can be deployed for their intended purposes will be determined by the boards of each entity. That said, the Receiver believes that much of the Strong IIC's investments should be made during the earlier part of the Harrisburg Strong Plan Period, so that those investments can optimally benefit the City's improved appearance, hopefully stimulating an increased commitment of businesses and residents to invest in the City's future. While the Receiver also assumes that a material portion of the funds to be deposited in the Strong EDC should occur in the reasonably near term, i.e., in the first eighteen months after that entity is formed, there is some merit in spreading the

economic development funding over time to assess the benefits achieved from the early investments, thus affording the opportunity to make potentially more targeted and incrementally more prudent investments based on the success of the initial funding decisions. Generally, too, it is assumed that a meaningful portion of the investments to be made by the Strong EDC, though not necessarily all the funds allocated to that entity, will be accomplished through low interest or otherwise borrower supportive loans, grants or a combination thereof to entrepreneurs or businesses that intend to locate or expand in Harrisburg and, as such, create jobs and like others in the City, pay property taxes into the City's General Fund.

The sums to be allocated to Harrisburg OPEB Trust will be paid to that Trust upon its formation and the entirety of those funds are anticipated to be invested as the Harrisburg OPEB Trust's board and retained financial advisors deem most appropriate.

Each of the three described entities are to operate such that, under their express governing documents, the amounts deposited in each of them, and where applicable, the income generated by them, are not ever to be transferred or loaned for any purpose to the City's General Fund or other account of the City or to any of the City's authorities or instrumentalities. In that sense, the sums allocated to each respective entity are permanently to be used for the exclusive purpose of each such entity. No sums may be transferred from one entity to another, except that, if more than \$4.0 Million is on deposit in the Strong EDC after December 31, 2018, then, and not more frequently than once every three years, the Strong EDC may, in the discretion of its Board, and upon a determination that all such sums are not needed to further stimulate the economy of the City, transfer as much as fifty percent of the sums on hand to the Harrisburg OPEB Trust or the Strong IIC or to a combination of the two, and if to be made to both other entities, with an allocation of such funds to the two other entities as the board of the Strong EDC shall determine in its sole discretion.

As mentioned earlier in this Part Five, Section G, Supplemental Harrisburg Growth Fundings are expected to be deposited into each of the three respective entities over time. If and when such supplemental funds become available and are to be deposited into the three entities as next discussed, 38.5% of any such supplemental funds shall be deposited into each of the Strong EDC and the Strong IIC, and 23% shall be deposited into the Harrisburg OPEB Trust (the "Supplemental Harrisburg Growth Allocation Formula").

2. Supplemental Allocations of Additional Parking Proceeds to Fund Economic Development, Infrastructure and the Harrisburg OPEB Trust.

Under the Harrisburg Strong Plan, and at its consummation, in addition to the 2013 Total Strong Plan Initial Cash Infusion of \$29.2 Million, the sum of an additional \$6,666,667 will be immediately deposited into an account (to be denominated the "Supplemental Harrisburg Growth Reserve Account"). The amounts in the Supplemental Harrisburg Growth Reserve Account shall be invested in a safe, interest bearing, money-market account, or other permissible investment of public funds

pursuant to applicable law, and shall be subject to distributions as next provided. This account will be established by the City, at the direction of the Receiver. Any distributions from this account will be at the direction, initially, of the Receiver, or the Office of the Receiver, and if the receivership shall have ceased, then at the direction of the Pennsylvania Department of Economic and Community Development ("DCED").

There is the prospect that, at some point over the next five years, through 2017 and before the end of that calendar year, and perhaps as early as this calendar year, the General Assembly may enact legislation related to allocating a portion of fuel tax receipts received by the Commonwealth to fund the needs of cities experiencing financial challenges, which cities are subject to oversight under Act 47. If the General Assembly were to enact such legislation, there is the prospect that, through at least 2017, and perhaps beyond that time, Harrisburg, a city operating under Act 47, and whether under Chapter 7 of Act 47 or otherwise, could receive an allocation of up to \$2.0 Million per year from the Commonwealth's fuel tax fund. To the extent that the City were to receive such an allocation in any year through the end of calendar 2017, it would be obligated by the Strong Plan to deposit the amount it received in each of the three above-referenced entities, allocating the amount to them according to the percentage set forth in the Supplemental Harrisburg Growth Allocation Formula.

To the extent in any year commencing in 2013 and continuing through 2017, and in respect to each such year, the City of Harrisburg were to receive an allocation of fuel tax proceeds from the General Assembly of \$2.0 Million per year or any lesser sum, the Receiver, the Office of the Receiver or the DCED, as the case may then be, and simultaneously with the City's receipt of such fuel tax funds to be allocated to the three previously described entities, shall be required to immediately make a transfer from the Supplemental Harrisburg Growth Reserve Account of 66.66% of the amount of such fuel tax allocation that was received by the City and deposited into the respective accounts of entities, and as part of the satisfaction of the claims more fully discussed in Part Six, pay such amount, with accrued interest thereon, to and in the manner that Assured Guaranty and Dauphin County may jointly direct. If in any calendar year, commencing in 2013, however, the General Assembly were not to make any allocation of fuel tax proceeds to the City of Harrisburg, then in each such year, \$1,333,200 of the funds in the Supplemental Harrisburg Growth Reserve Account, together with accrued interest thereon, shall be deducted therefrom and deposited in each of the three above-referenced entities with the allocation of that amount to be made among them in accordance with the Supplemental Harrisburg Growth Allocation Formula.

To the extent the General Assembly were to allocate fuel tax proceeds to the City of Harrisburg in any year, but such allocation were in an amount less than \$2.0 Million in any calendar year through December 31, 2017, then said amount shall be deposited into the three above-described entities pursuant to the Supplemental Harrisburg Growth Allocation Formula. Furthermore, were there to be an allocation of fuel tax proceeds by the General Assembly to the City of Harrisburg in any year through 2017 in some amount, albeit less than \$2.0 Million, the fractional percentage that the fuel tax proceeds received by the City of Harrisburg to benefit the three described entities were to bear to \$2.0 Million (the "Fuel Allocation Fraction") shall be utilized to determine the

distributions to be simultaneously made to, and at the direction of, Assured Guaranty and Dauphin County from the Supplemental Harrisburg Growth Reserve Account for the year in question, such that in any year that some amount less than \$2.0 Million of fuel tax proceeds were to be received by the City to benefit the three entities, the aggregate amount to be distributed to Assured Guaranty and Dauphin County shall be equal to the sum of \$1,333,200 multiplied by the Fuel Tax Allocation Fraction. The Receiver shall be authorized to simultaneously deposit the sums of \$1,333,200 multiplied by (1 minus the Fuel Tax Allocation Fraction) into the three entities, with the amount to be distributed to each such entity being in conformity with the Supplemental Harrisburg Growth Allocation Formula.

Distilled, if fuel tax allocations of \$2.0 Million per year were to be received by the City starting in 2013, and continuing each year through 2017, an additional aggregate \$10 Million will be made available to fund the three above-described entities in a manner consistent with the Supplemental Harrisburg Growth Allocation Formula incremental to the \$16 Million Initial Harrisburg Growth Funding. In that event, a total of \$26 Million would have been deposited into the three entities. If, however, the City never is allocated any fuel tax proceeds through 2017, all \$6,666,667 deposited initially into the Supplemental Fund Reserve Account will be allocated to the three entities. In sum, under the Harrisburg Strong Plan, the City of Harrisburg will receive distributions from some combination of the Initial Harrisburg Growth Funding, the Supplemental Harrisburg Growth Fundings or from fuel tax proceeds that total at least \$22,666,667 and could be as much as \$26,000,000, to fund the three above-described entities, with the amount depending on whether, when and to what extent the General Assembly were to provide fuel tax proceeds to the City between the Strong Plan's consummation and the end of calendar year 2017.

3. Possible Additional Source of Funds to Benefit the City of Harrisburg Derived from the Successful Pursuit of Incinerator Claims.

In addition to the foregoing, if the City were to recover, from time to time, recoveries from the pursuit of Incinerator Claims, as more fully defined and discussed below in Part Nine of the Harrisburg Strong Plan, then, the portion thereof that the City receives of such recoveries shall be allocated as follows: 30% of the sum received by the City from recoveries on Incinerator Claims shall be deposited in each of the three above-described entities; and the remaining 10% shall be available for the City's use as the then Mayor and the City Council shall jointly agree and direct (hereinafter the "City of Harrisburg Incinerator Claim Recovery Allocation Formula").

H. The Possibility of Additional Revenues to Benefit the City of Harrisburg Derived from the Future Operations of the Harrisburg Parking Facilities.

In Part Four, Section D, the Strong Plan identified the possibility that, in the future, and after the repayment of a significant portion of the aggregate amount of bonds issued to consummate the Parking Transaction, there may be proceeds generated by the parking operations which are in excess of amounts necessary to pay

interest on the remaining and outstanding bonds or to fund required interest reserve and capital expense accounts to levels needed to assure the soundness of the parking transaction that will be paid to the City as a deferred portion of the purchase price. If so, under the terms of the Parking Transaction, a portion of said amounts will be paid to the City for its use, including to balance the City's budget, but in any event in a manner as City officials would from time to time determine. These future potential proceeds are referred to in Part Four as "Future Parking Operations Net Proceeds".

The City's payments from such Future Parking Operations Net Proceeds will be twenty-five percent (25%) of such Future Parking Operations Net Proceeds, until such time as the aggregate amount of payments of such Future Parking Operations Net Proceeds to Assured Guaranty and Dauphin County, who are to receive seventy-five percent (75%) of such payments from Future Parking Operations Net Proceeds (as described in Part Six), were to total the face amount of \$97 Million. Thereafter, 100% of such Future Parking Operations Net Proceeds shall be paid to the City during the term of the Lease. In the aggregate, the collective rights of the City to receive a 25% share of such Future Parking Operation Net Proceeds, and after AGM and Dauphin County are paid the face sum of \$97 Million, all Future Parking Operations Net Proceeds are referred to as "Harrisburg's Rights to Receive Future Parking Proceeds".

While significant Future Parking Operations Net Proceeds are anticipated and discussed in Part Four, the public needs to understand that whether such Future Parking Operations Net Proceeds will ever be distributed to the City, in what amount and when, are totally uncertain and cannot be assumed, as they are premised on myriad assumptions built into the Parking Transaction model regarding the performance of the parking facilities over a long period of time; and even the experienced parking professionals who have been involved in the Parking Transaction cannot possibly know what amounts will in fact be achieved through the Parking Transaction and, as such, to what extent the parking operations will generate future net proceeds to benefit the City of Harrisburg. Importantly, however, if those operations over time prove to be successful, the City will meaningfully share in the benefits of those operations.

PART SIX

THE TREATMENT OF CREDITORS UNDER THE HARRISBURG STRONG PLAN

A. The Virtues of Achieving Settlements with the City's Creditors Through Negotiations Rather than Litigation.

A fundamental component of the Strong Plan was achieving the consensual agreement to its terms by virtually all impacted creditors whose consent to the Strong Plan's treatment was required. Stated differently, for a plan formulated under Act 47 to provide a viable solution to the array of financial issues faced by the City of Harrisburg, those affected by it and whose contractual rights were to be modified, had to agree to those modifications. The alternative to reaching a comprehensive set of agreements with the City's creditors would have been the necessity that the Receiver seek the required modifications in an adversarial setting --- a Chapter 9 bankruptcy proceeding for the City. While some in the City will likely suggest that the City could

have perhaps pursued the possibility of obtaining even more than the Strong Plan will provide to it by putting the City through an arduous, complex and protracted bankruptcy process, the Receiver believes that most of Harrisburg's residents and businesses will certainly understand that such a heavily-disputed approach would have brought with it a host of significant adverse consequences, and for that reason, on balance, will support the Harrisburg Strong Plan which provides the City with substantial resources to build a strong financial future. Before detailing the treatment of creditors under the Strong Plan, it is important to reinforce why the Strong Plan is vastly preferable to the risk of foregoing a comprehensive and agreed upon and sound financial restructuring by instead pursuing the highly speculative hope that the City could do better in bankruptcy.

First, serious delays in reaching a court-approved plan, over strenuous objections by those to be treated in a manner unacceptable to them, has been the rule, not the exception, in cities that have chosen to use the federal bankruptcy courts as a forum to attempt achieving a workable set of financial solutions. There is no reason to file a Chapter 9 and engage in contentious disputes if a financially distressed city can obtain essentially the same result without resort to the bankruptcy courts; and there is absolutely no evidence that filing a Chapter 9 makes parties more amenable to reaching an agreement than working to resolve their differences through non-judicial negotiations. It is also noteworthy to recognize that, in the end, the cities which have filed Chapter 9 proceedings, after much rancor, have all ultimately worked out a consensual plan rather than pursuing efforts to impose judicially a plan on creditors against their will.

Second, Harrisburg has already suffered for years in a limbo financial state. Protracting the City's fiscal uncertainty, possibly for many more years to come, would be unfair, not only to the immediate community but to the region and the Commonwealth as a whole. Simply stated, implementing a viable plan now, rather than litigating for the foreseeable future whether a plan would be approved and, if so, what the plan would provide, is certainly a much more prudent approach that is respectful of the fact that the populace has already, and for much too long, suffered from the uncertainties about whether, when and how the City's financial challenges might best be put to rest.

Third, the costs of proceeding in a contested environment would be enormous. How ironic it would be for a city, already saddled with much more debt than it can possibly repay, to have to incur the kinds of massive expenditures to fund the very heavy costs of a Chapter 9 proceeding. One need only look at the costs associated with Chapter 9 proceedings in other cities that have chosen that route to underscore how much more it costs to litigate about the terms of a plan than reaching agreement in a consensual setting and without resort to the bankruptcy process. In sum, is it preferable to put the amounts that would be spent on heavily-contested litigation toward ameliorating budgetary shortfalls, rather than spending substantial sums on disputes without any knowledge that those expenditures would yield improved results?

Finally, those who might advance the proposition that filing a bankruptcy could have yielded a better result for the City ought to recognize that our Nation's

bankruptcy and appellate courts have not as yet rendered any meaningful opinions determining, in a municipal bankruptcy setting, the most central issue --- whether and to what extent creditors will be judicially required to accept modifications to their contractual rights over their opposition. Stated succinctly, litigating Chapter 9 issues in an environment where little in the way of important rulings exists to predict results is risky --- for all parties. That is why, given the unpredictable legal landscape, an agreed-upon resolution of Harrisburg's financial distress is best achieved under the Strong Plan and is far preferable to "rolling the dice." Moreover, the Strong Plan brings certainty to what the City is to receive in a timely way, so its residents, businesses and creditors can move forward knowing the outcome, rather than waiting years and protracted appeals before the rights of all parties were determined.

With those observations put before this Court and the public, and having just explained in Part Five the significant benefits that the Strong Plan will, if confirmed and consummated, confer on the City, this Part Six will set forth how the various creditors of the City would also be treated in a fair and balanced manner under the Strong Plan.

B. Payments to Creditors Generally.

As is evident from the discussion of the two financial transactions described in Part Four of the Strong Plan, the principal sources to effectuate the Strong Plan's consummation and implementation are the proceeds that are expected to be derived from the sale of the Incinerator and the monetization of Harrisburg's parking facilities.

In the discussion that follows, the use of proceeds to make payment to creditors from the sale of the Incinerator will be described separately from the proceeds that are expected to be generated from the Parking Transaction. The separate discussion is appropriate for at least two reasons. First, many of the creditors whose claims result from financings made in conjunction with the Incinerator, were pledged Incinerator assets as security for the repayment of the amounts loaned, and, as such, and under our laws, have a preferred right to those proceeds.

A second reason for addressing the transactions separately is that, contrasted with the Incinerator, the proceeds from the Parking Transaction, other than first satisfying all the outstanding bonds currently secured by the City's parking assets, are not otherwise pledged to any creditor to secure obligations owed to them. As such, how those proceeds are to be used under a plan are not governed by security agreements that confer priority rights to the proceeds, but rather is based on what the Receiver has determined to be a fair allocation of those parking proceeds. In Part Five, the Strong Plan fully described the financial benefits that the City would receive under the Strong Plan that are to be derived from proceeds of the Parking Transaction. In this Part Six, the Strong Plan will explain how the balance of the Parking Transaction proceeds will be used to resolve the claims of certain of the City's creditors.

C. Use of the Incinerator Sale Proceeds to Reduce or Satisfy Certain Incinerator-Related Claims.

1. The Effect that the Recent Experience of the Credit Markets has on the Proceeds to Be Generated from the Incinerator's Sale.

As the discussion in Part Four, Section C.3 reflects, it is anticipated that, net of closing costs, the Incinerator's sale is expected to generate net proceeds in the range of \$126 Million to \$132 Million. The reason to express the proceeds that might be obtained at the consummation of the Incinerator sale as being in a range of many millions of dollars is because the actual amount that will be generated from the sale is dependent on the condition of the credit markets at the time the sale is to be consummated, as well as the pricing of tax-exempt bonds that are to be issued to finance the LCSWMA's acquisition of the Incinerator at the time the sale is consummated. For the reasons addressed earlier in Part Four, Section A of the Strong Plan, market pricing of the required tax exempt financing can materially vary over time, and for that reason, the actual amount of proceeds to be generated from the Incinerator's sale cannot be known until the bonds are priced in the market, just prior to the time that the sale will be consummated.

2. Treatment of Incinerator-Related Creditors Whose Recoveries Under the Strong Plan Are Fixed if the Plan Is Consummated.

With those initial observations, we will proceed to discuss the allocation of the anticipated Incinerator sale proceeds among various specified creditors. We will first address certain Incinerator creditors whose recoveries are not dependent on the proceeds that might be generated at consummation of the sale, but who are to receive their specified benefits unrelated to the proceeds that are generated, provided that the Strong Plan is confirmed, all contingencies for its consummation, as discussed below in Part Eight, are satisfied, and both the Incinerator's sale as well as Parking Transaction are funded through bond financings and fully consummated.

(a) CIT.

CIT Capital USA, Inc. ("CIT") holds a federal judgment arising out of a funding by its affiliate to THA of \$25 Million in 2005, in connection with the financing of certain aspects of the Incinerator's retrofitting. The judgment amount is in excess of \$19 Million, and CIT claims that it is entitled to additional amounts in the nature of licensing fees, which, together with the judgment, CIT estimates, on a present value basis, to exceed \$37 Million. CIT has claimed that its judgment and contractual rights afford it a lien on Incinerator assets superior to that of all other Incinerator-related creditors. CIT's entitlement to such secured treatment is not resolved by the settlement with the Receiver, though all challenges to the \$19 Million judgment that was appealed are anticipated to be withdrawn as part of a settlement reached with CIT. Under the negotiated settlement terms, the Receiver (acting on behalf of the City and THA), Dauphin County and CIT, have each agreed to satisfy CIT's entire asserted claims in exchange for \$21.5 Million and the execution of mutual releases. Under the settlement,

CIT is to promptly receive payment of the \$21.5 Million from proceeds of the consummated Incinerator sale. The terms of the CIT settlement agreement will be set forth fully in a written settlement agreement (the "CIT Settlement Agreement") which will be seasonably submitted to the Court for approval.

(b) Covanta.

Covanta Energy Services, Inc. and/or its affiliate Covanta Harrisburg, Inc. (collectively "Covanta") was hired in 2007 to first design and implement a plan to complete the Incinerator and to thereafter operate and maintain the Incinerator. It also financially assisted in the completion of the retrofit of the Incinerator in 2007 and, as such, helped the Incinerator come on line after construction cost overruns and defects occasioned by the prior operator had delayed the reopening of the facility. When Covanta agreed to complete and then operate the facility, it also provided THA with certain funding for the project's completion. At present, Covanta claims that it is owed a total of as much as \$26 Million for the sums it advanced to complete the retrofit. The Receiver (acting on behalf of THA and the City) and Covanta have reached agreement to settle all of Covanta's claims, for the sum of \$9.5 Million, said amount to be paid to Covanta from the Incinerator sale proceeds. Covanta is also to receive other consideration from LCSWMA, the purchaser of the Incinerator. Covanta, which operates LCSWMA's facility in Lancaster, Pennsylvania, is also expected to operate the Harrisburg Incinerator under a contract with LCSWMA. The specific details of the terms of the agreement with Covanta will be reflected in a written settlement agreement (the "Covanta Settlement Agreement"). The Covanta Settlement Agreement will be seasonably submitted to the Court for approval.

(c) JEM and Other Identified Contractors.

JEM Group, LLC ("JEM") as well as other contractors (collectively the "Contractors") identified on Exhibit 7 to the Strong Plan Exhibit Book, (the "Schedule of Contractors"), performed certain contractual services in conjunction with the completion of the Incinerator's retrofit. JEM, which holds the largest of these claims, asserts that it is owed more than \$800,000.00 (the "JEM Claim"). In addition, certain subcontractors to JEM are asserting claims against JEM with respect to their work under JEM (the "JEM Subcontractors"). The Receiver is engaged in, or will engage in, negotiations with the Contractors to resolve the claims of the Contractors and anticipates reaching agreement with each of the Contractors prior to confirmation of the Strong Plan, pursuant to which the claims of the Contractors will be satisfied at a discounted amount. The payments to settle these claims are to be made from net Incinerator proceeds upon the Strong Plan's consummation. These negotiated agreements with the Contractors will be documented in written agreements by and between each of the Contractors and the City (the "Contractor Settlement Agreements"), which agreement will be seasonably submitted to the Court for approval.

3. Other Possible Incinerator-Related Claims for Work Performed or Services Provided.

It is possible that entities other than the above-referenced parties may assert claims against the City or THA associated with the Incinerator's retrofit. To the best of the Receiver's knowledge, there are no such additional meritorious claims which the City, by reason of any contractual agreement, is under an obligation to pay. If any such Incinerator-related claims were henceforth to be asserted, the City and THA, by and through the Receiver, reserve the right to defend against any such asserted claims, and by consummating the Strong Plan, none of their rights are waived, all such rights being preserved to the fullest extent provided by law. For the avoidance of doubt, to the extent any Incinerator-related claims were found to be valid, none of the Receiver, the City or THA, shall be obligated by reasons of consummation of the Strong Plan to treat such a claim in a manner comparable to that of any of the creditors whose claims have been settled as part of the Strong Plan. Further, neither the confirmation of the Strong Plan and its consummation shall be deemed to preclude such a claim, nor deemed to waive any rights of the claimant to pursue a claim. Similarly, neither the confirmation of the Strong Plan and its consummation shall be deemed to have waived any defenses thereto, or another right of the party or parties against whom such a claim were to be asserted.

4. Payments to be Received by Dauphin County and Assured Guaranty From Proceeds of the Incinerator Sale.

Extensively discussed in the Preliminary Recovery Plan which was filed by the Receiver in February 2012 and confirmed by this Court in March 2012, were the significant bond financing obligations incurred by THA in connection with various Incinerator's financings, including the retrofit of that facility. Those claims will not be reiterated here, but together with the claims of CIT, Covanta and the contractors, total approximately \$362.5 Million ("Total Incinerator-Related Claims"). Alone, the aggregate Incinerator-related claims of AGM and Dauphin County total approximately \$298.5 Million (the "Total AGM/Dauphin County Incinerator-Related Claim"). By reason of the separate reimbursement obligations executed by the City, the City is contractually obligated to AGM and Dauphin County for all of THA's obligations to those entities.

In partial settlement of the Total AGM/Dauphin County Incinerator-Related Claim that is described in the preceding Section, Assured Guaranty and Dauphin County are collectively to receive all proceeds from the sale of the Incinerator as set forth in Part Four, Section C, net of the amounts to be paid to those creditors identified in Section C.2, of this Part Six and as may otherwise be required to be paid as discussed below in Section C.5 of this Part Six (hereinafter the "Net Incinerator Proceeds Paid to AGM/Dauphin County"). The allocation of said Net Incinerator Proceeds paid to AGM and Dauphin County shall be distributed between them as they jointly shall determine and direct. This sum will constitute a portion of the aggregate amount that such creditors are to receive under the Strong Plan; and together with additional payments and consideration to be provided to them as described below in

Sections D.2 and D.4 of this Part Six, are to be in full satisfaction of the Total AGM/Dauphin County Incinerator-Related Claim.

The understanding set forth in this Section C.4 of the Strong Plan will be reflected in a written settlement agreement which shall be between Assured Guaranty, Dauphin County and the Receiver (acting on behalf of the City of Harrisburg and THA) (the "Comprehensive AGM/Dauphin County Settlement Agreement"). The Comprehensive AGM/Dauphin County Settlement Agreement will be seasonably submitted to the Court.

5. Claim Associated with a Certain Swap Transaction.

In addition to the claims asserted by AGM, Dauphin County and the creditors whose claims were discussed in Section C.3 of this Part Six of the Strong Plan, an additional "termination" fee obligation in the approximate amount of \$4.6 Million may be asserted by a financial institution that provided a certain "swap transaction" for a bond issued by THA and insured by AGM and Dauphin County, which termination-fee obligation is subject to the City's reimbursement obligations and secured by the Incinerator assets under the terms of various bond documents. The swap transaction was put in place to "swap" THA's contractual obligation associated with a certain bond issued in 2003, the proceeds of which were to be used to retrofit the Incinerator. The swaps entered into in 2003 were ostensibly designed to first convert THA's contractual obligation to a variable rate and then place a cap on these variable rates. In the absence of an agreement to otherwise resolve the possible claim of the financial institution that issued the swap, that party will assert a swap termination fee claim of approximately \$4.6 Million. If the swap issuer asserts a termination-fee claim, then in order to retire the bond for which the swap was issued, which retirement is a necessary condition to LCSWMA's acquisition of the Incinerator and the consummation of the Incinerator sale, the swap-termination-fee claim would have to be paid, and, as such, deducted from the amount that AGM and Dauphin County would otherwise receive as the Net Incinerator Proceeds Paid to AGM/Dauphin County. The Receiver intends to proceed with efforts to resolve the swap termination fee claim before the Strong Plan's consummation.

D. Use of a Portion of Proceeds to Be Derived from the Parking Transaction to Further Pay and Completely Settle the Total Incinerator-Related Claims of AGM and Dauphin County.

1. Introduction.

As noted earlier, the Total Incinerator-Related Claims of AGM and Dauphin County are to be paid primarily from two sources – proceeds from the sale of the Incinerator and proceeds to be derived from the Parking Transaction that is described in Part Four, Section E of the Strong Plan. In this Part Six, the Strong Plan will describe the various proceeds that AGM and Dauphin County will receive under the Strong Plan from the Parking Transaction. Like the Incinerator-related proceeds

discussed earlier, the Parking Transaction-related proceeds are more fully described in the AGM/Dauphin County Settlement Agreement.

In Section D.2 of this Part Six below, the Strong Plan will first address the proceeds from the Parking Transaction that AGM and Dauphin County are collectively to receive upon the Strong Plan's consummation. In Section D.4 of this Part Six, the Strong Plan will describe other distributions that AGM and Dauphin County are to receive in the future, which, together with possible distributions they could receive as discussed in Part Nine of the Strong Plan, are in full satisfaction of the Total AGM/Dauphin County Incinerator-Related Claim owed to them by the City and THA.

2. Amounts to Be Paid to AGM and Dauphin County from the Parking Transaction upon the Strong Plan's Consummation.

The first point to be observed about the Parking Transaction is the uncertainty of the amount of Net Parking Proceeds to be generated from the Parking Transaction upon the Strong Plan's consummation, which amount is to be the source to fund both the various City benefits under the Strong Plan discussed in Part Five as well as the payment to AGM and Dauphin County upon the Strong Plan's consummation. This uncertainty is primarily due to credit market conditions as discussed in Part Four, Section A and as also referenced in Part Six, Section C.1, when describing the uncertainties in the amount of Incinerator sale proceeds that are expected to be generated from that sale.

Nonetheless, based on current market conditions as of the filing of this Plan, it is estimated that the aggregate parking-related proceeds to be paid to AGM and Dauphin County at the Strong Plan's consummation (as those proceeds may change due to market conditions and other circumstances, hereinafter referred to as the "Aggregate Parking Proceeds Paid to AGM/Dauphin County Upon The Plan's Consummation") is in the range of \$120 Million to \$130 Million.

3. Conditions to AGM's and Dauphin County's Agreement to the Strong Plan's Consummation; Execution of Mutual Releases.

The Comprehensive AGM/Dauphin County Settlement Agreement provides that AGM and Dauphin County will be bound to consummate both the Incinerator sale and the Parking Transaction, and agree to settle all their Total AGM/Dauphin County Incinerator-Related Claim against the City and THA, with comprehensive releases and discharges of all obligations owed by the City and THA to AGM and Dauphin County related to the financing of the Incinerator, provided that, and unless waived in writing by both AGM and Dauphin County: (a) the Strong Plan is confirmed by this Court; (b) City Council approves the various ordinances called for under the Strong Plan and by various other documents, and those ordinances become effective; (c) the City, THA and the Receiver execute comprehensive releases and discharges of any and all claims against AGM and Dauphin County; (d) AGM and Dauphin County, upon the Strong Plan's consummation will collectively receive a total sum of at least \$210 Million from both the total of Aggregate Parking Proceeds Paid to

AGM/Dauphin County Upon The Plan's Consummation plus the Net Incinerator Proceeds Paid to AGM/Dauphin County (hereinafter, in the aggregate, the "Minimum AGM/Dauphin County Aggregate Plan Consummation Payment"); (e) this Court approves the additional distribution benefits that the City and the Receiver have agreed to provide AGM and Dauphin County subsequent to the Strong Plan's consummation, as more fully set forth below and as more fully detailed in the Comprehensive AGM/Dauphin County Settlement Agreement; (f) bond documents are agreed upon by the parties to the Parking Transaction, as well as by those parties who are providing credit enhancement for the bond financing of both the Incinerator's sale and the Parking Transaction; (g) other conditions to consummation of the Strong Plan and to the execution of releases and discharges set forth in the Comprehensive AGM/Dauphin County Settlement Agreement are satisfied; and (h) all other conditions to the Plan's consummation as set forth in Part Eight of the Strong Plan have been satisfied (all of (a) – (h) above hereinafter referred to as "AGM/Dauphin County Conditions to the Plan's Consummation").

4. Post-Consummation Distributions to Be Made To AGM and Dauphin County Under the Strong Plan.

Assuming the Strong Plan's confirmation by this Court and its consummation, the Comprehensive AGM/Dauphin County Settlement Agreement provides that, as additional consideration for their satisfaction of any and all obligations of the City and THA in respect to the Total AGM/Dauphin County Incinerator-Related Claim, they are to receive additional distributions, subject to certain conditions.

The first potential source of additional distributions to AGM and Dauphin County, relates to the possibility that they might receive additional escrowed proceeds from the Parking Transaction if the Commonwealth were to provide the City of Harrisburg with fundings during the period of 2013-2017 derived from the Commonwealth's fuel tax. This possible source of distributions is described above in Part Five, Section G.2 of the Strong Plan.

A second post-consummation source of potential distributions to AGM and Dauphin County is in respect to their sharing in a portion of possible recoveries if the Receiver is successful in his pursuit of Incinerator Claims. Part Nine of the Strong Plan will further discuss the Incinerator Claims, and will set forth the formula by which proceeds generated through the successful pursuit of such claims are to in part be shared between AGM and Dauphin County with the balance to benefit the City. The Comprehensive AGM/Dauphin County Settlement Agreement likewise addresses this agreement, as does Part Five, Section G.3 of the Strong Plan in describing the distributive share of such possible Incinerator Claims proceeds that are to be paid to or for the benefit of the City, on the one hand, and to AGM and Dauphin County, on the other.

The third additional post-consummation source of payments to AGM and Dauphin County derives from future anticipated payments that, over time, are anticipated, though not guaranteed, to be made to the City of Harrisburg, AGM and

Dauphin County from the future operations of the parking facilities. These potential future parking-operation payments, and the sharing of them by the City, AGM and Dauphin County are more fully set forth in the Comprehensive AGM/Dauphin County Settlement Agreement, in Part Four, Section D.4, which describes the Parking Transaction and the various sources of funds that are anticipated to be generated, as well as in Part Five, Section H of the Strong Plan, where the formula for sharing such proceeds between the City, AGM and Dauphin County is discussed when describing the distributive share benefitting the City.

E. Treatment of Other Creditors of the City of Harrisburg.

1. Ambac.

As highlighted in Part Three of the Strong Plan, a meaningful element of the Strong Plan that is beneficial to the City (and as also referenced in Part Five, Section C.1 of the Plan), is that the Receiver and the insurer of the City's general obligation bond debt, Ambac Assurance Corporation ("Ambac"), have agreed to a restructuring of the City's general obligation indebtedness, subject to this Court's approval of the Strong Plan, which settlement will become an obligation to the City upon the Strong Plan's consummation. By reaching agreement in a manner acceptable to Ambac, the City will be seen to be respectful of the credit markets; and by taking an approach that accommodates the mutual needs of both the City and Ambac, the Receiver believes that the City has meaningfully increased its ability to have access to the credit market when it may need to borrow for the types of prudent capital improvement financings that all cities from time to time require to assure the delivery of quality essential services and to maintain their infrastructure.

The treatment of Ambac's claim is set forth in the amended settlement agreement (the "Ambac Settlement"). The public should understand that Ambac has made all required payments to the holders of the City's general obligation bonds since March 2012, when the City defaulted on its bond repayment obligations due to its adverse financial condition which left it with insufficient funds to make that payment. Since March 2012, the City defaulted on payments due in September 2012 and March 2013, and will be unable to pay the September 2013 repayment obligation until and unless this Strong Plan is confirmed by this Court and consummated later this year. In the aggregate, the defaulted payments, including the payment due in September of this year exceed \$17 Million.

Under the Ambac Settlement, Ambac, as insurer on the City's general obligation bonds, will continue to timely pay the bondholders all amounts due until the entire bond indebtedness is repaid. In that sense, the bondholders of the City's general obligation debt will never experience any loss in timely repayment of the amount they loaned to the City. For its part, Ambac will not only have made the bondholders whole, notwithstanding the City's prior defaults, but also, will keep the bondholders current as the City is afforded the opportunity to repay its obligations to Ambac on a timeline more relaxed than the contractual schedule upon which the bondholders themselves are to be repaid by Ambac.

The Ambac Settlement permits the City to repay its obligations on terms that reduce the annual debt-repayment obligations to levels lower than were contractually required under the bonds, and, necessarily over a longer period of time. The Ambac Settlement permits the City to extend the repayment of the bonds, at its election, up to 10 years longer than the bond repayment schedule had required. To the extent that the City timely repays portions of the bond debt on a basis consistent with the original terms of the bond, it will pay Ambac interest at the rate of 5.48% per annum, the same rate implicitly set when the City incurred this indebtedness. To the extent the City has defaulted on its repayment obligations, thereby requiring Ambac to shoulder the responsibility for the repayment of the bonds to make the bondholders whole for the City's shortfall in payment, Ambac, for that risk, is to be compensated through the City's payment of interest at an effective rate of 6.02% per annum.

A condition of the Ambac Settlement is that the City make a payment to Ambac of \$5,970,000 by December 15, 2013. Sufficient funds to make that payment are to be derived from proceeds of the Parking Transaction that the City is to receive under the Strong Plan and at its consummation. Ambac is under no obligation to proceed with the Ambac Settlement if it is not paid the required amount by December 15, 2013. The Ambac Settlement is expected to be executed contemporaneously with the filing of the Strong Plan and will be seasonably submitted to the Court for approval.

2. SunTrust Leasing Corporation.

SunTrust Leasing Corporation ("SunTrust"), as assignee of Municipal Capital Corporation, is owed approximately \$2.6 Million in respect to certain equipment lease financing arrangements, executed by and between the City, as lessee, and Municipal Capital Corporation, as lessor. These lease financing arrangements permitted the City to obtain various equipment, including vehicles, computer equipment and other equipment, for use in the City's day to day operations. The City is in arrears in its payments to SunTrust in the amount of approximately \$1.3 Million. The Receiver is engaging in settlement discussions with SunTrust, which agreement will be subject to this Court's approval of the Strong Plan. Under the terms of the Receiver's proposed settlement with SunTrust, provided the Court confirms the Strong Plan and it is consummated, SunTrust will receive a lump-sum payment contemporaneously with the consummation of the Strong Plan and, thereafter, will receive restructured payments in accordance with an agreed upon payment schedule, which final payment is anticipated to be made by early 2017, in advance of the original final payment date of October 15, 2017. Upon arriving at final settlement terms with SunTrust (the "SunTrust Settlement Agreement"), the Receiver will submit the SunTrust Settlement Agreement to the Court for approval.

3. Metro Bank.

Metro Bank (f/k/a Commerce Bank/Harrisburg, National Association) ("Metro Bank") asserts that it is a secured creditor of the City of Harrisburg by reason of the City's guaranty of debt service payments on a certain loan Metro Bank made to the

Redevelopment Authority Of The City Of Harrisburg, on or about December 29, 2006 ("Metro Bank Loan"). Metro Bank's claim totals approximately \$2.4 Million. Collateral security for the City's guaranty of the Metro Bank Loan included certain artifacts owned by the City. It is believed that some of these artifacts were sold in an auction conducted by the Guernsey Auction Company in July of this year (the "Auction").

Pursuant to an Order dated June 3, 2013, the Receiver is to report the proceeds of the Auction to this Court, and discuss the use of the proceeds to satisfy obligations of the City. As noted above, it is believed that Metro Bank held a security interest in the artifacts sold at the Auction. As such, at such time as the Receiver has received (1) documentation sufficient to support that Metro Bank held a properly perfected security interest in the assets sold at the Auction, (2) a calculation of the net Auction proceeds, and (3) an itemized payoff statement from Metro Bank showing the amounts Metro Bank claims it is owed as of an anticipated payment date, the Receiver will ask the Court to permit it to pay over to Metro Bank the net proceeds derived from the sale of artifacts that constituted Metro Bank's collateral, up to an amount equal to the amount guaranteed under the guaranty agreement executed by the City. As Metro Bank's entitlement to the collateral securing its claim is not dependent on the Court's confirmation of the Plan or the Plan's consummation, the Receiver will ask the Court to permit the City to pay off the Metro Bank claim independent of the Plan's confirmation, and will seek a separate order permitting that to occur.

If the Court allows payment to Metro Bank to proceed, it is anticipated that such payment will satisfy a significant portion of the Metro Bank claim. The Receiver intends to engage in settlement negotiations with Metro Bank with respect to the satisfaction of any indebtedness remaining owed to Metro Bank subsequent to the anticipated payment of Auction proceeds to Metro Bank. Any negotiated settlement terms will be documented in a written agreement and seasonably submitted to the Court for approval.

4. Suburban Claimants.

As discussed in detail above, the Suburban Claimants have asserted the Suburban Overcharge Claim, in the aggregate amount of approximately \$25 Million, as a result of certain overcharges in sewer rates imposed on the Suburban Claimants by the City over a period of a number of years. The Receiver, with the cooperation and agreement of the Suburban Claimants, through their counsel, has negotiated a compromise of the Suburban Overcharge Claim and other amounts that might be owed to the Suburban Claimants as a result of the overcharging of sewer rates. In settlement of these claims, in addition to the City's agreement to credit certain amounts as part of the Suburban Claimants' prospective financial commitments to the comprehensive overhaul of THA's sewer system (as discussed more fully above), and subject to obtaining the necessary legislative approvals by the Suburban Claimants (which is anticipated to happen in the near-term) and approval and consummation of the Plan, the City will make payments to the Suburban Claimants pursuant to the Suburban Claimants' Payment Schedule included in the Strong Plan Exhibit Book as **Exhibit 6**. Under the terms of the settlement agreement reached with the Suburban Claimants,

and provided the Court confirms the Strong Plan and the Strong Plan is consummated, the Suburban Claimants will promptly be paid the sum of \$4.5 Million in 2013 and \$1.5 Million in each of 2014-2016 and, thereafter, will receive payments totaling \$2,225,000 in accordance with the Suburban Claimants' Payment Schedule, which final payment is to be made in 2019. This negotiated agreement will be documented in a written settlement agreement by and between the Suburban Claimants and the City (the "Suburban Settlement Agreement"). It is anticipated that the Suburban Settlement Agreement will provide, among other things, that, should a default occur under the terms of payment, as set forth in the Suburban Settlement Agreement, then, in that event, tax revenues due the City shall be paid into a "lockbox" escrow account administered by a third party, and not otherwise remitted to the City, in an amount sufficient to guarantee the scheduled payment to the Suburban Claimants until such time as such default is cured. The final, agreed Suburban Settlement Agreement will be seasonably submitted to the Court for approval.

5. City of Harrisburg's Contingent Liability for Bonds That Were Secured By The Verizon Tower.

Totally apart from anything to do with the Incinerator financings, the City of Harrisburg is obligated under a reimbursement agreement to AGM which acted as the insurer of bonds issued by the Redevelopment Authority of the City of Harrisburg in conjunction with a financing transaction that provided the City with approximately \$7.0 Million in 1998. The bonds that were issued were secured by a lien on the Verizon Tower in Strawberry Square ("Verizon Tower"). Currently, the building is occupied by and leased to Verizon, but that lease expires in 2016 and is not expected to be renewed. Annual payments on these bonds are due to first be made starting in 2016.

Because the bonds are "capital appreciation bonds", no payment of principal or interest have been paid since 1998. Since interest accruing on the bonds has been capitalized and added to the principal since 1998, the indebtedness that will be owed in 2016 will have risen to approximately \$20 Million. By the terms of the bond documents, interest and principal payments on the bonds are to commence in 2016, with the entire indebtedness due to be fully paid by 2033.

The City's reimbursement agreement is essentially akin to a guaranty on the repayment of the bonds, with that obligation to do so in favor of AGM. To the extent the operations of the Verizon Tower were not to generate funds sufficient to make the contractually required bond payments in 2016 and thereafter, AGM, in its capacity as bond insurer, will be obligated to pay the amounts scheduled to be paid from time to time to the bondholders, and AGM will then look to the City, and require payment from the City under its reimbursement agreement.

Facing the City's potential exposure under its reimbursement obligation, the Receiver has been actively pursuing efforts to locate a tenant or tenants for the building and to create a lease structure that will provide sufficient net revenues to either recapitalize or pay in full over time the bond debt in a manner that does not require AGM as insurer to make up any scheduled bond repayment shortfall. If an acceptable

lease solution that provides AGM with full protection against its exposure on the bonds can be achieved, AGM will be prepared to treat the City's reimbursement obligation as satisfied.

The Receiver's efforts to fund a resolution of this Verizon Tower exposure is ongoing, but as the Strong Plan is being filed, no assurance can be given that the City's reimbursement liability will be satisfied by a new lease that will assure full repayment of the bond indebtedness. That said, the discussions that have been conducted to date provide a favorable prospect that at least a meaningful portion of the City's exposure of its reimbursement obligation can be achieved. To the extent that the Receiver has further information to report regarding the potential resolution of this contingent obligation, it will be provided before the Court's consideration of the Receiver's request for the Plan's confirmation.

In the likely event that a complete satisfaction of the City's reimbursement obligation cannot be fully achieved through a new Verizon Tower lease, but, as hoped, a rather meaningful amount of that exposure can be repaid through rent payments, the portion of any remaining reimbursement obligation owed by the City to AGM needs to be postponed to allow the City time for the Strong Plan to take effect.

To protect the City against the possibility it might otherwise have to commence making reimbursement payments to AGM as early as 2017 for the portion of bond payments that revenues derived from a new lease agreement were insufficient to cover, the Receiver and AGM have agreed to work cooperatively to fashion a repayment schedule that will afford flexibility to the City in repaying its obligations in full over time. By reason of that agreement, should the City have a reimbursement obligation after factoring in the revenues to be generated under the new lease, the repayment of its reimbursement obligation would be scheduled in a manner such that AGM would be compensated at the rate of 6.02% for any amount it were required to pay to bondholders from and after the obligations owed to the bondholders were to be first commenced by AGM until all amounts that AGM advanced to the bondholders were to be repaid.

6. Ambac Related Stadium Transaction.

In 2005, the Redevelopment Authority Of The City Of Harrisburg ("RAH") issued two series of bonds ("2005 A1" and "2005 A2"), in order to fund certain renovations and upgrades to the baseball stadium located in Harrisburg in which the Harrisburg Senators baseball team ("Senators") plays its home games (the "Stadium"). Each issuance was \$9.0 Million. The 2005 A1 bonds were not insured. The 2005 A2 bonds are insured by Ambac. The City guaranteed debt service payments on the 2005 A1 and 2005 A2 bonds pursuant to a certain Stadium Guaranty Agreement.

Until 2007, the Senators were owned by the Harrisburg Civic Baseball Club, Inc. ("HCBC"), an entity owned by the City. The Senators baseball team was sold in 2007 for approximately \$12.5 Million to Senators Partners, LLC ("Partners"). A portion of the proceeds were used to satisfy in full the 2005 A1 bonds. Annual debt

service on the outstanding 2005 A2 bonds is approximately \$650,000.00. Partners has been making payments to the City under a certain Stadium Park Permit, dated October 11, 2007, between the City and Partners ("Park Permit"). The payments are composed of an annual "User Fee" to the City of \$372,000.00, due in equal installments on April 1 and July 1, and also a per ticket fee, due on December 1, if certain sales targets are hit. These amounts are used to pay a portion of the debt service on the 2005 A2 bonds. There is an annual shortfall of approximately \$160,000.00. This shortfall is currently being covered by the City from its general fund. The total amount outstanding on the 2005 A2 bonds is approximately \$7.0 Million, with a final maturity date in 2030. Issues related to this debt will not be fully resolved prior to confirmation of the Strong Plan. The Receiver, however, is continuing to investigate the issues related to these bonds, with the goal to resolve matters in such a manner that the City will no longer need to pay a portion of the debt service on the 2005 A2 bonds from its General Fund. If the Receiver is unable to obtain such a result, the Receiver will need to reach an agreement that will permit the City a workable means to satisfy both its obligations on the 2005 A2 bonds and any City obligations to Partners with respect to the Stadium's upkeep going forward.

7. Other Creditors to the City.

Certain other ancillary creditors to the City, including certain creditors whose debt service payments are largely, if not entirely, covered by revenues other than those in the City's general fund, are not specifically addressed in this Plan. Henceforward, payments to these creditors will be paid by the City in the ordinary course of business. Trade Vendors who regularly provide recurring goods and services to the City and whose products or services are needed as part of the City's normal day-to-day operations, will be paid by the City in the normal course.

8. Reservation of Rights.

It is possible that, going forward, entities may assert claims of which the Receiver is not aware against the City of Harrisburg. If any such claims were henceforth to be asserted, the City, by and through the Receiver, reserves the right to defend against any such asserted claims, and by consummating the Strong Plan, none of their rights are waived, all such rights being preserved to the fullest extent provided by law. For the avoidance of doubt, to the extent any such claim were found to be valid, neither the Receiver, nor the City of Harrisburg shall be obligated by reasons of consummation of the Strong Plan to treat such a claim in a manner comparable to that of any of the creditors whose claims have been settled or otherwise addressed as part of the Strong Plan. Further, neither the confirmation of the Strong Plan and its consummation shall be deemed to preclude such a claim, nor deemed to waive any rights of the claimant to pursue a claim, or the right of the party or parties against whom such a claim were to be asserted to be deemed to have waived any defenses thereto

PART SEVEN
FUNDINGS FOR ECONOMIC DEVELOPMENT, INFRASTRUCTURE
IMPROVEMENTS AND FOR A HEALTH CARE TRUST

A. Overview.

The Strong EDC, Strong IIC" and the Harrisburg OPEB Trust are key components to sustaining and enhancing the stability and vitality of Harrisburg that will result from the implementation of the Strong Plan. As set forth in detail in Part Five above, certain funds, subject to certain restrictions and limitations, will be established and maintained in order to fund the activities of each of Strong EDC, Strong IIC and the Harrisburg OPEB Trust. In this part of the Strong Plan, we provide a general description of additional guiding principles that are to govern the use of proceeds that will be allocated to each of Strong EDC, Strong IIC and the Harrisburg OPEB Trust.

B. Strong EDC and Strong IIC.

1. Introduction.

As described in further detail, below, Strong EDC is intended to be organized and operated for the purpose of engaging in a wide-range of economic development and related activities for the benefit of the City, including activities designed to revitalize and expand the City's revenues through new sources of tax revenues by successful new and expanded business activity and investments in infrastructure and other improvements within the City. Strong IIC is intended to be organized and operated for the purpose of engaging in a wide-range of maintenance, operation, repair and improvement projects related to City infrastructure, including a focus on improvement of the quality of life in the City to encourage investment in the City by existing and new businesses and the resident population.

It is intended that both Strong EDC and Strong IIC be organized exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). Specifically, each organization is intended to lessen the burdens of government, promote commerce, encourage economic development and employment, attract new businesses, combat community deterioration, encourage stabilization and stimulation of new job development and retention of jobs. The actions taken pursuant to these goals shall be taken, in each case, exclusively for the benefit of and in order to facilitate, perform, or assist with the performance of the purposes and functions of the City. To this end, it is anticipated that one or both of the entities will engage in some or all of the following functions: (i) development, whether through co-development with other organizations or investors or otherwise, acquisition, ownership, lease and divestiture of facilities to existing businesses, relocating businesses, or start-up local businesses; (ii) solicitation and acceptance of funding, including in the form of loans, grants, other financial assistance or issuance of debt obligations, from public and private sector entities engaged in economic development activities; (iii) provision of technical and grant assistance, low-interest loans or grants to individuals and businesses for creation,

expansion and relocation to the City, including increasing the opportunities and capacity for minority and other disadvantaged groups, women-owned businesses and others; (iv) provision of resources and funding for local job training and development for the retention, expansion, creation and attraction of jobs and businesses to the City; and (v) investment in other entities, agencies and organizations that provide funds to new and existing businesses that foster local job creation and diversity in workforce, supplier chains and area assets. The performance of these functions by Strong EDC and/or Strong IIC are not intended to exclude the performance of such functions by the City or other agents or instrumentalities of the City, as contemplated by the Strong Plan or otherwise. Rather, the actions to be taken by Strong EDC and Strong IIC are intended to be performed in addition and complementary to any such actions taken by others.

With the charitable purposes outlined above, it is envisioned that Strong EDC and Strong IIC will be recognized as exempt from federal income tax as organizations described in Section 501(c)(3) of the Code and that each will also qualify for exemption from Pennsylvania corporate income tax and from certain other state and local taxes. Accordingly, it is anticipated that each of Strong EDC and Strong IIC will be eligible to receive: (i) tax-deductible charitable contributions from individuals, corporations and other business entities under Section 170(c) of the Code; and (ii) grants from other Section 501(c)(3) tax-exempt organizations such as public charities and private foundations. The Receiver will cause each of Strong EDC and Strong IIC to be formed under Pennsylvania nonprofit law and will cause to be filed with the Internal Revenue Service (the "IRS") applications on IRS Form 1023 requesting that the IRS issue a "determination letter" to each of Strong EDC and Strong IIC formally establishing federal tax-exempt status for each of them under Section 501(c)(3) of the Code. Once issued, this IRS determination letter would relate back to the date of incorporation of each of Strong EDC and Strong IIC, and all charitable contributions received by them after their respective dates of incorporation would be treated as having been made to a qualifying charity.

2. The Task Force.

In order to best position the City for an economically sound future, continued stimulation and diversification of the City's economic base should be aggressively pursued. Creative efforts need to be undertaken to attract new investment in existing businesses and to successfully recruit new businesses to the region. Correlative to the need to stimulate and diversify the City's economic base is the need to improve or rehabilitate the infrastructure of the City to the necessary state of function of repair. Strong EDC and Strong IIC are to be formed with these overarching goals in mind. To those ends, a task force will be established that will consist of various stakeholders in the economic and community development of the City (the "Task Force").

Using the guiding principles described above, the Task Force will be constituted to: (A) further refine the purposes of Strong EDC and Strong IIC; (B) identify and assign priorities to Strong EDC's and Strong IIC's respective proposed activities; (C) make recommendations concerning certain governance features of Strong EDC and

Strong IIC; and (D) create an action plan for each of Strong EDC and Strong IIC, in each case of not fewer than 5-years, in which Strong EDC and Strong IIC will, as appropriate and among other things, identify and prioritize strategic initiatives which, it is envisioned, will be aimed at some or all of the following objectives: (i) repairing and improving the City's infrastructure, (ii) retaining and strengthening the City's existing businesses, (iii) attracting new business investment, (iv) maintaining and developing a quality affordable housing stock in the City, (v) providing attractive residential neighborhoods and commercial areas for City residents and visitors, and (vi) expanding the City's tax base. More specifically, the Task Force will develop and submit to the Receiver a proposal which sets forth, among other things, the proposed governing policies and administrative and operating procedures of each of Strong EDC and Strong IIC, as well as the proposed 5-year action plan for each. The proposal to be generated by the Task Force shall be referred to herein as the "Governance Proposal and Action Plan." Some of the matters to be included in the Governance Proposal and Action Plan are identified on **Exhibit 8** to the Strong Plan Exhibit Book. It is anticipated that the Task Force, in developing the action plan for each of Strong EDC and Strong IIC, will consult with City officials, professionals and staff. It is further anticipated that the initiatives undertaken by the Strong EDC shall be undertaken with due regard for the initiatives outlined in the Operational Initiatives and Progress Report and in such in a manner that is complementary to those initiatives.

3. Appointment of the Task Force.

The Task Force will be composed of nine (9) members. Each member of the Task Force shall possess professional qualifications directly relevant to the mission of Strong EDC and Strong IIC. The members of the Task Force shall be appointed by the Receiver; provided, however, that the Receiver shall endeavor to appoint the members of the Task Force upon recommendation from various constituencies as follows:

- (a) three (3) individuals selected and appointed by the Receiver;
- (b) two (2) individuals to be appointed by the Receiver and selected from a list of six names submitted by the Mayor of Harrisburg to the Receiver;
- (c) two (2) individuals to be appointed by the Receiver and selected from a list of six names submitted by the City Council to the Receiver; and
- (d) two individuals to be appointed by the Receiver and selected from a list of six names submitted by Dauphin County to the Receiver.

Recommendations for potential appointments to the Task Force shall be provided to the Receiver on or before the date that is ten (10) days after the date of consummation of the Strong Plan. The Receiver shall appoint the members of the Task

Force on or before the date that is thirty (30) days after the date of consummation of the Strong Plan. In an effort to ensure diverse and meaningful participation, both in expertise and experience, within the Task Force, it is anticipated that its members will be drawn from the following constituencies within the City: (1) local leadership; (2) the private business community; (3) local charitable, religious and civic associations; (4) local academic or research groups focused on the region; and (5) individuals with expertise in urban development and planning.

The Receiver shall utilize funds maintained in the trust accounts to be established for each of Strong EDC and Strong IIC in an amount not to exceed an aggregate amount of \$100,000.00 to be used to fund the costs associated with the formation of Strong EDC and Strong IIC and related costs

4. Completion and Approval of the Governance Proposal and Action Plan.

Once constituted, the Task Force shall be given a period of (4) months in which to complete the Governance Proposal and Action Plan and submit it to the Receiver for review and approval. The Receiver shall then review and, to the extent the Receiver deems necessary and in consultation with the Task Force, modify the Governance Proposal and Action Plan. Thereafter, upon final approval by the Receiver, the Receiver will submit the Governance Proposal and Action Plan to this Court and ask this Court to approve the Governance Proposal and Action Plan in furtherance of the implementation of the Strong Plan.

Upon approval by this Court, the Receiver will then: (1) cause Strong EDC and Strong IIC to be formed under the Pennsylvania Nonprofit Corporation Law; (2) appoint the members of the board of directors for each of Strong EDC and Strong IIC; (3) cause each of Strong EDC and Strong IIC to complete its respective organization and to file IRS Form 1023 and all related documents necessary to support application for recognition of exemption under Section 501(c)(3) of the Code; (4) cause each of Strong EDC and Strong IIC to complete any and all additionally required state and local registrations to conduct fundraising activities; and (5) cause each of Strong EDC and Strong IIC to begin implementation of its respective 5-year action plans. The Harrisburg City Council and the City will assist and cooperate, as necessary, in the formation of Strong EDC and Strong IIC and the implementation of the Governance Proposal and Action Plan.

C. Harrisburg OPEB Trust.

1. Introduction.

The purpose of the Harrisburg OPEB Trust is to provide a source of future funding for the City's OPEB obligations, improve the City's financial statements, and demonstrate the City is proactively addressing its unfunded OPEB liability through prudent fiscal management. The Government Finance Officers Association ("GFOA") recommends prefunding OPEB in a trust as they are earned on an actuarial basis (i.e.

over the working life of the employee) as opposed to paying for each year's OPEB expense through budgeted contributions on an annual "pay-as-you-go" basis. Historically, the City and other public entities have funded OPEB on a pay-as-you-go basis, which is the simplest and cheapest option in the short term. In the long-term, however, prefunding all or a portion of the OPEB liability offers significant advantages and, when coupled with responsible cost-containment measures and benefit design, will help ensure the sustainability of the City's OPEB obligations.

Another advantage of the Harrisburg OPEB Trust is its favorable impact on the City's financial statements. The Government Accounting Standards Board ("GASB") has prescribed certain requirements for a trust used to prefund OPEB that, if met, will allow the City to reduce the reported OPEB liability on its financial statement and calculate its unfunded OPEB liability using an advantageous discount rate, both of which should positively impact its credit rating. To comply with the GASB trust requirements, the Harrisburg OPEB Trust must be irrevocable and the assets generally must (1) not revert to or be used by the City other than for provision of OPEB to retirees and their beneficiaries, (2) be legally protected from the City's creditors, and (3) be held in a tax-exempt trust. The Harrisburg OPEB Trust will be tax-exempt under Section 115 of the Code, which allows the City to exclude income derived from performing an essential governmental function (i.e. funding OPEB liabilities for the benefit of its retirees). A Code Section 115 trust is the preferred OPEB funding vehicle for many public employers because it is administratively less burdensome than other tax-exempt trust options, which require an Internal Revenue Service filing to confirm the trust's tax-exempt status and ongoing compliance with applicable Code requirements to maintain such tax-exempt status.

2. Approval and Formation of the Harrisburg OPEB Trust.

The Receiver shall establish the Harrisburg OPEB Trust as a separate legal entity governed by a board of trustees ("OPEB Board"). The OPEB Board will be comprised of nine (9) members who will be appointed as follows:

- (a) one (1) individual will be appointed by the FOP;
- (b) one (1) individual will be appointed by AFSCME;
- (c) one (1) individual will be appointed by the IAFF;
- (d) two (2) individuals to be appointed by City Council;
- (e) two (2) individuals to be appointed by the Mayor; and
- (f) two (2) individuals to be appointed by the Receiver.

Proposed appointments to the OPEB Board shall be submitted to the Receiver on or before the date that is ten (10) days after the date of consummation of the Strong Plan. Thereafter, the Receiver shall submit to this Court for approval certain documents necessary for the formation of the Harrisburg OPEB Trust, including, without limitation, a trust agreement, an investment policy statement and a custodial agreement (the "OPEB Trust Documents"), together with a list of the names of the proposed OPEB Board member. Upon approval of the OPEB Trust Documents and the proposed OPEB Board members by this Court, the City and the City Council, shall take all necessary

action to facilitate and effectuate the appointment of the OPEB Board and the formation of the Harrisburg OPEB Trust, pursuant to the OPEB Trust Documents and the Strong Plan. The OPEB Board members will be fiduciaries with the duty to act in the exclusive interests of the beneficiaries of the Harrisburg OPEB Trust and not the City.

The Receiver shall utilize funds maintained in the trust account to be established for the Harrisburg OPEB Trust in an amount not to exceed \$60,000.00 to fund the costs associated with the formation and establishment of the Harrisburg OPEB Trust and related costs.

3. Actions of the Harrisburg OPEB Trust.

Distributions from the Harrisburg OPEB Trust will be made only at the direction of the OPEB Board. The City may not, without unanimous OPEB Board approval, access the funds in the Harrisburg OPEB Trust to satisfy current OPEB payments to participants if at the time such OPEB payments are due, the City has any "unfunded actuarial accrued liability" so that the present value of OPEB benefits that have accrued to date exceeds the funds set aside in the Harrisburg OPEB Trust, as determined by the City's independent enrolled actuary under Government Accounting Standards Board Statement 45 ("GASB 45").

The OPEB Board will select a custodian for the trust assets and an independent third-party investment adviser to oversee the investment funds and establish an investment policy subject to any City requirements and procedures for entering into similar contracts and arrangements. The OPEB Board will separately pay from the funds maintained in its trust account all fees related to the ongoing administration of the Harrisburg OPEB Trust. Additionally, although the City will generally retain the power to amend the Harrisburg OPEB Trust, no amendment will be permitted without approval of the OPEB Board. No such amendment will be permitted to the extent it would cause the Harrisburg OPEB Trust to lose its status as a GASB trust, to be revocable, or to provide for distributions when the City has any "unfunded actuarial accrued liability" for OPEB so that the present value of OPEB benefits that have accrued to date exceeds the funds set aside in the Harrisburg OPEB Trust, as determined by the City's independent enrolled actuary under GASB 45. Further, during the pendency of receivership, no amendment will be permitted without the approval of the Receiver. Similarly, in the event the receivership is vacated or terminated and a coordinator is appointed by the Secretary of DCED ("Coordinator") to oversee the continued implementation of the Plan, no amendment will be permitted without the approval of such Coordinator.

Although the Strong Plan does not require the City to make additional contributions to the Harrisburg OPEB Trust, the City is encouraged to annually contribute towards reducing its unfunded actuarial accrued liability for OPEB, in addition to any amounts that may be transferred to the Harrisburg OPEB Trust by the Strong EDC and as otherwise described in Part Five, Section G. Although prefunding the Harrisburg OPEB Trust will result in higher initial costs than if the City continues each year to only pay its current OPEB liabilities on a "pay-as-you-go" basis, the additional

contributions will yield significant cash flow savings in later years, better secure funding of OPEB liabilities for current and future retirees, and lower the burden that increased OPEB liabilities will have on future taxpayers.

PART EIGHT CONDITIONS TO THE STRONG PLAN'S CONSUMMATION

In this Part Eight, we will discuss briefly the contingencies that will be need to be satisfied in order for the Strong Plan to be consummated.

First and foremost, this Court must have determined that this Strong Plan should be confirmed and issues an order to that effect.

In addition, the following must have transpired:

1. All settlement agreements contemplated throughout the Strong Plan will have been executed unless any such agreement not so executed were to be found by this Court to be insubstantive and not to meaningfully affect the integrity and viability of the Plan. All executed settlement agreements will be filed with this Court when received by the Receiver.

2. City Council must have approved legislation extending the 1% Earned Income Tax increase through 2016. Between the filing of the Strong Plan and the hearing by this Court to consider whether to confirm the Strong Plan, it is expected that City Council will enact that required legislation. The Receiver will file supplemental evidence of City Council's approval with this Court. If the required legislation for the EIT increase has not been approved by City Council prior to this Court's consideration of the confirmability of the Strong Plan, the Receiver requests that this Court confirm the Strong Plan subject to the City Council's adoption of the EIT legislation.

3. The conditions agreed to between the Receiver with each of AGM and Dauphin County as set forth in Part Six, Section D.3 of the Strong Plan shall have been satisfied or waived by the affected party or parties.

4. The appeal period with respect to this Court's confirmation of the Strong Plan will have run, or any appeal that were to be filed, finally determined and overruled in its entirety, or at a minimum, overruled as to any aspects that could affect the integrity of the Strong Plan or the rights of the parties to or affected by it, unless the parties to each of the Incinerator transaction and the Parking Transaction, the Receiver and AGM and Dauphin County each determine to proceed to consummation during the pendency of an appeal or an appeal period.

5. The coordinated closings of the Incinerator transaction and the Parking Transaction shall have occurred. Each of these transactions must be approved by the respective parties thereto, including in each case by ordinance by City Council. These approvals are anticipated between the filing of the Strong Plan and the hearing by this Court to consider whether to confirm the Strong Plan and the approvals will be provided to this Court when received by the Receiver. If any required legislation or other

approval has not been acted upon prior to this Court's consideration of the confirmability of the Strong Plan, the Receiver requests that this Court confirm the Strong Plan subject to obtaining any such approvals. Additionally, the closing of each of the transactions is conditioned upon a series of conditions that will be set forth in each of their respective Asset Purchase Agreements. The closing of the transactions themselves will occur simultaneously with the consummation of the Strong Plan and the respective parties to those transactions could decide to waive individual conditions to their closing and, thus, the only anticipated pre-consummation filings with this Court with respect to the Incinerator transaction and the Parking Transaction are the filings of the approvals of the board of each of the parties to the transactions.

Apart from the foregoing conditions, the Receiver anticipates further filing with this Court both before and after the consummation of the Strong Plan to provide status updates and to seek further guidance and approval from this Court. In addition to the approval-related filings enumerated above, the Receiver may file additional documents and agreements in furtherance of the Strong Plan prior to its consummation. The additional documents and agreements will be entirely consistent with the Strong Plan and simply contain further details.

After consummation of the Strong Plan, the Receiver will continue to update this Court and seek guidance and approval from this Court as the Strong Plan is implemented. For example, as provided in Part Seven of the Strong Plan, with respect to establishment, initial operations and anticipated plans for Strong EDC, Strong IIC and the Harrisburg OPEB Trust which are key components to sustaining and enhancing the stability and vitality of Harrisburg that will result from the implementation of the Strong Plan.

PART NINE PURSUIT OF INCINERATOR-RELATED CLAIMS

A. The Nature of The Incinerator Claims and the Receiver's Intention To Pursue Them.

In the Preliminary Recovery Plan which was submitted to this Court in February 2012 and approved in March 2012, the then Receiver discussed his intention to evaluate the possibility of pursuing what this Strong Plan has, as a short hand, denominated the "Incinerator Claims". To expand the definition, "Incinerator Claims" generally includes claims against professionals or entities that are alleged to be responsible for: (a) THA's imprudent determination to retrofit the City Incinerator facility at great expense and with enormous potential financial exposure; as well as (b) the City's decision to financially expose itself to serious liabilities when it determined to backstop THA's huge undertaking by agreeing to reimburse the insurer of bonds issued to finance the project for every dollar of net revenues needed to pay off the bonds in full that the project did not generate.

As this Court and the public are well aware, in January 2012, shortly prior to the filing of the February 2012 Recovery Plan, a comprehensive forensic report was issued

by the current Board of THA (the "Forensic Report"). The Forensic Report provided significant details and raised myriad concerns relating to the various financings of the Incinerator's retrofit. The Forensic Report, among other things, highlighted the fact that the project's completion necessitated the borrowing and expenditure of tens of millions of dollars more than had originally been contemplated when the decision to repair and overhaul the Incinerator --- a facility which had already been closed for some time due to environmental and other issues -- was first made in the early part of the last decade by the then officials of the City of Harrisburg and THA. Additionally, the Forensic Report brought to light that when the Incinerator finally reopened in 2007, after protracted construction delays, it was never able to generate sufficient revenues, net of paying the operating expenses of the facility, which remotely came close, or would ever come close in the future, to repaying the very significant financial obligations that THA had incurred to retrofit the plant.

As is apparent to anyone reading the Forensic Report, the fundamental proposition that the Incinerator could realistically have "paid for itself" from its net operating revenues appears to have been ill-conceived from the outset. The public expects that there be a means to obtain redress for these ill-fated decisions if there is evidence to support the allegation that highly imprudent actions were taken by those charged with protecting the City and its taxpayers against these very types of circumstances. The current Receiver agrees with the public that these matters merit full consideration. Indeed, while the Preliminary Recovery Plan had indicated that the Receiver had retained legal counsel to review and evaluate the Forensic Report, the Receiver now reports to this Court that such analysis has been made, and that the Receiver intends to consider using every measure available, including discussions seeking consensual resolutions or litigation if deemed warranted, to seek redress from those professionals and entities alleged to be responsible for the various decisions to proceed with the Incinerator retrofit project.

Of course, to the extent not legally constrained, the Receiver intends to keep elected City of Harrisburg officials apprised as best is appropriate regarding the status of his pursuit of Incinerator Claims, whether before suit were to be brought or, if suits are commenced, thereafter. And, while the Receiver as best he can within the bounds of the law will seek input from City officials, the decision to pursue Incinerator Claims, including whether and on what terms to settle or to institute suit, necessarily must be the Receiver's to determine in the fulfillment of his legislatively assigned duty to take actions that he deems appropriate to prudently and responsibly complete the implementation of the Strong Plan, of which the Incinerator Claims are a part.

As was made clear when the Preliminary Recovery Plan was submitted and confirmed, it is not possible at this time to begin to estimate what amount of proceeds could possibly be achieved either through settlement, litigation or some combination. Nor can the Receiver predict how long it might take to achieve settlements, or if matters were to be pursued in court, whether the claims would be successful after all appeals were completed, and how long the litigation process could take. For these reasons, as also explained in the Preliminary Recovery Plan, the Receiver could not and cannot now rely upon potential recoveries from Incinerator Claims as a reliable source to base

a solution to the City's existing structural deficit or as the near-term source to benefit the City's immediate need to make infrastructure improvements, ignite economic development or fund the Harrisburg OPEB Trust. Unquestionably, however, if Incinerator Claim recoveries that benefit the City were to be obtained, most of the portion of the proceeds earmarked to benefit the City will be deployed to further improve the City's infrastructure, enhance economic development efforts and additionally fund the Harrisburg OPEB Trust.

It is possible that the resolution of Incinerator Claims could take a period of time longer than the time the Receiver will be serving. In the event that the Receivership were to terminate prior to the completion of this Incinerator Claims process, the duties of the Receiver will be transferred to the person or entity otherwise responsible for oversight of the City's financial condition, as addressed in Part Eleven of the Plan, or the oversight of the Incinerator Claims will be conducted in the manner as this Court shall direct, if prior to the termination of the Receivership, the Receiver shall seek authorization from the Court regarding the appointment of a person to conduct that oversight. By the terms of the Strong Plan, this Court is being asked to retain jurisdiction, among other reasons, for this purpose. If the Receiver shall seek the aid of this Court to appoint someone to specifically oversee the Incinerator Claims as provided for in the preceding sentence, the Mayor, City Council, AGM and Dauphin County will be given reasonable notice thereof, and they will be provided an opportunity to be heard on the appointment of the person or entity to serve in the role previously served by the Receiver with respect to the pursuit of Incinerator Claims as set forth in this Part Nine.

B. Allocation of Net Proceeds.

If the Receiver or his successor is successful in the pursuit of the Incinerator Claims, then, from time to time, in his determination, distributions of available proceeds shall be made for the benefit of the City, and to AGM and Dauphin County. The allocation of distributable proceeds between AGM and Dauphin County on the one hand, and for the benefit of the City on the other, shall be as follows: (a) AGM and Dauphin County shall receive 100% of the Incinerator Claims proceeds that might result from a resolution of the matter described in Part Six, Section C.5 of the Plan up to the sum of \$4.5 Million, less legal fees and expenses, if and to the extent those incremental proceeds were to occur because the swap claimant waived its termination fee; and (b) as relates to all other recoveries, net of legal fees and expenses, that are to be distributed in respect to Incinerator Claims, seventy-five percent (75%) of those distributions, up to the first \$4.0 Million, shall be distributed for the benefit of the City and twenty-five percent (25%) of up to that first \$4.0 Million amount shall be distributed collectively to AGM and Dauphin County, with the allocation between them to be as they mutually and in writing direct. As to distributions in excess of \$4.0 Million, sixty percent (60%) of such distributions shall be distributed for the benefit of the City, and forty percent (40%) collectively to AGM and Dauphin County, allocated between them in the manner they mutually and in writing agree; provided, however, that if and at such time as distributions totaling \$15 Million to AGM and the County collectively were to be paid to them, including amounts, if any, that they might receive pursuant to Part Five, Section

G.3 of the Strong Plan, all future distributions of Incinerator Claim recoveries thereafter would be for the benefit of the City.

All distributions of Incinerator Claim recoveries made to benefit the City shall be allocated to in the manner set forth in the City of Harrisburg Incinerator Claim Recovery Allocation Formula, as defined in Part Five, Section G.3 of the Strong Plan.

PART TEN OPERATIONAL INITIATIVES AND PROGRESS REPORT

The Strong Plan provides a solution to the City's critical debt issues and secures funding that will be leveraged to grow the local economy and improve City infrastructure. The solutions outlined in the Strong Plan are critical steps forward on the City's path toward achieving financial stability and their importance cannot be underestimated. However, it is equally important to ensure that the City of Harrisburg is able to meet its fundamental responsibility, which is to deliver critical public services such as police and fire protection, transportation infrastructure maintenance, and code enforcement. The task is therefore not only to address the City's debt crisis, but to do so while building a sustainable local government that can effectively and efficiently deliver those critical public services long after the Receivership has concluded.

In March 2012, the Commonwealth Court confirmed the Preliminary Recovery Plan, which contained 130 initiatives designed to address the City's structural budget deficit and improve the effectiveness and efficiency of local government operations. Since then, the City, DCED, and the Office of the Receiver of the City of Harrisburg (the "Office of the Receiver" or "OTR") have worked collaboratively to implement initiatives outlined in the Preliminary Recovery Plan.

Addendum 3 of the Strong Plan, entitled "Operational Initiatives and Progress Report", provides a description of what has been accomplished to date and the tasks that lay ahead. In addition, the exhibit includes four new initiatives, which are defined in the "New Initiatives" section of the report. These initiatives build upon the successes of the past 18 months and take into account the evolving financial and operational environment. These new initiatives focus on four key areas: 1) Building upon the City's efforts to create a modern fleet maintenance and management operation; 2) Improving the City's workers' compensation program; 3) Implementing an energy conservation program, and; 4) Conducting a quantitative workload-based staffing analysis of the Police Department patrol function.

The initiatives outlined in the Operational Initiatives and Progress Report are a component of the Strong Plan and represent important steps toward building a strong, sustainable local government.

PART ELEVEN PLAN IMPLEMENTATION AND RETENTION OF JURISDICTION

Provided the Court, pursuant to Section 703(e) of the Municipalities Financial Recovery Act, as amended (the "Act"), confirms the Strong Plan, then, in that event,

subsequent to the date of its Consummation, the Strong Plan shall be implemented (i) by the Receiver, or (ii) in the event the receivership is vacated or terminated, either by operation of the Act or by further Order of the Court, then by the Coordinator in accordance with the provisions of Section 221(b)-(d) of the Act.

In the event the receivership is vacated or terminated and a Coordinator is appointed by the Secretary of DCED to oversee the continued implementation of the Strong Plan, the City shall continue to be subject to the provisions of Chapters 2, 3, and 4 of the Act, until such time as the Secretary of DCED has issued a determination pursuant to Section 253 of the Act that the City's status of municipal financial distress is rescinded.

Provided the Court confirms the Strong Plan, then, except as specifically provided herein, the Receiver and the City, including, without limitation, the Mayor of the City, the City Council and other City officials, shall be free to take all actions necessary for the implementation of the Plan without approval of the Court. Following the date of the consummation of the Strong Plan, the Court shall retain jurisdiction over the Strong Plan and over any subsequent modifications, if any, to the Strong Plan. More specifically, the Court will retain jurisdiction with respect to, among other things, the following matters and for the following purposes: (1) To determine any motion to modify the Strong Plan; (2) To determine all questions and disputes regarding any settlement agreements or other contractual arrangements executed pursuant to the Strong Plan; (3) To correct any defect, to cure any omission, or to reconcile any inconsistency in the Strong Plan, and/or any order confirming or otherwise pertaining to the effectuation or implementation of this Plan as may be necessary or desirable to carry out the purposes and intent of this Plan; (4) To interpret and construe the terms and conditions of this Plan and to determine all questions arising in connection with implementation of this Plan; (5) To enter any order, including injunctions, necessary to enforce the terms and conditions of the Plan and/or to carry out the purposes and intent of this Plan; and (6) To resolve any objections that may be filed regarding any action taken or proposed to be taken in order to implement and enforce the terms of this Plan.

(Signature on the Following Page)

Signature Page to the Harrisburg Strong Plan

Date: August 26, 2013

Office of the Receiver for the City of
Harrisburg

By: William B. Lynch
William B. Lynch, in his capacity as Receiver
for the City of Harrisburg
Commonwealth of Pennsylvania, Executive
Offices
Office of the Receiver for the City of Harrisburg
401 Finance Building
Harrisburg, PA 17120

ADDENDUM 1

ADDENDUM 1
Harrisburg Strong Plan - Financial Snapshot

	1	2	3	4
	Adj.			
	Budget	Recovery Plan Projections		
	2013	2014	2015	2016
1 Estimated General Fund Revenues	\$ 50.0	\$ 51.5	\$ 51.6	\$ 51.8
2 Plus: Additional EIT	5.9	7.9	7.9	7.9
3				
4 Plus: Increase in Parking Meter Revenues	0	0.4	0.4	0.4
5 Plus: Priority Parking Distributions	0	0.5	1.0	1.5
6 Total Estimated Revenues	\$ 55.9	\$ 60.3	\$ 60.9	\$ 61.6
7 Estimate of Budgeted Expenses (Net of DS)	51.3	52.3	53.4	54.4
8 Plus: Debt Service Payments				
9 General Obligation Bonds	6.0	7.7	7.7	7.7
10 Capital Equipment Obligations	3.0	3.0	3.0	3.0
11 Less: Labor Contract Modifications	-0.7	-4.0	-4.5	-4.8
12 Less: Reduction in Force	0.0	-0.6	-0.6	-0.6
13 Plus: Payment to Suburban Communities (WW)	4.5	1.5	1.5	1.5
14 Total Estimated Expenses	\$ 64.1	\$ 59.9	\$ 60.5	\$ 61.2
15	-8.2	0.4	0.4	0.4
16 One time Funding (WC and payables)	5.0			
17 Total 2013 Budget Balancing Amount	13.2			

ADDENDUM 2

ADDENDUM 2

**2013 Projected Budget as of August 15, 2013
Revenues and Expenses before Debt Service
and Before Consideration of Strong Plan Components**

Revenue	
Property Taxes	\$ 17,193,388
Payment-In-Lieu-of Taxes	425,415
Existing Earned Income Taxes (.5%)	4,014,500
Mercantile Business Privilege	2,820,550
Parking Taxes	1,997,474
Other Taxes	3,486,825
Licenses, Permits and Fines	6,030,812
Intergovernmental*	8,109,957
Transfers**	5,416,034
Other Revenues	533,105
Total Revenue	50,028,060

Expenditures	
Employee Expenses	43,274,113
Non Employee Expenditures	8,059,869
Total Expenditures	51,333,982

*Intergovernmental includes previously approved funding for public safety services and State Aid Pension

**Transfers Includes Water, Sewer, Sanitation and Parking

ADDENDUM 3

Municipal Financial Recovery Act

Operational Initiatives and Progress Report

City of Harrisburg



Prepared on behalf of the
Commonwealth of Pennsylvania
Department of Community and Economic Development
Governor's Center for Local Government Services

Originally Filed - February 6, 2012

Updated – August 2013

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Introduction

In February 2012, the City of Harrisburg Receiver published a plan containing 130 recommendations designed to address the City's structural budget deficit, enhance City operations, and address the City's outstanding debt liability. The Receiver's Plan was subsequently confirmed by Commonwealth Court on March 9, 2012. While the Receiver's Plan represents a long-term road map to improving the City's financial condition and City services, the plan also serves as a living document that must respond to changing conditions and priorities to remain relevant and meet its ultimate objective. To the end, it is important to periodically revisit the plan to survey and assess what has been accomplished to date and to evaluate, from a holistic perspective, how best to respond to evolving conditions, challenges, and successes.

Those conditions and challenges are significant. In addition to its financial and debt related problems, the City faces significant operating challenges. Crumbling infrastructure, outdated or inadequate technology, and aging equipment and vehicles, all make the job of recovery more difficult. Moreover, the City's financial condition has forced the City to trim services and to meet service demands with limited front-line staff and management capacity. Since 2009, the City has eliminated 100 positions from the City budget, representing a 17% decrease over the 2009 budgeted staffing levels. As demonstrated in the table below, no City department has been immune to staff reductions.

Budget FTE – 2009 through 2013

	2009	2010	2011	2012	2013	Total FTE Increase/ (Decrease)	Percent Increase/ (Decrease)
General Government	42.4	42.4	28.4	27.4	28.4	-14.0	-33.0%
Department of Administration	39.6	39.6	32.6	30.6	30.6	-9.0	-22.7%
Department of Building and Housing Development	17.34	17.34	17.34	14.34	15.34	-2.0	-11.5%
Police Department	219	219	209	185	186	-33.0	-15.1%
Fire Department	93	93	85	85	85	-8.0	-8.6%
Department of Public Works	53	53	42.5	49.5	52.5	-0.5	-0.9%
Department of Parks, Recreation and Enrichment	31	31	20	4	4	-27.0	-87.1%
TOTAL GENERAL FUND FTE	495.34	495.34	434.84	395.84	401.84	-93.5	-18.9%
Water Utility Fund	34.33	34.33	32.83	32.83	34.83	0.5	1.5%
Sanitation Utility Fund	28.5	28.5	23.5	22.5	22.5	-6.0	-21.1%
Sewerage Utility Fund	37.83	37.83	35.83	36.83	36.83	-1.0	-2.6%
TOTAL UTILITY FUNDS FTE	100.66	100.66	92.16	92.16	94.16	-6.5	-6.5%
TOTAL FTE	596	596	527	488	496	-100.0	-16.8%

Many of these positions were eliminated as a result of efficiencies and many were eliminated out of necessity. Regardless, the critical point is that there are significant systematic impediments that impact the City's ability to complete the initiatives outlined in the Receiver's Plan. However, despite these challenges, significant progress has been made and the City, The Office of the Receiver, and DCED, and the City remains committed to creating a sustainable, efficient, and effective local government for the people of Harrisburg.

The following update of the Receiver's Plan provides a comprehensive summary, exclusive of the matters otherwise addressed in the Harrisburg Strong Plan, of what has been accomplished to date as well as a status update for all pending recommendations and recommendations that will further the City's recovery process.

What Has Been Accomplished

While recovery will be a long process for the City of Harrisburg, the City has worked diligently to accomplish many of the initiatives identified in the Receiver's plan. The 130 initiatives originally identified in the Receiver's Recovery Plan confirmed by the Court were the focus of regular updates, and progress has been tracked in the Receiver's quarterly updates to the Court. In total, 46 of the 130 initiatives have either been completed or will remain "in progress" throughout recovery.

The information below highlights those items that are either complete or will remain "in progress" as part of the ongoing efforts by the City to improve operations and build their internal capacity to manage operations.

PI02 Assemble and deploy Recovery Plan implementation teams

Implementation teams are formed and disbanded as initiatives are addressed. The Receiver works closely with the City and the various consultants provided by the Department of Community and Economic Development (DCED) to supplement the capacity of the City to implement initiatives.

WF02 Use professional assistance for labor negotiations

The City has retained Campbell Durrant Beatty Palombo & Miller, P.C. as outside labor counsel. The Receiver's Office is closely connected to the negotiation process as it relates to renegotiating labor contracts to implement provisions of the Recovery Plan. The Receiver provides supplemental legal support through Stevens & Lee LLC., to ensure consistency with the Recovery Plan.

RET02 Freeze benefit levels for all plans

The Plan included a cost containment initiative to restrict enhancements to benefits. This is closely monitored by the Receiver's Office on an ongoing basis to ensure the City limits its long term liabilities. In addition, the subject of retirement benefits remains an important consideration during ongoing labor contract negotiations.

RET03 Consolidate administration of the City's three retirement plans

The Law Bureau researched the feasibility of consolidating assets and consulted with the Office of the Receiver, DCED's legal team, and operations consultants. It was determined that pursuing this initiative was not advisable because a degree of retirement plan separation is required. An Act 111 Arbitration Award requires that consolidation between the Police Pension Plan and PMRS be separately negotiated.

RET05 Determine status of 2007 enhanced service increments and prevent implementation of such enhancements, if applicable

The 2007 pension enhancements were officially adopted by the City Council. Thus, there was no way to reverse this action.

RET06 Aggressively defend an appeal, if applicable, regarding the 2009 enhanced service increments

The Law Bureau successfully defended the appeal by the Fraternal Order of Police (FOP) and obtained a favorable decision by the Supreme Court, which upheld the decision of the Pennsylvania Labor Relations Board that the City did not commit an Unfair Labor Practice when the City Council refused to enact the pension enhancement enacted by the former Mayor. The 2009 enhancements will not be implemented.

RET09 Amend Non-Uniformed collective bargaining agreement

Because the 2009 pension changes were not approved by the City Council, it was not necessary to pursue this initiative.

I&RM01 Fund risk management services

The City does not have the resources to hire a full time Risk Manager. As such, the Plan required that the City solicit proposals for these services. The City contracted with Inservco, the Workers Compensation Third Party Administrator (TPA), to provide enhanced safety training for City employees. The City will continue to work with Inservco and Marsh USA to identify high risk areas to focus future annual training.

ADMIN03 Implement a standard budget development calendar

The City was proactive in implementing this initiative and developed an aggressive budget calendar to ensure sufficient time for the executive and legislative processes to proceed. The required budget calendar is as follows:

- July to August - Bureau of Financial Management develops revenue and expenditure projections using the first six months of actuals for current fiscal year; provides projections and budget targets to departments and bureaus
- August to September - Using projections and targets provided, departments and bureaus complete annual budget proposals and submit to Bureau of Financial Management; Bureau of Financial Management and City departments and bureaus review and refine proposals through ongoing, collaborative discussion
- September to October - Administration's Proposed Budget is finalized by the Mayor
- October to November - City Council reviews budget; public hearings held
- November - Budget is adopted

The modified budget development schedule was utilized in the preparation of the Mayor's 2012 and 2013 Proposed Budgets.

ADMIN05 Conduct comprehensive review of City purchasing policies

The City's purchasing policies are compliant with Commonwealth's regulations for Third Class Cities. The public limit for all Third Class Cities was increased to \$18,500 effective January 1, 2012. This directive was incorporated into the City's practices. The City has not, however increased its Purchase Order Limit (currently \$1,000) because of the financial situation that requires careful monitoring of all expenses.

ADMIN06 Modify existing chart of accounts to track Commonwealth and Federal grant program funds on individual basis

The City has added additional detail to its Chart of Accounts to allow for individual grant-specific revenue and expenditure monitoring. In addition, a Grants Manager was hired June 4, 2012, to manage grant reporting processes.

ADMIN07 Revise the job description and increase hiring salary range for Chief of Staff/Business Administrator

The job description and pay scale were revised, to the extent practicable, and a Chief of Staff/Business Administrator was hired in April 2012 and was confirmed by the City Council on May 22, 2012. The position was vacated, however, in May 2013, and Mr. Robert Philbin is now serving this position in an Acting capacity.

ADMIN08 Eliminate manual data entry processes in the Bureau of Financial Management

The City has developed a crosswalk between the Treasurer's financial system and Pentamation, the City's broader financial system. The crosswalk has been tested and refined to meet the Bureau of Financial Management's needs. It is estimated that developing the crosswalk has eliminated approximately 130 hours of manual data entry per year.

ADMIN09 Hire a Senior Accountant position to the Bureau of Financial Management

Senior Accountant hired on November 5, 2012, and accounting manager was hired in early 2013. The addition of staff has increased the Bureau's capacity to proactively monitor the City's financial condition and enabled the Bureau to begin addressing workload backlog. It is expected that in 2014, the backlog will be addressed, and the Bureau will be capable of taking over all audit preparation work.

Staffing in the Bureau of Financial Management has been a constant focus for the Receiver. It is critical that the Bureau increases its capacity to manage the City's complicated finances during the recovery period and beyond. The Receiver's Office periodically evaluates the Bureau's work plan progress and capacity development. Advancing the internal staff capacity of the Bureau will remain a priority area for focused attention.

IT03 Eliminate all personal printers and maintenance on printers

The Bureau of Information Technology conducted an inventory of personal printers. A total of 20 printers were identified during the inventory. Seven were identified as redundant and were eliminated from service; alternative network printing options were provided for the seven printers that were removed. Seven additional printers are used for special purposes (photo ID, fax, and scanner), and the remaining personal printers will be eliminated as supplies are depleted.

IT04 Develop custom Interface between County dispatch system and METRO

Dauphin County provided dispatching software that negated the need to develop a custom interface.

LAW01 Use professional assistance for labor relations activities (Reference WF02)

In December of 2012, the City contracted with Campbell Durrant Beatty Palombo & Miller, P.C. to provide legal support during labor negotiations. The firm continues to work closely with the City and the Receiver's Team on all ongoing collective bargaining agreement negotiations.

LAW03 Complete, recodify and enact the Code of the City of Harrisburg

The Law Bureau introduced the recodification ordinance at the City Council Legislative Session scheduled for February 12, 2013. The ordinance was approved by City Council.

POL01 Restructure the patrol duty schedule

The Police Bureau proposed a ten hour schedule for consideration by the Mayor and the Office of the Receiver. The Receiver's Team subsequently analyzed the cost and operational implications of the proposal and determined that the ten hour schedule was more costly to implement than the current eight hour schedule. In light of the City's fiscal constraints, the schedule change was not recommended.

POL04 Implement a proactive crime analysis and crime reduction strategy

A Crime Analyst position was created and assigned in 2012. The crime mapping system was implemented in May 2012, and data is currently used to inform the command staff's deployment decisions.

POL05 Increase complement of VICE Unit

The Police Bureau implemented a Career Development program to allow patrol officers to rotate into VICE as a temporary assignment. The program adds capacity to the VICE Unit and provides career development opportunities for patrol personnel who are interested in pursuing special assignments. The District Attorney's Office pays the ongoing 5% stipend and officers who are assigned to the Vice Unit are paid from the 5% stipend.

POL06 Assign representative to the District Attorney's Office Narcotics Task Force

The Receiver has granted permission for two additional Detectives to enhance Vice operations and keep it under City control in order to provide locally controlled neighborhood safety oriented anti-drug operations. These personnel will be assigned to the Vice Unit by mid-February 2014.

POL07 Participate in Dauphin County Forensic Team

After deliberation with the Office of the Receiver, it was determined that the forensic function will remain under City control for the immediate future to allow their activities to be focused on neighborhood and community activities/ needs.

POL08 Transfer prisoner booking responsibility to Dauphin County

The Dauphin County Booking Center is scheduled to be fully operational in 2013. It will be staffed entirely by Dauphin County personnel. The Harrisburg officers currently assigned to booking duties will be reassigned to patrol. No further action is needed on the part of the Police Bureau.

POL10 Replace electronic parking ticketing devices

The Police Bureau has purchased suitable replacement devices. They have been fielded and are fully operational.

POL14 Evaluate the consolidation of Specialized Units

Most of the Police Bureau's specialized units have been absorbed into patrol platoons to meet staffing needs. However, the street crimes and traffic unit remain in commission as they are important components of the City's proactive policing model.

POL15 Enhance leave supervision

The City has implemented a sick leave abuse policy for Police officers. However, officers are allowed to run sick time out at retirement. Further revisions to the policy are subject to the ongoing collective bargaining process.

POL16 Evaluate false alarm fee for burglar alarms and aggressively collect fees due

On February 8, 2013, the City Clerk introduced legislation for approval to City Council in reference to an ordinance addressing the update to the fee schedule for burglar alarms. The proposal is pending City Council approval.

FIRE05 Increase billing/collection of emergency response and vehicle extrication fees

Ordinance No.13 increased the extraction fee to \$500 per extrication. The Tax & Enforcement Office has begun the process of aggressively billing the insurance companies.

FIRE06 Adjust false alarm fees to more accurately reflect costs and impacts

The Fire Department and the Law Bureau submitted an ordinance for City Council approval, which increased false alarm fees to reflect the 2012 Maximus fee study. The ordinance was approved by City Council.

FIRE08 Mandate formal Safety Committee review of every work-related injury in Bureau

The Fire Bureau has established the practice of reviewing workplace accidents and near misses through a joint labor-management committee. The committee reviews safety issues and injuries and develops interventions as appropriate.

FIRE09 Establish a formal in-house training program, including a shift swap system, that allows in-house trainers to lead events

The Fire Bureau has developed and implemented an in-house training program designed to maximize the value of in-house expertise and raise the skill level of all firefighters.

FIRE10 Continue discussions with Harrisburg Area Community College Public Safety Center regarding possible training collaboration

The Fire Bureau's leadership team regularly interacts and communicates with the community college to identify and implement training opportunities for Harrisburg firefighters. Regular and informal interaction takes place as part of the Bureau's annual training schedule.

PW03 Increase recycling through education, accessibility, and enforcement

The City has a recycling grant for which it has qualified for the last six years. There are planned education events through the Parks and Recreation Department, primarily through the Youth As Restorers (YAR) program. The Keep Dauphin County Program will provide an education program at three Harrisburg public schools during 2013. The City continues to look at opportunities to increase recycling awareness in the City.

OA03 Expand the Stormwater Management Ordinance regarding discharges

The Department of Public Works drafted an ordinance revising the discharge clauses to reflect current Environmental Protection Agency (EPA) requirements, and the ordinance was passed by the City Council in May 2013.

The City of Harrisburg Stormwater Management Ordinance is posted on the City website and can be downloaded by the general public. The Department of Building, Housing and Development is apprising all land development plan applicants of the revised ordinance and directing stormwater related questions to the Office of the City Engineer.

BH01 Increase fees, fines and charges based on fee study results

The Department and the Law Bureau submitted an ordinance to City Council increasing fees and fines to reflect the 2012 Maximus study. The ordinance was approved by City Council.

BH02 Quantify extent of inspection backlog and hire additional Codes Enforcement Officers to clear and prevent backlogs

The City has eliminated existing backlog. In addition, the 2013 Budget included two additional inspector positions. The Receiver has approved these two positions and recruitment to fill the positions is underway. With the additional staff, the City is able to meet inspection workload demands and avoid future backlog.

BH03 Contract for demolition of blighted structures

The current practice is for all properties scheduled for demolition due to public safety concerns to be reviewed and triaged by the Codes Administrator and staff. The City continues to conduct as many demolitions in-house as possible because the cost of contracting for the service is high. However, the demolition team in Public Works is sometimes low on manpower due to reassignment for other priorities.

BH04 Assemble and systematically deploy code enforcement teams

The Department of Building, Housing and Development has assembled a team consisting of Department personnel as well as representatives from the Police and Fire Bureaus. The team meets to identify problem areas and develop a mutual approach to targeted enforcement.

BH05 Adopt legislation requiring a local responsible agent for rental properties within the City

The measure was passed by City Council in October 2011, Ordinance 9-2011. In lieu of a registration process, the Bureau of Codes maintains an electronic database of rental unit applications, which, in effect, documents the rental property ownership and provides a mechanism for regular communication

HS01 Designate a Housing Coordinator

The Deputy Director for the Bureau of Housing has assumed the responsibilities of the Housing Coordinator. In addition, Program Directors and Program Managers for the Bureau of Housing provide additional support.

REV01 Increase the Earned Income Tax (EIT) rate as required to eliminate operating deficits

The City Council approved the EIT tax increase of 1% on City residents on October 24, 2012. The new tax rate became effective on January 1, 2013, resulting in increased General Fund revenue estimated at \$5,154,000 for 2013.

REV02 Increase the Real Estate Tax rate as required to eliminate operating deficits.

The 2012 budget included a 0.8% increase in the real estate tax rate. The rate remained the same in 2013.

REV05 Increase business license fees; improve compliance with Business Privilege and Mercantile Tax

The Business Privilege license fee is currently in line with the Maximus fee study, which was finalized in early 2013. A contract with Muniservices to help improve compliance with the Business Privilege Tax was signed by the Controller's Office on February 8, 2013.

REV09 Increase interest and penalty provisions where permitted

Bill 21-2012 was passed by the City Council on January 22, 2013 increasing the penalty and interest provisions of the Business Privilege and Mercantile tax.

REV10 Improve taxpayer information

The City has updated the City's website to include a repository of tax related documents and forms to improve taxpayers access to information.

The preceding narrative highlights those recommendations from the Receiver's Plan that have been completed to date; however, the list does not represent an exhaustive inventory of all work completed. Many of the initiatives included in the Receiver's Plan require phased implementation over months, if not years. Many require complex negotiations between creditors, labor unions, and other governmental agencies. In addition, some initiatives, while important, are prioritized for later implementation due to competing priorities that have a more significant impact on the City's financial and operational condition.

The status of those initiatives that are underway but not complete and those initiatives that are pending implementation are discussed in the following sections. It is critical for the City's ultimate recovery that all parties remain committed to the further implementation of these recommendations.

Recovery Plan Implementation

*Plan Implementation*¹

PI01 Conduct regular Recovery Plan implementation meetings

Assessment as of February 6, 2012:

Once the Receiver's Recovery Plan is approved by the Commonwealth Court, the critical next step will be implementation. Implementation will require significant involvement from the Mayor, City Council, City Controller, City Treasurer and other key management staff. In some instances, legislative action may be required. It is important to prioritize the initiatives included in this Plan, so that the highest priorities are addressed immediately and lesser priorities addressed later. Staying on task to implement these Plan initiatives will facilitate the City's achievement of financial and economic stability.

The Mayor (or a designee), representatives from City Council, the City Controller, the City Treasurer and key management staff (as appropriate) shall participate in regular meetings, organized by the Receiver, to discuss and execute implementation of the initiatives included in this Plan. Within these meetings, the participants shall discuss key Plan policy initiatives and determine how each initiative will be implemented. At the implementation meetings, other management issues may be discussed, including but not limited to City finances, human resources, economic development, general operations and intergovernmental cooperation. The Receiver will be responsible for preparing each meeting's agenda and will lead the meetings. These gatherings are intended for a small number of attendees to focus on priority-setting and problem-solving and may result in follow-up assignments and associated progress reports. The Receiver will periodically meet with the full City Council in public session to provide updates.

City administration, including the Chief of Staff/Business Administrator, shall meet weekly to review implementation progress. At a minimum, elected officials shall meet monthly to review same.

It is recognized that, with the number of initiatives included in this Plan and the City's limited management capacity, a prioritization of initiatives will be required. The Receiver shall provide the City with a prioritized list of initiatives and corresponding deadlines for use in Plan implementation. This prioritized implementation action plan shall serve as a road map for implementation of this Plan and shall be the basis for monitoring progress on each initiative.

Status as of August 9, 2013:

Implementation meetings began in May of 2012 and are conducted monthly to ensure that priority initiatives are implemented in a timely fashion. These meetings shall continue throughout the period of time the City is under the Office of the Receiver.

¹ Plan implementation and oversight is further addressed in Part Eleven of the Harrisburg Strong Plan.

Organizational Accountability

PI03 Develop a performance management system

Assessment as of February 6, 2012:

In order to improve the flow of reliable information throughout the City government and increase the level of trust between and among City staff and elected officials, the City shall develop and implement a comprehensive performance management system. The system will track and monitor key indicators of activity levels, productivity, cost effectiveness and other measures of City government performance.

The Chief of Staff/Business Administrator and designated staff shall compile the performance information from each department, bureau and office and publish a quarterly performance management report that includes the monthly indicators and introductory narrative explaining important trends and changes, as well as actions taken by the City in response to those trends and changes. The Chief of Staff/Business Administrator shall provide the written Quarterly Performance Report and the Quarterly Financial Report to the Mayor, City Council, Receiver and Secretary of DCED within 60 days of the end of each quarter. The Chief of Staff/Business Administrator shall also post these quarterly reports to the City's website.

Status as of August 9, 2013:

Mayor Thompson conducts monthly one-on-one meetings with Department Directors. The draft performance evaluation tool for managers and supervisors has been provided to the Receiver's Team for comment. The anticipated implementation date is the third quarter of 2013.

Baseline Operating Budget Structural Deficit

The purpose of this chapter is to estimate the City's baseline structural deficit (the amount by which the City's Operating expenses consistently exceed its revenues) looking forward from 2013 to 2016 assuming no changes as a result of this plan.

2013 – 2016 General Fund Baseline Projections

Baseline projections for the General Fund were developed for 2013 through 2016 using 2011 and 2012 Operating Budget Actuals and the City's 2013 adopted budget. These projections assume that ***no plan interventions are made to change either the existing revenue or expenditure trends.*** In developing these projections, a variety of assumptions were used.

The revenue assumptions used in the baseline projections were as follows:

- All tax and fee rates were held constant at the 2013 budgeted levels. The 2012 budgeted increase in real estate tax millage is included.
- Revenue from real estate taxes was grown <1.0% annually throughout the period as assessed valuation growth is assumed to be minimal.
- The sale of tax liens has not been included for years 2013 through 2016. Delinquent tax collections were included at historical levels.
- Other Taxes were reviewed on a line-by-line basis. Earned Income Tax revenue was increased by 1% per year, the Business Privilege & Mercantile Tax revenue by 1.75% per year and the Real Estate Transfer Tax revenue by 3% per year over the 2013 budgeted base. All other revenues from taxes were grown slightly.
- Vehicle Maintenance Reimbursements were increased at the same rate as related expenditures.
- State aid for pension expenses was held constant over the period.
- The Commonwealth's Allocation for Public Safety Services (\$5.0 million) is included in these projections.
- Most other revenues are held constant over the period.
- Sewer and Water Fund administrative charges are based on the City's 2012 Maximus study. Sanitation (Refuse) Fund administrative charges and transfer payments decrease throughout the period as expenditures in that fund increase.
- 2013 includes a payment of \$250,000 from the Parking Authority. No other payments from the coordinated parking fund are anticipated through the period.
- Parking Taxes reflect the City's receipt of all parking taxes beginning in 2014
- Host Fee of \$290,000 included in Licenses, Permits and Fines in 2014 - 2016

General Fund Revenue Projections, 2013-2016

	2013	2014	2015	2016	% Change
Revenue Group	Estimated	Projected	Projected	Projected	2013-2016
Property Taxes	17,193,388	17,348,605	17,505,375	17,663,712	2.7
PILOTS	425,415	425,415	425,415	425,415	0.0
Earned Income Taxes	4,014,500	4,056,180	4,096,762	4,137,749	3.1
Mercantile Business Privilege	2,820,550	2,844,700	2,869,092	2,893,727	2.6
Parking Taxes	1,997,474	3,197,474	3,197,474	3,197,474	60.1
Other Taxes	3,486,825	3,518,082	3,630,692	3,664,166	5.1
Licenses, Permits and Fines	6,030,812	6,094,781	6,055,222	6,055,222	0.4
Intergovernmental	3,109,957	3,107,294	3,107,294	3,107,294	-0.1
Commonwealth Allocation for Public Safety Services	5,000,000	5,000,000	5,000,000	5,000,000	0.0
Transfers	5,416,034	5,160,619	5,159,738	5,151,999	-4.9
Other Revenues	533,105	765,872	522,061	528,824	-0.8
Total	50,028,060	51,519,023	51,569,125	51,825,582	3.6

The expenditure assumptions used in the baseline projections were as follows:

- The number of personnel has been held constant at the 2013 budgeted levels
- Wages have been increased as specified in the respective collective bargaining agreements. No wage increases are included for non bargaining employees or after the expiration of the current contracts.
- Medical insurance has been increased at the following rates in conformance with the City's most recent experience and trends observed in increases for government employees both in Pennsylvania and nationally.

<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
6.4%	6.6%	7.0%	7.8%

- Other major insurance costs have been projected on a case-by-case basis.
- No new debt is assumed. Transfers to the Debt Service fund are assumed using existing amortization schedules.
- Capital expenditure for Street Sweeper in 2013. No other capital purchases are included.
- Municipal pension obligations are held constant over the period.
- No payments on the RRF debt guarantee obligations are included.
- Other expenditures were increased at various levels.

Expenditures are projected to grow from \$51.3 million in 2013 to \$54.4 million in 2016. The principal factor for the increase in expenditures is personnel costs, primarily employee medical insurance and wages. Medical insurance increases from \$10.2 million in 2013 to \$12.5 million in 2016, an increase of 23.0%. Wages increase from \$24.3 million in 2013 to \$25.7 million in 2016, an increase of 5.4%.

General Fund Expenditure Projections, 2013-2016

	2013	2014	2015	2016	% Change
Expenditure Type	Estimated	Projected	Projected	Projected	2013-2016
Salaries/Wages	24,359,884	24,988,310	25,514,971	25,678,608	5.4
Temporary Wages	116,847	116,847	116,847	116,847	0.0
Overtime	2,409,849	2,409,849	2,409,849	2,409,849	0.0
Sick Time Buyback	137,208	126,000	126,000	126,000	-8.2
Medical & Life Insurance	10,198,355	10,872,520	11,636,006	12,540,675	23.0
Pension & Other Employee Benefits	6,051,970	5,888,547	5,899,546	5,901,997	-2.5
Total Employee Expenses	43,274,113	44,402,073	45,703,219	46,773,976	8.1
Communications	385,479	387,435	389,606	392,121	1.7
Professional Fees	928,817	910,556	928,048	947,962	2.1
Utilities & Services	724,030	701,923	680,454	658,846	-9.0
Insurances	1,326,726	1,356,796	1,389,462	1,426,500	7.5
Rentals	15,800	15,925	16,059	16,212	2.6
Maintenance & Repairs	675,213	686,107	697,886	711,173	5.3
Contracted Services	341,519	327,338	329,989	332,962	-2.5
Supplies And Expenses	2,357,574	2,564,433	2,376,390	2,162,160	-8.3
Minor Capital	29,200	29,972	30,814	31,772	8.8
Lease Purchase	255,000	256,091	257,261	258,572	1.4
Other Capital	230,000	-	-	-	na
Mains And Accessories	350,000	356,611	363,765	371,846	6.2
Grants	272,510	272,510	272,510	272,510	0.0
Fines & Settlements	10,000	10,000	10,000	10,000	0.0
Miscellaneous Expenditures	158,000	-	-	-	-100.0
Total Non Employee Expenditures	8,059,869	7,875,696	7,742,244	7,592,635	-5.8
Total Expenditures before Debt Service	51,333,982	52,277,769	53,445,464	54,366,611	5.9
Transfer to Debt Service Fund	10,810,547	10,605,917	10,605,917	10,605,917	-1.9
Total Expenditures and Debt Service	62,144,529	62,883,686	64,051,381	64,972,528	4.6

Other Funds

The financial status of the City depends upon a number of operational funds in addition to the General Fund. The principal additional operational funds which must be considered are:

- Debt Service Fund – Accounts for transactions relating to City debt excluding any guaranteed debt;
- Sanitation Fund – Accounts for transactions dealing with the City’s collection of refuse. Does not include RRF activities;
- Sewer Fund – Accounts for transactions dealing with City’s operation in the collection and treatment of sewage;
- Liquid Fuels (Highway Aid) Funds – Accounts for Commonwealth funds to maintain streets and roads; and
- Water Fund – Accounts for transactions relating to the City’s agreement with the Harrisburg Authority to operate the water system for Harrisburg and other contracting adjacent municipalities.

Intergovernmental Relations

IGR01 Identify and implement intergovernmental cooperative initiatives

Assessment as of February 6, 2012:

With the assistance of the Receiver, the Mayor and City Council shall convene a group of leaders from the City, Dauphin County and the Harrisburg School District to discuss possible collaborative intergovernmental initiatives aimed at conserving funds and/or improving current services. These initiatives may address topics including, but not limited to: tax collection; fleet maintenance; purchasing; facilities maintenance; financial management services; and information technology. The group shall meet on a regular basis with the ultimate goal of identifying the most promising areas for future shared services, developing initiatives within these areas (along with specific implementation plans) and implementing these initiatives within each organization. The group shall analyze opportunities based on potential for cost savings, ability to improve current service delivery and/or savings on long-term capital costs for all entities involved.

Status as of August 9, 2013:

The City continues to pursue those intergovernmental opportunities that are available. For example, the City has partnered with Dauphin County on a number of policing efforts and has participated in the County's police recruitment and testing program. However, once the City has resolved reached a debt resolution agreement with its creditors and the City's asset monetization effort generates revenue, the City will increase its effort to establish a broader program of intergovernmental cooperation.

IGR02 Pursue membership in the Capital Region Council of Governments

Assessment as of February 6, 2012:

As previously stated, the current CRCOG bylaws limit membership to townships and boroughs, which precludes the City of Harrisburg from joining. However, CRCOG leadership has indicated that a revision of the bylaws may be possible to admit the City of Harrisburg as a member.

The Mayor shall contact the Executive Director of CRCOG to discuss possible bylaw revisions that would allow the City to be admitted as a member. Through membership in CRCOG, the City could gain access to joint purchasing opportunities, regional code enforcement resources and strengthened intergovernmental relationships. The financial impact information shown below reflects the annual cost to a municipality for CRCOG membership.

Status as of August 9, 2013:

Membership in CRCOG has not been pursued due to budget constraints. However, following the resolution of the City's debt issues, membership in the CRCOG will be actively pursued and budgeted for.

Workforce and Collective Bargaining

WF01 Renegotiate existing contract extensions or in the alternative, declare extensions of collective bargaining agreements void and renegotiate existing contracts

Assessment as of February 6, 2012:

The City shall retain and continue to retain experienced public employment labor counsel to renegotiate all of the existing collective bargaining agreements and extensions. If negotiations do not result in agreements with any or all of the three unions, then counsel shall evaluate whether the City should take legal action to declare the extensions of the FOP, IAFF and AFSCME collective bargaining agreements void ab initio, specifically the First Amendment to the Basic Labor Agreement with the FOP, the First Amendment to the Basic Labor Agreement with the IAFF and the First and Second Amendments to the Basic Labor Agreement with AFSCME.

These amendments unnecessarily extended all three collective bargaining agreements well beyond their already lengthy terms. These unnecessary extensions, entered into by the prior Mayor at the end of his term of office and years prior to the expiration of the agreements, prevent the City from implementing most of the Workforce initiatives in this chapter, as well as many initiatives in other chapters of this Recovery Plan. An initial review indicates that the contracts are either void ab initio or at the very least voidable.

The total financial impact of the renegotiated agreements must be sufficient to provide for a balanced budget and to correct the existing structural deficit. While it may be difficult to accurately project the future impact of certain modifications, it is imperative that changes be implemented to control the greatly increasing costs of health insurance benefits, both for active employees as well as retired employees.

Status as of August 9, 2013:

The Receiver's Team continues to work collaboratively with the City's employment labor counsel to provide support and direction during contract negotiations. The City has reached agreements with the FOP and AFSCME bargaining units amending the existing collective bargaining agreements and extensions, subject to obtaining approval from the City, and is in negotiations with the IAFF. Both the FOP and AFSCME memberships ratified the Amendments, and the Amendments will be presented to the City for ratification, along with necessary ordinances and resolutions. The Receiver's Team will continue to work toward a resolution with the IAFF.

WF03 Establish a labor/management committee for all employee groups

Assessment as of February 6, 2012:

The City shall establish a labor/management committee that will use the Area Labor Management Committee (ALMC) structure as a resource. The Office of Labor-Management Cooperation in the Pennsylvania Department of Labor and Industry promotes labor-management collaboration by supporting and coordinating with ALMCs. ALMCs are neutral non-profits comprised of representatives from labor and industry, management and government who work cooperatively to retain jobs and promote economic growth. Services provided by ALMCs include third-party mediation, consulting, training and educational programming.

Status as of August 9, 2013:

The draft template for Labor Management Committee meetings has been submitted to management and the president of AFSCME, IAFF, and FOP unions for review and approval. All parties have reviewed the draft document and the final version will be submitted for official adoption at each union's Labor Management Committee meetings once approved by the Receiver's labor counsel.

WF04 Limit new contract enhancements

Assessment as of February 6, 2012:

Unless, and only to the extent that, applicable law requires a change in any of the wages, benefits, terms, provisions or conditions enumerated herein, all new collective bargaining agreements (which phrase shall include but not be limited to new agreements, extensions, amendments, side agreements, memoranda of understanding and settlements) between the City and the unions representing its employees (whether resulting from collective bargaining between the parties or interest arbitration pursuant to Act 111 as applicable or otherwise) covering calendar years 2012 through 2016 and subsequent years (or any portion thereof) **must not** contain, require or provide for any of the following:

- a) Any new overtime or premium pay benefits or requirements;
- b) Any increase in existing overtime or premium pay benefits or requirements, nor the continuation of existing overtime and premium pay benefits and requirements which are modified by this Recovery Plan;
- c) Any increase in pay or benefits associated with new duties, changes in duties, cross training or activities required by this Recovery Plan;
- d) Any new benefits or improvements in existing benefits, nor the continuation of existing benefits which are modified by this Recovery Plan;
- e) Any new paid or unpaid leave;
- f) Any improvements to existing paid or unpaid leaves, nor the continuation of existing paid and unpaid leaves which are modified by this Recovery Plan;
- g) Any additional pay for time not worked;
- h) Any improvements in existing pay for time not worked, nor the continuation of existing pay for time not worked which is modified by this Recovery Plan;
- i) Any new designations that time not worked counts as time worked for the purpose of computing overtime or premium pay or increases in existing designations of same, nor the continuation of designations that time not worked counts as time worked for the purpose of computing overtime or premium pay which are modified by this Plan;
- j) Any new benefits for retirees or other inactive employees (e.g., those in layoff or disability status);
- k) Any improvements in existing benefits for retirees or other inactive employees, nor the continuation of existing benefits that are modified by this Recovery Plan;
- l) Any other term or provision which continues any existing restrictions or which adds any new or additional restrictions on the City's Management Rights;²
- m) Any provision which impairs or restricts the City's ability to engage qualified contractors to perform services for the City, including services currently provided by bargaining unit personnel;
- n) Any provision which impairs or restricts the City's ability to transfer service provision to another entity, including services currently provided by bargaining unit personnel;
- o) Any provision which restricts or impairs the City's ability to effect a layoff or other reduction in its workforce, including those that require all part-time employees be laid off regardless of assignment or duties before any reductions in full-time staff can be made;

²The term "Management Rights," as used herein, includes, without limitation, the rights to: promulgate and enforce work rules, policies and procedures; select, hire, promote, transfer, assign, determine the duties of, evaluate, layoff, recall, reprimand, suspend, discharge and otherwise discipline employees; establish, eliminate and redefine positions in accordance with the City's needs; determine the qualifications and establish performance standards for jobs and assignments; determine the methods, processes and means of performance, where and when work shall be performed, and the equipment to be used; determine the composition of the work force; create, abolish and change jobs and job duties; determine employees' hours and days of work, work schedules, shifts and reporting stations; determine whether to assign overtime and the amount required; require employees to work overtime; determine when a job vacancy exists, and select the best qualified candidate to fill it; take necessary actions in emergency situations; extend, curtail or change City operations and otherwise manage the City, its operations and its employees in its discretion.

- p) Any provision which expands any arbitrator's authority to grant relief in any arbitration proceeding;
- q) Any provision which obligates the City to permit bumping of any employee on the basis of seniority, rather than on the basis of qualifications and performance, except to the extent that preference is accorded to the most senior of those employees having relatively equal qualifications and performance histories;
- r) Any provision requiring the City to pay bargaining unit employees to attend any trial, hearing or other legal proceeding, except to the extent that such employee attends any such proceeding at the request of the City³;
- s) Any provision which restricts the City's ability to require an employee to work a "light duty" position within that employee's medical restrictions, and in any department or bargaining unit within the City;
- t) Any provision obligating the City to provide "light duty" to any employee who is unable to perform the essential functions of his or her job, with or without reasonable accommodation and without posing a direct threat to the health or safety of the employee or others;
- u) Any provision which expands the bargaining unit employees' rights to present grievances to the City or to appeal grievances to arbitration;
- v) Any provision which provides any pay or other compensation to any employee for: 1) any exercise by the City of any of the above rights; or 2) the inclusion of any of the above provisions in any collective bargaining agreement; or 3) the implementation of any of the above provisions; or 4) the implementation of any of the initiatives in this Recovery Plan; or
- w) Any requirement for the City to provide wages, benefits or other terms of employment to any bargaining unit based on the provisions of such wages, benefits, or other terms of employment to another bargaining unit.

Status as of August 9, 2013:

The City has reached agreements with the FOP and AFSCME bargaining units amending the existing collective bargaining agreements and extensions, subject to obtaining approval from the City, and is in negotiations with the IAFF. Both the FOP and AFSCME memberships ratified the Amendments, and the Amendments will be presented to the City for ratification, along with necessary ordinances and resolutions. The Amendments for both the FOP and AFSCME will enable the City to achieve significant cost savings through the end of their terms on December 31, 2016. The Receiver's Team will continue to work toward a resolution with the IAFF.

WF05 Ensure future collective bargaining agreements remain compliant with Recovery Plan

Assessment as of February 6, 2012:

No person or entity, including (without limitation) the City, any union representing City employees and any arbitrator appointed pursuant to Act 111 or otherwise, shall continue in effect past the stated expiration date of any current labor agreement the wages, benefits or other terms and conditions of the existing labor agreement if such wages, benefits or other terms or conditions are inconsistent with the initiatives made in this Recovery Plan.

If any existing collective bargaining agreements and/or amendments or extensions are void or voidable, no person or entity, including (without limitation) the City, any union representing City employees and any arbitrator appointed pursuant to Act 111 or otherwise, shall continue in effect past the stated original expiration date of the prior collective bargaining agreement the wages, benefits or other terms and conditions of the prior existing labor agreement if such wages, benefits or other terms or conditions are inconsistent with the initiatives made in this Recovery Plan.

³ This provision is not intended to eliminate pay for routine police court appearances pursuant to subpoenas regarding matters handled by an officer while on duty. Rather, this provision shall provide clear management discretion to avoid automatic City pay and/or guaranteed minimum rates for attendance at grievance proceedings and other internal hearings, court appearances regarding personal affairs, etc.

All collective bargaining agreements, interest arbitration awards, settlements, memoranda and agreements of any kind issued or entered into after the approval of the Recovery Plan must be effective at the earliest possible date, and no later than the expiration of the then current and legally binding collective bargaining agreements and interest arbitration awards. This shall apply even if the agreement is entered into or the arbitration award is executed subsequent to the effective dates, thus requiring that the agreements or awards be retroactive. No collective bargaining agreements, interest arbitration awards, settlements, memoranda and agreements of any kind issued or entered into after the approval of the Recovery Plan may extend the current expiration dates of the existing agreements and awards, nor the expiration dates of the prior unextended and unamended agreements and awards if such extensions are void or voidable. Specifically, these dates are as follows:

Employee Group	Covered Positions	Original Contract Term	Extended Contract Term
Fraternal Order of Police, Lodge No. 12	All sworn Police Officers with the exception of the Chief of Police and three Captains	2004 - 2010	Extended 1/1/2011 – 12/31/2015
International Association of Fire Fighters, Local Union No. 428	All Fire Fighters with the exception of the Fire Chief and the two Deputy Chiefs	2006 - 2012	Extended 1/1/2013 – 12/31/2016
American Federation of State, County and Municipal Employees, Local 521	All non-uniformed, non-management employees	2008 - 2011	Extended 1/1/2012 – 12/31/2014

The City shall take steps to promptly bargain all new collective bargaining agreements and shall follow all time limits for interest arbitration so that any interest arbitration award shall be issued prior to the expiration of the collective bargaining agreement. This shall also equally apply if any or all of the existing amendments to the collective bargaining agreements are void or voidable. The timelines contained in Act 111 shall be adhered to strictly and may not be waived. If an arbitration award is not issued prior to the expiration of the collective bargaining agreement then the City shall implement all of the provisions and initiatives of the Recovery Plan to the maximum extent legally consistent with law applicable to the Receiver’s Plan.

If this Recovery Plan is extended to cover any period of time subsequent to its initial term, then, unless and until the initiatives made in this Recovery Plan are revised, any labor agreement between the City and any union representing City employees (whether resulting from collective bargaining, interest arbitration pursuant to Act 111 or otherwise) covering such subsequent period shall comply with the Initiatives made herein without regard to the period of agreement specified in any such Initiative.

Status as of August 9, 2013:

The City has reached agreements with the FOP and AFSCME bargaining units amending the existing collective bargaining agreements and extensions, subject to obtaining approval from the City, and is in negotiations with the IAFF. Both the FOP and AFSCME memberships ratified the Amendments, and the Amendments will be presented to the City for ratification, along with necessary ordinances and resolutions. The Amendments for both the FOP and AFSCME will enable the City to achieve significant cost savings through the end of their terms on December 31, 2016. The Receiver’s Team will continue to work toward a resolution with the IAFF.

WF06 Implement a three year wage and step freeze

Assessment as of February 6, 2012:

There shall be a base wage and step freeze for the first three years of each new collective bargaining agreement negotiated or arbitration award received after the approval of this Recovery Plan. Base wage increases in subsequent years shall be no more than 2.0%. When step increases resume in the fourth year of the contract or award, they shall do so from the frozen level, except where explicitly stated otherwise, rather than being accelerated to “catch up” to the step that would have been reached without the freeze. This base wage and step freeze shall also apply to all non-bargaining unit employees, including management employees, and full-time elected officials.

Status as of August 9, 2013:

The Receiver directed the City not to implement the 2013 wage increases contained in the contract extensions with the AFSCME, FOP, and IAFF bargaining units. The City has reached agreements with the FOP and AFSCME bargaining units amending the existing collective bargaining agreements and extensions, subject to approval by the City, and is in negotiations with the IAFF. Both the FOP and AFSCME memberships ratified the Amendments, and the Amendments will be presented to the City for ratification, along with necessary ordinances and resolutions. The Amendments for both the FOP and AFSCME will enable the City to achieve significant cost savings through the end of their terms on December 31, 2016, and include wage freezes for 2013 and 2014, One Percent (1%) wage increases in 2015 and 2016, and freezes in longevity during the terms of the Amendments. The Receiver’s Team will continue to work toward a resolution with the IAFF.

WF07 Implement a new pay scale for new police officers

Assessment as of February 6, 2012:

The current pay scale for FOP employees begins with the relatively high starting salary of \$54,539 for Police Patrol Officer Year 1. This is quite different from what other urban police officers in the region are paid. The chart below compares the starting salary for a Harrisburg police officer with the starting salary for police officers in five other Pennsylvania cities of the Third Class as of January 1 of the years shown. The Harrisburg FOP pay scale is also compressed in that Police Patrol Officers Year 1 earn 91.5% of the top step (\$59,571), which is reached in Year 3.

Jurisdiction	Minimum Salary
Harrisburg	\$54,539 (2011)
Reading	\$44,743 (2012)
Bethlehem	\$45,308 (2010)
Allentown	\$43,321 (2010)
York	\$40,452 (2010)
Lancaster	\$39,862 (2010)

The City shall adjust the police officer pay scale so it has a five step progression with a trainee step and four non-probationary steps for all employees hired on or after January 1, 2012. Entry level rates will be adjusted to approximately 75% of top step and each step will increase by a proportionate amount each year, resulting in the base wage scale shown below. The previously described three year base wage freeze for 2012 through 2014 shall also apply to officers hired on this pay scale. However, police officers hired on or after January 1, 2012 shall be eligible for the step increase in all years. Pay scales for the ranks of Corporal, Sergeant and Lieutenant shall be similarly adjusted.

FOP Pay Scale: New Hires

	1/1/2012	1/1/2013	1/1/2014	1/1/2015
Police Officer IV	\$60,672	\$60,672	\$60,672	\$61,885
Police Officer III	\$57,070	\$57,070	\$57,070	\$58,211
Police Officer II	\$53,380	\$53,380	\$53,380	\$54,448
Police Officer I	\$49,690	\$49,690	\$49,690	\$50,684
Police Officer Trainee	\$46,000	\$46,000	\$46,000	\$46,920

While police officers hired on the new pay scale will receive step increases in 2013 and 2014 and police officers hired on the current pay scale will not, the scales have been calibrated so that no employee on the new pay scale has a higher base wage than an employee on the current pay scale, including looking forward to future years when wage increases are limited to 2% per year.

Status as of August 9, 2013:

The City and the FOP negotiated an Amendment to the existing collective bargaining agreement, which includes a new pay scale for employees hired on or after January 1, 2013, with a Trainee rate of \$46,018 and a top Police Officer IV rate of \$61,358. The steps are 75%, 80%, 85%, 90% and 100% of the Police Officer IV rate. The FOP has ratified the Amendment, and the Amendment will be presented to the City for ratification.

WF08 Implement a new pay scale for new firefighters

Assessment as of February 6, 2012:

The current pay scale for IAFF employees begins with a relatively high starting salary of \$48,509 at Firefighter I. The chart below compares the starting salary for a Harrisburg firefighter with the starting salary for firefighters in five other Pennsylvania cities of the Third Class as of January 1 of the year shown. As with the Harrisburg FOP pay scale, the IAFF pay scale is compressed in that a Firefighter I earns 93.6% of the top D/O step (\$52,871).

Jurisdiction	Minimum Salary
Harrisburg	\$49,478 (7/1/2011)
Reading	\$39,980 (2011)
York	\$39,971 (2010)
Bethlehem	\$39,726 (2010)
Allentown	\$39,721 (2010)
Lancaster	\$40,573 (2011)

The City shall adjust the IAFF pay scale so it has a five step progression beginning with a new trainee step (a probationary step lasting 12 months) and four non-probationary steps for all employees hired on or after January 1, 2013. Entry level rates will be adjusted to approximately 75% of top step and each step will increase proportionately each year resulting in the base wage scale shown below. The previously described three year base wage freeze for the first three years shall also apply to firefighters hired on this pay scale.

However, firefighters hired on the new pay scale shall be eligible for the step increase in all years. Pay scales for the ranks of Lieutenant, Captain and Battalion Chief shall be similarly adjusted.

IAFF Pay Scale: New Hires

	1/1/2013	1/1/2014	1/1/2014
Firefighter IV	\$56,085	\$56,085	\$57,207
Firefighter III	\$52,680	\$52,680	\$53,734
Firefighter II	\$49,270	\$49,270	\$50,255
Firefighter I	\$45,860	\$45,860	\$46,777
Firefighter Trainee	\$42,450	\$42,450	\$43,299

While firefighters hired on the new pay scale will receive step increases in 2014 and firefighters hired on the current pay scale will not, the scales have been calibrated so that no employee on the new pay scale has a higher base wage than an employee on the current pay scale, including looking forward to future years when wage increases are limited to 2% per year.

Status as of August 9, 2013:

The City is currently negotiating with the IAFF and has proposed a new pay scale for employees hired on or after January 1, 2013, providing for 85% of base salary Year 1, 90% of base salary Year 2, 95% of base salary Year 3, and 100% of base salary Year 4.

WF09 Freeze longevity pay and eligibility

Assessment as of February 6, 2012:

Employees who are currently eligible and receiving such pay shall have their longevity payment frozen at the current rate for the duration of this Recovery Plan. Longevity pay shall not be provided to employees hired after the date of approval of this Plan or to current employees who do not reach eligibility for the payment before the expiration of their collective bargaining agreement.

Status as of August 9, 2013:

The City, with support from the Office of the Receiver and the City’s outside labor counsel, is actively engaged in negotiations with each of the City’s collective bargaining units. This initiative is being actively considered by the labor negotiation team, in concurrence with all other workforce initiatives and proposals from the City and the collective bargaining unit leaders. Both the FOP and AFSCME bargaining units have ratified Amendments to their existing collective bargaining agreements and extensions which freeze longevity through December 31, 2016, and which provide that employees hired on or after January 1, 2013 will not be paid longevity.

WF10 Reduce paid holidays and personal leave to 10 days annually

Assessment as of February 6, 2012:

All current and future employees shall be limited to ten holidays annually, including personal days. Each holiday shall be paid at the employee’s regular base hourly rate of pay for the number of hours usually worked by that employee on his or her regular work shift or by the average hours usually worked by that employee on his or her regular work shifts.

Because overtime usage is driven by several factors, this Plan includes several initiatives to help the City control the growth in this form of compensation. The initiatives in this section focus on collective bargaining

agreement provisions that drive overtime costs. Other Initiatives recommend operational changes to reduce the City's overtime costs. When taken together, they will enable the City to control overtime costs.

Status as of August 9, 2013:

Some benefits for management employees have been scaled back. Mayoral Executive Order 9-2012 Elimination of Personal Leave Carry-Over was sent to all management employees on June 5, 2012. The City, with support from the Receiver's Team and the City's outside labor counsel, is actively engaged in negotiations with the IAFF bargaining unit. This initiative is being actively considered by the labor negotiation team, in concurrence with all other workforce initiatives and proposals from the City and the collective bargaining unit leaders. The FOP bargaining unit ratified an Amendment to its existing collective bargaining agreement which provided changes in Holidays.

WF11 Adjust overtime eligibility thresholds to reflect hours actually worked

Assessment as of February 6, 2012:

The City's collective bargaining agreements have lenient definitions of what time can be counted toward an employee's eligibility for overtime. For example, if an employee represented by the FOP misses a scheduled work day on sick leave, those hours are counted toward the 40 necessary to qualify for overtime. The City shall change the calculation of overtime eligibility such that only hours actually worked, paid vacation leave, paid holidays, paid personal leave, paid bereavement leave and paid jury duty shall be counted toward the computation of overtime. Paid sick leave, paid compensatory time and other paid or unpaid leaves shall not be counted toward the computation of overtime. To the extent that overtime eligibility for any group does not currently include paid vacation leave, paid holidays, paid personal leave, paid bereavement leave or paid jury duty leave, no adjustment shall be made to count such hours as hours worked for overtime eligibility purposes.

Status as of August 9, 2013:

The City, with support from the Receiver's Team and the City's outside labor counsel, is actively engaged in negotiations with the IAFF collective bargaining units. The City, with support from the Receiver's Team and the City's outside labor counsel, actively engaged in negotiations with each of the City's collective bargaining units. The negotiations with the FOP and AFSCME were conducted with the specific intention of identifying collaborative opportunities to address the City's financial and operational issues, but the Amendments do not include changes in these provisions.

WF12 Adjust minimum overtime provisions

Assessment as of February 6, 2012:

The FOP, IAFF, and AFSCME collective bargaining agreements include a number of provisions that provide for payments of a minimum number of hours at overtime if an employee is recalled to duty. Certain of these provisions have been interpreted to apply to additional work before and after the employee's regular shift. These provisions shall be changed so that: 1) they will only apply when an employee is called in from home to return to work at a time not before or after the employee's regular shift; and 2) the employee shall be paid a minimum of four hours at straight time (the employee's normal base hourly rate).

Status as of August 9, 2013:

The City, with support from the Receiver's Team and the City's outside labor counsel, actively engaged in negotiations with each of the City's collective bargaining units. The negotiations with the FOP and AFSCME were conducted with the specific intention of identifying collaborative opportunities to address the City's financial and operational issues, but the Amendments do not include changes in these provisions.

WF13 Reduce vacation leave

Assessment as of February 6, 2012:

Employees shall earn annual vacation leave according to the schedule below.

Years of Service Completed	Non-Uniform	Police	Fire⁴
After 1 year of continuous full-time employment	60 or 64 hours	80 hours	140 hours
After 5 years of continuous full-time employment	120 hours	120 hours	140 hours
After 10 years of continuous full-time employment	120 hours	120 hours	140 hours
After 15 years of continuous full-time employment	160 hours	160 hours	160 hours

For positions with mandatory shift coverage, such as police patrol, this will reduce the number of vacancies that must be filled using other employees on overtime. For other positions, this will reduce the pressure to use overtime to address a backlog of work that can be partially created by employee vacations. In either case, reducing the amount of overtime will increase the number of hours worked by each employee, which builds the City's staffing levels without incurring the costs associated with hiring and training more employees. For example, 37 police officers who currently receive 19 days of vacation because they have at least five years of service will now receive 15 days of vacation. That will provide 1,184 more hours of coverage, which is the equivalent of 0.6 additional officers.

Management shall also have the right to determine the maximum number of employees from each platoon, shift, department or other organizational unit who can take vacation simultaneously and to set different thresholds throughout the year. This will help the City reduce overtime associated with several employees taking vacation at the same time.

Employees who work less than 75% of their scheduled hours per month shall not earn vacation leave for that month. The 75% shall be calculated by including hours actually worked, plus hours paid as vacation leave, compensatory time, personal leave, holidays, jury duty leave and bereavement leave.

Status as of August 9, 2013:

Mayoral Executive Order 8-2012 Vacation Leave Carry-Over was sent to all management employees on June 5, 2012. The City, with support from the Receiver's Team and the City's outside labor counsel, is actively engaged in negotiations with the IAFF bargaining unit. The Amendments to the FOP and AFSCME collective bargaining agreements include changes in the vacation schedule for certain employees. .

⁴ Fire vacation at 10 hours per day, currently at 12 hours per day

WF14 Reduce sick leave allotments

Assessment as of February 6, 2012:

Like any kind of paid leave, sick leave can drive overtime expenses higher by creating vacancies that must be filled or work backlogs that must be reduced by employees working overtime. That potential is especially high with sick leave since the employee absences are unplanned and management has less time to adjust staff schedules to compensate for the absence. The City shall reduce its annual sick leave allocation for all employees to 12 days per year. Sick leave allocated to firefighters and police officers shall be reduced to the minimum required by state statute or 12 days per year if no minimum applies. Employees shall be allowed no more than three days per year for illnesses related to family.

Employees who work less than 75% of their scheduled hours per month shall not earn sick leave for that month. The 75% shall be calculated by including hours actually worked, plus hours paid as vacation leave, compensatory time, personal leave, holidays, jury duty leave and bereavement leave.

Status as of August 9, 2013:

Bonus sick leave deposits for management employees were abolished by Executive Order 6 of 2011. The City, with support from the Receiver's Team and the City's outside labor counsel, actively engaged in negotiations with each of the City's collective bargaining units. The Amendment to the FOP collective bargaining agreement addresses changes in the sick leave provisions.

WF15 Implement a court-related overtime reduction strategy

Assessment as of February 6, 2012:

In recent years, the Police Bureau has made approximately 4,000 – 5,000 arrests per year. Since officers work steady shifts, all personnel assigned to the midnight shift, the 7:00 P.M. to 3:00 A.M. shift and, in many cases, the early evening shift attend court hearings and trials associated with those arrests outside their regularly scheduled shift and are paid overtime to do so. The collective bargaining agreement provides that an officer will receive a minimum of two hours for any court appearance that is not within the officer's shift.

Because arrests and the subsequent court appearances are an integral part of police work, it is not unusual for a collective bargaining agreement to permit management to reschedule an officer's tours to align with court appearances. The collective bargaining agreement shall be revised to permit the rescheduling of an employee's tour for the purpose of appearing in court. Officers' days off would not be changed for the purpose of avoiding overtime, but their eight hour shift would be adjusted within a scheduled workday.

The City shall engage other participants in the court process to determine what changes can be made that will still provide officers for testimony but do so at a lower cost to the City. The City's review shall include department management and representatives from the FOP, Capital City Lodge No. 12. Some municipalities have established coordinating councils that bring together members of local law enforcement departments, courts and the District Attorney to address court-related overtime and other concerns of joint interest. Possible areas for discussion include how many officers are called to testify, when they are called to do so and identifying cases that can be resolved more quickly with fewer officer appearances. In 2005, Nassau County, New York established an Early Case Assessment Bureau (ECAB) between its County Police Department and the District Attorney to identify which cases should be pursued more vigorously and which weak cases could be dropped.

Status as of August 9, 2013:

The City, with support from the Receiver's Team and the City's outside labor counsel, actively engaged in negotiations with each of the City's collective bargaining units, including the FOP. The Amendment to the

FOP collective bargaining agreement provides that the City and FOP will meet and negotiate mutually agreed upon changes to the patrol duty schedule in order to implement savings as discussed in the Recovery Plan.

WF16 Redesign employee health care

Assessment as of February 6, 2012:

As in other cities, managing the cost and containing the growth in the cost of employee health care coverage is critical to the City of Harrisburg's financial recovery. The City shall require employee contributions, based on 1) either the employee's base salary or a percentage of premium, and 2) increases in the cost of health care coverage after a maximum City monthly contribution.

The minimum employee contributions shall be or be equivalent to 2% of base salary for single coverage, 4% of base salary for two person coverage, 5% of base salary for three person coverage and 6% of base salary for four or more person coverage. In addition, employees shall share in increased costs in the monthly contributions as follows: 1) the City's increase in its share of the costs of monthly contributions shall be limited to 6% per year (that is, the City shall be limited to paying a maximum of 106% of the amount it paid toward the monthly cost of coverage for an employee for the same tier of coverage during the prior plan year); 2) employees shall pay any increases in costs of monthly contributions over the 6% increase up to 12%; and 3) the City and employees shall split equally any increases in the costs of monthly contributions over 12% per year.

For purposes of calculating increases in costs, the COBRA rates established by the third party administrator shall be used, and the annual increase shall be determined based on the effective date of the plan year. The increases in cost shall be determined and paid by employees based on the type (tier) of coverage they are enrolled in – single, two person, three person or four or more persons. Further, in calculating the 6% and 12% increases, the percentages shall be based on the amount paid by the City and shall not include employee contributions.

If the annual increase in monthly costs will exceed 6% for any tier or tiers of coverage, the respective unions may notify the City if they want to meet to negotiate changes in the plans and benefits in order to contain and limit costs to 6%. If the parties are unable to negotiate such changes prior to the effective date of the increase, then the employees shall pay increased contributions as set forth above.

The City and unions should reduce healthcare expenditures by bringing plan design features in line with market norms. At a minimum, the following features should be addressed each year, to adjust and evaluate these and other cost-sharing mechanisms with periodic upward adjustments for inflation and / or changing market conditions:

- Increased copays for primary physician, specialist, and emergency room visits;
- Increased deductibles and out-of-pocket maximums;
- Increased coinsurance;
- Increase prescription copays;
- Eliminate waiver bonuses for employees who waive receipt of City's benefits;
- Mandate use of automatic mail order (home delivery for maintenance prescriptions, with opt-out); and
- Eliminate reimbursement for Medicare Part B coverage for retired employees and their spouses who are Medicare-eligible.

Further, the City shall explore other providers of health insurance, prescription, dental and vision benefits. The City shall also explore health insurance through PEBTF.

Status as of August 9, 2013:

The City, with support from the Receiver's Team and the City's outside labor counsel, is actively engaged in negotiations with the IAFF collective bargaining unit. The Amendments to the AFSCME and FOP collective bargaining agreements contain significant changes to the health insurance benefits, including plan design changes effective in the latter part of 2013, additional plan design changes effective January 1, 2014, changes in prescription plan design and copays, and increased employee contributions. The Amendments also include mandatory negotiations and expedited interest arbitration if the City's costs increase by more than 6% annually.

WF17 Contain post-retirement healthcare cost

Assessment as of February 6, 2012:

The City of Harrisburg provides post-retirement health benefits to all of its employees. It is estimated that the future cost of providing such benefits following current accounting standards is approximately \$184 million. In FY2011, the City estimated that it paid over \$4 million for retiree health insurance benefits. The City pays 100% of the cost for retired firefighters and police employees. For AFSCME retirees, the City pays 100% of the cost of health insurance for employees retiring after June 1, 2007, age 60 and twenty years of service, and 60% of the cost of health insurance for employees retiring after January 1, 2002, with twenty years of service or at least fifteen years of service and age 65. This coverage does not include prescription drug, dental or vision coverage. For non-represented employees, the City pays 100% of the costs for health care and prescription for employees retiring after August 5, 2002. Management employees hired on or after February 1, 2008 receive 100% of the health insurance in effect at the time of their retirement. This coverage does not include the spouse, and does not include vision, dental, or prescription drug coverage.

To contain costs associated with these benefits, the following modifications shall be made:

- The City shall no longer provide retiree healthcare to employees hired following the date of approval of this Recovery Plan.
- For all employees retiring after the date of approval of this Plan, the retiree may be enrolled in the same basic health plan as provided to the City's then current employees. The City shall pay for a portion of the cost of the retired employee only. The portion paid by the City shall be equal to the amount which the City pays for single employee coverage for the City's then current employees. The retired employee shall pay the balance of the cost of coverage. Costs of coverage shall be determined using the COBRA rates established by the third party administrator. There shall be no duplication of health care coverage, that is, a retiree who is eligible to participate in another health plan (for example, through other employment, through a spouse or through Medicare) shall not be eligible to participate in the City's plan.
- The City shall maintain the level of benefits provided to existing retirees but shall retain the right to change the provider. The healthcare, pension or other benefits currently provided to existing retirees and vested employees shall not be increased.

The City shall establish a trust or other vehicle suitable for governmental entities and shall begin funding this liability beginning January 1, 2013.

The primary impact of this initiative will be to improve the City's long-term fiscal position, particularly in view of the City's current and future liability for post-employment benefits.

Status as of August 9, 2013:

The City, with support from the Receiver's Team and the City's outside labor counsel, is actively engaged in negotiations with the IAFF collective bargaining unit. The Amendments to the AFSCME and FOP collective bargaining agreements contain significant changes to the post-retirement health benefits for current employees, including retiree contributions, participation in the same plan as active employees, and the elimination of post-retirement health for new hires.

WF18 Enhance light duty program

Assessment as of February 6, 2012:

The City shall establish a light duty program that is administered consistently across all injured employees, regardless of bargaining unit status. The program shall give City management flexibility to assign employees to light duty positions anywhere within City government, provided that the position is temporary and within the medical limitations as set forth by the employee's treating physician. The injured worker shall keep the benefits and emollients of his or her original bargaining unit, regardless of the temporary assignment.

As noted above, light duty programs reduce the costs associated with worker injuries and increase the likelihood that an employee will return to work. They also give the City a structured opportunity to use the skills of its injured workers to improve service delivery.

Status as of August 9, 2013:

The City, with support from the Receiver's Team and the City's outside labor counsel, actively engaged in negotiations with each of the City's collective bargaining units. The negotiations with the FOP and AFSCME were conducted with the specific intention of identifying collaborative opportunities to address the City's financial and operational issues, but the Amendments do not include changes in these provisions.

WF19 Retain flexibility to fill vacant positions after six months

Assessment as of February 6, 2012:

The City reportedly cannot fill an employee's position as long as they are receiving Worker's Compensation or out on other leave. Instead, the City must reduce its level of service or use another employee to fill the vacancy, potentially on overtime, while still compensating the original injured employee, and while still paying benefits. It is appropriate and fair to compensate an employee during recovery, but that should not limit the City's ability to provide critical services or force the City to pay additional costs for an extended period. Further, the City should be able to terminate employment after extended periods of leave. Therefore, the City shall have the right to terminate any employee after a total of twelve months of leave within any two year period.

There are initiatives located in other sections of this Plan that may require changes to the City's collective bargaining agreements. Although those initiatives are discussed elsewhere, it is the express intention of the Receiver that the implementation of these initiatives is mandatory, and that all necessary amendments be made to the labor agreements between the City and any of its bargaining units.

Status as of August 9, 2013:

The City, with support from the Receiver's Team and the City's outside labor counsel, actively engaged in negotiations with each of the City's collective bargaining units. The negotiations with the FOP and AFSCME were conducted with the specific intention of identifying collaborative opportunities to address the City's financial and operational issues, but the Amendments do not include changes in these provisions.

Retirement Benefits

RET01 Prospectively reduce the level of benefits

Assessment as of February 6, 2012:

The City shall explore the viability of prospectively replacing its pension plans with a defined contribution plan under Code Section 457 for future service. Federal tax law prohibits the use of a 401(k) plan for governmental employees, but a Code Section 457 plan, while not identical, can deliver a similar type of defined contribution retirement benefit as a 401(k) plan.

If the City concludes that a Code Section 457 plan is not a viable option, the City shall complete an actuarial study to determine if any of the following prospective changes to the City's retirement plans will reduce the amount of MMOs the City is required to contribute. If the actuarial study concludes that the change will have a positive impact on the City's MMOs, then the City shall implement the change on a prospective basis.

If the City does not replace the pension plans with Code Section 457 plans, then all of the recommended cost reductions for the existing pension plans should be implemented, not just the cap on service increments. In addition to the 60% service increment cap on the Police and Firefighters' Pension Plans, this includes eliminating automatic increases under the Firefighters' Plan, reducing the surviving spouse pension under the Firefighters' Plan, reducing the cap on benefits under the Non-Uniformed Plan to 60% and revising the definition of compensation under the Non-Uniformed Plan.

Police Plan – Prospectively cap service increments at 60%: The Police Plan ordinances provided by the City prior to the preparation of this analysis cap service increments at 62.5% of final average salary, while proposed enhancements have the potential to increase such service increments to 70% of final average salary (negotiated in 2006 to be effective in 2007) or even 80% of final average salary (negotiated in 2008 to be effective in 2009). A cap of 60% of final average salary shall be implemented for all future service.

Firefighters' Plan – Prospectively cap service increments at 60%: The Firefighters' Plan does not currently have a cap on the amount of benefits that can be attained through additional years of service beyond 20. Theoretically, a firefighter will not likely exceed 30 total years of service, which would provide a benefit of 62.5% of final average salary. But there is no theoretical limit under the Firefighters' Plan to how high the benefit can go. A cap of around 60% of final average salary should be implemented for all future service.

Firefighters' Plan – Prospectively eliminate automatic increases: The Firefighters' Plan currently provides that retirees automatically receive an increase in their pension when there is an increase in the salaries of active firefighters. This is not customary practice in defined benefit pension plans and is a back door for retired employees to continue receiving benefits correlated to being actively employed. This automatic increase should be eliminated. If a cost of living increase is still desired, an increase correlated to a standard measure of inflation would be more appropriate, with a cap on how large the increase can be.

Firefighters' Plan – Reduce surviving spouse pension: The Firefighters' Plan provides a 100% surviving spouse benefit when the firefighter dies while employed by the Bureau of Fire. It is customary for municipal pension plans to provide a 50%, rather than 100%, surviving spouse benefit. In addition, the Commonwealth, through Act 51 of 2009, provides a 100% benefit for firefighters killed in the line of duty and so the 100% benefit provided by the Firefighters' Plan is redundant. The Firefighters' Plan shall be amended to reduce the surviving spouse benefit to 50%.

Non-Uniformed Plan – Prospectively reduce cap on benefits to 60%: The Non-Uniformed Plan currently provides for a benefit as large as 75% of final average salary (depending upon the member's years of service).

This percentage of income replacement is well beyond what is customary for governmental defined benefit plans and shall be reduced to 60% of final average salary for all future service.

Non-Uniformed Plan – Prospectively revise compensation definition: The Non-Uniformed Plan currently provides that a member’s final average salary is the average of the highest three consecutive years of service. This shall be revised to be the average of the last three years of service.

Status as of August 9, 2013:

The City, with support from the Receiver’s Team and the City’s outside labor counsel, is actively engaged in negotiations with each of the City’s collective bargaining units. This initiative is being actively considered by the labor negotiation team, in concurrence with other workforce initiatives and proposals from the City and the collective bargaining unit leaders. Both the FOP and AFSCME bargaining units have ratified Amendments to their existing collective bargaining agreements and extensions. The FOP Amendment provides that all new hires shall be provided base pension benefits in accordance with the Third Class City Code. The City is currently negotiating with the IAFF.

RET04 Seek IRS determination letter for Police Plan

Assessment as of February 6, 2012:

The City has previously received a determination from the IRS that the terms of the Non-Uniformed Plan meet the applicable qualification provisions of the Code. PMRB has informed the Act 47 Coordinator during the Coordinator’s review that it filed an application for determination with the IRS in January 2011 seeking tax qualification for all plans that it administers, including the Firefighters’ Plan and the Non-Uniformed Plan. It appears that the City has not directly sought a determination from the IRS that the Police Plan is qualified under the applicable provisions of the Code based upon the assumption that the plan is not required to be tax-qualified. This is incorrect. As discussed above, governmental plans, while subject to different tax-qualification rules than private employer plans, are still subject to numerous Code requirements. Therefore, the City shall seek a favorable determination letter for the Police Plan. Depending upon the timeliness of certain amendments in the past, it may be necessary for the City to utilize the IRS’ Employee Plan Compliance Resolution System for Governmental Plans in order to correct any defects in plan compliance prior to seeking an IRS determination. In light of the IRS’ active audit program of governmental plans, this will minimize the potential for significant penalties at a later date.

This initiative needs review by its Law Bureau, and such review shall be completed as soon as possible.

Status as of August 9, 2013:

The Law Bureau is actively pursuing this initiative with a target completion of the third quarter of 2013.

RET07 Update PMRS Agreement to reflect recent changes in the Firefighters’ Plan

Assessment as of February 6, 2012:

Since the effective date of the Firefighters’ PMRS Agreement, the City amended the Firefighters’ Plan by Ordinance 12 of 2008, which amended Section 2-709.21(a) of the Codified Ordinances. Based upon information provided by the City, it does not appear that the Firefighters’ PMRS Agreement was likewise amended even though PMRS has indicated that they have provided the City with a proposed, updated Agreement. Since PMRS administers the Firefighters’ Plan pursuant to the terms of the Firefighters’ PMRS Agreement, the City shall update this Agreement to reflect the current terms of the Firefighters’ Plan. This should be remedied as soon as possible.

Status as of August 9, 2013:

The City Solicitor is in discussions with PMRS regarding the implementation of language changes. It is anticipated that an ordinance will be introduced to City Council in the third quarter of 2013.

RET08 Resolve discrepancies between the Non-Uniformed Plan and the Non-Uniformed PMRS Agreement

Assessment as of February 6, 2012:

The City provided documents that indicate that the Non-Uniformed Plan was amended by Ordinance 35 of 2003, which also approved the adoption of an amended Non-Uniformed PMRS Agreement. Upon review, the Receiver identified certain inconsistencies between the Non-Uniformed Plan, as amended, and the new Non-Uniformed PMRS Agreement. For example, Ordinance 35 of 2003 amends section 2-705.13(c) of the Codified Ordinances to state that mandatory member contributions “shall be treated as the member’s contribution in determining tax treatment under the United States [sic] Internal Revenue Code for federal tax purposes.” The Non-Uniformed PMRS Agreement, on the other hand, states that mandatory member contributions “shall be treated as the employer’s contributions in determining tax treatment under the United States Internal Revenue Code for federal tax purposes.” The City shall resolve these inconsistencies.

Status as of August 9, 2013:

This initiative is on hold until PMRS completes its final review of plan language. The review is currently underway.

RET10 Establish Other Post Employment Benefits (OPEB) Trust

Assessment as of February 6, 2012:

The City shall establish an OPEB trust to begin to address the City’s OPEB liabilities.

Status as of August 9, 2013:

The Deputy Solicitor is drafting a Trust Agreement and working with City Administration and the Office of the Receiver to identify potential trustees. Liabilities have been identified per GASB 45, and potential initial funding has been identified.

Insurance and Risk Management

IRM02 Revise terms of brokerage service agreement

Assessment as of February 6, 2012:

Six months in advance of next year's renewal, the City should move away from the traditional commission methodology of brokerage compensation and establish a negotiated fee for service, resulting in all paid premiums at renewal being net of commission.

A formal RFP process shall be undertaken for brokerage services, with the goal being to consolidate all insurance placement with one (1) qualified brokerage firm. Firms that are well known in the government sector should be invited to present their qualifications, experience and proposed service offering. Further, brokerage compensation shall be based on a negotiated fee; all participating brokers should be informed that premiums must be net of commission and that they are to set forth their fee expectations for the 2012-2013, 2013-2014 and 2014-2015 terms. The reason for a three-year term is that any broker assuming an account will typically invest significant time getting to know the account in the first year. A multi-year relationship allows the participating brokers to set their fee requirements at levels that may be less than the aggregate \$179,445 that is being paid today to the two (2) incumbent brokers if they were to be transitioned to a negotiated fee.

The City shall develop a comprehensive Brokerage Services Agreement to be agreed to and executed by the broker appointed to represent the City. Such an agreement shall clearly set forth the brokers' roles and responsibilities, the City's service level expectations, broker compensation, termination criteria, indemnification and insurance requirements to be imposed on the broker and other terms.

As for the commissions being received today by both firms and what we would suggest their fees be, the projected \$146,412 in annual commission compensation received by Marsh for the services to be provided is slightly outside the range of a reasonable fee. An annual fee should be in the range of \$100,000. The City could realize a savings of \$46,412 annually in placement related expenses. AIA's compensation should also be based on a negotiated annual fee. An annual fee in the range of \$27,500 should be negotiated in which the City would realize an annual savings of \$5,533.

Status as of August 9, 2013:

The City, with assistance from the Office of the Receiver and DCED has developed a Request for Proposals for insurance brokerage services, which will be issued in July 2013 for all 2014 insurance renewals.

IRM03 Engage an actuarial firm to perform an independent and objective evaluation of the City's ultimate liability and projected payments for the forthcoming fiscal period using the City's own loss experience as opposed to industry data

Assessment as of February 6, 2012:

The City shall engage an actuarial firm to perform a calculation independent of the Bureau of Workers' Compensation for the Commonwealth of Pennsylvania to determine the appropriateness of the Bureau's assumptions and calculations. Further, actuaries will typically use industry development factors in their calculations. Given that the City has been a qualified self-insurer for at least 10 years, the development factors can be calculated using the City's own loss experience, which will result in calculations that have greater credibility.

Status as of August 9, 2013:

This initiative would require funding for a third-party firm to conduct the analysis. Given budget constraints and pressing fiscal issues, the initiative is temporarily on hold until resources became available.

IRM04 Revise collective bargaining agreements to allow for flexible Light Duty Program

Assessment as of February 6, 2012:

The City shall negotiate changes to its CBAs to allow for the formal implementation of a Light Duty Program in both the Police and Fire Bureaus.

Any such program shall be aggressively and consistently applied in instances in which a City employee is disabled with regard to their assigned position, but is able to return to work subject to medical limitations. If a City employee is disabled, regardless if the benefits are being paid under Heart and Lung or Workers' Compensation, in order to maximize the effectiveness of the program, employees shall be permitted to be placed anywhere within City government where the City could realize a benefit, if the position is temporary, and is within the medical limitations as set forth by the employee's treating physician. Savings can be realized in having such a program.

In the event an AFSCME worker is collecting Workers' Compensation benefits, his/her position must remain open for 18 months at which time if the employee is not able to return to work, the position can be filled. Keeping a position open this long has an impact on City services, overtime and incurs costs associated with pension accruals and employee benefit costs that continue to be provided to the injured employee at the City's expense. The City must have the right to fill the injured employee's position and, if necessary, terminate employment.

Injured police officers and firefighters are reclassified from being temporarily disabled to permanently disabled, at which point the employee is then given a disability retirement. After six months of continued disability, the City should be given the right to fill the injured employee's position.

Status as of August 9, 2013:

Full implementation of this initiative is dependent upon successful negotiations with all three unions. The City, with support from the Receiver's Team and the City's outside labor counsel, is actively engaged in negotiations with each of the City's collective bargaining units. This initiative is being actively considered by the labor negotiation team, in concurrence with all other workforce initiatives and proposals from the City and the collective bargaining unit leaders.

IRM05 Create a Safety Program to manage risk of vehicle liabilities

Assessment as of February 6, 2012:

The City shall create a Safety Program to manage the City's liability risk. Not having a formal safety program and allowing employees to continue to operate a City vehicle exposes the City to extraordinary risk of loss in connection with more frequent automobile liability claims and damage to City owned vehicles. Further, policies and procedures need to be developed with regard to an ongoing review of the motor vehicle records of current City employees along with a review of all accidents involving City owned vehicles and what number of preventable accidents and/or moving violations or any combination thereof will be cause for termination or revocation of the privilege to operate a City vehicle. These guidelines shall be uniformly and consistently applied throughout City government, inclusive of the Police and Fire Bureaus. Apparently disciplinary or remedial actions that are taken vary from one department supervisor to another. This lends itself to discriminatory practices within City government.

Status as of August 9, 2013:

The City relies upon Inservco, its contracted safety training service provider, to provide certified trainers who conduct the research to identify best practices safety programs as relates to the specific kinds of risk City employees are exposed. Per the agreement, safety training is provided on a quarterly basis.

In addition, the City has since contacted Marsh USA and began a dialogue requesting their assistance in developing and implementing the following:

- Develop review process for city vehicles involved auto accidents, and associated disciplinary process
- Communicate program, policy and procedures to employees/labor groups
- Conduct training for employees and initiate program

The City is currently without a risk manager or safety program manager. Further implementation of this initiative will be pursued to the extent possible with current management capacity.

IRM06 Conduct a cost-benefit analysis to determine adequate Umbrella Excess Liability coverage

Assessment as of February 6, 2012:

The City is underinsured in connection with its Umbrella Excess Liability coverage. Therefore, the City shall conduct a cost benefit analysis associated with increasing the Excess Liability limit to \$10 million. The City's greatest exposure results from automobile liability. Without a Safety Management Program in place, along with juries' propensity to award high dollar verdicts when the defendant is a municipality, it would be prudent to increase the limit under Excess Liability.

Status as of August 9, 2013:

City requested a range of quotes from Marsh USA to potentially expand Umbrella Excess Liability Coverage, as well as benchmarks to help conduct a cost benefit analysis. Marsh USA provided a Benchmark Report provided on January 23, 2012 to compare the City's current Excess Limits of Liability (\$5,000,000) to 89 Public Entity Peers from Marsh's data base and developed estimated premiums for increased coverage for the Receiver's Team and the City to consider. In addition, the City is undergoing an RFP for insurance brokerage services. The selected brokerage firm will recommend coverages by September of 2013. Those coverages will be based on the City's loss experience and the Umbrella Excess Liability Coverage limits will be considered within the context of the City's broader insurance program to ensure adequate coverage and control insurance expenditures.

Elected Officials

Office of the Mayor

The table below details the projected expenditures for the Office of the Mayor.

Office of the Mayor Projected Expenditures by Major Category

Category	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Change
Salaries & Wages	180,000	250,000	250,000	250,000	250,000	38.9
Social Security	13,770	19,125	19,125	19,125	19,125	38.9
Travel/Conferences/Memberships	7,334	7,334	7,434	7,542	7,662	4.5
Lease Purchase	5,000	5,000	5,052	5,108	5,170	3.4
Other Miscellaneous	5,280	8,180	8,244	8,314	8,393	59.0
Total	211,384	289,639	289,855	290,088	290,351	37.4

Source: City Reported 2012 Actual; 2013 – 2016 PEL Estimated/Projected

Office of the Mayor Projected Expenditures – Personnel and Non Personnel

Category	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Change
Personnel Expenditures	193,770	269,125	269,125	269,125	269,125	38.9
Non Personnel Expenditures	17,614	20,514	20,730	20,963	21,226	20.5
Total	211,384	289,639	289,855	290,088	290,351	37.4

Source: City Reported 2012 Actual; 2013 – 2016 PEL Estimated/Projected

Office of the City Council

The table below details the projected expenditures for the Office of the City Council.

**Office of the City Council
Projected Expenditures by Major Category**

Category	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Change
Salaries & Wages	253,500	259,500	259,500	259,500	259,500	2.4
Temporary	0	0	0	0	0	0.0
Overtime	0	0	0	0	0	0.0
Social Security	19,393	19,852	19,852	19,852	19,852	2.4
Benefits	0	0	0	0	0	0.0
Legal/Contract Services	63,225	85,225	87,249	89,455	91,965	45.5
Travel/Conferences Memberships	7,813	8,313	8,426	8,548	8,685	11.2
Other Miscellaneous	24,405	27,380	27,575	27,786	28,025	14.8
Total	368,336	400,270	402,602	405,141	408,026	10.8

Source: City Reported 2012 Actual; 2013 – 2016 PEL Estimated/Projected

**Office of the City Council
Projected Expenditures – Personnel and Non Personnel**

Category	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Change
Personnel Expenditures	272,893	279,352	279,352	279,352	279,352	2.4
Non Personnel Expenditures	95,443	120,918	123,250	125,789	128,675	34.8
Total	368,336	400,270	402,602	405,141	408,026	10.8

Source: City Reported 2012 Actual; 2013 – 2016 PEL Estimated/Projected

Office of the Controller

The table below details the projected expenditures for the Office of the Controller.

**Office of the City Controller
Projected Expenditures by Major Category**

Category	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Change
Salaries & Wages	135,744	134,115	139,066	139,066	139,066	2.4
Temporary	0	0	0	0	0	0.0
Overtime	0	0	0	0	0	0.0
Social Security	10,384	10,260	10,639	10,639	10,639	2.4
Benefits	0	0	0	0	0	0.0
Legal/Contract Services	50,000	50,000	51,322	52,764	54,405	8.8
Other Miscellaneous	11,500	795	806	818	831	-92.8
Total	207,628	195,170	201,833	203,286	204,940	-1.3

Source: City Reported 2012 Actual; 2013 – 2016 PEL Estimated/Projected

**Office of the City Controller
Projected Expenditures – Personnel and Non Personnel**

Category	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Change
Personnel Expenditures	146,128	144,375	149,705	149,705	149,705	2.4
Non Personnel Expenditures	61,500	50,795	52,128	53,581	55,236	-10.2
Total	207,628	195,170	201,833	203,286	204,940	-1.3

Source: City Reported 2012 Actual; 2013 – 2016 PEL Estimated/Projected

Office of the City Treasurer

The table below details the projected expenditures for the Office of the City Treasurer.

**Office of the City Treasurer
Projected Expenditures by Major Category**

Category	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Change
Salaries & Wages	399,830	404,919	409,951	409,951	409,951	2.5
Temporary	0	0	0	0	0	0.0
Overtime	0	0	0	0	0	0.0
Social Security	30,587	30,976	31,361	31,361	31,361	2.5
Benefits	0	0	0	0	0	0.0
Legal/Contract Services	30,000	30,000	30,000	30,000	30,000	0.0
Software	16,073	17,000	17,232	17,481	17,761	10.5
Maintenance/Service Contracts	60,000	60,000	60,000	60,000	60,000	0.0
Lease Purchase	41,020	0	0	0	0	-100.0
Disaster Recovery System	10,400	0	0	0	0	-100.0
Other Miscellaneous	27,400	40,400	41,000	41,648	42,380	54.7
Total	615,310	583,295	589,543	590,441	591,453	-3.9

Source: City Reported 2012 Actual; 2013 – 2016 PEL Estimated/Projected

**Office of the City Treasurer
Projected Expenditures – Personnel and Non Personnel**

Category	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Change
Personnel Expenditures	430,417	435,895	441,312	441,312	441,312	2.5
Non Personnel Expenditures	184,893	147,400	148,232	149,129	150,141	-18.8
Total	615,310	583,295	589,543	590,441	591,453	-3.9

Source: City Reported 2012 Actual; 2013 – 2016 PEL Estimated/Projected

Initiatives

EL01 Increase communication and collaboration among Mayor, City Council, City Controller, City Treasurer and Department of Administration

Assessment as of February 6, 2012:

To implement the Recovery Plan and monitor the financial situation of the City, increased communication between the Mayor, City Council, City Controller, City Treasurer and Chief of Staff/Business Administrator must be implemented. The Finance and Budget Committee Chairperson, Receiver, Mayor, City Controller and Chief of Staff/Business Administrator shall meet at least monthly to review cash flow, revenues and expenditures (budgeted to actual) and any related operational issues. The City Treasurer shall attend these meetings as necessary.

The Offices of the City Council, Mayor, Controller and Treasurer have not always worked collaboratively. It is imperative that all elected officials work together to restore the City's financial footing. Each office plays a critical role in the City's financial recovery. Regardless of the history, the future of the City of Harrisburg depends on the collaboration between all elected officials to keep the City on a path to financial recovery.

Status as of August 9, 2013:

The Mayor, Business Administrator, and senior executive staff continue to work toward improving communication between elected officials and City staff.

EL02 Review progress on financial Recovery Plan implementation monthly and quarterly

Assessment as of February 6, 2012:

To implement the Plan and monitor the financial situation of the City, increased communication between the Mayor, City Council, City Treasurer, City Controller and Chief of Staff/Business Administrator shall occur. The City shall convene regular meetings (at least monthly) with the Finance and Budget Committee Chairperson, Receiver, Mayor, Chief of Staff/Business Administrator and City Controller to review progress on the Plan, cash flow, revenues and expenditures (budgeted to actual) and any operational issues that may be impacted.

Additionally, the City shall monitor the implementation of the Plan by conducting quarterly financial reviews. Once completed by Administration, the quarterly reports shall be reviewed by the Receiver who shall provide comments on them to the City's elected officials. This information shall be reported quarterly at City Council meetings and provided on the City's website so that all residents, businesses and interested parties can track the progress of the Plan and the City's financial situation.

Status as of August 9, 2013:

The Municipal Financial Recovery Advisory Committee, which consists of the Mayor, the President of the City Council, a representative of Dauphin County, a representative of the Governor, and is chaired by the Receiver, meets semi-weekly to review the status of the Receiver's Plan and the financial condition of the City. The Receiver meets weekly with the Mayor to review priority issues. The City provides regular updates on plan implementation measures and posts them to its website. The Receiver provides a comprehensive status report to City officials and Commonwealth Court on a quarterly basis.

EL03 Amend and pass City ordinances, fees and taxes as outlined in the Recovery Plan

Assessment as of February 6, 2012:

The Plan will require some new and amended ordinances to implement all the provisions contained therein. The City Council will be critical in making sure this legislation is implemented in a timely fashion so that the fiscal impact of these initiatives can be fully realized. The City Clerk and Chief of Staff/Business Administrator shall meet to plan when items need to be presented to committees and in Legislative sessions of the City Council. Additional committee and Legislative sessions will need to be scheduled to keep the process moving expeditiously.

The Office of the Mayor and Chief of Staff/Business Administrator will also be critical in executing the Plan provisions, including ensuring changes in operations, policies and practices, drafting new ordinances for the City Council to consider, as well as managing the overall implementation and communicating progress on the Plan.

Status as of August 9, 2013:

City Council adopted a 5% Parking Tax increase and 0.8 mill real estate tax increase in the 2012 Budget. Ordinances containing Residential Parking increases and Parking Meter Rate increases are pending in Council Committee. In addition, the City contracted with Maximus, Inc. to conduct a fee study in 2012. Where recommended, the City has pursued increases in City fees and fines to align them with City costs and/or peer fee levels.

Department of Administration

The tables below show the Department's budgeted expenses excluding those for the Bureau of Information Technology, which are presented in their own chapter.

Department of Administration Projected Expenditures by Function

	2012	2013	2014	2015	2016	%
Department	Actual	Projected	Projected	Projected	Projected	Change
Office of Business Administrator	137,076	187,207	187,361	187,526	187,713	36.9
Bureau of Financial Management	382,532	597,291	598,982	599,297	599,660	56.8
Bureau of Human Resources	362,415	372,662	372,853	373,058	373,287	3.0
Operations and Revenue	610,109	688,869	702,215	706,803	711,982	16.7
Total	1,492,131	1,846,029	1,861,411	1,866,684	1,872,643	25.5

Source: City Reported 2012 Actual; 2013 – 2016 PEL Estimated/Projected

Department of Administration Projected Expenditures by Major Category

	2012	2013	2014	2015	2016	%
Category	Actual	Projected	Projected	Projected	Projected	Change
Salary & Wages	1,046,828	1,220,389	1,230,155	1,230,155	1,230,155	17.5
Temporary	7,019	7,019	7,019	7,019	7,019	0.0
Overtime	15	15	15	15	15	0.0
Social Security	81,033	93,898	94,645	94,645	94,645	16.8
Legal/Contract Services	55,006	92,101	92,313	92,540	92,791	68.7
Audit	560	84,266	83,789	83,284	82,729	14,673.1
Software	574	550	557	566	575	0.1
Postage	121,379	131,100	133,914	136,967	140,424	15.7
Duplicating	17,038	23,000	23,152	23,315	23,496	37.9
Supplies & Expenses	11,507	13,945	9,023	10,837	10,656	-7.4
Maintenance/Service Contracts	84,609	115,100	116,668	118,357	120,253	42.1
Minor Capital	0	2,200	2,258	2,322	2,394	100.0
Other Miscellaneous	66,563	62,446	67,903	66,664	67,491	1.4
Total	1,492,131	1,846,029	1,861,411	1,866,684	1,872,643	25.5

Source: City Reported 2012 Actual; 2013 – 2016 PEL Estimated/Projected

Department of Administration
Projected Expenditures – Personnel and Non-Personnel

	2012	2013	2014	2015	2016	%
Category	Actual	Projected	Projected	Projected	Projected	Change
Personnel	1,134,895	1,321,320	1,331,834	1,331,834	1,331,834	17.4
Nonpersonnel	357,237	524,708	529,577	534,850	540,809	51.4
Total	1,492,131	1,846,029	1,861,411	1,866,684	1,872,643	25.5

Source: City Reported 2012 Actual; 2013 – 2016 PEL Estimated/Projected

Initiatives

ADMIN01 **Implement quarterly financial reporting and associated review process**

Assessment as of February 6, 2012:

The Bureau of Financial Management shall produce quarterly financial reports within 45 days of the end of the quarter for review by City department and bureau managers as well as the City's elected officials. As recommended by the Government Finance Officers Association (GFOA), "a government should undertake a process at least quarterly to ensure the ongoing completeness and accuracy of the financial data it collects. This process should include appropriate reconciliations to identify needed adjustments, as well as financial analysis of interim management reports to identify anomalous or incomplete data that may need to be corrected."⁵

The City shall make budget amendments as needed during the second and third quarter financial report reviews. GFOA recommends, in times of fiscal of distress, that municipalities should "try to avoid formal adjustments unless the budget reduction is large, likely permanent, and/or in an earmarked source of revenue."⁶

Rather than specific line item review and approval, the City Council shall have accurate and timely data on the City's financial condition - and the opportunity to question and analyze the specifics of that condition - through the established quarterly financial review process. As noted by GFOA, "usually, controls at a very low level of the chart of accounts (e.g., line-item level) will cost more to administer and manage than they will bring in benefits. Instead, consider setting controls for major areas of expenditure like operations and maintenance of assets or salaries. More detailed controls focused on specific problem areas, like overtime, might also be helpful."⁷

The City's quarterly reports, produced by the Bureau of Financial Management, will highlight any variances through the comparison of budgeted to actual totals. The reports will include specific details on budgeted versus filled positions and total salary expenditures in each City department and bureau. The quarterly reports will also show the prior quarters' revenue and expenditure totals as well as year over year comparisons (e.g., first quarter of 2011 as compared with first quarter of 2010). Once completed, the quarterly reports should be reviewed by the Receiver who shall provide comments and recommendations on them to the City's elected officials. If a variation from the adopted plan of greater than 1% has been determined by the Receiver in accordance with GAAP, the Mayor shall provide the Receiver with reports describing the actual or current estimates of revenues and expenditures compared to budgeted revenues and expenditures for such period reflected in its cash flow forecast. Each quarterly report shall indicate any variance between actual or current estimates and budgeted revenues, expenditures or cash for the period along with any correct actions deemed

⁵ Government Finance Officers Association (GFOA) Best Practice, Improving the Timeliness of Financial Reports

⁶ Government Finance Officers Association (GFOA), Process for Recovering from Financial Distress

⁷ Government Finance Officers Association (GFOA), Process for Recovering from Financial Distress

necessary. The report shall also include information on debt service requirements and payments made thereon during the period.

Status as of August 9, 2013:

The Budget Office has established and implemented procedures beginning with the 2012 Mid-Year Fiscal Report to review budgetary performance (revenues and expenditures) on a quarterly basis with all individual department heads/bureau chiefs prior to the compilation and issuance of a formal Quarterly Fiscal Report. The Quarterly Fiscal Report is provided to all elected officials within 45 days of each quarter-ended and is made available on the City's website. The City will continue to document internal review and reporting processes; a process which is targeted for completion in the third quarter of 2013.

ADMIN02 Develop comprehensive City-wide financial policies

Assessment as of February 6, 2012:

With guidance and support from the Receiver, the City shall establish formal financial policies. These policies shall address a number of functional areas that shall include, but are not limited to:

- Operating budget;
- Revenues and expenditures;
- Reserves;
- Capital improvements;
- Grants administration;
- Debt management;
- Investments; and
- Accounting, auditing and financial reporting.

These policies shall be developed in accordance with GFOA best practices. Specific policies that shall be developed include, but are not limited to:

- Process for Annual Closing of Books - As discussed previously in the Assessment section of this chapter, the City shall use the 13th month function within Pentamation to keep both the prior and current year's books open. The 13th month shall be used to complete all outstanding transactions in the prior year, while allowing the new year's books to open in late December or the first week of January. Once all transactions from the prior year are completed, the 13th month should be closed. This closure should occur no later than 90 days after January 1.
- Cash Flow Management and Monitoring - The City shall undertake routine variance analyses to evaluate budgeted to actual revenue and expenditures, in addition to continuing formal cash flow analyses to examine income and outflow of cash in the context of the City's ability to meet its obligations.
- Fund Balance - The City shall establish a fund balance policy that identifies the appropriate size of unreserved fund balance, the process by which resources are set aside for unreserved fund balance and the methods by which unreserved fund balance resources may be utilized.
- Process for Departmental Budget Charge Backs - The City shall establish a policy to identify internal operations that necessitate departmental charge backs (e.g., the Bureau of Information Technology charging City departments and bureaus for network administration services) and create an internal service fund structure within the chart of accounts in order to document and monitor chargebacks as needed.
- Process for Preparation, Coordination and Response to Comprehensive Annual Financial Audits - The City shall formally establish a policy outlining the necessary preparations for the annual audit, the roles and responsibilities of City staff in coordinating the completion of the annual audit, and the

process by which the City will respond to any corrective actions outlined in the external audit upon its completion.

Status as of August 9, 2013:

Staff from the Bureau of Financial Management are currently gathering and updating existing City fiscal policies. The Finance Director has also acquired Government Finance Officers Association (GFOA) best practice policies for review and consideration. With assistance from the Receiver's Team, the process of updating financial policies is expected to be completed in 2014.

ADMIN04 Establish standard position control system

Assessment as of February 6, 2012:

At present, the City's position control tracking tool is the FY2011 budget ordinance. The Department of Administration and the Office of the City Controller share responsibility for the position control function. The Office of the City Controller retains the authority to approve pay for only those positions listed in the FY2011 budget.

A comprehensive, City-wide position control system shall be established - one that is part of the City's mainframe system (or any replacement for that system) as well as Pentamation. Position control systems are intended to track approved full and part time positions, funding sources and the amount budgeted for each position in every City department and bureau. An effective position control function ensures that only budgeted and approved positions are filled. Assigning each position, rather than employee, a number and then tracking it allows the City to monitor the history of a position over time.

Position control shall be incorporated into the City's budget documents and financial reporting. The Bureaus of Financial Management and Human Resources shall then implement a City-wide position control review process to evaluate and approve all position changes, including changes in wages and classification.

Status as of August 9, 2013:

The Receiver's Team provided assistance in developing an Excel based position control tool that can be used in lieu of Enterprise Resource Planning (ERP) system implementation, which would be costly and outside the level of resources available. The Excel tool will be tested during the 2014 budget process.

In addition to the initiatives detailed above, it is also important to note that the Bureau of Financial Management, with the support of the Office of the Receiver and DCED, has implemented a multi-year plan to fundamentally improve the Bureau's financial management capacity, address audit backlog, and position the Bureau to effectively perform its financial monitoring and management responsibilities in the future.

Specifically, the City has reorganized the Bureau to include additional accounting and analytical support. Concurrently, the City utilized third-party accounting firms to not only address a three year backlog of financial audits, but to train Bureau staff to conduct future audits and audit preparation in house. As a result, the City will be caught up on all audit backlogs in 2013 and will take over audit preparation work and audit responsibilities going forward. The Office of the Receiver and DCED continue to work closely with the Bureau to enhance staff capacity and further the broader goal of building a robust financial management function in the City of Harrisburg.

Bureau of Information Technology

The tables below show the IT Bureau's budgeted expenditures.

Bureau of Information Technology – Projected Expenditures by Major Category

Category	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Change
Salaries & Wages	351,913	413,775	415,184	415,184	415,184	18.0
Temporary	0	0	0	0	0	0.0
Overtime	0	0	0	0	0	0.0
Social Security	26,955	31,762	31,762	31,762	31,762	17.8
Benefits	0	0	0	0	0	0.0
Legal/Contract Services	13,490	26,000	26,074	26,152	26,239	94.5
Maintenance/Service Contracts	67,637	87,333	88,523	89,804	91,243	34.9
Software	15,077	19,740	20,009	20,299	20,624	36.8
Data Processing	9,925	15,000	15,057	15,117	15,184	53.0
Lease Purchase	1,641	70,000	70,000	70,000	70,000	4,164.8
Other Miscellaneous	22,840	11,787	7,804	7,823	7,844	-65.7
Total	509,480	675,397	674,412	676,140	678,080	33.1

Source: City Reported 2012; PEL 2013-2016 Estimated/Projected

Bureau of Information Technology Projected Expenditures – Personnel and Non Personnel

Category	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Change
Personnel Expenditures	378,868	445,537	446,946	446,946	446,946	18.0
Non Personnel Expenditures	130,612	229,860	227,466	229,195	231,134	77.0
Total	509,480	675,397	674,412	676,140	678,080	33.1

Source: City Reported 2012; PEL 2013-2016 Estimated/Projected

Initiatives

IT01 Replace mission critical IT components

Assessment as of February 6, 2012:

The City's core switch is the critical infrastructure that allows all of the City's computing operations to function, including critical applications (tax administration, utility billing, METRO police system, personnel and payroll), PCs, servers and all other network devices. The core switch and a portion of ancillary Cisco switches were out of date and no longer supported by Cisco. In order to prevent system interruptions or failure, the City utilized grant funding to replace the core switch and ancillary Cisco switches in late 2011.

The air conditioning in the City Government Center data center failed recently, representing another single point of failure in the City's infrastructure. When the air conditioning failed, the room reached over 98 degrees and could have damaged or caused a complete failure of vital hardware systems housed in the data center. The City shall repair or replace the temperature monitoring device in the data center to provide an alert to the Communications Center when the room is approaching a dangerous temperature and/or when there is an electrical power outage. This equipment could save significant amounts of money by avoiding additional overheating events and related damage to multiple systems.

Status as of August 9, 2013:

The Bureau of Information Technology has partially developed an inventory list and replacement schedule, which will be included in upcoming budget cycles. However, the City has also utilized State grant resources where available to repair and replace critical IT systems. For example, in 2012, the City utilized Commonwealth grant funding to replace the air conditioning system in the City's mainframe room. This was a critical replacement and necessary to maintain the operability of the City's IT systems. The City continues to seek funding opportunities to replace IT systems as available.

IT02 Replace outdated personal computers

Assessment as of February 6, 2012:

Well over half of the desktop and laptop computers in the City are more than seven years old, and many are more than nine years old. This leads to performance issues and equipment breakages, which makes support difficult and equipment unproductive and costly to maintain. The software on this equipment is old, with many computers running Microsoft Office 2000 or one of several different versions of Windows Operating Systems and other outdated software. According to feedback from City staff, users are routinely frustrated with the speed and reliability of these machines, which are long overdue for replacement.

Dauphin County has a three-year replacement cycle for personal computers (PCs), which is consistent with industry best practices. The County currently leases their PCs. After they are replaced, they are sent back to the service provider. The County is willing to consider changing its leasing agreement and investigating a buy-back option or some other provision that would allow the City of Harrisburg to purchase the PCs for a very low cost. Preliminary discussions with the County put this estimate at \$200 per PC. Although a three-year replacement cycle is the best practice in PC replacement, this is not a standard that the City can currently afford. By purchasing inexpensive, used equipment annually from the County, the City can replace the oldest PCs that are out of warranty with minimal cost. As additional funds are available, the City could use the County's contract and purchase new PCs at a lower cost. This would ensure standardization of equipment and software and improve the efficiency of help desk service. The County may also allow the City to purchase software through the County at a reduced rate through a volume licensing agreement it has established with Microsoft.

The cost of this initiative is \$20,000 per year based on replacing 100 PCs annually in 2012, 2013 and 2014. This cost does not include software. The total cost to the City is anticipated to be \$60,000 over the next three years.

Status as of August 9, 2013:

The Bureau has developed an inventory of personal computers that includes life cycle and replacement priority. The replacement schedule has been developed and incorporated into the budget development process and computers will be replaced as budget constraints allow. In 2013, the City is scheduled to replace 39 outdated personal computers, which will fundamentally improve the productivity of City personnel and operating programs.

IT05 Conduct a needs assessment for an Enterprise Resource Planning system

Assessment as of February 6, 2012:

The City 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. Part of this project shall also include a needs assessment based on input from all City departments, as well as THA. One of the major deliverables would be a detailed study, including specific recommendations as to how the City would either replace or enhance the Sungard Pentamation system and major mainframe applications with an emphasis toward process improvement and enhanced service delivery for all City services.

The consultant shall also explore a shared services model with the County or another government entity similar to the arrangement that Allegheny County and the City of Pittsburgh have in place. This could offer substantial cost savings for the City. Dauphin County uses the GEMS ERP system and Microsoft Dynamics for some functions. Based on initial discussions with Dauphin County, there are reservations on the part of County staff to enter into shared services with Harrisburg. Therefore, these issues would have to be explored thoroughly before implementation. The IT requirements of the City's authorities shall also be explored as part of this process.

While the City's mainframe applications perform well and offer outstanding reliability, it is certainly not a best practice solution for cities the size and complexity of Harrisburg. It will take time to convert or replace mainframe applications with server-based systems and to move all essential applications off the mainframe to a server-based platform or cloud-hosted environment. While the City's IT mainframe support is good, a server-based environment would make it easier to find skilled IT workers and provide a much improved end user experience.

Status as of August 9, 2013:

The Bureau of Information Technology is seeking Commonwealth ACT 47 grant funding opportunities to hire a consultant to undertake a needs assessment. The City's Grants Manager has been assigned to the task of writing the Grant request. The initiative is on hold until funding can be identified.

IT06 Complete a needs assessment and audit of existing phone system and components

Assessment as of February 6, 2012:

The City's NORTEL phone system uses technology that is more than 20 years old. While some parts of it have been replaced, some parts of it are nearly 30 years old. Any failure of the phone system could result in prolonged outages, which would affect all City functions, including public safety. IT recently assumed

responsibility for the system from the Operations and Revenue Bureau and discovered that no maintenance contract exists for the telephone system.

The City shall hire a consultant to perform a needs assessment and audit of existing phone lines used at City facilities. The consultant shall be contracted to:

1. Analyze existing telephone bills and reconcile them with the actual lines installed at City facilities. This will likely reduce the City's phone bills since unused lines can be removed and any over charges by Verizon can be identified. The consultant shall also identify changes in the types of lines used at the City and possibly replace traditional trunk lines with flat-rate Primary Rate Interface (PRI) lines which offer considerable savings.
2. Conduct a needs assessment and explore other cost saving opportunities.
3. Write the specifications for an RFP that would include the purchase of a new phone and voice mail system that shall cover all City facilities and staff.
4. Develop a needs summary so that any future phone system purchases shall address user needs.

This initiative has a one-time cost, and the City could see some cost savings if the audit of phone lines identifies some that can be eliminated or are being billed to the City erroneously.

Status as of August 9, 2013:

The Bureau is seeking Commonwealth grant funding to offset the cost of implementation. Parts can still be located for the existing phone system when issues arise; as a result, implementation of this item is not critical when compared to other initiatives and is therefore being deferred until funding can be obtained.

IT07 Pursue long-term strategic IT initiatives

Assessment as of February 6, 2012:

There are several technological improvements that have the potential to greatly improve the City's IT infrastructure and service delivery. Due to the time and expense required to effectively implement these improvements, they are not recommended as initiatives for this Recovery Plan. As the City's fiscal condition improves, these items shall be evaluated for implementation.

Voice Over Internet Protocol (VOIP)

One area the City shall consider after having an assessment of telecommunications needs by a consultant is to prepare for a VOIP telephone system replacement. In preparation for this future transfer, the City shall be proactive with all future wiring. Any new cable drops shall be Cat 6e which will provide the reliability and bandwidth to accommodate future growth.

Other Departmental Needs

A number of other departmental needs were noted by the Receiver and shall be explored by the IT Bureau. Geographic information services (GIS) at the City have been virtually nonexistent after the last dedicated GIS employee left the City in 2005. Since then, a private engineering firm has been providing limited assistance. There is a need for GIS services to help departments and bureaus better manage and access information to do their jobs. This was mentioned as a need by three separate bureaus. For GIS to be an effective management tool, in-house capacity shall be developed and work shall be completed to bring layers up to date and add new layers. Additionally, upgrades in the parking ticket handheld devices, mobile data computers in fire vehicles and training for all City staff were mentioned as needs. There is also a need for connectivity between each offsite office.

Status as of August 9, 2013:

As the City's financial condition improves, these initiatives will be considered for funding.

Law Bureau

The tables below show the Bureau's projected expenditures.

Bureau of Law Projected Expenditures by Major Category

Category	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Change
Salaries & Wages	129,865	253,370	253,370	253,370	253,370	95.1
Temporary	0	0	0	0	0	0.0
Overtime	0	0	0	0	0	0.0
Social Security	9,935	19,383	19,383	19,383	19,383	95.1
Benefits	0	0	0	0	0	0.0
Legal/Contract Services	349,424	400,000	410,577	422,109	435,237	24.6
Subscriptions	17,738	35,000	35,000	35,000	35,000	97.3
Other Miscellaneous	2,577	5,450	5,482	5,516	5,555	115.6
Total	509,539	713,203	723,811	735,378	748,544	46.9

Source: City Reported 2012; 2013 – 2016 PEL Estimated/Projected

Bureau of Law Projected Expenditures – Personnel and Non Personnel

Category	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Change
Personnel Expenditures	139,800	272,753	272,753	272,753	272,753	95.1
Non Personnel Expenditures	369,739	440,450	451,059	462,625	475,791	28.7
Total	509,539	713,203	723,811	735,378	748,544	46.9

Source: City Reported 2012; 2013 – 2016 PEL Estimated/Projected

Initiatives

LAW02 Increase the number of staff attorneys from one to three

Assessment as of February 6, 2012:

The City shall hire two additional staff attorneys, each with skill sets to handle the most frequently experienced cases. The City shall fill the currently budgeted but vacant Attorney position. This will have no additional impact on the General Fund. The City shall also shift \$75,000 per year from funds budgeted for outside legal counsel to employee expenditures to cover the costs of an additional Assistant Solicitor. There is no budget impact. This will also leave approximately \$110,000 for outside counsel as indicated in Initiative LAW01 "Use professional assistance for labor relations activities."

A Deputy Solicitor position has been included in the Mayor's 2012 Proposed Budget.

Status as of August 9, 2013:

A Deputy City Solicitor was hired and started in September 2012. The Office of the Receiver authorized the filling of the position of Assistant City Solicitor in March 2013, an offer of employment was extended on June 13 with a start date of July 15.

Bureau of Police

The tables below show the Police Bureau's projected expenditures.

Bureau of Police Projected Expenditures by Function

Department	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Growth
Parking Enforcement	0	0	0	0	0	0.0
Office of the Police Chief	15,976,154	17,124,740	17,493,055	17,894,039	17,929,300	12.2
Uniformed Patrol	0	0	0	0	0	0.0
Technical Services	0	0	0	0	0	0.0
Criminal Investigation	0	0	0	0	0	0.0
Total	15,976,154	17,124,740	17,493,055	17,894,039	17,929,300	12.2

Source: City Reported 2012 Actual; 2013 – 2016 PEL Estimated/Projected

Bureau of Police Projected Expenditures by Major Category

Category	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Growth
Salaries & Wages	11,073,730	12,300,160	12,657,238	13,025,028	13,025,028	17.6
Salaries/Wage-Extra Duty	483,620	450,000	463,500	477,405	491,727	1.7
Temporary	0	0	0	0	0	0.0
Overtime	376,875	325,000	325,000	325,000	325,000	-13.8
Sick Leave Buy Back	0	13,208	2,000	2,000	2,000	0.0
Severance Pay	38,910	350,623	350,623	350,623	350,623	801.1
Social Security	216,978	315,211	323,640	332,593	341,814	57.5
Clothing Allowance/Maintenance	79,324	151,125	151,125	151,125	151,125	90.5
Loss Time & Medical	626,474	475,000	475,000	475,000	475,000	-24.2
Police Pension Plan	2,524,734	2,146,827	2,146,827	2,146,827	2,146,827	-15.0
College Credits	8,800	8,800	8,842	8,886	8,935	1.5
Benefits	1,938	2,000	2,132	2,282	2,459	26.9
Legal/Contract Services	85,299	84,500	85,651	86,891	88,283	3.5
Maintenance Service Contracts	27,095	10,500	10,643	10,797	10,970	-59.5
Telephone	47,981	50,000	49,575	49,127	48,636	1.4

Category	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Growth
Auto Deductible	6,784	10,000	10,227	10,473	10,752	58.5
Police Prof Premium	211,315	280,000	286,346	293,240	301,057	42.5
Police Prof Deductible	49,886	30,000	30,680	31,419	32,256	-35.3
Other Miscellaneous	116,412	121,786	114,007	115,324	116,807	0.3
Total	15,976,154	17,124,740	17,493,055	17,894,039	17,929,300	12.2

Source: City Reported 2012 Actual; 2013 – 2016 PEL Estimated/Projected

Bureau of Police Projected Expenditures – Personnel and Non Personnel

Category	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Growth
Personnel Expenditures	15,431,382	16,537,954	16,905,926	17,296,768	17,320,538	12.2
Non Personnel Expenditures	544,771	586,786	587,129	597,271	608,762	11.7
Total	15,976,154	17,124,740	17,493,055	17,894,039	17,929,300	12.2

Source: City Reported 2012 Actual; 2013 – 2016 PEL Estimated/Projected

Initiatives

POL02 Implement a vehicle replacement policy

Assessment as of February 6, 2012:

As described earlier in this chapter, the Bureau does not currently have a vehicle replacement plan. The entire Uniformed Patrol and Criminal Investigation Division fleet was purchased in 2008, and Bureau staff reports that the 2008 vehicles have experienced numerous electrical issues attributable to wiring deficiencies.

Police vehicles are subjected to unusually hard use; they often run 24 hours a day, stay idle for lengthy periods and are operated by multiple drivers. Typically, after approximately 75,000 miles, maintenance costs and out of service time begin to outweigh the replacement cost. Most importantly, it is indisputable that vehicles are essential tools; the job cannot be done without them.

If the City chose to follow its previous pattern and replace the bulk of the fleet at one time, it would face a potential obligation in excess of \$1,740,000.⁸ Rather, the City shall establish lifecycle guidelines for both marked and unmarked vehicles. Since unmarked staff or investigative vehicles are typically used less and by fewer operators, they have a longer useful lifespan. Older vehicles would be moved into other assignments, such as administrative units or Parking Enforcement, where some 1990 and 1992 vehicles are still in service.

There are currently 41 vehicles assigned to the Uniformed Patrol Division and Special Services Section. Twenty-three vehicles are assigned to the Criminal Investigation Division, and an additional five are assigned

⁸ Based on estimated cost of \$33,468 for a fully equipped vehicle, based on a standard police vehicle: Ford Crown Victoria with a PA System, siren control box, siren, console, prisoner security screen, push bumper, light bar, shotgun mount, first aid kit, fire extinguisher, measuring tape, leg irons/restraint belt, evidence processing kit, slim jim (door opening tool), and trunk equipment box.

to other units, excluding Parking Enforcement.⁹ The purchase of four marked vehicles per year would replace the patrol fleet within 10 years. This is not an optimum replacement cycle, but a significant improvement over the current practice and one which recognizes the City's financial limitations – at a cost of approximately \$133,872 per year. The purchase of two (unmarked) vehicles for the Criminal Investigation Division and staff units would replace those units' vehicles within approximately 14 years at an annual cost of \$66,936. Again, this is not an optimal replacement cycle, but an improvement over the current practice.

In the City's particular situation, leasing of vehicles for the Police Bureau will not be cost effective. The replacement cycles proposed in the preceding paragraph (ten years for marked patrol vehicles and 14 years for unmarked investigative vehicles), while sensitive to the City's current fiscal constraints, are beyond optimal lifecycles for police vehicles and well beyond traditional vehicle leasing periods. The unusual wear and tear on police vehicles, and the increased likelihood of vehicle loss due to mechanical failure or accident, results in an usually high risk of lease payment obligations that may outlive the vehicles. Additionally, the extended warranties purchased for many vehicles are set to expire.

As illustrated in the financial impact table shown below, the estimated annual vehicle replacement cost would be \$200,808. The total expense over a five year period would be \$1,004,040, compared with the one-time replacement cost of \$2,275,824 for the same number of vehicles, not including the associated debt service, as well as the repair expense and additional out of service time prevented by more timely replacement of vehicles.

Status as of August 9, 2013:

With the assistance of Receiver's Team, a fleet assessment was completed which identified 20 surplus vehicles for elimination from the City's fleet and offered recommendations to reorganize the fleet maintenance function to add management and proactive fleet usage analysis capacity. The City has begun implementing the recommended fleet reductions and reorganization.

POL03 Review and revise stipend for newly promoted investigators

Assessment as of February 6, 2012:

Currently, a police officer assigned to the Criminal Investigation Division receives a salary increase of 5% immediately upon assignment. Although there is a considerable degree of raw talent necessary for a police officer to be a good investigator and assignments to investigative positions are often largely based on past performance, there is a learning curve and extensive training involved before an officer truly becomes acclimated to the position.

While it is important to reward the special skills involved in receiving this designation and to provide an incentive for talented officers to seek the position, the stipend shall be deferred, and salary steps shall be awarded instead. The City shall implement the step at 1% each year for the first five years of service as an investigator.

Status as of August 9, 2013:

This initiative is on hold pending the outcome of the negotiations between the City's outside legal counsel and the Receiver's Team with the FOP.

POL09 Appoint a Civilian Manager for the Parking Enforcement Office

Assessment as of February 6, 2012:

⁹ Totals do not include specialty vehicles such as motorcycles, Animal Control vehicles, and forensic vehicles, and assume recycling of front line vehicles to units currently using older models.

In addition to improving traffic safety by ensuring compliance with parking regulations, Parking Enforcement Officers generate significant revenue for the City. The City shall fill the vacant position of Manager of the Parking Enforcement Office. The intricacies of the Parking Enforcement Office – including assignment and scheduling of personnel, maintenance of equipment, liaison with vendors and processing of tickets – warrant the attention of a civilian supervisor who can streamline the operation and consequently enhance the revenue received by the City.

The former incumbent in this position was paid \$58,000 annually (not inclusive of fringe benefit costs to the City); for the purposes of the financial impact analysis shown below, the estimated cost to the City of starting salary and associated benefits for a new employee in this position is \$61,800 per year. It is anticipated that this expense would be offset by enhanced revenue derived from operational efficiencies outlined in Initiative POL11 “Increase operational efficiency in Parking Enforcement Office;” however, such offsetting revenue is not reflected in the financial impact analysis table below.

The Mayor’s 2012 Proposed Budget did not include funds for this position. The Bureau has assigned this function to an existing Lieutenant as an additional duty at this time. Results should be monitored and assessed in 9 months to determine the appropriate course of action.

Status as of August 9, 2013:

The Receiver’s Team continues to pursue opportunities for asset monetization relating to the City’s parking facilities. The addition of this position is on hold until the monetization process has been resolved.

POL11 Increase operational efficiency in Parking Enforcement Office

Assessment as of February 6, 2012:

By implementing Initiatives POL09 and POL10, the Parking Enforcement Office will be well-equipped to increase enforcement activities, resulting in increased parking ticket revenue for the City.

At present, it is estimated that the average Parking Enforcement Officer issues approximately 149 parking tickets per week. Based on historic ticket revenue, it is estimated that an increase of five parking tickets per Parking Enforcement Officer per week (at the current rate of \$15 per ticket) will yield approximately \$120,120 per year in additional revenue for years 2012-2015. This revenue may be used, in part, to offset the expenses associated with hiring a new manager for the Parking Enforcement Office and upgrading the Office's electronic parking ticketing devices.

Status as of August 9, 2013:

Managers emphasize the importance of productivity with enforcement personnel and ticket count, and time/location reports are reviewed daily by managers. Currently, there are four vacant enforcement officer positions, pending resolution of the parking asset monetization process. Implementation of this initiative is on hold until the monetization process is resolved.

POL12 Implement a new schedule for Parking Enforcement Officers

Assessment as of February 6, 2012:

With the implementation of new, later parking meter hours, discussed in the Initiatives section of the Harrisburg Parking Authority chapter of this report, there is a need for the Parking Enforcement Officers to alter their working hours.

At present, the Officers work staggered schedules, spanning the hours of 6:30 a.m. to 5 p.m. The Office shall implement a new shift system to ensure enforcement of on-street meters through 10 p.m. on weekdays and from 8 a.m.-10 p.m. on Saturdays.

An illustrative example is a first shift of 6:30 a.m. - 2:30 p.m. and a second shift of 2:30 p.m. – 10 p.m. on weekdays, followed by a similar two shift arrangement on Saturday. The specifics of the new shift system may be determined at the discretion of the Chief of Police, the Captain of the Technical Services Division, and the Manager of the Parking Enforcement Office, with guidance and support from the Receiver. The new system must be designed to avoid incurring overtime charges routinely.

Status as of August 9, 2013:

City staff has submitted legislation for City Council consideration that revises parking meter enforcement hours, which is the first critical step to meet the objective of the initiative. The proposed legislation has been in the Budget and Finance Committee since January 20, 2012.

POL13 Increase current parking ticket fees

Assessment as of February 6, 2012:

At present, standard parking tickets carry a \$15 fee, which increases to \$25 if not paid within 96 hours of issuance. Parking tickets issued for parking in handicap-designated spaces without a handicapped driver designation, as well as tickets issued for parking in front of a fire hydrant, carry a \$50 fee.

To encourage greater compliance with posted parking regulations, including street signage as well as on-street parking meters, the City shall increase parking ticket fees as follows:

- Standard Parking Ticket: \$30
- Standard Parking Ticket, if not paid within 5 business days: \$50
- Standard Parking Ticket, if not paid within 10 business days: \$100
- Handicap-Designated or Hydrant Parking Ticket: \$100

These proposed fee changes shall be evaluated against the City-wide fee study once it is completed, and, based on the results of that evaluation, shall be modified as needed at the direction of the Receiver.

Based on historic totals of parking tickets issued, as well as historic parking ticket revenue, it is estimated that the revised parking ticket fees proposed above will generate approximately \$1,508,437 per year from 2012-2015.

Status as of August 9, 2013:

City staff has submitted legislation for City Council consideration that includes the recommended fee increases. The proposed legislation has been in the Budget and Finance Committee since January 20, 2012; however, the legislation is on hold pending the resolution of the parking asset monetization process.

Bureau of Fire

The tables below show the Bureau's projected expenditures.

Bureau of Fire Projected Expenditures by Major Category

Category	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Growth
Salaries & Wages	4,242,455	5,285,954	5,440,198	5,599,069	5,762,706	35.8
Overtime	2,719,249	2,000,000	2,000,000	2,000,000	2,000,000	-26.5
Sick Leave Buy Back	114,937	110,000	110,000	110,000	110,000	-4.3
Medicare	108,669	107,241	109,478	111,781	114,154	5.0
Severance Pay	315,308	315,308	315,308	315,308	315,308	0.0
Clothing Allowance	252,538	325,000	325,000	325,000	325,000	28.7
Clothing Maintenance Allowance	38,982	55,000	55,000	55,000	55,000	41.1
Loss Time & Med	1,499	1,499	1,499	1,499	1,499	0.0
Benefits	40,779	57,500	60,961	64,879	69,520	70.5
Utilities	61,200	61,200	58,913	56,692	54,456	-11.0
Vehicular Equipment	130	1,000	1,026	1,055	1,088	734.2
Wearing Apparel	0	0	0	0	0	0.0
Lease Purchase	63,542	28,000	0	28,000	0	-100.0
Other Miscellaneous	106,331	63,550	56,000	56,485	57,031	-46.4
Total	8,065,619	8,411,253	8,533,383	8,724,768	8,865,762	9.9

Source: City Reported 2012 Actual; 2013 – 2016 PEL Estimated/Projected

Bureau of Fire Projected Expenditures – Personnel and Non Personnel

Category	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Growth
Personnel Expenditures	7,834,416	8,257,503	8,417,444	8,582,537	8,753,187	11.7
Non Personnel Expenditures	231,203	153,750	115,939	142,232	112,575	-51.3
Total	8,065,619	8,411,253	8,533,383	8,724,768	8,865,762	9.9

Source: City Reported 2012 Actual; 2013 – 2016 PEL Estimated/Projected

Initiatives

FIRE01 Change current shift schedule

Assessment as of February 6, 2012:

The Bureau currently operates under a four platoon system, in which each platoon works the following cycle: two 8.5 hour days on, two 15.5 hour nights on, followed by four days off. This cycle results in an average work week duration of 42 hours. Under this system, each platoon works 2,190 hours annually. After adjusting this annual total to reflect vacation leave allowances, average sick leave usage, and average IOD leave usage, each firefighter is on duty for approximately 1,780 hours per year (based on 2010 leave records). This results in a staffing factor (i.e., the number of employees needed to fill one position 24 hours a day, 365 days a year) of 4.92 for fire suppression staff.

The current Bureau staffing level, approved by the City Council in the City's 2011 Adopted Budget, establishes (but does not fully fund) a total staff of 82 employees. This includes two management positions (Chief; Deputy Chief), one Fire Inspector position and one Public Education Officer position; the remainder of Bureau employees are assigned to one of four operations platoons. Each platoon is staffed by one Battalion Chief, one Captain, and two Lieutenants; the remaining positions consist of Firefighters and Firefighter/Driver Operators. The Council-adopted budget allows for staffing platoons at a total strength of 19. Given the current structure, staffing levels, and leave patterns it is impossible to meet the minimum staffing level without the use of overtime on a daily basis.

The Bureau has a minimum daily staffing level of 17, which is reasonable and appropriate based upon the total call volume for the community and the hazards of fire response within the City's built environment. Based on the current staffing factor, the Bureau did not have adequate staffing to operate under its current shift schedule in 2010 without significant overtime expenditures. Under the Bureau's current shift schedule, the staffing factor indicates that the fire suppression workforce should total 84 firefighters. This total does not include the Bureau's two management positions (i.e., Chief and Deputy Chief), fire prevention positions (currently budgeted at 2.0 FTE), or the Bureau's Administrative Assistant position. Therefore, assuming that the current collective bargaining agreement remains unchanged, total suppression staffing for the Fire Bureau should be increased to 84 firefighters. This would result in a net increase of 6.0 FTE firefighter positions.

A change in the current shift schedule will allow the Bureau to address its historic staffing shortage. Therefore, the City shall change the Bureau to a minimum 48-hour average work week using a three platoon system, which will result in a reduced staffing factor of approximately 4.26 FTEs. The new shift schedule anticipates a staffing level of 24 employees per shift (i.e., 1 Battalion Chief; 1 Captain; 2 Lieutenants and 20 Firefighters and/or Firefighter/Driver Operators). The new shift schedule also includes the elimination of one ladder company and the consolidation of company staff to the Bureau's remaining units.

This recommendation represents a significant schedule change for the Bureau's firefighters. While such a shift structure is somewhat unusual in the Commonwealth of Pennsylvania, Third Class City code currently allows the flexibility to implement such a structure, requiring that the number of hours of day or night service shall not exceed 56 in any one calendar week. A work week ranging between 48 and 56 hours per week is currently in place in many fire departments across the United States, including departments in Chicago, Detroit, and several urban counties in the Commonwealth of Virginia. There are also a range of different shift patterns in many departments across the United States that satisfy federal FLSA requirements. The 48-hour work week does not automatically result in increased overtime, since the FLSA sets the overtime threshold as time worked during any work period of 7-28 days in length that exceeds 212 hours in any 28-day period. In conjunction with the implementation of this initiative, the City shall also eliminate the premium pay requirements in the current collective bargaining agreement (outlined in Initiative FIRE02 "Eliminate premium pay").

The new schedule accounts for one additional position in the Fire Prevention Division. As the Fire Chief's designee, the incumbent in this position will act as the City's Fire Marshal. The position shall be a management position, exempt from the collective bargaining unit, and will require a minimum qualification as a certified fire inspector/plan reviewer. In addition to conducting plan reviews and inspections, the incumbent will oversee and coordinate the engine company inspection program (outlined in greater detail below under Initiative FIRE04 "Implement an engine company inspection program") and will also provide direct supervision to incumbents in the Fire Inspector position and Public Education Officer position.

Additionally, Initiative FIRE07 reclassifies the Bureau's existing Administrative Assistant position, currently staffed by shift firefighters on overtime, to a Confidential Secretary to the Fire Chief. This reclassification will result in significant overtime savings and provide much needed administrative support to the Bureau.

Taken as a whole, these changes result in an estimated net staff reduction of 5.0 FTE positions Bureau-wide, while also increasing platoon strength, adding staff to the critical function of fire prevention, and preserving the Bureau's current levels of service delivery. The anticipated savings shown below are based on initial average estimates of per position costs rather than a detailed analysis of individual employees' current costs.

Status as of August 9, 2013:

The City, with support from the Receiver's Team and the City's contract labor counsel, is actively engaged in negotiations with each of the City's collective bargaining units. This initiative is being actively considered by the labor negotiation team, in concurrence with other workforce initiatives and proposals from the City and the collective bargaining unit leaders.

FIRE02 Eliminate premium pay

Assessment as of February 6, 2012:

The Fire Bureau's current shift schedule results in an average of 42 hours worked per week, per bargaining unit employee. Consequently, under the current collective bargaining agreement, the City is required to pay every bargaining unit employee two hours premium pay per week at the established overtime rate. As previously stated in the "Overtime" section earlier in this chapter, this payment is not required under the federal FLSA. Under FLSA regulations, overtime payments are not required for Bureau firefighters working the current shift schedule until they exceed 182 hours in a 24-day cycle. Under the current schedule, a firefighter works only 144 hours in a 24-day cycle, assuming that he/she works all assigned hours. Any hours paid but not worked (e.g., vacation, sick, or IOD leave) are exempt from this 144 hours in a 24-day cycle calculation.

The City shall eliminate premium pay for regularly assigned hours. The City shall pay overtime only for hours actually worked in excess of the FLSA-established maximum thresholds, that is, the minimum overtime required by the FLSA. Implementation of an overtime payment plan that reflects FLSA-established thresholds will result in lower annual overtime payments for the Bureau.

Under the current collective bargaining agreement, the Bureau will pay a minimum of \$4,134 in premium pay per bargaining unit employee annually (calculated using the first salary step of \$26.43 for a Firefighter Driver/Operator position, as established under 2012 salary rates). If the Bureau's current staffing level of 78 firefighters is maintained, the total annual cost of premium pay will be approximately \$322,000. If the Bureau's staffing level is reduced to 72 firefighters, the total annual cost of premium pay will be approximately \$297,000.

Status as of August 9, 2013:

The City, with support from the Receiver's Team and the City's contract labor counsel, is actively engaged in negotiations with each of the City's collective bargaining units. This initiative is being actively considered by

the labor negotiation team, in concurrence with other workforce initiatives and proposals from the City and the collective bargaining unit leaders.

FIRE03 Evaluate the tradeoffs of taking a piece of apparatus out of service and increasing staffing on remaining apparatus

Assessment as of February 6, 2012:

Current operating practice for the Harrisburg Fire Bureau is to staff three engines/pumpers and three aerials for response. The staffing level per unit is either two or three, depending on the specific unit. In Harrisburg, units at Stations 1 and 2 operate as task forces of an engine and tower. Stations 6 and 8 respond as a single response unit at each incident.

The Bureau shall conduct a thorough analysis of call type, volume and distribution, along with facility condition and geographic utility, to develop a plan to most effectively allocate equipment and staff among its stations.

Included in this analysis shall be a review of the impacts of closing a station to reduce operating costs. The potential closure of a station would allow the Bureau to improve the staffing complement on the remaining vehicles at its other stations. While specific staffing configurations should be addressed by the study, this will allow the number of firefighters per engine to increase from three to four and improve the ability of those units to conduct initial firefighting operations. Task force staffing would increase from five to six firefighters. Recent studies continue to support previous findings that a four person unit is significantly more effective than a three person unit, particularly regarding advancing hose lines, effecting rescues and conducting search activities. A four person unit is expected to improve both firefighting operations at the scene and enhance firefighter safety for the responding crews. Initial response times may be slightly longer to some locations following the closure of a station. However, when the unit arrives on scene, they will be better prepared to complete the tasks needed on the fireground. Harrisburg's compact geography allows for quick response times for supplementary units. The combination of having a fully staffed first arriving unit and quick support from the supplementary units is anticipated to mitigate concerns related to the potential increase in initial response time.

Any costs savings shall be identified as part of the staffing and resource analysis.

Status as of August 9, 2013:

The City, with support from the Receiver's Team and the City's contract labor counsel, is actively engaged in negotiations with each of the City's collective bargaining units. This initiative is being actively considered by the labor negotiation team, in concurrence with other workforce initiatives and proposals from the City and the collective bargaining unit leaders.

FIRE04 Implement an engine company inspection program

Assessment as of February 6, 2012:

The Bureau is currently unable to keep pace with annual fire prevention inspections with the existing fire inspection staff. Therefore, engine companies shall be leveraged to provide basic fire prevention inspections under the general oversight of the Fire Chief, as the City's de facto Fire Marshal. This will allow a tiered, proactive approach to improving fire and life safety. Engine companies will conduct basic inspections, while seeking assistance from the Bureau's Fire Inspector(s) and the City's Bureau of Codes for more complex issues. In addition to improving fire safety, the inspections will foster in firefighters a deeper familiarity with City structures and their specific firefighting challenges, which will be beneficial in emergency response.

Under the direction of the Fire Chief, and with input from the City's Deputy Codes Administrator, firefighters shall receive training in the required knowledge, skills, and abilities to conduct effective inspections as needed. Engine companies will inspect non-complex properties, such as parking structures, retail businesses, and offices, until significant experience is gained. Inspections performed by the engine companies will be only those that are routine, Fire Prevention Code enforcement-related. Once the engine companies' firefighters have gained significant experience, the engine company inspection program should be expanded to include more specialized inspections of other structures. The Bureau's participation in City code enforcement teams, as recommended in Initiative BH04 "Assemble and systematically deploy code enforcement teams" in the Department of Building and Housing Development chapter of this Plan, will allow additional cross-training for firefighters in specialized inspections and enforcement strategies, as well as positively address any existing arson problems within the City.

The Bureau shall set an initial workload target of 20 inspections per week, distributed evenly among the Bureau's stations. The program may be expanded further as staff gains experience. The financial impact of this initiative cannot be estimated at this time, based on lack of reliable inspection information. It is recommended that, for the first year of this program, no fee above the annual fire prevention permit fee (already paid annually by property owners) be assessed. Once the program is established, the City, with assistance from the Receiver, shall develop and adopt a comprehensive fee structure for fire prevention activities, including the engine company inspection program.

Status as of August 9, 2013:

The Fire Department has obtained funding in the 2013 Budget that will allow select fire officers and firefighters to take the Fire Inspector I Course on Residential and Commercial Occupancies for State Certification. Once trained, the firefighters will serve as trainers responsible for training fire companies and serving as the company based inspection lead during their assigned shift. It is anticipated that the initial training regimen will be completed in 2013.

FIRE07 Civilianize Bureau's Administrative Assistant position

Assessment as of February 6, 2012:

The Bureau currently utilizes shift firefighters to fill an Administrative Assistant position. This practice results in significant overtime expenditures associated with incumbents working outside their shift schedule during regular, daytime business hours. The City shall modify the job duties of this position to those of a Confidential Secretary and remove this position from the IAFF bargaining unit. This reclassification will result in cost savings for the City, and will provide greater staff capacity for fire suppression activities.

The Bureau currently expends approximately \$90,000 annually in overtime charges to staff this position. Based on current total cost of other Confidential Secretary positions throughout the City, it is estimated that the annual cost of this position (including salary as well as all related benefit costs) will be approximately \$60,000, resulting in savings of approximately \$30,000 per year.

Status as of August 9, 2013:

The City, with support from the Receiver's Team and the City's contract labor counsel, is actively engaged in negotiations with each of the City's collective bargaining units. This initiative is being actively considered by the labor negotiation team, in concurrence with other workforce initiatives and proposals from the City and the collective bargaining unit leaders.

FIRE11 Revise turnout gear replacement practices

Assessment as of February 6, 2012:

The current collective bargaining agreement established a four year replacement cycle for the Bureau firefighters' turnout gear (i.e., tailor-fitted turnout coat and bunker pants). Additionally, the agreement requires that firefighters whose gear is not replaced in any year of the four year replacement cycle be given an annual payment of \$250. Finally, if any firefighter retires prior to receiving one new set of turnout gear in any year of the four year replacement cycle, the accumulated amount, up to \$1,000, will be paid to the firefighter as separation pay.

Under the terms of the current collective bargaining agreement, turnout gear is treated as firefighters' individual property. However, the City is responsible for all costs associated with the purchase, tailoring, inspection and repair of the gear sets. The City shall cease all payments to individual firefighters associated with turnout gear. The City pays all full costs associated with the gear and, therefore, the gear is City property throughout its useful life and after it is no longer in use. The City shall eliminate all payments to employees for gear replacement, lack of replacement, or retirement prior to receipt of new turnout gear. All gear shall be and remain the property of the City. The City shall implement a five year replacement cycle for turnout gear, assuming that all gear passes annual inspections and receives necessary repairs. Following five years of front line use, a gear set will be replaced and the original set will be kept as a back-up set for that individual firefighter for an additional five years. Boots, helmets, and gloves are not subject to the five year replacement cycle and, therefore, shall be inspected and replaced on an as needed basis. After 10 years, a gear set shall no longer be used under any circumstances, as it has reached the end of its useful life under NFPA standards.

Status as of August 9, 2013:

The City, with support from the Receiver's Team and the City's contract labor counsel, is actively engaged in negotiations with each of the City's collective bargaining units. This initiative is being actively considered by the labor negotiation team, in concurrence with other workforce initiatives and proposals from the City and the collective bargaining unit leaders.

FIRE12 Revise IAFF collective bargaining agreement to allow more efficient and effective use of resources

Assessment as of February 6, 2012:

In addition to all of the changes necessitated by any and all other Initiatives in this Fire chapter, the Workforce chapter, the Retirement Benefits chapter, and any other chapter or provisions of the Recovery Plan, the City shall implement the following changes to the IAFF collective bargaining agreement:

- Revise limitations on total number of employees on vacation at any given time; restrict the maximum total number to three (Page 5 of current collective bargaining agreement: Art. 6, Sec. 2-3).
- Eliminate minimum recall provisions for incidents involving mutual aid (Page 8 of current collective bargaining agreement: Art. 9, Sec. 4).
- Eliminate all minimum hour, overtime provisions, and double-time rate of pay requirements associated with firefighters' attendance at drill and/or schooling, including pay requirements for firefighters relieving another firefighter attending drill and/or schooling (Page 8-9 of current collective bargaining agreement: Art. 10, Sec. 1).
- Eliminate bona fide vacancy requirements (Page 16 of current collective bargaining agreement: Art. 18).
- Eliminate requirement to maintain five light duty positions (Page 19 of current collective bargaining agreement: Art. 23, Sec. 1) and provide that the City shall maintain the management right to create, eliminate and assign employees to light duty positions in its sole discretion.

- Revise IOD leave provision to require doctor's certification for any IOD leave, regardless of duration (Page 20 of current collective bargaining agreement: Art. 23, Sec. 3).
- Eliminate leaves of absence with pay for union business (Page 33 of current collective bargaining agreement: Art. 41, Sec. A).

If the existing contract extension remains in effect, these changes will not be effective until 1/1/2017.

Status as of August 9, 2013:

The City, with support from the Receiver's Team and the City's contract labor counsel, is actively engaged in negotiations with each of the City's collective bargaining units. This initiative is being actively considered by the labor negotiation team, in concurrence with other workforce initiatives and proposals from the City and the collective bargaining unit leaders.

FIRE13 Eliminate minimum manning upon expiration of current collective bargaining agreement

Assessment as of February 6, 2012:

Any provision of any collective bargaining agreement between the City and any of its bargaining units concerning minimum manning requirements for any particular bargaining unit, shift, platoon, job classification, specialization, apparatus or position shall be eliminated. The City shall have the sole right to determine the number of personnel employed and utilized by the City. Further, the City shall have the right to lay off any employees for economic or any other reasons, without limitation.

Status as of August 9, 2013:

The City, with support from Receiver's Team and the City's contract labor counsel, is actively engaged in negotiations with each of the City's collective bargaining units. This initiative is being actively considered by the labor negotiation team, in concurrence with other workforce initiatives and proposals from the City and the collective bargaining unit leaders.

Department of Public Works

The tables below show the Department's projected expenditures.

Department of Public Works Projected Expenditures by Function

Department	2012 Actual	2013 Projected	2014 Projected	2015 Projected	2016 Projected	% Growth
Office of the Director	1,210,366	1,725,421	1,729,281	1,726,199	1,724,481	42.5
Bureau of City Services	1,968,701	2,582,110	2,624,611	2,627,533	2,631,660	33.7
Bureau of Vehicle Management	2,048,928	2,418,624	2,370,293	2,311,980	2,251,190	9.9
Total General Fund	5,227,995	6,726,154	6,724,185	6,665,712	6,607,332	26.4
Sanitation Fund	4,418,194	5,185,264	4,745,914	4,762,132	4,786,001	8.3
Sewer Fund	10,090,377	13,513,004	13,648,343	13,744,704	13,854,488	37.3
Water Fund	4,603,446	5,761,464	5,716,909	5,833,386	5,944,140	29.1
Total Other Funds	19,112,017	24,459,733	24,111,166	24,340,222	24,584,629	28.6
Total Public Works	24,340,012	31,185,887	30,835,351	31,005,934	31,191,961	28.2

Source: City Reported 2012 Actual; 2013-2016 PEL Estimated/Projected

**Department of Public Works
Projected Expenditures – Personnel and Non Personnel**

	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Growth
General Fund						
Personnel	2,463,926	2,734,551	2,806,635	2,806,635	2,806,635	13.9
Non Personnel	2,764,069	3,991,603	3,917,550	3,859,077	3,800,697	37.5
Total	5,227,995	6,726,154	6,724,185	6,665,712	6,607,332	26.4
Sanitation Fund						
Personnel	1,287,954	1,385,559	1,434,886	1,488,065	1,546,897	20.1
Non Personnel	3,130,240	3,799,705	3,311,028	3,274,067	3,239,104	3.5
Total	4,418,194	5,185,264	4,745,914	4,762,132	4,786,001	8.3
Sewer Fund						
Personnel	2,509,749	2,866,703	2,957,093	3,004,935	3,060,569	21.9
Non Personnel	7,580,628	10,646,302	10,691,250	10,739,770	10,793,919	42.4
Total	10,090,377	13,513,004	13,648,343	13,744,704	13,854,488	37.3
Water Fund						
Personnel	2,162,364	2,556,499	2,664,488	2,726,248	2,776,516	28.4
Non Personnel	2,441,082	3,204,965	3,052,420	3,107,138	3,167,624	29.8
Total	4,603,446	5,761,464	5,716,909	5,833,386	5,944,140	29.1
Total Public Works						
Personnel	8,423,993	9,543,312	9,863,102	10,025,882	10,190,618	21.0
Non Personnel	15,916,019	21,642,575	20,972,249	20,980,052	21,001,343	32.0
Total	24,340,012	31,185,887	30,835,351	31,005,934	31,191,961	28.2

Source: City Reported 2012 Actual; 2013-2016 PEL Estimated/Projected

Initiatives

PW01 Implement container based collection system for residential solid waste and recycling

Assessment as of February 6, 2012:

DPW has investigated the use of automated or semi-automated collection of residential solid waste and recycling. Due to limited off-street parking, automated collection has been determined to be infeasible. However, the use of semi-automated vehicles and wheeled carts would both increase production rates and reduce the risk of worker injury. Therefore, the City shall implement a container based collection system. This semi-automated collection would still require two workers per truck. However, it should be possible to

increase route sizes which would reduce the total staffing compliment. The automation process would not directly affect the collection of bulk waste which will still require the use of more traditional methods. However, in planning automated routes, consideration shall be given to maximizing the use of the new equipment and returning to five day per week collections. This would allow for a dedicated weekly bulk waste collection effort.

The up-front cost of purchasing the vehicles and equipment is estimated to be approximately \$5.5 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 the City, 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. As a result, these proposed changes to collection practices will have a mostly indirect impact on the General Fund.

With this change in collection processes, a reduction in the amount of intra-department labor borrowing is anticipated. This will have an overall positive impact on work performed in other areas of DPW. This is estimated at having an annual value of \$100,000; although it does not represent new revenue, simply better use of existing resources. There would also be some offset from the sale of outdated sanitation vehicles (estimated at \$400,000) and the reduction of required City vehicle maintenance services due to newer vehicles (estimated at \$50,000 per year).

Many communities contract for all solid waste collection services. Private services are readily available and often offer a more economical service than that provided by city crews. In order to achieve savings through modernization and upgrading of equipment, there needs to be agreement between management and the bargaining unit on performance and productivity standards and work rules that will lead to the provision of competitive service by existing city crews. It is essential that the proposed investment in equipment generate collection efficiencies.

If these savings and efficiencies cannot be realized through negotiation with existing employees, or if THA is unable to secure the necessary financing for this new system, the City and THA shall investigate contracting out for residential collection services to ensure a reasonable cost per collection. Given the urgency of the situation, the City should concurrently conduct negotiations with the bargaining unit and prepare for receiving competitive bids for service, effectively creating a managed competition to determine the most economical method of providing service. Any consideration of contracting for residential collection should include bulk waste collect as part of the same effort.

Status as of August 9, 2013:

Due to budget constraints, the City does not have access to the resources necessary to implement a container based recycling system. However, the City, with assistance from Receiver's Team and DCED, is currently undergoing an RFP process to evaluate the operational and financial implications of contracting for refuse and recycling collection services.

PW02 Enforce City's right to commercial collection and contract with private collector for collection of commercial waste

Assessment as of February 6, 2012:

The City is the only authorized provider of commercial solid waste collection services in Harrisburg. However, only approximately one-third of the businesses (estimated at 300 by DPW) are currently using the City's sanitation services. Historically, there were allowances made for those businesses that wanted private haulers. This was allowed to continue despite a requirement that City businesses obtain specific permission from DPW to hire a private sanitation hauler. The City's right to collection is not being currently enforced. This has resulted in multiple contractors, inefficient collection practices and increased costs. This issue was

raised in the Coordinator's proposed Recovery Plan, and the Director has sent initial letters to business owners and private haulers in an attempt to both understand the magnitude of the problem and to put a stop to the practice.

The City shall maintain and enforce its responsibility for commercial solid waste and recycling collection and hauling. This action will allow greater operational efficiency, with the potential for reduced truck traffic in congested areas and potentially reduced charges to commercial customers. Effective mid-2012 commercial properties shall be required to utilize the City's services. While letters have been sent, the City has not initiated an RFP process to contract with a provider for this service.

Additionally, collection of all dumpster based commercial collection shall be provided by a private contractor selected by the City. The City is currently poorly equipped to manage commercial solid waste collection. It lacks the necessary vehicles, containers and staffing. The contractor will directly bill commercial customers and include a 15% City franchise fee in the billing. Complete transaction records shall be provided to the City documenting customers and charges. Assuming 750 total customers at an average collection cost of \$100.00 per month would result in franchise fees to the City of approximately \$135,000 annually. Given the inexact records of commercial accounts and collection numbers, this number could vary considerably. Due to the already small workforce, a further reduction in DPW staffing is not anticipated as part of this initiative. Currently staff from other DPW bureaus are called upon to fully staff sanitation operations.

Status as of August 9, 2013:

The City is currently engaged in an RFP process to evaluate the operational and financial implications of contracting for refuse and recycling collection services. This initiative is on hold, pending resolution of the RFP process.

PW04 Aggressively manage fleet make-up and quantity

Assessment as of February 6, 2012:

The City shall aggressively and effectively manage its fleet and reduce the number of vehicles and equipment retained by the City. Unfortunately, current equipment records make it difficult to make a recommendation that is more than an "educated guess" regarding fleet and equipment inventories. However, based on existing data it appears that a number of fleet reductions can be considered, such as the following:

- Purchasing a new sanitation and recycling fleet will allow the old fleet to be eliminated. There may be economic advantage to other programs (such as leaf collection) to keep a small number of the older packer trucks. The Director shall prepare a cost-benefit/alternatives analysis to demonstrate this need if keeping part of the fleet is to be considered.
- There are five backhoe/excavators in the fleet inventory with three located in Water and two in City Services. This quantity shall be reduced by at least two and an evaluation conducted to justify the need to retain the third vehicle.
- There are currently three bucket trucks listed in the fleet inventory; however, there may be a fourth truck in the inventory. Staff was unable to confirm this. If the City takes over street light maintenance as planned, three trucks may be justifiable, but shall be formally evaluated.
- There are currently seven street sweepers listed in inventory. With four active routes, this shall be reduced to a maximum of five vehicles. Consideration shall be given to reducing inventory to four, thus eliminating a spare sweeper.

Without usage records, it is very difficult to make recommendations concerning trucks and transportation vehicles. Based on limited data, it is likely that the number can also be reduced as described below:

- There are 28 listed dump trucks. Reducing this number to 18 (the approximate number of plow routes) shall be considered. There are currently eight zones. Each zone is assigned one five-ton truck and one one-ton truck for a total of 16 vehicles; the additional two trucks will provide the backup needed to ensure uninterrupted service during a snow event.
- There are at least 10 general transportation/police cars that are currently out of service. These vehicles shall be removed from the fleet.
- The consolidation of Parks Maintenance from DPRE into DPW will bring 68 vehicles into Public Works. It is recommended that DPW conduct a vehicle review after consolidation to determine how many excess vehicles can be eliminated (see the DPRE chapter for further details on this transfer).
- Again, without accurate information, specific recommendation is difficult. However, an educated guess based on experience and best practice would suggest that effective assignment and sharing of vehicles could lead to further reductions of five to ten cars and light trucks.

On completion of a detailed evaluation by the new fleet manager (see Initiative PW05), there will likely be additional reductions and changes to the fleet and equipment. Lease purchase options, life cycle costing, shared use opportunities and short term rental of specific equipment shall also be considered when planning the optimal configuration of the fleet. The values below are estimates of the amount that could be saved with proper utilization of best practice fleet management techniques. Without accurate information, specific financial impact numbers are difficult to provide. Currently, there is insufficient usage data to propose a targeted number of vehicles for the City.

Status as of August 9, 2013:

The Receiver's Team worked with the major fleet users in the City, as well as staff from the Vehicle Maintenance Center, to conduct a fleet condition and utilization assessment of the City's fleet. The recommendations contained in the assessment included eliminating several surplus vehicles from the City's inventory and utilizing the savings to fund a fleet management system and a Fleet Manager position. The City is in the process of auctioning the surplus vehicles and has begun recruiting to fill the Fleet Manager position. These structural improvements will greatly increase the City's capacity to effectively and efficiently manage its fleet.

PW05 Create a Central Fleet Agency and create a Facilities and Fleet Manager

Assessment as of February 6, 2012:

DPW's Bureau of Vehicle Maintenance is responsible for the repair and maintenance of the City's fleet. As described in Initiative PW04, the acquisition and disposal of the fleet is decentralized; each department is responsible for its own fleet. Equipment selection is left to the departments and there is considerable duplication of equipment that could be effectively shared.

When the Bureau of Vehicle Maintenance conducts repairs, only departments or bureaus with vehicle maintenance funding are charged for the repairs. Charges are based on a flat rate of \$25 per hour. The Bureau does not maintain measurable performance standards, and currently no management positions are staffed within Vehicle Maintenance.

In Facilities, all responsibility is currently housed with the Director of Public Works for issues pertaining to the City Building and the Public Safety Building (DPRE and Fire maintain their own facilities). This means the Director must be concerned with issues such as building leaks, HVAC problems, power outages, all on a building by building level. The maintenance function was moved from the Department of Administration to DPW at the beginning of 2011.

In order to more effectively manage fleet and facility operation, the City shall create a centralized Facilities and Fleet Bureau within DPW. Regarding the City's fleet, this Bureau would be responsible for all fleet

functions, including maintenance, repairs, purchasing, inventory and disposal. Regarding City facilities, this Bureau would be responsible for all building maintenance and capital improvements to City property.

Creating a Facilities and Fleet Bureau within DPW would require the addition of a Facilities and Fleet Bureau Director. The Department should expect to see other operational gains through improved efficiency, adherence to performance standards, the ability to share and transfer vehicles, better application of preventative maintenance, energy management and improved repair/replace decisions. The Manager should also pursue additional facility savings for the City, including:

- A space needs analysis of City buildings, in an effort to consolidate and dispose of surplus property as needed.
- Energy audits on City buildings; and
- Additional electric and Natural Gas savings through energy auctions.

As part of the current conservation efforts, the City Engineer has undertaken an economic evaluation of converting city street lights to LED fixtures. This project may be completed before the Fleet and Facilities Manager position is filled. Given the potential for savings, the process should not be delayed in anticipation of a Fleet and Facilities Manager.

This initiative assumes that the new position would lead to the implementation of the following EIP recommendations¹⁰ related to the Bureau of Vehicle Maintenance. These recommendations will lead to a modern and efficient fleet maintenance process, and are essential to managing costs. If these are not implemented effectively, consideration should be given to contracting some or all maintenance services out:

- Recommendation N-4.1: Complete a vehicle utilization analysis and remove excess vehicles from the fleet.
- Recommendation N-4.2: Develop and implement a vehicle replacement program and vehicle surplus schedule.
- Recommendation N-4.4: Institute the use of life-cycle costing for City vehicles and equipment.
- Recommendation N-4.5: Acquire and place into operation a computer-based work order system for fleet management, including maintenance services.
- Recommendation N-4.6: Establish and monitor performance indicators to measure performance against industry and shop standards.
- Recommendation N-4.7: Establish a fleet management internal service fund that is designed for full recovery of maintenance fees from user departments.
- Recommendation N-4.8: Establish a fully burdened charge-back system to allocate the full cost of vehicles to the programs that use them to provide services.

Given the lack of performance-based information currently available from the Bureau of Vehicle Maintenance, it is difficult to accurately predict the associated savings from this effort. Both improved efficiency and better revenue recovery should be anticipated. A significant reduction should occur in duplicate equipment purchases and revenue from disposal of equipment should increase.

Personnel costs for this new position are anticipated to be \$80,000 per year, including salary and benefits. In subsequent years, it is assumed that the new Manager will create at least \$80,000 per year in efficiency savings.

Status as of August 9, 2013:

The City is currently recruiting for the position of Fleet Manager. The current goal is to fill the position by the end of the third quarter in 2013.

¹⁰ Harrisburg Emergency Intervention Program Report, April 5, 2010.

Capital Improvement Program

CIP01 Establish and maintain a multi-year Capital Improvement Program

Assessment as of February 6, 2012:

The City shall begin a City-wide condition inventory to assess the most current and critical repair and replacement needs and establish a multi-year capital program to address these needs.

This program is necessarily based on a significant amount of engineering judgment and is intended primarily as a placeholder until the City can develop a baseline condition assessment of its capital assets to establish a more informed, data-based program. It is anticipated that each of the defined programs, with the possible exception of fleet and equipment, will need to be increased to keep up with system needs.

Development of a sustainable CIP must begin with an assessment of existing capital assets. This simply does not exist in any usable incarnation in the City at this point; actively televising sewers was discontinued several years ago; there is no current assessment of pavement condition; no analysis of water main repair information exists; there is limited use of the existing fleet management system; and no active program of monitoring facility needs has been established. These assessment systems need to be developed in the City. Putting steel plates over sinkholes caused by collapsed sewers that could have been identified as being in need of repair through an annual televising program is not an effective use of scarce resources. Allowing new pavements to be placed over failing underground systems will likely result in unnecessary future expenditures and a shortened pavement life cycle.

Capital improvement planning needs to be coordinated both to ensure minimization of initial costs and to avoid scheduling and conflict issues. City staff and THA staff need to be actively involved in the development of an annual program. There are numerous planning tools available. In Harrisburg, planning needs to begin with a condition assessment and implementation of asset management tools to provide ongoing information.

This Recovery Plan recommends a nominal capital improvement program based on repair and replacement of aging infrastructure on an annual basis. As proposed, the plan assumes:

- One mile of water main replacement
- One mile of sewer line replacement
- 0.5 miles of street reconstruction
- One mile of pavement rehabilitation (mill and overlay assumed)
- \$2 million annual investment in fleet and equipment
- Identified improvements to facilities

The details of this recommended CIP by fund are described below.

Wastewater Utility Fund

General sewer line repairs are needed throughout the system. An initial investment of \$5 million over the next five years will allow for one mile of sewer line repair per year.

Stormwater Utility Fund

General stormwater repairs and upgrades will be required by the EPA/Pennsylvania DEP based on the preliminary Municipal Separate Storm Sewer System (MS4) report. An initial investment of \$1.25 million over the next five years will allow for some initial investment in assessment, televising lines and repair of critical items.

General Fund

The Mulberry Street Bridge rehabilitation project includes upgraded street lights on the bridge. It is estimated to cost \$40,878 in 2012. The City has also committed to assist with the replacement of the Maclay Street Bridge. However, the City did not specify an amount, and this project has not begun. The City is responsible for \$223,890 in funding for the Capital Area Transit System. Public Works is also in need of a salt storage shed, at an estimated cost of \$25,000. This is scheduled to be completed in 2012. In addition, the cost of the EPA Wastewater/MS4 upgrades and repairs is currently unknown. According to staff, these violations have been referred to the U.S. Department of Justice, and will require repairs when the report of violations is returned to the City. This number has been initially estimated by staff in the tens of millions of dollars.

In IT, there is an immediate need for a new phone system, phased in over the next two years, with an estimated cost of \$75,000 per year. There is an immediate need for a new switch as well, which will cost \$40,000 and will be needed in 2012, if not before. Currently, the City is pursuing funding through DCED's EIP grant program to address these immediate needs. However, if grant funding is not available, other sources must be identified. Longer term, there is a need for an Enterprise Resource Planning system. This is expected to cost at least \$2 million and will be implemented over a series of years starting in 2015.

In Police, there is a need for building security system upgrades estimated at \$50,000; these are scheduled for installation in 2013. There is also a longer term need for a Records Management System, but this system will need to be custom built for the Harrisburg Police Department, and no cost has been determined at this time.

The following details the recommended CIP projects by category and budgetary fund.

Recommended Capital Improvement Program

	Total Required	Financed	2013	2014	2015	2016	2017
Wastewater- Wastewater Utility Fund							
General Sewer Line Repairs	\$5,000,000	N	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Stormwater- Stormwater Utility Fund							
General Stormwater Line Repairs	\$1,250,000	N	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000
Public Works-General Fund							
Fleet Replacement	\$10,000,000	N	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Mulberry Street Bridge Rehab	\$40,878	N	\$40,878				
Maclay Street Bridge Replacement	Unknown						
Capital Area Transit System	\$108,300	N	\$36,100	\$36,100	\$36,100		
Capital Area Transit System	\$552,270	N	\$184,090	\$184,090	\$184,090		
Capital Area Transit System	\$11,100	N	\$3,700	\$3,700	\$3,700		
General Street Repair	\$4,000,000	N	\$800,000	\$800,000	\$800,000	\$800,000	\$800,000
EPA Wastewater/MS4 Requirements	Unknown						
Salt Storage Shed	\$25,000	N	\$25,000				
IT-General Fund							
ERP System	\$2,000,000	N				\$500,000	\$500,000
Replace Switch	\$66,000	N	\$66,000				
Replace Phone System	\$150,000	N	\$75,000	\$75,000			
Police-General Fund							
Building Security Upgrades	\$50,000	N		\$50,000			
Records Management System	Unknown	N					
Total	\$23,227,548	-	\$4,454,768	\$4,398,890	\$4,273,890	\$4,550,000	\$4,550,000

Status as of August 9, 2013:

The City has developed a draft CIP which identifies immediate and medium-term capital needs (between one to five years out). The plan will serve as the initial needs assessment and will be incorporated into the 2014 budget development process as the basis for developing a five year CIP. The Office of the Receiver and DCED are working with the Bureau of Financial Management to develop a rigorous capital plan development process for the 2014 budget process. This goal of this process will be to tie the capital plan to available resources and to establish a process to prioritize projects within resource constraints and strategic priorities.

CIP02 Establish a CIP development process

Assessment as of February 6, 2012:

In order for the City to effectively develop a sustainable CIP, a formalized CIP process shall be established. The following outlines the key steps in this process.

CIP Formation

While the written summary in the 2008 and 2009 budgets regarding the CIP program covers the groundwork, it does not answer several important questions regarding the formation of an annual CIP:

- Who is ultimately responsible for the CIP? Best practice is to establish a CIP committee that includes department heads and the Mayor. This committee meets at least quarterly to ensure the CIP is performing as expected. Once established, a CIP must be managed by the committee to ensure the implementation by each department successfully accomplishes the goals within the timeframe specified. In addition, reporting is critical after project completion to ensure any lessons are properly documented.
- Who is consulted in creation of the CIP? Establishing a sustainable CIP will require soliciting input from appropriate groups, including City departments and City utilities. In some cases, it might also include coordination with State or Federal agencies to ensure funding is well used and does not overlap with possible State/Federal improvement plans. Once proper information is gathered for the creation of the CIP, it is the committee's responsibility to establish priorities for the CIP, based on impact on citizens, impact on the City's budget and impact upon City services.
- What is the financing strategy that will be pursued? Especially in Harrisburg, determining a possible funding stream for specific projects will be critical to the success of the CIP. While THA funding can incorporate user fee increases and bonding, both must be carefully evaluated based on the project at hand. For the City there are additional options for financing, but all must be weighed carefully to ensure that the cost/benefit is worth the added spending.

CIP Project Identification

An adequately funded annual capital improvement program is the sign of a financially healthy and viable community. The City's capital infrastructure, consisting of streets, sidewalks, water mains, sewers, buildings, vehicles and equipment all require both regular maintenance and capital investment to remain functional. Capital items have relatively fixed useful lives that can be impacted by environmental conditions, active preventative maintenance and capital investment. In recent years, both routine maintenance and capital investment have fallen victim to budget constraints.

Capital improvement programs are designed on relatively simple economic and engineering terms. The ultimate goal with respect to existing capital assets is to maintain a high level of serviceability and functionality while minimizing net present costs. This is normally accomplished through a rigorous program of preventative maintenance, rehabilitation and replacement. Analysis of new capital items can be more complicated given the need to assign value (or cost avoidance) to a future benefit that may be quality of life based instead of purely economic. Regardless, the general principles are the same. The most effective way of meeting these obligations is through a well-developed capital improvement program.

The following are a series of questions to consider in selecting and prioritizing capital program components:

- Is the project required to meet a federal or state mandate?
- Is the project required to fulfill a contractual obligation?
- Have all agencies, departments, public utilities and others that may be impacted by the project been consulted?
- Has independent value engineering been performed on individual projects in excess of \$10 million in value?

- Will the project have a positive net present value?
- If the project is projected to have a positive net value, is the pay-back period reasonable?
- Will the project correct sub-standard existing infrastructure or facilities?
- Does the project prevent or correct an unacceptable environmental condition?
- Does the project maintain or improve the quality of life for residents?
- Does the project maintain or improve public safety?
- Does the project improve the quality of storm drainage?
- What is the economic and public safety impact of deferring the project?
- Are grants, low interest loans, public or private partnerships, or other sources of external funding assistance available?
- Does completion of this project depend on completion of a project not yet approved?
- Is there a viable alternative to the service or function for which the capital improvement is intended?
- In the case of vehicles or equipment, can equipment be rented or leased more economically on an as-needed basis?

Status as of August 9, 2013:

With assistance from Receiver's Team and DCED, the City will be reconstituting the Capital Budget development process during the 2014 budget development term, which begins in August 2013.

CIP03 Establish and maintain an asset management system

Assessment as of February 6, 2012:

The City currently lacks the tools and resources to adequately plan for an effective capital improvement program. There is no condition assessment of vital infrastructure. Televising of sewers is no longer performed and there is no pavement evaluation system in place. There is a vehicle management system; however, it has never been effectively implemented. There are no systems in place for facilities management. Without systems to evaluate and track system maintenance and condition, development of a CIP is not data-driven.

Accordingly, the City shall establish and maintain an asset management system to include streets, water, sewer, stormwater, street lights, street signs, buildings, major equipment and other infrastructure critical to the operation of the City. This system will be closely coordinated with the CIP and will be managed by the CIP Committee due to its critical importance in establishing an effective capital plan. It is strongly suggested that the initial development and condition assessment be performed by a private consultant and that efforts be directly linked to the City's GIS. THA should participate and cost share in this effort for all portions related to water, sewer and stormwater management.

The first step in establishing an asset management system requires a physical condition survey so that the City has reliable data regarding the current condition of its infrastructure. This will require physical observation of roads, street signs, buildings and other assets. It will also require televising sewer/stormwater lines to determine condition. This information can then be entered into the GIS system which the City maintains. This will allow the City to identify priority system repairs or replacements and to coordinate water or sewer construction efforts with critical road improvements to ensure all necessary infrastructure repairs are made in an appropriate sequence to minimize cost.

The financial impact will be spread evenly between the Water Utility Fund, the Sewer Utility Fund, the Stormwater Utility Fund, and the General Fund. The full initial startup cost will be \$300,000, with an additional \$150,000 per year thereafter. Since each of the four groups will bear an equal share of the cost, each will support \$75,000 the first year, and \$37,500 each year thereafter.

Status as of August 9, 2013:

The City has taken the first critical steps toward developing a comprehensive asset management program by documenting the number and value of City assets such as streets and vehicles. In addition, the development of data-driven capital budget development process, which will be incorporated into the 2014 budget development schedule, will further enhance the City's capacity to develop a proactive asset management program.

CIP04 Investigate sale and leaseback of City buildings

Assessment as of February 6, 2012:

The City Government Center will require significant capital investments in the next five years. Currently, many of these capital improvements are being deferred due to budgetary constraints. Many of the needed repairs are significant, including items such as: new elevators; roof repairs; and electrical upgrades.

The City shall investigate selling the City Government Center with a leaseback provision allowing the City to continue in its current use. Concurrent with this investigation shall be a space needs study evaluating whether the City needs to lease the entire space or if it can be made available to other parties. This sale/leaseback shall include requirements that the buyer bring the building current on all capital project needs, and shall include all future maintenance and janitorial services as needed throughout the life of the contract.

The financial impact may be significant. The cost of needed capital improvements is estimated at \$10 million. In addition, there will be annual savings for maintenance and repairs. Selling this building will also return it to the tax rolls, increasing the tax base in the downtown area. Furthermore, by leasing, the City will have an option to move to a more appropriately sized space at the end of the negotiated lease period.

Additionally, if other City owned facilities become available for use as City Hall, the City shall explore relocating its administrative offices and making the Government Center available to the private sector.

Status as of August 9, 2013:

The DBHD, in cooperation with the Harrisburg Redevelopment Authority, has reviewed City and HRA owned real estate with the intention of promoting selective properties for sale to "low to moderate income" families and individuals. In addition, the City released an RFP to solicit a Real Estate Broker to market City and HRA owned properties. The City has selected a real estate broker who is currently developing a marketing plan to facilitate the sale and lease of suitable properties.

Department of Parks, Recreation and Enrichment

The mission of the Department of Parks, Recreation, and Enrichment (DPRE) is to support the health and welfare of the citizens of Harrisburg and the surrounding region. Historically, DPRE has been an important part of the City of Harrisburg; in 1901, an emphasis on parks and recreation was expressed through the City Beautification Movement which established many of Harrisburg's current parks and recreation facilities. In the 1980s, the park system was overhauled with funds from the Mayor's Parks Improvement Program. Presently, DPRE is responsible for a wide range of recreation services for the City of Harrisburg, with over two and a half million people¹¹ visiting DPRE sites every year.

In late 2011, following the Act 47 Coordinator's Plan, the Bureau of Park Maintenance was transferred to DPW and the Park Ranger's Program was eliminated in order to reduce costs and improve efficiency of operations.

Since the reorganization, the Director of Recreation has focused on developing partnerships within the business and non-profit communities to provide innovative recreation opportunities for the City's residents and their children. Through strong community engagement and partnership building, the Department of Parks, Recreation, and Enrichment has raised funds to staff a summer youth employment program and augment recreation programming in the City.

¹¹ 2008 City of Harrisburg, Department of Parks, Recreation, and Enrichment Annual Report

Operating Authorities

OA01 Establish a stormwater utility fee

Assessment as of February 6, 2012:

Stormwater fee systems are common tools used nationally in funding stormwater-related expenditures. In the Commonwealth of Pennsylvania, only the City of Philadelphia has had the clear legal authority to implement stormwater management fees, and they have pursued and implemented a fee structure to support their stormwater management efforts. The ability of an Authority to implement a stormwater fee system is less clear, but needs to be aggressively pursued. The creation of such a system would be able to provide funding for reasonable levels of maintenance and capital obligations. It could also contribute to the health of the City's financial position by funding stormwater related services such as street sweeping, half of the required financial support for leaf collection, some level of support for code enforcement, vehicle maintenance and other related water quality activities.

The stormwater fee structure would support both current costs as well as DEP/EPA mandated system improvements. It is not possible to know exactly what these mandated improvements will be at this time since the costs of specific improvements have not been identified by the City. However, creating this mechanism will allow the City and THA to respond in a timelier manner when specific costs are identified.

Status as of August 9, 2013:

As part of a comprehensive solution to the City's structural financial issues, the Receiver's Team, City leaders, and DCED are pursuing asset monetization opportunities. This initiative is on hold pending the outcome of the asset monetization process.

OA02 Negotiate payment in lieu of tax (PILOT) agreements with the City of Harrisburg

Assessment as of February 6, 2012:

THA and the City shall negotiate a PILOT on the Water and Sewer plants equal to the tax payments that would be made if the plants were private businesses. PILOTs are a commonly used mechanism for the recovery of City service costs from tax-exempt entities. Examples would include such things as police and fire service, contribution toward street improvements and maintenance and other services generally paid through local property taxes. PILOTs are generally assessed in addition to reasonable administrative fees for specific direct services.

PILOTs are not directly regulated in the Commonwealth and are generally negotiated between a city and tax-exempt properties within the corporate boundaries. Harrisburg has a number of these arrangements currently in place. While PILOTs are negotiated, they are at least primarily based on the imposition of the local tax rate against the valuation of the tax-exempt entity.

Status as of August 9, 2013:

The City has begun preliminary conversations with local non-profits; however, limited management and staff capacity at the City has hindered progress.

Transfer of Water and Sewer Operations to THA

The water and sewer systems have suffered from a long period of under-investment in needed improvements and maintenance. Over the last few years, environmental regulators have engaged the City and The Harrisburg Authority in ongoing discussions regarding Harrisburg's sewer systems.

THA and the Pennsylvania Department of Environmental Protection (DEP) are parties to a Consent Order and Agreement that sets the schedule for the commencement and completion of THA's "2013 Advanced Wastewater Treatment Facility Improvements Project". *The construction must begin by January 2014 and be complete by January 2016.* This project will reduce ammonia nitrogen, total nitrogen, and total phosphorus loadings in accordance with local stream limits and the Chesapeake Bay improvement initiatives.

Additionally, the City and THA have been in ongoing discussions with the United States Environmental Protection Agency (EPA) regarding the City's compliance with the Nine Minimum Controls to limit Combined Sewer Overflows (CSO) and the six Minimum Control Measures to limit environmental impacts of the City's Municipal Separate Storm Sewer System (MS4). The outcome of these discussions will result in a significant increase in investment in these systems, both capital and operational. *THA is currently updating their "Long Term Control Plan" for the CSO system and is incorporating into it necessary MS4 projects utilizing the EPA's "Integrated Planning" approach. This approach is intended to create a prioritized critical path to achieve water quality objectives and optimize benefits of infrastructure improvement investments with more sustainable and comprehensive solutions, such as green infrastructure, that improves water quality as well as enhance communities.*

Failure to complete the above will place the City and the systems in violation of regulatory requirements; with resulting fines, penalties, and court action from the DEP and EPA likely. *Without completion of these projects, environmental and public health will suffer as nutrients and sediments continue to degrade local waters. Without additional investment into the water and sewer infrastructure, access to clean drinking water and disposal of waste will be jeopardized, as was evidenced in 2011 with the water main break and numerous sink holes developed from compromised sewer pipes.*

In order to complete these projects and initiatives, the City and/or THA must be able to access the capital markets and sustain adequate rate revenues, both of which have been out of reach.

The City's recent financial stress, failure to complete audited financial statements in a timely manner and lack of borrowing capacity have caused both the City and THA to lose access to the capital markets. Financial rating agencies point to the City's control of rates, revenues and budgets as significant credit-negative factors against THA.

Additionally, due to past practices by the City that retained significant water and sewer revenues to support general City operations, suburban communities have taken an adversarial position against the City resulting in reduced revenues into the Sewer Fund which is causing additional financial stress for the utility operations.

To overcome these barriers, the City and THA have agreed to (1) terminate the existing agreements related to the City's operation of the THA-owned water and wastewater systems, (2) transfer all operating assets (including labor) and debt liabilities to THA and (3) transfer ownership of the City-owned sewer collection and stormwater systems to THA. THA will then serve as operator of all water and sewer facilities. As the operator, THA would set rates and budgets (including possible new stormwater fees), control billing and collections, and undertake asset management, renewal and replacement, and capital improvement planning and implementation. THA will engage the City to provide certain services necessary for the proper operation and maintenance of the systems.

As an independent agency of the Commonwealth, THA is able to separate the utility operation from other responsibilities of local government and buffer the operation from other local political and financial decisions facing local governments. These utility operations are highly complex, demanding significant attention from the overseeing officials. THA Board members appointed by the City are able to concentrate on the financial, engineering and environmental decisions that impact the operation and maintenance of the infrastructure systems. This transfer of responsibility relieves the City from this burden and assures that the City can focus on the important process of fiscal recovery and the provision of core and essential services.

This structure will provide comfort to (1) suburban customers, since operations are removed from the politics of local government, (2) government regulators, since THA will be able to focus solely and expertly on the utilities, and (3) lending agencies, since finances will be rate-supported and separate from the City's financial liabilities.

THA and the City will work cooperatively to negotiate governing agreements and legislation to effectuate this transition by October 2013.

Department of Building and Housing Development

The tables below show the DBHD's projected expenditures.

Department	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Growth
Office of the Director	83,368	83,968	83,968	83,968	83,968	0.7
Bureau of Planning	45,186	60,359	36,308	36,255	36,198	-19.9
Bureau of Codes	542,262	663,454	671,340	671,655	672,011	23.9
Bureau of Economic Development	32,100	55,418	55,556	55,705	55,873	74.1
Total	702,916	863,200	847,173	847,583	848,051	20.6

Source: City Reported 2012 Actual, 2013 – 2016 PEL Estimated/Projected

Department of Building and Housing Development Projected Expenditures by Major Category

Category	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Growth
Salaries & Wages	596,338	727,749	740,770	740,770	740,770	24.2
Social Security	45,771	55,673	56,669	56,669	56,669	23.8
Legal/Contract Services	10,500	34,000	10,173	10,361	10,575	0.7
Lease Purchase	445	0	0	0	0	-100.0
Other Miscellaneous	49,861	45,778	39,561	39,783	40,037	-19.7
Total	702,916	863,200	847,173	847,583	848,051	20.6

Source: City Reported 2012 Actual, 2013 – 2016 PEL Estimated/Projected

**Department of Building and Housing Development
Projected Expenditures – Personnel and Non Personnel**

Category	2012 Actual	2013 Estimated	2014 Projected	2015 Projected	2016 Projected	% Growth
Personnel Expenditures	642,109	783,422	797,439	797,439	797,439	24.2
Non Personnel Expenditures	60,807	79,778	49,734	50,144	50,612	-16.8
Total	702,916	863,200	847,173	847,583	848,051	20.6

Source: City Reported 2012 Actual, 2013 – 2016 PEL Estimated/Projected

Initiatives

BH06 Fill vacant HUD funded positions

Assessment as of February 6, 2012:

According to staff, the HUD funds that the City received currently have significant unused staffing allocations. This staffing allocation in CDBG funds is provided by HUD as the appropriate staffing level to properly utilize the allocated funds. A lack of proper staffing can be viewed critically by HUD.

DBHD had several vacant HUD funded positions, which has recently been filled including the Housing Deputy Director, Project Director, Grants Officer and Projects Officer. A Program Director and Health Officer positions are vacant. The City shall aggressively pursue the filling of these positions.

Status as of August 9, 2013:

The City has selected a final candidate for the position of Rehabilitation Specialist I, which is the last remaining HUD funded vacancy. The police background investigation is underway and, once the position is officially filled, this initiative will be complete.

BH07 Update the City’s Comprehensive Plan

Assessment as of February 6, 2012:

A city’s Comprehensive Plan is intended to reflect what the community wants the city to be in the future. In Harrisburg, the Comprehensive Plan has not been updated since 1974. The City is a Metropolitan Planning Organization (MPO), and as such, works in cooperation with the region’s primary planning commission, Tri-County Regional Planning Commission (TCRPC). There have been several addenda to the Plan that have addressed pressing development issues faced by the City including a Draft Zoning Ordinance and a Draft Tax Abatement Program, both currently being considered by Council. In order to ensure for well-planned future development, the City shall complete an update of the Comprehensive Plan. This updated plan shall include:

- A physical plan, showing on the map and describing in the text the location and relationships between specific land uses and densities of development.

- A long range plan, examining Harrisburg's expected future growth and graphically displaying the ultimate development of the City.
- A comprehensive plan addressing issues such as population, housing and economic trends which have and will continue to influence land development in Harrisburg.

This Plan should be not only chapters and maps reporting on land use, housing and other areas, but it should also be a process map to guide decisions and commitments which are made for future community character and economic development. As such, this process used for updating the Comprehensive Plan shall also involve key Harrisburg stakeholders, such as residents, businesses and community organizations, the Harrisburg Regional Chamber/Capital Region Economic Development Corporation, TCRPC and other City partners.

Status as of August 9, 2013:

The City, with support from Receiver's Team and DCED, has contracted with Mullin and Lonergan LLC to update the City's Comprehensive Plan. The team has developed a project scope that includes multiple mechanisms and avenues for public input and engagement. The comprehensive plan update will also include an update to the City's housing strategy and economic developments strategies (Initiatives HS02 and ED02), providing for an integrated plan. The express goal of the process is to develop a long-term plan that reflects the diversity of opinion and need in the community and to positions the City for success well into the future.

Housing

HS02 Develop a comprehensive housing strategy

Assessment as of February 6, 2012:

After the City has chosen a Housing Coordinator, he/she shall begin by devising a comprehensive housing strategy for the City of Harrisburg. The Housing Coordinator shall convene a working group composed of representatives from the City Council, the HRA, the HHA, City staff and other key partners. The purpose of this working group shall be to develop a comprehensive housing strategy. This group will provide valuable assistance and information; however, coordination, presentation and tracking of results will remain the responsibility of the Housing Coordinator.

At a minimum, the housing strategy shall incorporate needed improvements in the following areas. This is not an exhaustive list of possible improvements, but rather some specific examples of areas that need to be addressed:

- Neighborhood planning, including short, medium and long range planning should be encouraged by the City. Ideally, this would be a “bottom up” approach, soliciting input from the community. Currently, this is not happening in the City.
- A strategy for assessing new construction vs. rehab development – Guidelines need to be established for all groups to determine areas for renovation of current housing stock and areas for demolition and infill. In addition, by establishing such a strategy, distribution of available funding would be more easily accomplished.
- Live in the City Campaigns - In coordination with the City and local economic development groups, a new emphasis should be placed on “Live in the City” campaigns. There are significant opportunities both in the downtown area as well as surrounding neighborhoods for additional residential infill. The downtown area has significant vacant class B and C office space (currently 421,538 square feet vacant as of March 15, 2011 according to the HRA). There have been successful programs in Philadelphia, York and Lancaster, which have converted vacant space into condo developments to encourage downtown living and working.

Status as of August 9, 2013:

The City has contracted with Mullin and Lonergan LLC to update the City’s Comprehensive Plan and, as an element of that effort, to develop a City Housing Strategy. The process will be completed in 2014.

HS03 Utilize Vacant Property Reinvestment Board

Assessment as of February 6, 2012:

The City shall increase the utilization of the VPRB in conjunction with the comprehensive housing strategy for the City. The VPRB should engage with private redevelopment groups and other civic groups in a more proactive manner to encourage community participation and planning as part of the comprehensive housing strategy development process. The VPRB shall assess the organization, need and frequency of vacant structure demolitions within the City, paying special attention to concerns about the impact of blight on the City. The VPRB shall provide the City with recommendations regarding the highest and best use for vacant property, their impact on the City and alternate uses for these vacant parcels.

Status as of August 9, 2013:

In January 2013 the Vacant Property Reinvestment Board was reconstituted and began meeting. The role of the Board will be clarified and refined through the comprehensive plan and housing strategy development process.

Economic Development

ED01 Designate an Economic Development Coordinator

Assessment as of February 6, 2012:

The City's ability to coordinate and lead economic development activities has been hindered by multiple operational challenges including: (1) lack of qualified personnel/staff; (2) lack of institutional knowledge; (3) a growing portfolio of projects without a growing staff; and (4) lack of an overall economic development strategic plan. To improve the economic development coordination within in the City of Harrisburg, the City must focus on solidifying a strong leader over the economic development activities within the City. The City needs a leader to coordinate the Strategic Plan (see Initiative ED02) and direct the daily economic development activities at the City. It is essential that the economic and community development projects happening within the City are managed appropriately. Therefore, the City shall designate an Economic Development Coordinator. The position of Deputy Director of Economic Development is being recruited, but has not been filled.

Various options exist to identify and select an Economic Development Coordinator:

1. The Mayor and the Director of DBHD could decide to contract with a local economic development agency such as the Harrisburg Regional Chamber/CREDC for economic development services for the City. The Harrisburg Regional Chamber/CREDC is willing to establish a working relationship with the City and provide an employee from the Chamber for economic development services; or
2. Due to the lack of personnel and lack of institutional knowledge of economic development within DBHD Bureau of Economic Development, hire a qualified, experienced and strong manager for the position of Economic Development Coordinator. This individual will be required to have an extensive background in community and economic development and experience with management of daily economic development activities and coordination of strategic plans. This individual would preferably have strong ties with the City's local economic development agencies and knowledge of their importance.

Status as of August 9, 2013:

The City has begun recruiting for the position of Deputy Director of Economic Development. Currently, City management and HR are reviewing resumes. The process is expected to conclude in the third quarter of 2013.

ED02 Develop a coordinated long-term economic development strategic plan

Assessment as of February 6, 2012:

The City shall develop a long-term economic development strategic plan focused on progressive urban development utilizing management teams which have the capacity to produce results.¹² This strategic plan should focus on unifying both community and economic development.

The comprehensive long-term economic development strategic plan should coordinate efforts with key stakeholders including those within City government, economic development agencies and community agencies as well as non-profit or neighborhood organizations which are stakeholders in the community and economic development future of Harrisburg. The strategy should build on the efforts of these organizations.

¹² Brad Jones "Harrisburg 20/20: A Vision for the Future" PowerPoint Presentation

One committee that has been gathering all stakeholders within the economic development community for the City of Harrisburg is the Harrisburg 20/20 Committee.¹³

Not every entity listed has been actively involved. However, these entities can be considered necessary stakeholders which need to play a role in coordinating the strategic economic development plan for the City.

The strategy must include action steps with performance measures to track implementation. An example of the action steps includes the following:

1. Foster coordinated relationship among City government and business community;
2. Finalize and approve a zoning code that fosters and expedites quality development;
3. Implement 10 year, 100% tax abatement on improved assessed value City-wide;
4. Promote Keystone Opportunity Zone (KOZ) Sites throughout the City;
5. Outline specific neighborhood “corridors” for residential and commercial development which include neighborhoods and target areas within Downtown, Midtown, Uptown, 7th Street, Cameron Street Corridor, Bridge to Bridge District, Allison Hill, Market Street, Derry Street and the 17th Street Industrial Corridor;
6. Promote HRA land banking to reactivate blighted/vacant parcels and therefore continue assembly of land for low cost to developers;
7. Establish a Capital Improvement Plan to focus on repairing the City’s antiquated infrastructure;
8. Reinstate the Plans/Permits meetings at DBHD to provide a “one-stop shop” for development within the City;
9. Explore outsourcing certain business functions such as the certification of minority and women owned businesses; outsourcing of revolving loan funds to leverage other dollars;
10. Explore strategies to create sustainable economic opportunities for minorities and women-owned firms in procurement and public works areas; and
11. Coordinate the City’s tourism and marketing through either/both the Hershey Harrisburg Vacation & Tourism Bureau and the Harrisburg Regional Chamber/CREDC.

Status as of August 9, 2013:

The City has contracted with Mullin and Lonergan LLC to update the City’s Comprehensive Plan and, as an element of that effort, to develop an Economic Development Strategy. The process will be completed in 2014. However, the City is also in the process of filling a Deputy Director of Economic Development position, the incumbent of which will be responsible for implementing interim economic development initiatives.

ED03 Evaluate the City’s tax abatement strategy

Assessment as of February 6, 2012:

Harrisburg’s successful recovery depends on its ability to develop its tax base by attracting and retaining residents and businesses. One integral way to develop its tax base is through tax abatement authorized under the Local Economic Revitalization Tax Assistance Act (LERTA), 72, P.S. § 4722 et. seq. Tax abatement can encourage economic development by focusing on properties that may otherwise remain vacant and increasing the tax base due to land being used for a higher value use. Therefore, the City shall evaluate the pros and cons of revising its tax abatement policy.

On December 30, 2010, the Harrisburg City Council passed an ordinance amending Chapter 5-503 of the Codified Ordinances of the City of Harrisburg, entitled Tax Abatement and Exemptions, by specifically designating deteriorated neighborhoods and properties within the City of Harrisburg, modifying the tax abatement schedules for residential improvements, residential construction and business improvements, and

¹³ From Brad Jones PowerPoint Presentation, “Harrisburg 20/20: A Vision for the Future”. Harrisburg 20/20 is an Ad Hoc Committee of HRC/CREDC

eliminating the limits on the amounts of said residential improvements, residential construction and business improvements by extending the termination date.¹⁴ This Ordinance was signed by the Harrisburg Mayor on January 5, 2011.

Within the Ordinance passed by the City Council and signed by the Mayor, a clause exists where City Council, in its sole discretion, every six months following the effective date of the Ordinance, may act to amend or repeal the Ordinance at its next scheduled legislative session (following each six month period) and after a public hearing on the matter¹⁵.

During 2010, in anticipation of the tax abatement expiration, the Harrisburg 20/20 Committee (which was initially organized to address the tax abatement expiration in 2010), met multiple times with City Council to present findings and reports on the impacts of tax abatement, specifically a 10-year, 100% abatement on improved assessed value. The members of the 20/20 Committee outlined the benefits of a 10-year, 100% City-wide abatement.

The Harrisburg 20/20 Committee and the RealPropertyResearchGroup (RPRG) provided evidence of the positive impact that a 100%, 10-year abatement has on a financially distressed city. The January 2009 RPRG “City of Harrisburg, Tax Abatement Fiscal Impact Analysis” addresses:

A policy that would increase the financial incentives for development, both for new construction as well as rehabilitation...the recommended policy would amend the City’s existing tax abatement program by providing 100% property tax relief on the value of new construction or rehabilitation projects. This proposal is modeled after an existing program in Philadelphia that is lauded as a key factor in the revitalization of that city; the proposed program would provide an abatement of the property tax on the improved value of all new real estate investment in the city for ten years.¹⁶

In summary, the RPRG January 2009 report illustrates that a 10-year, 100% abatement offers a greater incentive to real estate investors and homeowners, meaning that the City of Harrisburg collects fewer taxes than under the former (expired in 2010) program in a side-by-side comparison of investment models. Importantly, it is critical to identify that the investment may not occur at all but for the greater incentive offered by the 100% abatement for the 10-year program. Therefore, as a result of the 10 year, 100% abatement, home improvements, business improvements, and new construction which did not exist prior to the abatement program will exist. These new improvements will ultimately generate a fiscal surplus to the City and School District. Ultimately, the 2009 RPRG report’s economic and fiscal analysis confirms that a 100% tax abatement is, at a minimum, revenue neutral to the City and Harrisburg School District combined. Two of the hypothetical projects, the multi-family rental project and the mixed use commercial project, provide a net fiscal surplus to the City and School District resulting from the proposed abatement. The estimated surplus from the multi-family rental project is \$108,208 while the surplus from the mixed-use commercial project is \$332,738.¹⁷

As a result of a 10-year abatement, the report also summarized and identified additional community benefits not easily quantified which include housing affordability and spin-off development. As new development is encouraged by the proposed abatement program, the City’s share of consumer sales and employment is likely to grow. As the City is able to capture additional regional economic activity from new jobs and new residents, the spin-off or indirect benefits associated with real estate investments that inure to the City will increase over time.¹⁸

¹⁴ Harrisburg City Council Ordinance No. 17 of Session 2010, Bill No. 26

¹⁵ Harrisburg City Council Ordinance No. 17 of Session 2010, Bill No. 26

¹⁶ RealPropertyResearchGroup, “Economic and Fiscal Impact Assessment of a Proposed 10-year Tax Abatement Program”, January 2009 p. 1

¹⁷ RealPropertyResearchGroup, “City of Harrisburg, Tax Abatement Fiscal Impact Analysis” Jan 2009, p. 75

¹⁸ RealPropertyResearchGroup, “City of Harrisburg, Tax Abatement Fiscal Impact Analysis” Jan 2009, p. 75

As the studies have revealed, a tax abatement program can propel a city into an era of renewal. Within the City of Harrisburg, City officials as well as economic and community development stakeholders shall prioritize efforts to assist the City's existing residential and commercial base as well as open the City for business to attract new investment.

Status as of August 9, 2013:

The Law Bureau has developed a new Tax Abatement program and submitted the program for adoption by the City Council. The proposed revisions to the Tax Abatement program expand the criterion for program eligibility; expand the abatement time frame to seven years, and; includes business properties as eligible for program participation. Once approved, the City will initiate an educational and marketing initiative for the tax abatement program.

ED04 Improve management of the City's MOED loan portfolio

Assessment as of February 6, 2012:

To receive the appropriate MOED loan repayments (loans that were provided under the former Mayor's Office of Economic Development) that the City is owed, the City shall improve management of these loans, the monitoring of loan repayments and maintain a firm position on collection for these loans. The City's ability to administer its loan portfolio from the previous MOED office has not been well managed or monitored and is limiting the revenues the City could obtain from the loan portfolio. Currently, too many businesses ignore the less than stringent approach the City has to collection, leading to limited results and repayments. Some loan clients do not respect the City's authority and continue in default and some have even started other businesses.

Unfortunately, a majority of the prior City Administration's loan portfolio was approved with very limited oversight and enforcement of the terms of the loans. This has resulted in creating a high loan default and delinquency rate. The City has made extensive efforts to collect on these defaulted loans. However, flawed loan documents and current economic conditions have impeded default loan collection efforts. DBHD staff have interviewed loan collection agencies to determine the feasibility of outsourcing the collection of outstanding loan payments. However, most of agencies have indicated an interest in acquiring only MOED's loan accounts that are in good standing.

The City shall implement an insistent approach to loan monitoring and collection. There are several options the City could consider. One option includes designating one individual at the City to be fully responsible for MOED loan servicing and collection; this option would require the City's Law Bureau to have a timely approach within this method, but it is difficult due to the staffing shortage. A second option would be to assign all delinquent loans to a collection agency that has a strong history of collection and assuming the business collateral. By implementing one of the aforementioned options (or a combination), the loan repayments would bring in revenue and replenish the loan portfolio. A third option would be for the City to collect on its outstanding MOED loans to the point where all loans are serviced and payments collected and then the City would exit the lending field and partner with an organization like the Community First Fund for micro-loans to businesses within the City of Harrisburg.

Status as of August 9, 2013:

The City has revised the Loan Underwriting Policy Manual for CDBG funded loans to include provisions for CDBG guidelines. In February 2013, the City Council approved City Administration appointees to the Harrisburg Economic Development Loan Review Committee. In the third quarter of 2013, DBHD will educate the Loan Review Committee about CDBG guidelines for CDBG funded loans.

Revenue

Like all local governments, the City of Harrisburg requires stable revenue sources and moderate growth in these revenue sources to fund services to residents, businesses and visitors. Both factors – stability and growth – are important because so much of a local government’s expenditures are related to recurring and increasing costs for personnel and benefits. However, Harrisburg’s General Fund tax base has been stagnant or declining for several years. City revenue streams have been unable to cover the growing costs of City services, leading to the use of nonrecurring revenue in ongoing attempts to balance the General Fund operating budget.

Revenue Profile 2008 - 2012

Historically, the single largest component of the City’s General Fund revenues has been taxes. In 2012, property taxes, including PILOTS, made up 36% of revenues; the earned income tax was 9%; and other taxes were 16%. The City received 16% of its revenue from intergovernmental sources; 13% from licenses, permits and fines; and 10% from fund transfers and other sources. Together, taxes made up more than 60% of the City’s General Fund revenues. The other revenue sources are fairly typical of Pennsylvania municipalities, with one exception. The less typical revenue source utilized by the City had been transfers from other funds and component units. These transfers from the sanitation fund, the sewer fund, the water fund and the Harrisburg Parking Authority made up 10% of revenues in 2012 – a reduction from 30% of all revenues in 2011. These transfers had been used to compensate for gaps in the City’s tax base.

Harrisburg plays host, as both a state capital and a county seat, to a number of institutions that are exempt from property tax. Tax exempt properties make up approximately one-half of the assessed property in the City. Commuters make up more than half of the workers in the City. These commuters make contributions to the General Fund revenues largely from the Local Services Tax (LST) which is levied on employees based on their employment location. In 2012, the LST revenue was nearly \$2.0 million.

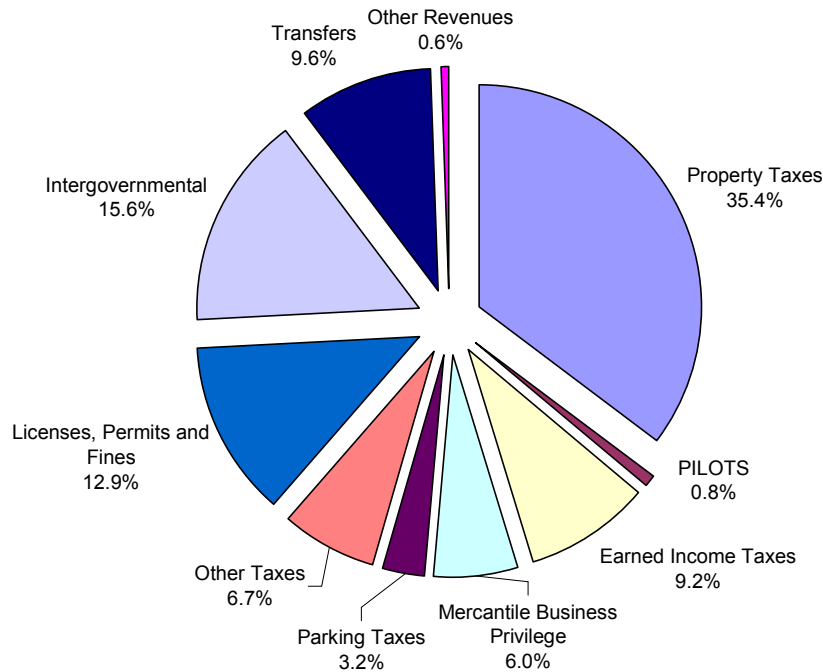
Based on LST collections, there were approximately 47,000 full-time equivalent jobs in the City in 2010. The City had an estimated population of 47,172 in 2009¹⁹. Of these residents, an estimated 21,252 were employed²⁰.

¹⁹ Census Bureau, Population Finder

²⁰ Census Bureau, American Community Survey

The figure below shows the estimated share of revenues by major category.

General Fund Revenues, 2012



The General Fund has a typical municipal revenue portfolio which makes it susceptible to a decline in any one source. The City was able to maintain General Fund revenues in 2009, 2010 and 2011 with significant fund transfers of \$19.5 million in 2008, \$22.6 million in 2009, \$18.8 million in 2010 and \$14.4 million in 2011. In 2012, due to a restriction on fund transfers instituted by the Office of the Receiver, these additional resources were not available, and for the period, General Fund revenues dropped by 23%, as depicted in the table below.

General Fund Revenues, 2008 – 2012

	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	% Change
Property Taxes	15,929,375	15,657,718	15,715,733	15,596,976	16,825,289	5.6
PILOTS	429,151	420,839	410,244	420,286	370,704	-13.6
Earned Income Taxes	3,571,324	3,444,832	3,149,169	3,485,781	4,372,971	22.4
Mercantile Business Privilege	3,280,404	3,182,559	2,771,555	2,801,831	2,866,063	-12.6
Parking Taxes	707,864	744,578	741,335	651,222	1,521,240	114.9
Other Taxes	3,893,386	3,566,901	3,605,628	3,597,351	3,208,883	-17.6
Licensures, Permits and Fines	6,212,114	5,385,557	5,732,837	13,345,089	6,123,867	-1.4
Intergovernmental	5,409,512	4,534,824	4,913,814	6,329,640	7,435,361	37.4
Transfers	19,550,394	22,640,844	18,821,932	14,429,395	4,555,482	-76.7
Other Revenues	2,828,882	616,098	675,706	814,844	304,062	-89.3

Total	61,812,405	60,194,749	56,537,954	61,472,416	47,583,922	-23.0
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Revenue Sources

The City's General Fund revenues were not able to keep pace with expenditures in 2012 without the large amount of fund transfers.

Transfers and Administrative Charges

In 2012, the sources for administrative charges into the General Fund are primarily the indirect charges for administrative services for the eligible utility service. The utility fees are charged to both taxable and tax-exempt properties. In 2012, transfers accounted for 10 % of General Fund revenues down from 31% of General Fund revenues in 2011.

Transfer Revenues, 2008 - 2012

Revenue Source	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	% Change
Sanitation Utility Fund	2,316,291	2,702,221	2,253,448	2,253,448	2,499,429	7.9
Sewer Maint Charge	956,894	925,519	925,997	925,997	823,149	-14.0
Sewer Maint Liens-Penalty	3,429	872	1,041	1,041	704	-79.5
Sewer Maint Liens-Principal	13,470	4,074	3,702	3,702	1,470	-89.1
Sewerage Utility Fund	6,319,520	10,127,351	7,275,386	7,275,386	277,652	-95.6
Hbg Prk Auth Coord Pkg	4,750,000	4,050,000	2,664,000	2,664,000	250,000	-94.7
Hbg Water Utility Fund	5,190,790	4,430,807	5,698,358	5,698,358	703,078	-86.5
Transfers from Other Funds	0	400,000	0	0	0	--
Total	19,550,394	22,640,844	18,821,932	18,821,932	4,555,482	-76.7

Intergovernmental Revenues

Some of the City's intergovernmental revenues are used as General Fund revenues. In 2012, these revenues accounted for 16% of General Fund revenues. Other intergovernmental revenues are accounted for in special revenue funds, for example the Liquid Fuels Tax Fund and Community Development Block Grants.

The recurring intergovernmental revenues include reimbursement for public safety expenses, CDBG reimbursement and pension aid. Since 2008, overall CDBG funding has decreased, leading to reductions in services and reimbursements for the General Fund. Public safety grants may fluctuate from year to year because they are dependent on current Commonwealth and Federal initiatives. A summary of the City's intergovernmental revenue is depicted in the table below.

Intergovernmental Revenues, 2008 - 2012

Revenue Source	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	% Change
Capital Fire Protection	1,253,000	1,000,000	987,000	987,000	2,500,000	99.5
CDBG Reimb. - Demolition	162,399	294,314	95,725	95,725	131,667	-18.9
Fed/State Pass Thru Grant	0	0	0	0	0	--
Federal Grants	0	0	0	0	0	--
Government Grants	0	0	3,854	3,854	0	--
Grants Fund	77,632	92,621	91,050	91,050	0	-100.0
Pension System State Aid	2,590,486	2,511,795	2,651,339	2,651,339	2,543,634	-1.8
Public Safety Grants	1,325,995	636,094	1,084,846	1,084,846	510,060	-61.5
State/Fed Grants Transfer	0	0	0	0	1,750,000	--
Total	5,409,512	4,534,824	4,913,814	4,913,814	7,435,361	37.4

Government Earnings

The City provides a broad range of services to residents, businesses and property owners. Many of these services are accompanied by fees and other charges that are expected to cover at least a portion of the cost to provide these services

Some of these revenues, most notably building and related permit revenues, vary with changes in the local economy. For example, building permit revenue decreased from \$640,293 in 2008 to \$377,878 in 2012. Total fee and permit revenues decreased from \$1.96 million in 2008 to \$1.53 million in 2012, a loss of \$400,000. Others, most notably traffic and parking fines, remain relatively constant. Vehicle maintenance charges are received from a variety of other governmental units including the Harrisburg School District, the Borough of Steelton, Dauphin County, as well as from the City Authorities.

As opposed to the cost reimbursements from utility funds, the City has some ability to manage these revenues. The rates for some of the fees, licenses and fines are set by the City and, therefore, can be increased to generate additional revenues. Some of the district justice fees are set by state law, and cannot be changed. Fees also cannot exceed the cost of the service related to the fee.

It is considered a best practice to review the rate schedules at least every two years to ensure full cost recovery. This is often accomplished by a cost study to make certain that the full costs, including overhead, are considered when adjusting fees. The City last commissioned a fee study in 2012. Maintaining an accurate cost reimbursement program including regular examinations of costs and fees will be very important for the long-term fiscal health of the City.

A summary of the City's revenues from licenses, permits and fines is provided in the table below.

Licenses, Permits, Charges, and Fines, 2008 – 2012

Revenue Source	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	% Change
District Justice Fees	821,507	608,870	744,297	744,297	618,333	-24.7
Building Permits	640,293	361,310	402,753	419,943	377,878	-41.0
License Renewal Fees	200,255	212,120	182,875	201,475	186,310	-7.0
Fees/Permits	1,125,819	956,618	1,059,266	1,023,476	965,165	-14.3
License	531,042	577,845	573,948	573,948	573,299	8.0
Parking Fees	4,764	3,676	1,759	1,759	3,083	-35.3
Parking Tickets	1,280,050	1,131,991	1,228,749	1,228,749	1,093,142	-14.6
Public Safety Fees/Permits	258,611	383,162	303,050	303,050	362,479	40.2
Public Safety Reimbursements	67,595	307,480	310,297	310,297	868,289	1,184.5
Public Works Fees/Permits	2,401	3,223	60,445	60,445	116,923	4,769.3
Reimbursements	0	0	0	0	0	--
Rental Income	20,855	15,655	10,617	10,617	27,044	29.7
Recreation Fees	99,508	94,676	33,372	33,372	10,593	-89.4
Vehicle Maintenance Charges	1,159,414	728,932	821,409	821,409	921,329	-20.5
Total	6,212,114	5,385,557	5,732,837	5,732,837	6,123,867	-1.4

Harrisburg's Revenue Structure

There are some positive attributes to Harrisburg's current revenue structure. Specifically, the City has a revenue base composed of the full range of tax and non-tax revenues that are available to municipalities in

Pennsylvania. Additionally, Harrisburg is home to large governmental employers, which often act as a stabilizing force during an economic downturn.

However, these affirmative aspects are offset by other factors:

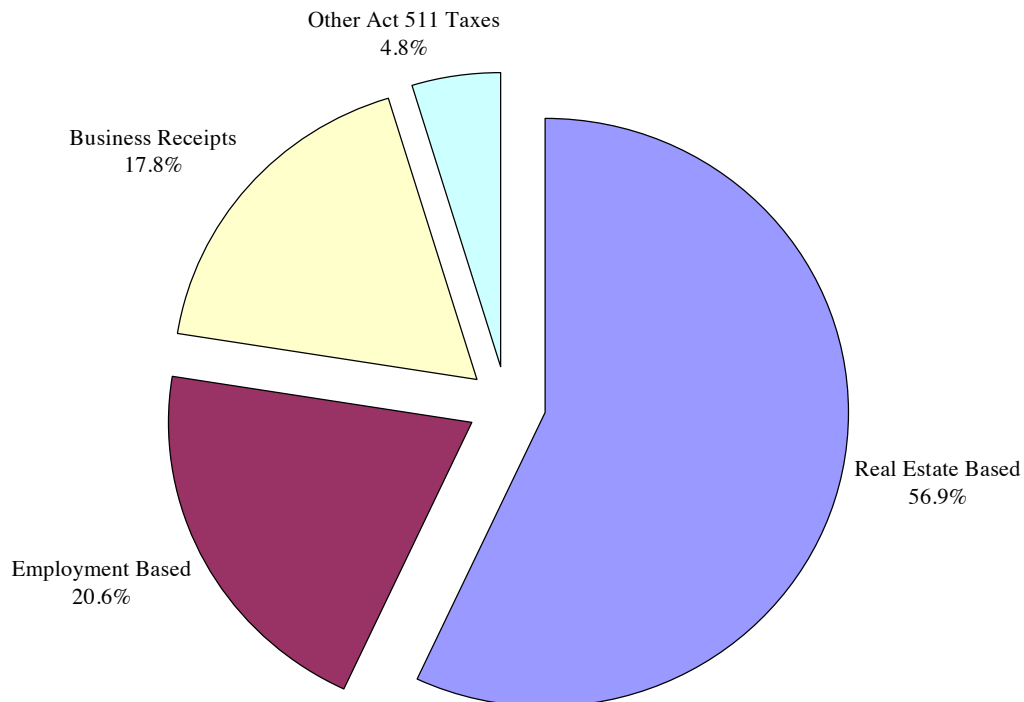
- The City’s principal revenue sources are not consistently producing sustainable growth, which had led to the use of significant increases in operating transfers, tax increases and one-time revenue sources to fill operating needs during the review period. Operating fund transfers have been eliminated by action of the Office of the Receiver since 2012.
- Harrisburg has a high tax burden when compared to other similar jurisdictions in Dauphin County and elsewhere in Pennsylvania. Over time, this will have an impact on the location decisions of residents and businesses and will also affect home values.

Assessment of Revenue Sources

As a Third Class city governed by the Optional Third Class City Charter Law, the City of Harrisburg has the power, within prescribed constitutional and statutory limitations, to levy taxes on: the taxable value of land and real estate improvements; the earned income and net profits of individual residents, workers (both resident and nonresident), operations and gross receipts of businesses doing business in the City; occupations of residents; parking receipts; and transfers of real estate. By action of Dauphin County, the City receives a portion of revenues from the County Hotel Excise Tax for designated tourism-related purposes. By action of the Commonwealth, the City receives a portion of the Public Utility Realty Tax based on the assessed value of taxable utility realty.

With few exceptions, the City maximizes the taxing powers authorized by the Commonwealth. The figure below identifies the City’s tax revenue sources in 2013.

2013 Baseline Budgeted Tax Revenue Sources



As noted in the figure, 57% of the tax revenue is from the value of taxable real estate. Business receipts revenue is generated from most businesses and special charges on hotels, parking and amusements. The worker earnings are split between a flat fee of \$47 borne on those employed in the City and the Act 511 maximum levy of 0.5% of earned income of City residents.

Tax Rates

Raising additional revenue through higher tax rates and/or new taxes needs to be tempered by the impact they have on economic drivers, business location decision makers, policy makers and, of course, residents. Both short-term and long-term consequences need to be considered, particularly when unemployment remains high, and wages are stagnant. Commonwealth personnel are budgeted for reductions and other basic costs such as oil and gasoline are rising. This is particularly true with signs of economic recovery as businesses and other investors consider locations for future expansion and growth.

Major areas where the City presently has additional capacity to tax under the Commonwealth's authorizations are:

- Increasing the Real Estate Tax rate on improvements, though the combined tax rates on City property are very high compared to neighboring municipalities;
- Increasing the Earned Income Tax rate on residents as authorized under Act 47;
- Pursuing revenue from property now classified as exempt; and
- Increasing collections through amnesty, enforcement and higher penalties.

Commonwealth law establishes administration for the following taxes, with limited or no input by the City:

- Real Estate Tax – Assessment of real property generally by the County; collection by the City Treasurer; assessment and exemption appeals by the County Board of Assessment Appeals. The City has standing to challenge assessments and exemptions.
- Earned Income Tax – Countywide tax collection though an appointed collector has been implemented since 2012. The City may impose additional penalties.
- Realty Transfer Tax – Collection by the County Recorder of Deeds; determinations generally made by the Pennsylvania Department of Revenue. The City may opt to give explicit authority to the Pennsylvania Department of Revenue to make determinations for additional tax, penalty and interest.
- Hotel Tax – Administered by the County.
- Public Utility Realty – Administered by the Pennsylvania Department of Revenue. The City has standing to challenge assessments.

The City may self-administer or outsource some or all administrative functions for the other taxes including Business Privilege & Mercantile, Local Services and Occupation Assessment.

Real Estate Taxes

On an equalized basis, the City of Harrisburg's property tax rates are significantly higher than those in its largest suburbs but in the middle range of other Third Class cities in the region. In 2013 the City of Harrisburg levied a tax on the assessed value of land at 30.97 mills and improvements at 5.16 mills.

The millage limit for Harrisburg under the Third Class City Code is 25 mills for the general purpose levy (increased to 30 mills with permission from County Court) with no limits for enumerated special purposes such as indebtedness of the City.²¹ However, any increase in the Real Estate Tax rate is an option that needs to be weighed against the impact it will have on current and prospective property owners, both residential and commercial, and against the affect it will have on the Harrisburg School District.

²¹ 53 P.S. § 37531. Pennsylvania's appellate courts have not had occasion to consider whether the rate cap is applied separately for a city that utilizes split-rates or if it would be applied to the single rate computed as if the split-rate system was not utilized.

The property tax impact on owner-occupied households can be estimated by considering the average and mean assessments on taxable parcels that have been approved by the County Tax Assessment Office as being qualified homesteads. Based on 2011 Dauphin County Real Estate assessed valuation figures, the average homestead assessed value in the City of Harrisburg is about \$57,000, which equalized for the Common Level Ratio is about \$81,000. In 2011, this represented a total City property tax of \$527 and total City-County-School District 2011 property taxes of \$2,023, which is 2.5% of the equalized value. The assessed value of owner-occupied tax abatements on new homes and home improvements in 2011 was about \$10 million, or slightly over 3% of the total assessed value of owner-occupied homes.

In contrast, 2011 assessed valuation data shows that the average homestead assessed value in the rest of Dauphin County (mostly comprised of East Shore suburbs) is about \$109,000, which equalized is about \$180,000. The 2011 municipal property tax for the four suburbs which comprise the largest number of commuters from the East Shore varies from \$141 in Lower Paxton Township (on an average assessed value of about \$147,000) to \$334 in Susquehanna Township (on an average assessed value of about \$123,000). The combined 2011 property taxes for these four suburbs range from 1.5% to 1.8% of their equalized values.

Real Estate Tax Collection

The City Treasurer is responsible for collecting Real Estate Tax for both the City and the School District.²² The collection rate for the City’s current real estate levy has varied per year but has averaged approximately 89% for the period 2008 through 2012. This level of collection is comparable to other Third Class cities in Pennsylvania but is lower than the collection rate seen in many townships and some boroughs.

Property Exempt from Taxation

Based on 2011 County assessment records, nearly half of the City’s real estate value is tax-exempt and owned by government entities. The table below summarizes the City’s tax-exempt property value and the approximate potential tax revenue in 2011 if the properties were not exempt from taxation. The total value of these exempt from taxation properties was \$1,485,851,800 or nearly 48% of the total assessed value of property in the City. For the purposes of comparison, the City’s taxable 2011 budgeted assessed valuation was \$1,623,014,400.

Properties Exempt from Taxation in 2011

Property	Percent of All Exempt	If Taxable In 2011 (in thousands)
Commonwealth of Pennsylvania	41%	\$4,075
PHEAA*	2%	\$223
HAAC	5%	\$936
City (excluding Authorities)	6%	\$988
School District	5%	N/A
Dauphin Co. (excluding Authorities)	9%	\$1,137
Redevelopment Authorities	0%	\$132
Other Authorities	4%	\$582
Federal Government (including Postal Service)	2%	\$218
Other Governments	0%	\$49
Public Utilities	1%	\$257
Parking Authority	3%	\$397
Religious	5%	\$787
YMCA	0%	\$83
Pinnacle (Harrisburg Hospital Polyclinic)*	10%	\$1,137
Other NP Healthcare Institutions	1%	\$158

²² 53 P.S. § 37532.

Property	Percent of All Exempt	If Taxable In 2011 (in thousands)
Harrisburg University	3%	\$225
Other (8 with assessments > \$1M**)	3%	\$528
TOTAL	100%	\$ 11,913
* PILOT Agreements with Pinnacle (City cannot locate), PHEAA (through 2018), PA Housing, Penn Center and 9 others		
** Cap Center Arts Science, Harrisburg VOA Elderly Housing, Goodwill, Harrisburg Hotel Assoc, Penn Center, Uptown Partners, Red Ross, River Rescue		

Properties Exempt from Taxation, Summary

Category	% of Overall Exempt Properties
Government and Related Entities (excluding Parking Authority)	74%
Parking Authority	3%
Religious (including YMCA)	5%
Nonprofit Healthcare	11%
Public Utilities (PURTA)	1%
Other (8 with assessments > \$1M)	5%
TOTAL	100%

More than 75% of the tax-exempt value is held by the government or government sponsored organizations, which are, by constitutional or statutory law, exempt.

It is Commonwealth policy to encourage organizations exempt from taxation to make PILOTs. Commonwealth law (e.g. Act 55) encourages PPCs to enter into PILOT agreements with municipalities and other local governments.²³ The City has PILOT agreements with 13 organizations on 16 parcels. The 2012 PILOT revenue was approximately \$370,000, over 85% of which was from the following four organizations: Pinnacle Health; Commonwealth of PA/PHEAA; PA Housing Finance; and Penn Center Harrisburg.

Since the passage of Act 55 it has been reportedly difficult for local governments (including Philadelphia and Pittsburgh which have substantial amounts of non-government, non-profit organizations) to renew or enlist new PILOT agreements. Pittsburgh has had some success in negotiating a PILOT arrangement under its Act 47 plan. By working with the Pittsburgh Foundation, the Pittsburgh Public Services Fund was established and has resulted in PILOT payments of approximately \$4 million annually or about 1% of its budget. The City of Harrisburg should quantify and communicate the value of the services it provides to its larger PPC property owners, pointing out the advantages of the City services that support the organizations' operations.

Employment Based Taxes

Earned Income Tax (EIT)

Under the Local Tax Enabling Act (Act 511), the EIT is capped at 1.0% and split equally with the School District, effectively limiting the tax to 0.5% on residents. The City currently levies the Act 511 EIT at the

²³ 10 P.S. §§ 372(a)(7) & (377)(c). PPCs get "extra credit" for PILOT payments in computing whether it donates or renders gratuitously a substantial portion of goods or services.

maximum rate of 1.0% under the Local Tax Enabling Act,²⁴ on residents and nonresidents or those working in the City. However, the City is entitled to only a half of the resident levy since the School District has also imposed the tax.²⁵ The City receives very little revenue from the non-resident tax as the municipality of residence has first right to the tax up to the level they impose under the crediting provisions of the Act.²⁶ As noted above, on October 24, 2012, the City Council approved the EIT tax increase of 1% on City residents. The new tax rate became effective on January 1, 2013.

Local Services Tax

The Local Services Tax (LST) is levied on persons based upon their location of employment. It differs from the EIT in that the location of the principal employment is the basis for the tax, not the domicile of the taxpayer. The tax rate is a total of \$52, shared with the School District - \$5 paid to the School District and \$47 retained by the City. The table below summarized the revenue received from the LST and EIT.

Revenue Source	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	% Change
Earned Income Tax	3,571,324	3,444,832	3,149,169	3,485,781	4,372,971	22.4%
Local Services Tax	1,950,541	2,353,228	2,217,093	2,232,038	1,875,888	-3.8%

The revenue received from the LST has been significant for the City. For comparison, in 2012, the City collected a sum from LST that was nearly 43% of the EIT (at a rate of 0.5% on wages and net profits); the LST levied at a rate of \$47 per employee. For the period 2008 through 2012, the amount of LST taxes fell upon the adoption of mandatory income limits, but the LST has remained a major new City revenue source.

Business Privilege & Mercantile Tax

The City of Harrisburg levies a Business Privilege & Mercantile Tax (BPMT) on all businesses in the City except for those that are statutorily exempt, such as manufacturers. The BPMT is based on the gross receipts of retailers at 0.075% (0.15% when combined with the BPMT rate levied by the School District); of wholesalers at 0.05% (0.01% combined rate); and of other businesses at 0.2% (0.3% combined rate). The only other municipalities in Dauphin, Cumberland and Perry Counties which impose a BPMT are Swatara Township, Paxtang Borough and Penbrook Borough. All of these municipalities border the City of Harrisburg and have lower combined rates on retailers and other businesses. Among the Third Class cities which are closest in proximity to Harrisburg, the BPMT is levied in York and Reading but not in Lebanon or Lancaster.

Like all political subdivisions in the Commonwealth, the City and School District of Harrisburg are barred from raising their BPMT tax rates.²⁷ However, this does not prevent increases in license taxes (which are included in the same City of Harrisburg tax account category), interest (now 0.33%/month, which comes to nearly 4% annually) or penalties (now 10% for payments more than 30 days after due date).

In the 2007 PA Supreme Court decision, *V.L. Rendina, Inc. v. City of Harrisburg*, the City prevailed in applying the BPMT to a contractor who had a leased job trailer during its temporary presence in the City. In holding that a base of operations is not necessary for the BPMT to apply, the Court’s opinion indicated that business persons without any office in the City but who temporarily engage in business in the City are subject to this tax (e.g., auditors at a client site in the City, an attorney in a Dauphin County Court trial, business

²⁴ 53 P.S. § 6924.311(3). If one or more of the City’s pension plans is deemed in moderate or severe distress, the City may raise the Earned Income tax rate above the limit (on both residents and nonresidents), the proceeds of which shall be used solely to defray the additional costs required pursuant to Act 205 of 1984, as amended, which are directly related to the pension plans. 53 P.S. § 895.607(f) & (f.1).

²⁵ 53 P.S. § 6924.311. Unlike the City, the School District may not levy the EIT on nonresidents. 53 P.S. § 6924.301.1(f)(5).

²⁶ 53 P.S. § 6924.317. Out-of-state City workers, which are estimated to comprise less than one percent of the City workforce, are subject to the full 1.0% City EIT rate.

²⁷ Local Tax Reform Act of 1988, 72 P.S. § 4750.101.

associates attending a conference in the City, entertainers performing at a concert in the City or sales persons soliciting potential new business in the City). However, it is apparent that the City is not fully enforcing the BPMT to this extent.

Fund Transfers and Administrative Charges

Administrative Charges, Transfers and Parking Payments

As previously mentioned the City developed a series of payments related to its operation of water, sewer, sanitation (solid waste collection) services as well as Harrisburg Parking Authority contributions through the agreement on the Coordinated Parking Fund. The payments were for: administrative charges for “overhead”; costs incurred by the General Fund; direct transfers into the General Fund; or payments made by the Coordinated Parking Fund. Payments from these sources varied over the period from a low of \$19.5 million in 2008 to a high of \$22.6 million in 2009. In 2012, the payments dropped significantly (by 76.7%) to \$4.5 million. The payment of transfers from the sewer and water funds was stopped by an order of the Office of the Receiver in February 2012. Subsequent to the order, the City has collected administrative charges from the funds as estimated under an independent cost allocation study performed in 2012.

A summary of those prior payments is included below.

	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	% Change
Transfers and Administrative Charge Payments	14,800,394	18,590,844	16,157,932	13,179,395	4,305,482	(70.9)
Coordinated Parking Fund	4,750,000	4,050,000	2,664,000	1,250,000	250,000	(94.7)
Total Payments to General Fund	19,550,394	22,640,844	18,821,932	14,429,395	4,555,482	(76.7)

Source: Historical Data from City As Provided

Initiatives

REV03 Review Real Estate Taxable Assessments

Assessment as of February 6, 2012:

The last county-wide reassessment was conducted about a decade ago and became effective in 2002. There is no Pennsylvania statutory mandate for conducting periodic reassessments, though the Commonwealth Constitution requires that assessments of all properties be uniform. In the meantime, the City and the School District each have standing to challenge assessments of individual parcels, with an annual deadline to file an appeal of existing assessments beginning August 1, with the effect of any change made the following January 1.

The City Treasurer shall initiate a joint effort with the School District to identify under assessed or tax exempt properties, which should entail engaging a qualified appraiser in making preliminary reviews. If determined that the assessment is not equitable for the property, the City shall appeal (either alone or jointly with the school district) the assessment valuation.

Status as of August 9, 2013:

The City Treasurer’s Office has not pursued the initiative.

REV04 Review and increase utilization of Payment in Lieu of Property Tax (PILOT) Agreements; consider impact in sale of government owned property

Assessment as of February 6, 2012:

The City shall take the following actions:

1. Determine the impact on property tax revenues as part of the due diligence of selling government owned property to for-profit organizations.
2. Solicit voluntary contributions from government and government sponsored organizations to reimburse the City for all or a portion of the services provided by the City. The City shall review the implementation of an Act 55 format for the formal agreement and payment of specified PILOT revenue from organizations exempt from property taxation.
3. Review the status of the qualification and PILOT agreements with the nonprofit healthcare institutions and the other private organizations with large tax-exempt assessments (starting with those of at least \$1 million in value). Seek voluntary contributions / PILOTs with non-profit organizations, starting with those having the highest tax-exempt values and those who utilize substantial amounts of the City services.

Status as of August 9, 2013:

Due to limitations in management and staff capacity at the City, the City has been unable to aggressively pursue PILOT opportunities. As capacity increases, PILOT opportunities will be pursued.

REV06 Increase enforcement of the Local Services Tax

Assessment as of February 6, 2012:

The City imposes the maximum rate of \$47 per year under the Local Services Tax (LST); the School District imposes a rate of \$5 per year. As with the BPMT, the City shall increase penalties and institute an amnesty for a limited time period.

Capital Tax Collection Bureau currently administers the LST for the City and the School District. With the change in EIT tax collector starting in 2012, the City shall review the potential for one collector of both EIT and LST utilizing the countywide EIT collector. If the consolidation of tax collections is deemed to be impractical, the City shall request proposals to most efficiently collect the LST from both the current and new tax collection organizations.

Status as of August 9, 2013:

The Law Bureau is currently drafting an ordinance to implement an increase in interest and penalty for the LST. In addition, the City is evaluating the option to implement a 60 day amnesty period for the LST, in an effort to increase one time collections.

REV07 Pursue Legislative Change for the Local Services Tax Levy

Assessment as of February 6, 2012:

The City shall initiate discussions with the Receiver and its Legislative delegation to begin the process of increasing the Local Services tax rate. It is recognized that special legislation will be required to enact this change. The currently levied \$47 Local Services tax has proven to be an effective source of revenue based on employment within the City.

Status as of August 9, 2013:

The City and the Office of the Receiver will begin discussions regarding implementation alternatives following the resolution of the City's debt issues and asset monetization processes.

REV08 Pursue Department of Revenue determination for additional tax, penalty, and interest regarding realty transfer tax

Assessment as of February 6, 2012:

The City last amended its Realty Transfer Tax Ordinance in 1990. The Commonwealth, under Act 40 of 2005, gives the City the option to have the Pennsylvania Department of Revenue make determinations for additional tax, penalty and interest.²⁸ For this service, the Department of Revenue may impose a cost of up to 10% of the tax, penalty and interest collected on behalf of the City.²⁹

The City shall implement this option to reduce the costs of tax administration and increase the net receipts from tax underpayments, penalty and interest. This tax is collected by the County Recorder of Deeds.

Status as of August 9, 2013:

City Solicitor advised after consulting with the Receiver's Team that the intent of this initiative is not to increase the realty transfer tax. This is currently collected at time of property transfer by Dauphin County Further discussion required.

REV11 Improve real estate taxpayer collection rate

Assessment as of February 6, 2012:

The City Treasurer is responsible for collecting the real estate tax for both the City and the School District. The collection rate for the City's current real estate levy has varied per year but has averaged 89.1% for the period 2006 through 2010. Efforts to increase the collection rate will reduce the City's reliance on lien sales for delinquent real estate taxes. Increasing the current collection rate for real estate taxes will become more important as the City begins to rely on multi-year sales of liens for revenue from delinquent tax accounts. It is estimated that each additional 1% improvement in current real estate collections will yield over \$140,000; to receive that same revenue from a lien sale would require the sale of over \$157,000 in delinquent liens.

The City Treasurer, Chief of Staff/Business Administrator and Tax Enforcement Administrator shall review the status of real estate tax collections for the current year no less than every three months and especially after the face period for redeeming tax bills. The City Treasurer shall develop and implement a system to enhance the City's notification of current unpaid tax accounts so that property owners are reminded that taxes are due and that there is time to avoid penalty costs for late payment of real estate taxes.

Status as of August 9, 2013:

The City continues to pursue opportunities to increase the collection rate.

REV12 Generate revenue through Market Based Revenue Opportunities

Assessment as of February 6, 2012:

Market based revenue opportunities (MBRO) have been used by many municipalities in Pennsylvania and around the country to produce revenue from advertising, service concessions, marketing and sponsorship opportunities. The City's location as a tourist destination as well as a regular venue for meetings and business visitors to the State Capital makes an MBRO initiative an important alternative to increases in local fees and taxes.

²⁸ 72 P.S. § 8109-D(a).

²⁹ Act 40 of 2005.

The City shall pursue an RFP process to select a broker to help identify potential City assets for an MBRO program, assist with establishment of a policy framework and market available and approved opportunities. Channel 20, the City's cable access channel, shall also be included in this review. The MBRO program shall be implemented no later than July 1, 2012. As estimated in other municipal MBRO plans, the City can expect approximately 1% of General Fund revenues once an MBRO program is fully implemented. The estimated five year revenue is based on the estimated percentage of City revenues and the anticipated time to develop and implement MBRO initiatives.

Status as of August 9, 2013:

The Office of the Business Administrator, with assistance from Receiver's Team and DCED, will seek to develop an RFP in 2014 to identify a consultant to assist with the development of market-based revenue generating opportunities.

REV13 Sell City acquired historical assets

Assessment as of February 6, 2012:

The acquisition of display items for the planned City museums resulted in holdings of assets that have no immediate use for the operation of the City. The holdings will be appraised as part of the required overall asset value study and the City shall prepare and dispose of the items in a manner that results in the highest possible proceeds from the sale. The City shall consider the current market conditions for items of historical interest prior to committing to a sale and may consider several sales over an extended time period to avoid the unnecessary loss of value due to adverse market conditions. The City shall also consider the use of qualified, professional brokerage services knowledgeable in the specialized area of the artifacts to sell items directly to interested parties.

It is estimated that these sales could generate \$500,000; however, total values are subject to appraisals.

Status as of August 9, 2013:

The City auctioned its historical assets on July 15, 2013, raising approximately \$2.7 million in General Fund revenue.

REV14 Revise Host Fee agreement between the City and the Harrisburg Authority

Assessment as of February 6, 2012:

The City and THA have an agreement for the use of Host Fees available to the municipal host of the Resource Recovery Facility. The current agreement provides for the provision of in-kind and other services to the City from the Authority in lieu of a monetary fee. Under current Commonwealth law, the host fee may also be applied to each ton of refuse and paid to the host municipality as a per ton cash fee.

The City and THA shall amend the current municipal waste disposal agreement between the City and THA to provide for a monetary payment of the host fee to the City's General Fund. The proceeds from this host fee shall be used for administrative support and program development through grants and other programs for environmental projects and environmental education projects that benefit the City. The City shall consider the formation of an advisory council to assist in the development of these programs and educational support to ensure that the host fee funds are expended in a manner that benefits the City's environmental improvement efforts.

Status as of August 9, 2013:

The Law Bureau drafted an amendment to the agreement between THA and the City which was adopted by City Council. Once approved by THA, this initiative will be complete. Approval is expected in 2013. In addition, in March, 2013, the City established an Environmental Advisory Council to propose how host fee revenue can be used to address environmental issues in the City, with emphasis on city wide clean up, recycling education and related environmental activities.

New Initiatives

Since the Receiver's Plan was approved in March of 2012, the City has made many positive strides toward implementing the plan initiatives. As goals are accomplished and plan initiatives completed, opportunities become available to build upon those successes and further progress the City's goal of financial and operational self-sufficiency. In addition, since the Receiver's Plan was adopted by the Court, the financial and operating environment has inevitably evolved. Given these realities, it is necessary to consider what additional initiatives can be included in the City's work plan to meet the spirit of the Receiver's Plan. Those initiatives are described below.

IRM07 (New Initiative). Implement a worker's compensation buy-out program.

One of the fundamental issues that impact the ability of the City's operating departments to meet daily workload responsibilities is the impact of long-term disability and workers compensation claims. When an employee is injured on the job and unable to perform his/or her duties, they are justifiably placed on workers compensation while the injury heals. There are two primary reasons for the workers compensation program. First, it protects workers by ensuring that they do not lose their job as a result of an injury incurred in the performance of duty. Second, workers compensation programs ensure that employees receive an income while recovering from work-related injuries.

This is an important program for both the employees and the employer; however, the workers compensation program also creates significant challenges for the employer. Because an employee's job is protected while they are on workers compensation, the employer must operate short-staffed because the vacated job cannot be filled. This is a reality that any employer must deal with but when employees are on workers compensation for several months, the delivery of City services suffers. This is often the case in the City of Harrisburg. City employees are often on long-term disability or workers compensation for years and the City does not have a consistent mechanism in place to transition those employees who cannot be realistically expected to return to duty from the City's workforce.

To address this issue, many organizations have implemented workers compensation buy-out programs, which allow the employer to buy-out anticipated workers compensation liabilities and separate the employee from service. Implementing a workers compensation buy-out program would provide the City with an avenue to ensure that an injured employee's future medical bills and lost wages due to work-related injury are appropriately covered, while allowing the City to fill crucial operating positions with employees who are capable of performing the work responsibilities.

POL17 (New Initiative). Conduct a workload-based staffing analysis of the City of Harrisburg, Police Patrol function.

One common argument for increasing the number of sworn officers who patrol the City's streets is that the Police Department, like all City departments, has experienced staffing reductions over the past four years. Since 2009, the Harrisburg Police Department has experienced a 33FTE, or 13% reduction in the number of budget civilian and sworn personnel. However, it has been impossible to quantitatively analyze what the target staffing sworn officer staffing level for the Police Department should be. This level of analysis has not been open to the City because the City's Computer Aided Dispatch system did not contain sufficient Dispatched Calls for Service Data (DCFS), or 911 call data, to develop a workload-driven staffing and deployment plan.

This reality has also limited the Department's ability to implement initiative POL01, which calls for restructuring of the Patrol function's duty schedule. Because insufficient DCFS workload detail has not been available, the operational and financial implications of shift alternatives could not be fully analyzed.

However, since the Receiver's Plan was confirmed by the Court, the City has transferred emergency 9-1-1 call-taking and dispatching responsibility to the Dauphin County Communications Center, which has been fielding and dispatching the City's 9-1-1 calls for more than two years. With the transfer of those responsibilities, and with more than one year of data available, it is now appropriate to pursue a more detailed staffing and shift schedule analysis for the Police Department. The goal of this analysis is to identify, quantitatively, what the optimal staffing level and shift schedule for the City's Police patrol operation should be. This analysis is of course reliant upon the availability of the requested data from Dauphin County; however, the City, with the assistance of the Office of the Receiver and DCED, should begin discussions with the County to determine the availability of the necessary data.

PW06 (New Initiative). Develop a plan to develop a fleet and fuel management internal service fund operation.

Since the Receiver's Plan was confirmed in March of 2012, one of the major undertakings in the Department of Public Works was to aggressively manage fleet make-up and quantity and to create a fleet manager position. In 2012 and 2013, the Department of Public Works, with assistance from the Office of the Receiver and DCED, began implementing a program to enhance the City's fleet management capacity. This program, which is consistent with initiatives included in the Receiver's Plan, eliminated, or is in the process of eliminating, over 30 surplus vehicles from the City's fleet; identified financial resources to develop a fleet and fuel management system, and; reorganized the Vehicle Maintenance Center to include a fleet manager position. The fleet manager position is expected to be filled by the end of 2013.

With the addition of designated fleet management capacity and fleet and fuel utilization analytical capacity, the City will be in a position to begin developing a model to transition the City's fleet maintenance operation to an internal service fund model. This model, which is common in many Cities across the United States, creates a central fleet purchasing and maintenance operation that functions with the goal of fully accounting for fleet costs. This model increases transparency in the decision-making process by fully reflecting the long-term cost of purchasing a vehicle or piece of equipment, and provides a mechanism and process to evaluate fleet purchases within context of the City's overall needs, not just the individual needs of departments.

It will be important to develop a model that fits within the culture and constraints of the City's operating environment; however, with the addition of a designated fleet manager and the development of a fleet management system, the necessary elements are in place to continue to implement fleet management best practices.

PW07 (New Initiative). Develop an energy conservation program that allows the City to reduce operating costs through designated capital resources or grant funds.

One of the City's largest single non-personnel General Fund expenditures is for the energy used to power street lights and traffic signals; in 2012, the expense exceeded \$770,000. For several years, cities across the United States have been replacing traditional lighting systems with LED (Light Emitting Diode) bulbs, which, on average, consume as much 40% fewer kilowatts per hour than traditional lighting systems.

Currently, the majority of the City's street lights and traffic lights are fixed with traditional incandescent lights, though the Department of Public Works makes an effort to use LED bulbs whenever possible. The absence of a large scale replacement effort has been largely attributable to the unavailability of capital funds and grant funds.

As the City's financial condition improves and resources become available, it is prudent to pursue grant programs and capital investments that allow the City to control operating expenses. These initiatives should include not only an LED program for street lights and traffic signals, but efforts to reduce energy consumption in City-owned facilities, such as the Government Center. The first critical step in this process is to conduct an energy audit to identify and prioritize energy conservation priorities in the City, with special emphasis paid to reducing operating expenses.

EXHIBIT 1

ASSET PURCHASE AGREEMENT

dated as of

_____, 2013

by and between

THE HARRISBURG AUTHORITY

and

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY

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ASSET PURCHASE AGREEMENT

This ASSET PURCHASE AGREEMENT (this “Agreement”) is entered into as of _____, 2013 by and between THE HARRISBURG AUTHORITY, a municipal authority created and existing under the laws of the Commonwealth of Pennsylvania (“Seller”), and the LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY, a municipal authority created and existing under the laws of the Commonwealth of Pennsylvania (“Buyer”) and is joined and approved by the Receiver for the City of Harrisburg (“Receiver”). Buyer or Seller, or both, may be referred to in this Agreement as the “Party” or the “Parties” as the context of the usage of such term may require.

BACKGROUND

A. Seller owns an eight hundred (800) ton per day, three (3) unit, mass burn, waste processing, electric generation and ash disposal facility located in the City of Harrisburg and Swatara Township, Dauphin County, Pennsylvania (as further described in Section 2.01(b) herein, the “Facility”).

B. The Facility consists of various assets including: (i) a facility that accepts MSW (as defined below) from public and private haulers; (ii) burners which incinerate the collected MSW and which generate steam (the “Mass Burn Facility”); (iii) a turbine which is powered by the steam to generate electricity for sale and associated electrical equipment (the “Electrical Plant”) and (iv) an ash landfill at which resulting ash is disposed or temporarily stored prior to shipment to other landfills (the “Ashfill”) and associated metal recovery and recycling operations.

C. The Facility is situated on an approximately fifty-nine and one-half (59.5) acre tract of Real Estate owned by Seller, as more particularly described on Exhibit B attached hereto, which Real Estate, together with all improvements (including the Improvements, as described in Section 2.01(b) herein, but excluding the Dauphin County Recycling Center) and all other real property interests of Seller comprising the Facility, may be referred to herein as the “Real Property”.

D. Seller accepts, processes and disposes of MSW, generates steam and electricity and undertakes associated operations and activities at the Facility (collectively the “MSW Services”). For the purposes of clarity, the MSW Services do not include the off-site transportation of steam. In furtherance of the implementation of a fiscal recovery plan (the “Recovery Plan”) for the City of Harrisburg developed by the Receiver, Seller desires to sell, transfer and assign, and Buyer desires to purchase, the assets relating to the MSW Services (including the Facility and the Real Property), for the consideration and on the terms and conditions set forth in this Agreement.

E. Seller also provides sewer and water services to the City of Harrisburg and surrounding municipalities (the “Water/Sewer Services”). For the avoidance of doubt, and as documented in this Agreement, Seller is not conveying, and Buyer is not receiving, any assets of Seller relating primarily to the Water/Sewer Services.

TERMS AND CONDITIONS

NOW, THEREFORE, with the foregoing Background incorporated by reference and in consideration of the representations, warranties, covenants and agreements herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, intending to be legally bound hereby, the Parties agree as follows:

ARTICLE 1 DEFINITIONS AND INTERPRETATION

Capitalized terms used and not otherwise defined in this Agreement have the meanings set forth in Exhibit A attached hereto and are incorporated herein (such definitions to be equally applicable to both the singular and plural forms of the terms defined). When a reference is made in this Agreement to Sections, subsections, Schedules or Exhibits, such reference is to a Section, subsection, Schedule or Exhibit of this Agreement unless otherwise indicated. The words “include”, “includes” and “including”, when used herein, are deemed in each case to be followed by the words “without limitation”. The word “herein” and similar references mean, except where a specific Section or Article reference is expressly indicated, the entire Agreement rather than any specific Section or Article. The word “or” has, except as otherwise indicated, the inclusive meaning represented by the phrase “and/or”. For purposes of this Agreement, the phrases “made available” or “provided to,” when referring to information, documents or materials made available or provided to Buyer by or on behalf of Seller, shall include all information, documents and materials that are available to the public, located in the Dataroom (as defined herein) or otherwise provided to Buyer.

ARTICLE 2 PURCHASE AND SALE; PURCHASE PRICE; ADJUSTMENTS

2.01. Purchase and Sale of Acquired Assets. Upon the terms and subject to the conditions set forth in this Agreement, at the Closing, Seller shall sell, convey, assign, transfer and deliver to Buyer, and Buyer shall purchase and acquire from Seller, free and clear of any Encumbrances other than Permitted Encumbrances, all of Seller’s right, title, and interest in and to the Real Property and the Facility and all other tangible and intangible assets owned, leased or licensed by Seller used or useful to continuously and, in an uninterrupted fashion, operate the Facility and provide the MSW Services (collectively, the “Acquired Assets”), including but not limited to the following assets (but excluding the Excluded Assets as set forth in Section 2.02 below):

(a) the Real Estate (and other Real Property, to the extent so conveyable) by special warranty deed;

(b) the Facility including all buildings, structures (surface and subsurface), utilities and improvements located on, over or under the Real Estate, excluding the Dauphin County Recycling Center, but including (i) the Mass Burn Facility; (ii) the Electrical Plant; (iii) all other parts of the Facility; (iv) the DPW Facility, (v) the Ashfill (including but not limited to cells A1, B1, B2 and B3), (vi) the Dewatering and Drying Building and (vii) certain other associated site improvements related to the foregoing, including the MSW pits located on the

Real Estate and serving the Facility, and the EWRS (such items (i) through (vii), collectively, the “Improvements”);

(c) to the extent not included as part of the foregoing, Seller’s right, title and interest in all easements, appurtenances and other real property utilized or necessary for providing the MSW Services including, but not limited to, the operation of the Facility (including the roadways, access ways and other means of ingress and egress to and from the Facility);

(d) Seller’s right, title and interest in the DCRC Ground Lease, and Seller’s rights, if any, to the Dauphin County Recycling Center;

(e) the Contracts listed on Schedule 2.01(e) relating to MSW activities by private haulers (collectively, the “Third Party Hauler Agreements”); relating to the operation and management of the Facility (collectively, the “O&M Agreements”); or otherwise relating to the MSW Services including those Contracts entered into during the period between the date of this Agreement and the Closing Date that the Parties mutually agree in writing will be assumed by Buyer, (collectively, the “Assigned Contracts”);

(f) the machinery, equipment, furniture, fixtures and tooling and other personal property primarily used or held for use in connection with the Facility or the MSW Services listed including those listed on Schedule 2.01(f) and located on the Real Property, whether or not affixed thereto;

(g) the spare parts, tools and consumable inventories of fuels, supplies, materials and spares primarily used or held for use in connection with the Facility or the MSW Services including those listed on Schedule 2.01(g) and located on the Real Property, whether or not affixed thereto;

(h) the motor vehicles and rolling stock used or held for use in connection with the Facility or the MSW Services listed on Schedule 2.01(h);

(i) that portion of the Steam Lines located within the boundaries of the Real Estate;

(j) the Governmental Permits listed on Schedule 2.01(j), to the extent such Governmental Permits are transferable under Law;

(k) the balance of any Closure Funds immediately prior to the Closing, provided that the transfer of Closure Funds shall be subject to Buyer’s agreement to purchase all Ashfill cells located on the Real Estate and included in the Real Property without any further financial commitment from Seller or liability of any kind or nature, and with a return to Seller at Closing of any Unused Closure Funds;

(l) cash from Seller’s bond indenture accounts (“Bond Indenture Funds”) in an amount equal to the lesser of (i) Eight Million Dollars (\$8,000,000) or (ii) the remaining balance of such accounts;

(m) all assignable warranties, indemnities and guarantees given by third parties to the extent relating to the Acquired Assets;

(n) all of the following, to the extent in the possession of Seller: surveys, blue prints, drawings, plans and specifications (including structural, HVAC and mechanical plans and specifications), operation and maintenance manuals, as-built drawings, operating data, maintenance records, maps, equipment drawings, warranty information and other documentation relating to the Acquired Assets; and all soil tests and environmental assessments or reports relating to the Real Property; and such other existing books and records and documents used in connection with the performance and operation of the Facility or the MSW Services (all of the foregoing, the “Books and Records”);

(o) (i) the software developed or licensed by Seller relating to the operation and management of the Facility and the MSW Services as described on Schedule 2.01(o); (ii) to the extent assignable, all patent or other intellectual property rights required to use the technology and processes in the Facility, including the Mass Burn Facility, (iii) any Barlow patents (consisting of Patent Nos. 6,665,304; 5,044,288; and 4,955,296) and (iv) other proprietary or trade secret information disclosed on Schedule 2.01(o), to the extent Seller has rights to the same (collectively, the “Acquired IP”);

(p) the right or interest of Seller in any and all pending or approved applications for state or federal grants relating to the Facility and the MSW Services, including that certain Eight Million Dollar (\$8,000,000) Redevelopment Assistance Capital Program grant from the Commonwealth of Pennsylvania Department of Community and Economic Development (the “RACP Grant”); and

(q) all MSW contained in the Facility pit on the Closing Date.

2.02. Excluded Assets. Seller is not selling or transferring any right or interest in, and Buyer is not purchasing or assuming any obligations with respect to, the following assets (collectively, the “Excluded Assets”):

(a) Except as set forth in Section 2.01(l) (the Bond Indenture Funds) and Section 2.01(k) (Closure Funds), all cash, bank accounts, marketable securities, instruments and other investments or deposits of Seller or in which Seller may have an interest including Unused Closure Funds;

(b) all accounts and notes receivable of Seller (billed or unbilled), as of the Closing Date;

(c) any payment rights relating to or arising from the Facility as of the Closing Date to all of Seller’s billed or unbilled trade accounts receivables for MSW Services provided on or prior to the Closing Date;

(d) all other receivables relating to the Facility that are accrued, booked, or earned as of the Closing Date;

(e) all pre-paid expenses, refunds and any security deposits or other deposits to the extent not specifically relating to the Facility or the MSW Services;

(f) all insurance policies of Seller, whether or not related to the Facility, any refunds paid or payable in connection with the cancellation or discontinuance of any insurance policies and any claims made or to be made under any such insurance policies, including any and all proceeds thereof, except to the extent such claims relate to loss or damage to the Acquired Assets occurring prior to Closing and Seller has not already accrued or incurred expense and/or paid to repair or replace such damages or losses;

(g) all assets used primarily in connection with the corporate functions of Seller, including corporate charter, all documents subject to the attorney-client privilege, identification numbers, records, seals and minute books;

(h) except for rights under warranties, indemnities and guarantees for unasserted claims as described in Section 2.01(m), all claims of Seller, whether known or unknown, fixed or contingent, against third parties to the extent not arising from or relating to the Acquired Assets, or the MSW Services;

(i) all Intellectual Property not otherwise expressly conveyed to Buyer under Section 2.01(o);

(j) those “artifacts” and other excluded items located on the Real Property described on Schedule 2.02(j) attached hereto;

(k) that portion of the Steam Lines not located within the boundaries of the Real Estate;

(l) all rights in connection with, and assets of, the Employee Plans;

(m) any and all tangible or intangible assets relating primarily to Water/Sewer Services or as otherwise expressly set forth on Schedules 2.01(e) through (j) (for clarity, these Excluded Assets and services do not include the EWRs, which is an Acquired Asset);

(n) any personal property owned by third parties including, but not limited to, the City, whether or not located in, or related to, the Facility (it being understood that, to the extent Seller has any rights with respect to personal property owned by third parties that primarily are used in operation of the Facility or providing the MSW Services, such rights shall be Acquired Assets);

(o) the property owned by Covanta as listed on Schedule 2.02 (o) attached hereto; and

(p) the Dauphin County Recycling Center to the extent owned by the County.

The parties acknowledge and agree that Seller is only conveying to Buyer those certain tangible and intangible assets owned by Seller that are used or useful in connection with the operation of the Facility and the MSW Services, that Seller is not conveying to Buyer any of the

Excluded Assets and that, following Closing (as defined below), Buyer will not have any right, title or interest in or with respect to the Excluded Assets.

2.03. Purchase Price. Subject to the terms and conditions of this Agreement, the base purchase price for the Acquired Assets shall be One Hundred Thirty Million Seven Hundred Thirty-Six Thousand Three Hundred Sixty-Five Dollars (\$130,736,365) (the “Base Purchase Price”), as may be adjusted by the purchase price adjustment pursuant to Section 2.06 and Section 2.08 (the Base Purchase Price, as so adjusted, being referred to as the “Purchase Price”).

2.04. Deposit and Escrow Agreement. On the date of this Agreement, Buyer shall post with Escrow Agent the Deposit. At Closing, the Deposit shall be applied against the Purchase Price. Interest and any other income earned from the investment of the Deposit shall be paid to the Party entitled to receive the Deposit pursuant to this Agreement and the Escrow Agreement and, if paid to Seller, shall also be applied against the Purchase Price.

2.05. Payment of the Purchase Price and Closing Payments.

(a) At Closing, subject to the terms and conditions set forth in this Agreement, in accordance with the Closing Statement, Buyer shall pay the Purchase Price less the Deposit to Seller or Seller’s designee in consideration for the Acquired Assets.

(b) All such payments of the Purchase Price to Seller or Seller’s designee at Closing shall be made by wire transfer of immediately available funds on the Closing Date to such accounts designated by Seller in a writing given at least two (2) Business Days prior to the Closing Date.

(c) The Purchase Price will be funded by a Five Million Dollar (\$5,000,000) equity contribution from Buyer (including the Deposit), the Twenty Four Million Dollar (\$24,000,000) Subordinate Note, and the balance from the Net Proceeds of the Acquisition Bonds.

(d) The Purchase Price will be paid at Closing in accordance with an agreed upon Closing Statement. It is anticipated that at Closing, among other payments, the vendors set forth on Schedule 7.01(k) shall be paid an amount agreed upon by such vendors and Seller (and the Receiver).

2.06. Purchase Price Adjustments.

(a) Acquisition Bonds. The Net Proceeds of the Acquisition Bonds will be an amount sufficient to fund the Purchase Price (i) less the sum of the Five Million Dollars (\$5,000,000) in Buyer equity and the Twenty Four Million Dollar (\$24,000,000) Subordinate Note, and (ii) plus the sum of Buyer’s DSRF, Seller’s Closing Costs; and Buyer’s Costs of Issuance. As set forth in Buyer’s Pricing Model, the Base Purchase Price is established assuming Buyer’s issuance of twenty (20) year municipal bonds (the “Acquisition Bonds”) yielding Net Proceeds of One Hundred Fourteen Million, Four Hundred Twenty-One Thousand, Twenty Two Dollars (\$114,421,022) (“Base Bond Amount”) and having a True Interest Cost of Four and Fifty-Nine Hundredths percent (4.59%) (the “Base TIC”). In the event that the True Interest Cost on the date Buyer’s bonds are priced (“Pricing Date TIC”) is higher or lower than

the Base TIC, the Purchase Price shall be adjusted, on a dollar to dollar basis, to reflect adjustments to the Base Bond Amount. Such adjustment to the Base Bond Amount will be made so that the actual, annual debt service payment requirements by Buyer using the Pricing Date TIC result in annual debt service coverage no greater in any year than as set forth in Buyer's Pricing Model. The determination of the required adjustment, if any, to the Base Bond Amount (and, in turn, to the Purchase Price) will be made using the same methodology contained in Buyer's Pricing Model. The adjustment to the Base Bond Amount (and, in turn, the Purchase Price) shall be reasonably determined in good faith by Buyer and its financial advisors, and shall be subject to the good faith written approval of Seller, Receiver and their financial advisors, which approval shall not be unreasonably withheld or delayed.

(b) Transferred Cash. The Base Purchase Price assumes that, in accordance with Section 2.01(l) above, Seller transfers up to Eight Million Dollars (\$8,000,000) of cash from the Bond Indenture Funds, to Buyer. The Purchase Price will be reduced, on a dollar for dollar basis, to the extent that the actual cash transferred from Seller to Buyer at Closing is less than Eight Million Dollars (\$8,000,000). The Base Purchase Price assumes that the Closure Funds will equal or exceed the amount required by DEP for such closure funding under its bonding worksheets. If DEP approval has not been obtained (and, correspondingly, DEP has not finally determined the amount) before Closing, the amount of the Closure Funds will be determined by ARM Group (or other reputable engineering firm) under DEP's bonding worksheets and will be subject to the good faith, reasonable approval of Seller and the Receiver. The Purchase Price will be reduced, on a dollar-for-dollar basis, to the extent the Closure Funds are less than the amount required for such closure funding, as determined pursuant to the preceding two sentences. The Base Purchase Price assumes that the RACP Grant will be in the amount of Eight Million Dollars (\$8,000,000).

(c) Condition of the Acquired Assets. Neither Buyer's due diligence investigation nor the Independent Engineer's Report have identified significant Acquired Asset issues comprising material defects. In the event of a change resulting in a Material Adverse Effect upon the condition of the Acquired Assets after the date of this Agreement, Buyer and Seller shall in good faith negotiate an appropriate Purchase Price adjustment; provided, that no adjustment shall be made unless, and only to the extent that, the newly identified items exceed One Hundred Thousand Dollars (\$100,000) and in no event shall any Purchase Price adjustment exceed Three Million Dollars (\$3,000,000). If the adjustment would exceed Three Million Dollars (\$3,000,000), then Buyer shall have the right, exercisable by delivering written notice to Seller and Escrow Agent within ten (10) days after the determination of the scope of such adjustment, to either (i) terminate this Agreement, in which case neither Party shall have any further rights or obligations hereunder, and all funds (including the Deposit and all interest accrued thereon) and documents deposited in Escrow shall be returned to the Party depositing the same, or (ii) accept the Acquired Assets in with the Three Million Dollars (\$3,000,000) adjustment of the Purchase Price and proceed with the Closing.

2.07. Liabilities.

(a) Assumed Liabilities. On the Closing Date, Buyer shall assume only the obligations and Liabilities of Seller described below (collectively, the "Assumed Liabilities"):

(i) all Liabilities and obligations arising or accruing on or after the Closing Date under the Assumed Contracts;

(ii) Permitted Encumbrances relating to the Real Property;

(iii) all Environmental Liabilities related to the Acquired Assets;

(iv) all Liabilities and obligations relating to Environmental Permits or Governmental Permits, but not including for any fines or penalties for any breach of such permits arising or occurring prior to the Closing Date; and

(v) any and all other obligations and Liabilities of any kind or nature, known, unknown, accrued, absolute, fixed, contingent or otherwise, accruing or arising, on and after the Closing Date, from the MSW Services or the Acquired Assets.

(b) **Excluded Liabilities.** Other than the Assumed Liabilities, Buyer does not assume and shall not be liable for any obligations or Liabilities of Seller (collectively, the “Excluded Liabilities”), including but not limited to the following;

(i) all Liabilities and obligations of Seller arising or accruing before the Closing Date under the Assumed Contracts including amounts due to vendors under such agreements in connection with goods or services provided prior to the Closing Date;

(ii) all Liabilities and obligations of Seller related to its bonds, credit facilities and any other secured financings;

(iii) all Liabilities and obligations of Seller for Taxes that result from or have accrued in connection with the operation of the Facility by Seller prior to the Closing Date;

(iv) all Liabilities and obligations of Seller related to amounts due and owing to CIT prior to the Closing Date;

(v) all Liabilities and obligations of Seller that arise under Contracts, excluding the Assumed Contracts;

(vi) all Liabilities for fees and commissions of any broker, finder or financial advisor payable in connection with the Contemplated Transactions unless engaged by Buyer (for clarity, Seller is not assuming Liabilities for fees and commissions of any broker, finder or financial advisor payable in connection with the Contemplated Transactions unless either engaged by Seller or specifically agreed to by Seller in writing);

(vii) all Liabilities of Seller relating to or arising out of the Legal Proceedings described on Schedule 3.04 or any other Legal Proceeding against Seller, other than DEP Consent Orders under Section 7.02(f) and Liabilities assumed by Buyer under the Operating Agreement pursuant to Section 8.04(h);

(viii) all Liabilities arising out of or relating to the termination of employment, or provision of benefits to and compensation of, Seller’s Employees, including

claims for any breach of contract or agreement, personal injury, discrimination, mass layoff or plant closing, harassment or wrongful discharge, unfair labor practice, claims for benefits (including claims arising under ERISA or workers' compensation laws), or other violation of or obligations under any employment Law arising solely out of events occurring on or prior to the Closing Date;

(ix) all Liabilities arising out of or relating to the Excluded Assets including the Water/Sewer Services; and

(x) all Liabilities and obligations relating to any fines or penalties for any breach of permits arising or occurring prior to the Closing Date.

2.08. Prorations and Settlement of Accounts.

(a) All accounts receivable and accounts payable, including utility bills, steam revenues, electric revenues and other invoices will be prorated as of the Closing Date. Revenues and expenses for goods and services rendered or received on and prior to the Closing Date shall be attributable to Seller, and revenues and expenses for goods and services rendered or received after the Closing Date shall be attributable to Buyer. The Parties agree to cooperate on and after the Closing Date to ensure that both amounts and invoices received after the Closing Date are promptly forwarded to the appropriate Party and/or are promptly and properly divided between the Parties. Not more than two (2) Business Days following the Closing Date, Seller and Buyer shall jointly send a letter to each of the obligors of accounts receivable related to the Acquired Assets and each Assumed Contract counterparty informing such obligor and counterparty of the transfer of the Acquired Assets to Buyer and instructing them to remit all payments and other items in respect of the Acquired Assets, and to deliver all invoices and bills in respect of the Assumed Liabilities, to Buyer. Seller shall provide such documentation as Buyer may reasonably request to substantiate all accounts receivable and accounts payable to be prorated pursuant to this Section 2.08(a).

(b) Within sixty (60) days after the Closing Date, the Parties shall jointly compute a net amount due from one Party to the other based on the settlement of accounts and proration of revenues and expenses contemplated in Section 2.08(a) (the "Net Adjustment Amount"). Within five (5) Business Days after the Net Adjustment Amount is finalized by the Parties, the Party owing such Net Adjustment Amount shall make payment by wire transfer of immediately available funds to the account designated in advance in writing by the Party entitled to receive the payment.

(c) Buyer and Seller shall use good faith efforts to resolve any disagreement or dispute involving the determination of the Net Adjustment Amount, including any disputes relating to the collectability of any accounts receivable. If the Parties are unable to resolve any dispute in determining the Net Adjustment Amount within the sixty (60) day period following the Closing Date as provided in Section 2.08(b), Buyer and Seller shall jointly designate a mutually agreeable accounting firm (the "Resolving Accounting Firm") to resolve the dispute and to make a determination of the Net Adjustment Amount. The Net Adjustment Amount as of the Closing Date, as finally determined pursuant to this Section 2.08(c) (whether by agreement of Seller and Buyer or by determination of the Resolving Accounting Firm), is referred to herein as

the “Final Net Adjustment Amount”. The Resolving Accounting Firm’s determination of the Final Net Adjustment Amount shall be final and binding on the Parties. Any amounts payable pursuant to this Section 2.08 shall be made not later than five (5) Business Days after the determination of the Final Net Adjustment Amount by wire transfer of immediately available funds to an account designated in advance in writing by the Party entitled to receive the payment. The cost and expense of the Resolving Accounting Firm shall be borne solely one half by Buyer and one half by Seller.

(d) After Closing, Buyer and Seller shall each, and shall cause their respective employees and agents to, provide the other Party, the other Party’s accountants and the Resolving Accounting Firm, access at all reasonable times to their respective personnel and properties and all books and records relating to the MSW Services and the Acquired Assets and reasonably required in connection with the determination of the Net Adjustment Amount and/or the resolution of any disagreement or dispute under this Section 2.08. The terms of this Section 2.08 shall survive the Closing.

ARTICLE 3 REPRESENTATIONS AND WARRANTIES OF SELLER

Except as otherwise set forth in the Disclosure Schedules, Seller represents and warrants to Buyer as of the date of this Agreement and as of the Closing Date as follows:

3.01. Existence and Power. Seller is a municipal authority duly formed pursuant to the Municipality Authorities Act, validly existing and in good standing under the Laws of the Commonwealth of Pennsylvania and has all power and authority to own and lease its properties and assets and to carry on its operations as now conducted, subject to oversight by the Receiver.

3.02. Due Authorization; Enforceability.

(a) Subject to approval by the Receiver, Seller has all requisite power and authority to execute, deliver and perform its obligations under this Agreement and the other Transaction Documents to which it is a party and to consummate all of the Contemplated Transactions applicable to it. The execution, delivery and performance by Seller of this Agreement and the other Transaction Documents to which it is a party, and the consummation by Seller of the Contemplated Transactions applicable to it, are within Seller’s powers and have been duly and validly authorized by all necessary action under Seller’s Organizational Documents and applicable provisions of the Laws of the Commonwealth of Pennsylvania. This Agreement has been, and, as of the Closing Date, each other Transaction Document to which Seller is a party shall be, duly and validly executed and delivered by Seller. Except for matters to be resolved as provided in Article 7 of this Agreement, Seller is not aware of any proceeding, claim, or action that would prevent it from consummating all of the Contemplated Transactions applicable to it.

(b) This Agreement constitutes, and each other Transaction Document to which Seller is a party, when duly executed and delivered by the parties thereto and approved by the Receiver, shall constitute, a legal, valid and binding agreement of Seller enforceable against Seller in accordance with its terms, except as such enforcement is limited by bankruptcy,

insolvency and other similar Laws affecting the enforcement of creditors' rights generally and for limitations imposed by general principles of equity.

3.03. No Conflicts; Governmental Approvals. Except for the approval of the Receiver, the Commonwealth Court of Pennsylvania, and such other third party actions, consents or approvals to be satisfied or waived as a condition to the consummation of the Contemplated Transactions pursuant to Article 7 of this Agreement, or as otherwise as set forth on Schedule 3.03:

(a) the execution, delivery and performance by Seller of this Agreement and each other Transaction Document to which Seller is a party, and the consummation by Seller of the Contemplated Transactions applicable to it, do not, and shall not require any action, consent or approval of, or filing with, any Governmental Authority by or on behalf of Seller other than such consents, approvals or filings, the failure of which to be made or obtained would not have, or be reasonably expected to have, a Material Adverse Effect; and

(b) the execution, delivery and performance by Seller of this Agreement and each other Transaction Document to which Seller is a party, and the consummation by Seller of the Contemplated Transactions applicable to it, do not (i) contravene or conflict with the Organizational Documents of Seller, (ii) contravene or conflict with or constitute a violation of any provision of any Law binding upon or applicable to Seller or any of its respective properties or assets, (iii) require any consent, waiver or approval under, or constitute a default under or give rise to a right of termination, cancellation or acceleration of any right or obligation of Seller under any Contract binding upon Seller or any of its properties or assets or (iv) give rise to any right of first refusal, right of first offer, buy-sell right, option to purchase or other similar right of any Person with respect to any property or asset of Seller, except in each case as set forth in clauses (ii) through (iv) above, such event would not have, or be reasonably expected to have, a Material Adverse Effect.

3.04. Legal Proceedings. Except as set forth in Schedule 3.04, there are no claims, actions, suits or proceedings pending or, to the Knowledge of Seller, threatened by or against the MSW Services or the Acquired Assets or Seller related to the MSW Services or the Acquired Assets.

3.05. No Undisclosed Liabilities. To the Knowledge of Seller, except as set forth in Seller's Financial Statements, there are no material Liabilities of Seller relating to the MSW Services or the Acquired Assets, except for (a) Liabilities set forth on Schedule 3.05 or in the Material Contracts set forth on Schedule 3.06, (b) Liabilities incurred since Seller's Financial Statements in the ordinary course of business and made known to Buyer, (c) Liabilities for the fees and costs of attorneys, financial advisors, and consultants and other costs incurred in connection with the Contemplated Transactions, (d) Liabilities incurred under the terms of the Assigned Contracts, (e) Liabilities permitted under this Agreement and (f) Liabilities incurred in the ordinary course of business and which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Seller is not liable for federal, state or local income Taxes by reason of the sale of the Acquired Assets.

3.06. Material Contracts. True and complete copies of all Material Contracts, including all material amendments and modifications thereto, have been made available to Buyer and are listed on Schedule 3.06. Each Material Contract is in full force and effect and constitutes the valid, legal, binding and enforceable obligation of Seller and, to the Knowledge of Seller, of the counterparties thereto. Except as set forth on Schedule 3.06, neither Seller nor, to the Knowledge of Seller, any other party thereto, is in breach or default of any material terms or conditions of any Material Contract. Except as specifically set forth on Schedule 3.06, (i) no counterparty to any Material Contract has canceled, has threatened in writing to cancel or, to the Knowledge of Seller, intends to cancel any such Material Contract and (ii) there are no renegotiations underway with respect to, or, to the Knowledge of Seller, any attempts or requests to renegotiate, any Material Contract with any Person.

3.07. Zoning and Permits. Except as set forth in Schedule 3.07, (i) the Real Estate is currently zoned for the Facility and the MSW Services, (ii) to the Knowledge of Seller, Seller has all Governmental Permits necessary for it to operate the Facility and to conduct the MSW Services as are presently conducted and has made all required registrations or filings with any Governmental Authority relating the Governmental Permits, except where the absence thereof, either individually or in the aggregate, could not be reasonably expected to have a Material Adverse Effect, and a true and correct list of all such Governmental Permits is set forth on Schedule 3.07, (iii) all such Governmental Permits relating to the MSW Services or the Acquired Assets are valid and in full force and effect in all material respects and (iv) to the Knowledge of Seller, Seller is in compliance with all Government Permits except where the non-compliance would not have a Material Adverse Effect. Except as set forth in Schedule 3.07, no proceedings against Seller are pending or, to the Knowledge of Seller, threatened seeking the revocation or suspension of any Governmental Permits.

3.08. Labor Matters. Seller has no employment agreements, consulting agreements, retention agreements, severance agreements, termination agreements, collective bargaining agreements (or other agreements with any labor organization) or other employment related contracts to which Seller is a party or is bound which will remain in effect after the Closing relating to the Facility. Seller is not delinquent in payments to any individuals whose employment responsibilities primarily relate to the MSW Services or the Acquired Assets and who usually perform such responsibilities (the “Employees”) for any wages, salaries or other direct compensation for any services performed for Seller as of the date hereof or, to the Knowledge of Seller, amounts required to be reimbursed to such Employees. Seller is in compliance with all applicable Laws and regulations respecting labor, employment, fair employment practices, terms and conditions of employment, occupational safety and health, and wages and hours with respect to the Employees except where the failure to so comply, either individually or in the aggregate, could not be reasonably expected to have a Material Adverse Effect.

3.09. Environmental Matters.

(a) Schedule 3.09 sets forth a true and correct list of all Environmental Permits. Except as set forth in Schedule 3.09(a), (i) to the Knowledge of Seller, Seller has all Environmental Permits necessary for it to provide the MSW Services and own the Acquired Assets and has made all required registrations or filings with any Governmental Authority

relating to the Environmental Permits except where the absence thereof, either individually or in the aggregate, could not be reasonably expected to have a Material Adverse Effect, (ii) all such Environmental Permits relating to the MSW Services or the Acquired Assets are valid and in full force and effect and (iii) to the Knowledge of Seller, Seller is in compliance with all Environmental Permits, except where non-compliance would not have a Material Adverse Effect. Except as set forth in Schedule 3.09(a), no proceedings against Seller are pending or, to the Knowledge of Seller, threatened seeking the revocation or suspension of any Environmental Permits. Except as set forth on Schedule 3.09(a), to the Knowledge of Seller, Seller is in compliance with all applicable Environmental Laws with respect to the MSW Services or the Acquired Assets, except where the failure to comply would not have a Material Adverse Effect.

(b) To the Knowledge of Seller, Seller has made available to Buyer true and complete copies of any environmental audits, reports and assessments concerning the MSW Services and the Acquired Assets that are in Seller's possession, including reports, studies, analyses and tests in the possession of Seller pertaining to any Hazardous Materials in, on or under the Real Property or concerning compliance of the Acquired Assets with Environmental Laws. Seller makes no representation or warranty concerning the information in such audits, reports or assessments or the accuracy or completeness of such items. Further, Buyer may not rely on such audits, reports or assessments.

(c) Except as set forth on Schedule 3.09(c), during the past five (5) years, Seller has not received any written notice relating to any violation by it of any Environmental Law relating to the MSW Services or the Acquired Assets.

(d) Except as set forth on Schedule 3.09(d), Seller has not submitted to any Governmental Authority or other Person any written notice identifying any Release on, under or from the Real Property.

(e) The attached Schedules reference various allegations made by Eric Epstein (the "Epstein Allegations"), as well as "Other Environmental Allegations" referenced (and defined) in Schedules 3.05 and 3.09 (the "Other Environmental Allegations"). The Epstein Allegations and Other Environmental Allegations are referenced to provide notice to Buyer that such allegations have been made, but Seller makes no admission, representation or disclosure that the Epstein Allegations and Other Environmental Allegations are true, correct or material.

3.10. Insurance. Set forth on Schedule 3.10 is a complete and accurate list of all current insurance policies of Seller relating to the MSW Services and the Acquired Assets. All such insurance policies are in full force and effect and, to the Knowledge of Seller, Seller is not in default with respect to its obligations under any such insurance policies. Seller has not received any written notice of the cancellation or termination of such policies.

3.11. Title to Assets. Except as otherwise set forth on Schedule 3.11, Seller owns good and marketable title to the Improvements and personal property included in the Acquired Assets, free and clear of any Encumbrances other than the Permitted Encumbrances or Encumbrances to be discharged at Closing or, if personal property is leased or licensed, such leases or licenses have been disclosed to Buyer.

3.12. Intellectual Property.

(a) Seller is the owner or licensee of all right, title and interest in and to the Acquired IP, free and clear of all Encumbrances, and has the right to use, without payment to a third party, all of the Acquired IP other than in respect of licenses listed on Schedule 3.12 as requiring on-going payments.

(b) Except as otherwise set forth on Schedule 3.12, Seller has not received any written notice that the Acquired IP infringes upon any intellectual property rights of any Person.

3.13. Brokers' Fees. Except as otherwise set forth on Schedule 3.13, no broker, finder, investment banker or other person is entitled to any brokerage fee, finder's fee or other commission from Buyer or the Purchase Price in connection with the Contemplated Transactions based on any arrangements made by Seller.

3.14. Condition of Facility. Except as authorized by Section 2.06(c) or Section 6.05, at Closing the condition of the Acquired Assets shall not have materially changed, ordinary wear and tear excepted, from their condition at the time of execution of this Agreement to a degree sufficient to cause a Material Adverse Effect.

**ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF BUYER**

Buyer represents and warrants to Seller as of the date of this Agreement and as of the Closing Date as follows:

4.01. Existence and Power. Buyer is a municipal authority duly formed pursuant to the Municipality Authorities Act, validly existing and in good standing under the Laws of the Commonwealth of Pennsylvania and has all power and authority to own, lease and operate its properties and assets and to carry on its business as now conducted.

4.02. Due Authorization; Enforceability.

(a) In accordance with its enabling authorities and Organizational Documents, Buyer has all power and authority to execute, deliver and perform its obligations under this Agreement and the other Transaction Documents to which it is a party and to consummate all of the Contemplated Transactions applicable to it in order to purchase, own, and acquire the Acquired Assets. The execution, delivery and performance by Buyer of this Agreement and the other Transaction Documents to which it is a party, and the consummation by Buyer of the Contemplated Transactions applicable to it, are within Buyer's powers and have been duly and validly authorized by all necessary action under Buyer's Organizational Documents and applicable provisions of the Laws of the Commonwealth of Pennsylvania. This Agreement and the Escrow Agreement have been, and as of the Closing Date, each other Transaction Document to which Buyer is a party shall be, duly and validly executed and delivered by Buyer. Except for matters to be resolved as provided in Article 7 of this Agreement, Buyer is not aware of any proceeding, claim, or action that would prevent it from acquiring the Acquired Assets.

(b) This Agreement constitutes, and each other Transaction Document to which Buyer is a party, when duly executed and delivered by the parties thereto, shall constitute, a legal, valid and binding agreement of Buyer enforceable against Buyer in accordance with its terms, except as such enforcement is limited by bankruptcy, insolvency and other similar Laws affecting the enforcement of creditors' rights generally and for limitations imposed by general principles of equity.

4.03. No Conflicts.

(a) The execution, delivery and performance by Buyer of this Agreement and each other Transaction Document to which Buyer is a party, and the consummation by Buyer of the Contemplated Transactions applicable to it, do not and shall not require any action, consent or approval of, or filing with, any Governmental Authority by or on behalf of Buyer other than such consents, approvals or filings, the failure of which to be made or obtained would not have, or be reasonably expected to have, a Material Adverse Effect.

(b) The execution, delivery and performance by Buyer of this Agreement and each other Transaction Document to which Buyer is a party, and the consummation by Buyer of the Contemplated Transactions applicable to it do not (i) contravene or conflict with the Organizational Documents of Buyer, (ii) contravene or conflict with or constitute a violation of any provision of any Law binding upon or applicable to Buyer or any of its properties or assets, (iii) require any consent, waiver or approval or constitute a default under or give rise to a right of termination, cancellation or acceleration of any right or obligation of Buyer under any Contract binding upon Buyer or any of its properties or assets or (iv) result in the creation or imposition of any Lien on any property or asset of Buyer which would prohibit Buyer from consummating the Contemplated Transactions or performing any of Buyer's obligations hereunder.

4.04. No Brokers. No broker, finder, investment banker or other person is entitled to any brokerage fee, finder's fee or other commission in connection with the Contemplated Transactions based on any arrangements made by Buyer.

4.05. Financial Ability. Buyer has sufficient cash and, to the Knowledge of Buyer, financial ability to issue the Acquisition Bonds in the Base Bond Amount so that at Closing Buyer is able to pay in cash the Purchase Price in accordance with the terms of Article 2 of this Agreement and any other amounts to be paid by Buyer hereunder.

4.06. No Litigation. There are no actions pending or, to the Knowledge of Buyer, threatened which challenge the enforceability or validity of this Agreement and Buyer's ability to enter into this Agreement, or seek to enjoin or prohibit the consummation of the transactions contemplated hereby. Buyer is not subject to any judgment, decree, injunction or order of any Governmental Authority which would materially impair Buyer's ability to consummate the transactions contemplated hereby.

4.07. Independent Investigation.

(a) Buyer has conducted, and continues to conduct, its own independent due diligence investigation, review and analysis of the MSW Services and the Acquired Assets and acknowledges that it has been provided adequate access to the personnel, properties, assets,

premises, books and records, and other documents and data of Seller for such purpose. In making its decision to enter into this Agreement and to consummate the Contemplated Transactions, Buyer has relied, and will continue to rely, solely upon its own investigation and the express representations and warranties of Seller made in this Agreement and neither Seller nor any other Person has made any representation or warranty as to Seller, the Acquired Assets or this Agreement, except as expressly set forth herein.

(b) Neither Seller nor any of its directors, officers, employees, agents, Member Communities, Affiliates, consultants, counsel, accountants, investment bankers or representatives has made any representation or warranty, either express or implied, as to the accuracy or completeness of any of the information provided or made available to Buyer or its agents or representatives (other than the representations and warranties contained in this Agreement).

(c) In connection with Buyer's investigation of the Acquired Assets and the Facility, Buyer has received from Seller certain estimates, projections and other forecasts relating to its operations and the Facility and certain plan and budget information, including those set forth in the Dataroom. Seller makes no representation or warranty with respect to any such estimates, projections, forecasts, plans or budgets.

4.08. Additional Representations and Warranties of Buyer. Buyer represents and warrants to Seller that:

(a) Buyer is not now, nor shall it be at any time until Closing, a Person with whom a United States citizen, an entity organized under the laws of the United States or its territories or an entity having its principal place of business within the United States or any of its territories (collectively, a "U.S. Person") is prohibited from participating in the Contemplated Transactions under United States law, regulation, executive orders and lists published by the Office of Foreign Assets Control, Department of the Treasury ("OFAC") (including those executive orders and lists published by OFAC with respect to Persons that have been designated by executive order or by the sanction regulations of OFAC as Persons with whom U.S. Persons may not transact business or must limit their interactions to types approved by OFAC ("Specially Designated Nationals and Blocked Persons"), or otherwise;

(b) Buyer has taken, and shall continue to take until Closing, such measures as are required by Law to assure that the funds used to pay the Purchase Price are derived (i) from transactions that do not violate United States Law and, to the extent such funds originate outside the United States, do not violate the Laws of the jurisdiction in which they originated and (ii) from permissible sources under United States Law and, to the extent such funds originate outside the United States, under the Laws of the jurisdiction in which they originated;

(c) To the best of Buyer's Knowledge after due inquiry, neither Buyer nor, to Buyer's Knowledge, any Person providing funds to Buyer (i) is under investigation by any Governmental Authority for, or has been charged with or convicted of, money laundering, drug trafficking, terrorist related activities, any felonies or other crimes which in the United States would be predicate crimes to money laundering or any violation of any Anti-Money Laundering Laws, (ii) has been assessed civil or criminal penalties under any Anti-Money Laundering Laws

or (iii) has had any of its funds seized or forfeited in any action under any Anti-Money Laundering Laws; and

(d) Buyer is not undertaking the transactions contemplated by this Agreement including, but not limited to, paying the Purchase Price, in contravention of any applicable money laundering regulations or conventions of the United States, or on behalf of terrorists, terrorist organizations or narcotics traffickers, including those persons or entities that are included on any relevant lists maintained by the United Nations, the North Atlantic Treaty Organization, the Organization of Economic Cooperation and Development, the Financial Action Task Force, the U.S. Office of Foreign Assets Control, the U.S. Securities and Exchange Commission and the U.S. Internal Revenue Service, all as may be amended from time to time. Buyer is in compliance with all U.S. money-laundering or similar laws, rules and regulations applicable to Buyer.

ARTICLE 5 PRE-CLOSING COVENANTS

5.01. Conduct by Seller.

(a) Except as permitted by this Agreement, as required by Law or as otherwise consented to in writing by Buyer, which consent shall not be unreasonably withheld, conditioned or delayed, from the date of this Agreement until the Closing, Seller shall provide the MSW Services and maintain the Acquired Assets in the ordinary course of business and in material compliance with all applicable Laws. From the date of this Agreement until the Closing, except as required by Law, Seller will not, without the consent of Buyer, which consent shall not be unreasonably withheld or delayed:

(i) sell, lease, license, transfer or otherwise dispose of any of the Acquired Assets other than old or obsolete inventory or equipment in the ordinary course of business;

(ii) amend, extend or otherwise modify any Material Contract relating to the ownership or use of the Real Property or enter into any other lease or occupancy agreement affecting any portion of the Real Property except in the ordinary course of business;

(iii) except for repairing the turbine or those capital expenditures relating to the Facility set forth in the fiscal year 2013 capital budget of Seller, a copy of which has been provided to Buyer, or capital expenditures for which sufficient reserves have been established, incur or commit to incur any individual Liability in excess of One Hundred Thousand Dollars (\$100,000) or aggregate Liabilities in excess of One Million Dollars (\$1,000,000) relating to the Acquired Assets;

(iv) enter into any contract, agreement or other commitment giving any Person an option, right of first offer, or other similar rights with respect to the Acquired Assets or any of them; or

(v) voluntarily take or agree to commit to take any action that would make any representation or warranty of Seller hereunder inaccurate in any material respect on or at any time prior to the Closing Date.

(vi) Seller shall reasonably cooperate with Buyer and reasonably assist Buyer in obtaining necessary approvals for the transfer of Seller's existing Governmental Authorizations and Environmental Permits to Buyer, where permissible; provided, that the cost and expense of obtaining such Governmental Authorizations and Environmental Permits shall be borne by Buyer.

5.02. Commercially Reasonable Efforts; Consents; Governmental Filings.

(a) Subject to the terms and conditions of this Agreement, Seller shall use Commercially Reasonable Efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary or proper under applicable Law to satisfy the conditions set forth in Section 7.03, and Buyer shall use Commercially Reasonable Efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary or proper under applicable Law to satisfy the conditions set forth in Section 7.02.

5.03. Access.

(a) Prior to the Closing Date, during normal business hours and with reasonable prior notice to Seller, Buyer and its representatives shall have reasonable access, during reasonable times as mutually agreed upon by Buyer and Seller, to the Books and Records with respect to the Acquired Assets and the Real Property; provided, however, that such access shall not unreasonably interfere with the operations of Seller; provided, further, however, that the foregoing rights shall not (i) extend to any information that is privileged pursuant to the attorney-client privilege applicable to Seller or (ii) apply where access to such information violates the Law or the terms of any agreement with a third party.

(b) Except as required to the contrary by Law, the Confidentiality Agreement shall remain in full force and effect until the Closing. Effective upon the Closing, the Confidentiality Agreement shall automatically terminate without further action by the Parties. If this Agreement is terminated pursuant to Article 11, the Confidentiality Agreement shall continue in accordance with its terms. If Closing does not occur, the undertakings in this Section 5.03(b) shall survive the termination of this Agreement and shall continue for the maximum period permitted by Law.

5.04. Notice of Certain Events.

(a) Each of Seller and Buyer shall give written notice to the other Party and the Receiver of (i) any material development known to Seller or Buyer adversely affecting the MSW Services or the Acquired Assets, (ii) any written notice or other communication from any Person to Seller or Buyer alleging that the consent of such Person is or may be required in connection with the Contemplated Transactions, (iii) any written notice or other communication from any Governmental Authority to Seller or Buyer in connection with the Contemplated Transactions and (iv) any new actions, suits, or proceedings commenced or, to the Knowledge of

Seller or Buyer, threatened against Seller or Buyer impacting the consummation of the Contemplated Transactions.

(b) Buyer and Seller shall each give prompt written notice to the other Party of any material fact, condition or development that could reasonably be expected to adversely affect the ability to timely consummate, including a material delay in the ability to consummate, the Contemplated Transactions in accordance with this Agreement.

5.05. Public Announcements. On or prior to Closing, neither Party shall make any press release, public statement, or public announcement with respect to this Agreement or the Contemplated Transactions, without the prior written consent of the other Party and the Receiver; provided, that Seller or Buyer may make any press release, public statement or public announcement which Seller determines is required to be made under applicable Law.

5.06. Survey. Buyer has obtained and reviewed a survey of the Real Estate dated July 22, 2013 from Weber Surveyors, and is satisfied with its review of the survey.

ARTICLE 6 ADDITIONAL AGREEMENTS

6.01. Removal of DPW Facility Assets and Artifacts. As part of the Contemplated Transactions, the City (or, at Seller's option, Seller) shall enter into a binding agreement before Closing providing that, within six (6) months following the Closing Date, the City (or Seller) shall remove from the Real Property: (a) all "artifacts" and other items described on Schedule 2.02 attached hereto and (b) to the extent owned, used, or previously used by the City, all DPW Facility machinery, equipment, tooling, supplies and other personal property located on the Real Property, including but not limited to discarded materials and all items as set forth or described on Schedule 6.01. In consideration of the foregoing, Buyer will agree to pay the City (or Seller if Seller elects to enter into such agreement) the following amounts: (a) Three Hundred Thousand Dollars (\$300,000) if the relocation is completed within three (3) months following the Closing Date or (b) One Hundred Fifty Thousand Dollars (\$150,000) if the relocation is completed within six (6) months following the Closing Date.

6.02. Further Assurances. On and after the Closing Date, the Parties agree to execute and deliver such documents and other papers and take such further action as may be reasonably required to carry out the provisions of this Agreement and the other Transaction Documents and to make effective the Contemplated Transactions. Prior to and after the Closing Date, Buyer agrees to cooperate with Seller and the Receiver in providing such additional information and documentation relating to Buyer's legal or beneficial ownership, policies, procedures and sources of funds as Seller deems necessary or prudent to enable Seller to comply with Anti-Money Laundering Laws as now in existence or hereafter amended.

6.03. No Claims Against Affiliates. Absent fraud or intentional malfeasance, Buyer will not assert any claim (whether in contract or tort, under federal or state securities laws or otherwise) against Seller or any of its directors, officers, employees, agents, stockholders, Member Communities, Affiliates, consultants, counsel, accountants, investment bankers or representatives, the Receiver and its advisors, or hold Seller, the Receiver or any such Persons

liable, for any inaccuracies, misstatements or omissions with respect to information (other than, with respect to Seller, the representations and warranties contained in this Agreement, to the extent permitted under this Agreement) furnished by Seller, the Receiver or any such Persons concerning Seller, the MSW Services, the Acquired Assets or the Facility. Buyer acknowledges that there are uncertainties inherent in attempting to make estimates, projections, forecasts, plans and budgets, that Buyer is familiar with such uncertainties, that Buyer and its advisors are taking full responsibility for making their own evaluation of the adequacy and accuracy of all estimates, projections, forecasts, plans and budgets furnished to Buyer, including those set forth in the Dataroom, and that Buyer will not assert any claim against any of Seller's directors, officers, employees, agents, Member Communities, Affiliates, consultants, counsel, accountants, investment bankers or representatives, or hold any such Persons liable, with respect thereto. Accordingly, Seller and the Receiver make no representation or warranty with respect to any such estimates, projections, forecasts, plans or budgets.

6.04. As-Is, Where-Is and With All Faults Condition.

(a) BUYER SPECIFICALLY ACKNOWLEDGES AND AGREES THAT:

(i) (1) SELLER IS TRANSFERRING THE ACQUIRED ASSETS "AS IS, WHERE IS AND WITH ALL FAULTS" AND (2) EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES OF SELLER EXPRESSLY SET FORTH IN THIS AGREEMENT, BUYER IS NOT RELYING ON ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND WHATSOEVER, WHETHER ORAL OR WRITTEN, EXPRESS OR IMPLIED, STATUTORY OR OTHERWISE, FROM SELLER OR DIRECTORS, OFFICERS, MEMBER COMMUNITIES, EMPLOYEES, AGENTS, AFFILIATES, CONSULTANTS, COUNSEL, ACCOUNTANTS OR REPRESENTATIVES OF SELLER OR OF THE RECEIVER AS TO ANY MATTER, CONCERNING SELLER OR THE PROPERTIES OR ASSETS OF SELLER, OR SET FORTH, CONTAINED OR ADDRESSED IN ANY DUE DILIGENCE MATERIALS (INCLUDING THE COMPLETENESS THEREOF), INCLUDING WITHOUT LIMITATION (A) the quality, nature, habitability, merchantability, use, operation, value, marketability, adequacy or physical condition of the Real Property, including the Facility or any aspect or portion thereof, including, structural elements, foundation, roof, appurtenances, access, landscaping, parking facilities, electrical, mechanical, HVAC, plumbing, sewage, water and utility systems, facilities and appliances, soils, geology and groundwater, (B) the dimensions or lot size of the Real Estate or the square footage of any of the Improvements thereon, (C) the development or income potential, or rights of or relating to, the Real Property or the Facility or the fitness, suitability, value or adequacy of the Real Property or the Facility for any particular purpose, (D) the existence of any public restrictions on the use of the Real Property or the Facility, (E) the compliance of the Facility or its operation with any applicable Laws, (F) the ability of Buyer or any Affiliate to obtain any necessary Governmental Permits and Environmental Permits for the use or development of the Real Property or the Facility, (G) the presence, absence, condition or compliance of any Hazardous Materials on, in, under, above or about the Real Property or any adjoining or neighboring property, (H) the quality of any labor and materials used in any Improvements at the Real Property; (I) the intentions of any party with respect to the negotiation and/or execution of any lease or contract with respect to the Real Property or the Facility; and (J) the economics of, or the income and expenses, revenue or expense projections or other financial matters, relating to the operation of, the Real Property

or the Facility. Without limiting the generality of the foregoing, Buyer expressly acknowledges and agrees that, except with respect to matters set forth in this Agreement, Buyer is not relying on any representation or warranty of Seller, the Receiver, or any director, officer, Member Community, employee, agent, Affiliate, consultant, counsel, accountant or representative of any of them, whether implied, presumed or expressly provided, arising by virtue of any statute, regulation or common law right or remedy in favor of any of them. For the purpose of clarity, this Section 6.04(a) does not limit or abrogate the warranty, to the extent thereof, given by Seller in the Deed.

(b) BUYER ACKNOWLEDGES AND AGREES THAT, EXCEPT AS EXPRESSLY PROVIDED IN THIS AGREEMENT: (i) SELLER SHALL NOT HAVE ANY LIABILITY OR OTHER OBLIGATION WHATSOEVER WITH RESPECT TO ANY REPORTS AND/OR MATERIALS, INCLUDING THE REPORTS OF THE ENGINEERING FIRM OR ANY OTHER THIRD PARTY REPORTS, (A) OBTAINED BY OR ON BEHALF OF SELLER AND DELIVERED (OR OTHERWISE MADE AVAILABLE) TO BUYER, OR (B) OBTAINED BY OR ON BEHALF OF BUYER (OR ANY OF ITS AFFILIATES) AND (ii) SELLER HAS NO OBLIGATION TO MAKE ANY CHANGES, ALTERATIONS OR REPAIRS TO ANY PROPERTY (OR ANY PORTION THEREOF) OR TO CURE ANY VIOLATIONS OF LAW OR TO COMPLY WITH THE REQUIREMENTS OF ANY INSURER.

(c) Buyer, for itself and any of its successors and assigns and their Affiliates, hereby irrevocably and absolutely waives its right to recover from, and forever releases and discharges, and covenants not to file or otherwise pursue any legal action against, Seller, Receiver or their respective Affiliates, or any of their respective officers, directors, members, partners, shareholders, employees, agents or representatives, with respect to any and all suits, actions, proceedings, investigations, demands, claims, liabilities, fines, penalties, liens, judgments, losses, injuries, damages, settlement expenses or costs of whatever kind or nature, whether direct or indirect, known or unknown, contingent or otherwise (including any action or proceeding brought or threatened or ordered by any Governmental Authority), including attorneys' and experts' fees and expenses, and investigation and remediation costs (collectively, "Claims"), that may arise on account of or in any way be connected with the Acquired Assets, or any portion thereof, or the Real Property, or any portion thereof, including the physical, environmental and structural condition of the Facility or any Law or Environmental Permit applicable thereto, or any other matter arising under Environmental Laws or relating to the use, presence, discharge or release of or exposure to Hazardous Materials, whether before or after the date of this Agreement; provided, however, the foregoing release shall not abrogate or modify any express representations or warranties of Seller contained in this Agreement or any covenants of Seller contained herein. Buyer expressly waives the benefits of any provision or principle of federal or state law or regulation that may limit the scope or effect of the foregoing waiver and release.

(d) Buyer represents and warrants that it has completed its due diligence investigation of Seller and the Facility and that, except as specifically provided in this Agreement, absent fraud or intentional malfeasance, the results of Buyer's due diligence investigation at any time after such date with respect to the Acquired Assets or the MSW Services, including any environmental assessments performed on the Real Property, shall not

entitle Buyer to (i) terminate this Agreement or (ii) receive any reduction in, abatement of or credit against the Purchase Price.

(e) This Section 6.04 will survive the Closing, or, if the Closing does not occur, the termination of this Agreement.

6.05. Casualty and Condemnation.

(a) Condemnation. If, prior to the Closing Date, there occurs any condemnation with respect to all of the Real Property, or any material portion of the Real Property, then Buyer shall have the right, exercisable by delivering written notice to Seller, the Receiver, and Escrow Agent within ten (10) days after the determination of the scope of such taking, to either (i) terminate this Agreement, in which case neither Party shall have any further rights or obligations hereunder, and all funds (including the Escrow Deposit and all interest accrued thereon) and documents deposited in Escrow shall be returned to the Party depositing the same, or (ii) accept that portion of the Real Property which has not been taken by, or is not subject to taking by, a condemnation action in their then-existing condition and proceed with the Closing and Seller shall assign to Buyer its rights to any condemnation award received as a result of such event. Buyer's failure to deliver such notice within the time period specified above shall be deemed to constitute Buyer's irrevocable election to proceed to Closing.

(b) Casualty. If, prior to the Closing Date, there occurs any destruction of or damage or loss to a "material portion" of the Acquired Assets from any cause whatsoever (excluding scheduled repairs and maintenance), including any flood, accident or other casualty (where "material portion" means that Buyer would, because of such damage, be unable for a period greater than 90 days to provide the MSW Services, in substantially the same manner and with eighty percent (80%) or more of the waste intake and electrical output as currently being operated by Seller) then Buyer shall have the right, exercisable by delivering written notice to Seller and Escrow Agent within ten (10) days after the determination of the scope of such casualty event, to either (i) terminate this Agreement, in which case neither Party shall have any further rights or obligations hereunder, and all funds (including the Deposit and all interest accrued thereon) and documents deposited in Escrow shall be returned to the Party depositing the same, or (ii) accept the Acquired Assets in their then-existing condition, with an equitable adjustment of the Purchase Price agreed to by the Parties (but not to exceed Three Million Dollars \$3,000,000)) and proceed with the Closing, in which case Seller shall assign to Buyer its rights to any insurance proceeds received as a result of such casualty event. Buyer's failure to deliver such notice within the time period specified shall be deemed to constitute Buyer's election to proceed to Closing.

6.06. Employee Payments. If any Employee's employment with Seller is terminated in connection with the Contemplated Transactions, then within thirty (30) days following the Closing Date, Seller shall pay to each such Employee the value of such Employee's accrued but unused annual leave, sick leave and compensatory time.

6.07. Post-Closing Employment. Buyer does not contemplate hiring any of Seller's Employees. If Buyer desires to employ any of Seller's Employees following the Closing Date, then Buyer shall notify Seller and such Employees within thirty (30) days of the date of this

Agreement that it either desires to offer employment to such Employees or that Buyer will accept applications for employment with Buyer from such Employees and advise Employees of its hiring procedures, which shall be in accordance with applicable Laws. If desired by Buyer, Seller shall make the Employees available for interviews upon reasonable advance notice, and Buyer agrees to schedule such interviews in a manner to avoid disruption to the MSW Services. Buyer shall conduct all other pre-employment screening or testing at a location other than the Facility, and Seller shall afford Employees reasonable time away from work to participate in such other pre-employment screening processes utilized by Buyer, provided that such testing procedures are scheduled in a manner to avoid disruption to the MSW Services.

6.08. Closure Bonds. Seller shall transfer to Buyer at Closing an amount of cash from the Closure Funds equal to approximately Three Million Four Hundred Fifty Thousand Dollars (\$3,450,000.00), subject to DEP's approval and confirmation by ARM Group, Inc. under DEP's bonding worksheets that this is a sufficient amount for Ashfill and Facility closure bonds. If DEP approval has not been obtained on or before Closing, the amount to be transferred to Buyer shall be determined by ARM Group, Inc. under DEP's bonding worksheets, which determination is subject to the good faith, reasonable approval by Seller and the Receiver. All funds transferred to Buyer under this Section 6.08 shall be used by Buyer to satisfy its obligations to provide security for closure of the Ashfill and Facility. If it is determined before Closing by DEP, or by ARM Group, Inc. pursuant to this Section 6.08, that less than Three Million Four Hundred Fifty Thousand Dollars (\$3,450,000.00) is needed to satisfy such closure funding obligations, or more generally, that there are Unused Closure Funds, then Seller shall retain and not transfer to Buyer the amount of such Unused Closure Funds.

6.09. Operating Agreement.

(a) To the extent that any Environmental Permits have not been transferred or reissued to Buyer before Closing and the parties believe such permits will not be transferred or reissued to Buyer immediately after Closing pursuant to standard DEP reissuance procedures for such transactions, then Buyer and Seller shall enter into an Operating Agreement, substantially in the form attached hereto as Exhibit L, intended to allow Buyer to operate the Facility and provide the MSW Services under Seller's Environmental Permits pursuant to the terms of such Operating Agreement until transferred to Buyer. If the Environmental Permits have not been transferred or reissued to Buyer before Closing, it shall be a condition of Closing that Seller and Buyer shall have entered into the Operating Agreement.

(b) If Closing occurs without all Environmental Permits having been transferred and/or reissued to Buyer, Buyer acknowledges and assumes any and all risk that any or all of such Environmental Permits will not be transferred, reissued or issued to it and/or that the transfer, reissuance or issuance of such Environmental Permits to Buyer will take longer than Buyer expects. Buyer assumes all responsibility to procure the transfer, reissuance and/or issuance of the Environmental Permits to Buyer, at its sole cost. After Closing, Seller will reasonably cooperate with Buyer's efforts as provided in the Operating Agreement.

**ARTICLE 7
CONDITIONS TO THE CLOSING**

7.01. Conditions to the Obligations of Each Party. The obligations of the Parties to consummate the Closing are subject to the satisfaction or waiver at or prior to the Closing of the following conditions:

(a) Commonwealth Court of Pennsylvania. An amendment to the Receiver's Recovery Plan shall have been approved by the Commonwealth Court of the Commonwealth of Pennsylvania which amendment, among other things, shall have approved this Agreement, the Contemplated Transactions, an agreement between the City and Buyer containing substantially the terms and conditions of the Restated City Disposal Agreement and certain other Transaction Documents specifically approved or otherwise contemplated as part of the Receiver's Recovery Plan, as the case may be.

(b) Power Purchase Agreement. The Borough and DGS shall have entered into a power purchase agreement on substantially the same terms and conditions as set forth in the DGS Power Purchase Agreement, with all necessary government legal counsel approvals, and the Borough and Buyer shall have entered into the Steam Agreement.

(c) RACP Grant. The Commonwealth of Pennsylvania shall have issued to Buyer an award, grant agreement, letter or other binding commitment agreeing (or provided other reasonable evidence of its agreement) to make available to Buyer the RACP grant in the amount of Eight Million Dollars (\$8,000,000) for the purpose of making capital improvements at the Facility, subject to the completion of annual audits and Buyer's expenditure of matching funds.

(d) Recycling Facility. Seller shall have assigned the DCRC Ground Lease to Buyer, the County and Buyer shall have consented to the assignment and assumption on substantially the same terms and conditions set forth on the County Agreements attached as Exhibit J, including among other things the elimination of the County System Fee, and Seller shall have been released from any liability under the DCRC Ground Lease.

(e) City and County Agreements. Seller shall have assigned the City Disposal Agreement to Buyer, the City and Buyer shall have consented to the assignment and assumption on substantially the same terms and conditions set forth on the Restated City Disposal Agreement attached as Exhibit K, Seller shall have been released from any liability under the City Disposal Agreement, and Buyer shall have entered into separate agreements with the County on substantially the same terms and conditions set forth in the County Agreements attached as Exhibit J.

(f) Municipal Waste and Ash Disposal Costs. The County and City, respectively, shall have taken appropriate action to approve the fees charged for the disposal of municipal solid waste originating in the County and City, respectively, at the rates set forth in the County Agreements and the Restated City Disposal Agreement. The foregoing shall include the County obtaining approval of a Plan Revision to the County's Act 101 County Solid Waste Management Plan (i) to name Buyer, as owner of the Facility, as the entity designated to act as

the designated disposal facility to receive all MSW generated within the County as provided in the County Agreements and (ii) to extend the expiration date of the County's flow control ordinance from 2023 to 2033. The County shall have taken appropriate action to approve reimbursement of Buyer's ash transportation and disposal costs through 2033 as provided in the County Agreements.

(g) Covanta. Covanta, Seller and Buyer shall have entered into a mutually acceptable agreement, pursuant to which, among other things, the MPSA shall be assigned to Buyer, with such modifications as Covanta and Buyer agree, and Covanta shall enter into the Covanta Release.

(h) Settlement of CIT Claims. CIT and Seller shall have entered into a mutually acceptable Agreement pursuant to which, among other things, CIT shall enter into a general release releasing Seller, successors in interest to Seller, Buyer and all other Persons from any and all claims it may have against Seller, Buyer and other Persons for matters relating to, or arising from, the Acquired Assets, including claims relating to amounts due to CIT from Seller.

(i) AGM. The Parties shall have received (i) all necessary consents or approvals of AGM with respect to the consummation of the Contemplated Transactions all on terms and conditions and in form and substance reasonably satisfactory to Buyer and Seller in their reasonable discretion and (ii) the AGM Release. The Parties shall have received all necessary consents from AGM with respect to the consummation of the Contemplated Transactions, all on terms and conditions and in form and substance reasonably satisfactory to Buyer and Seller in their reasonable discretion.

(j) Dauphin County. The County of Dauphin shall have (i) adopted a resolution or resolutions for an appropriate 2013 Nonsubstantial Revision to the County's Act 101 Plan, and Waste Flow Control Ordinance, and (ii) executed the County Release. Buyer shall be satisfied that such Act 101 Plan Revision shall have been approved or deemed approved by DEP. The Parties shall have received all necessary consents or approvals of the County with respect to the consummation of the Contemplated Transactions, all on terms and conditions and in form and substance reasonably satisfactory to Buyer and Seller in their reasonable discretion.

(k) Key Vendors. Vendors set forth on Schedule 7.01(k) attached hereto shall be paid in an amount agreed upon by such vendors and Seller (and the Receiver) from the proceeds of the Purchase Price, which payments would be made to satisfy amounts outstanding under those certain invoices delivered by such vendors to Seller; provided, that, each such vendor must execute a general release in favor of the Parties and Receiver in consideration for, and as a condition to receiving, any payment.

(l) Effluent Water and Sewer Services. Seller shall have transferred the EWRS to Buyer. Seller shall have entered into an agreement under which Seller provides Buyer, post-closing, with effluent water and sewer services, as reasonably needed for Buyer to operate the Facility and provide MSW Services post-closing, at market comparable, arms-length, negotiated effluent water and service rates. Seller shall cause Buyer to be released by PENNVEST from any obligations owed to PENNVEST relating to the EWRS, including without

limitation the One Hundred Thirty Three Thousand, One Hundred Seventy and 40/100's Dollars (\$133,170.40) loan.

(m) Subordinate Note. The County shall provide credit enhancements, as reasonably required by Buyer, to ensure that the Subordinate Note, in the amount of Twenty-Four Million Dollars (\$24,000,000), being issued by Buyer at Closing, is marketable. Proceeds from the issuance of the Subordinate Note will fund a portion of the Purchase Price. The Subordinate Note shall be in accordance with the County Agreements.

(n) Other Third Party Approvals. Each of the consents, waivers and approvals required in connection with the Contemplated Transactions identified on Schedule 3.03 shall have been obtained and shall be in full force and effect.

(o) No Prohibitions. No provision of any applicable Law and no applicable Order shall prohibit or restrain the consummation of the Contemplated Transactions; provided that the Parties shall use Commercially Reasonable Efforts to comply with such applicable Law or to have any such Order vacated.

(p) Approval of Purchase Price Adjustment. Any adjustment to the Base Bond Amount (and, in turn, the Purchase Price) requested by Buyer and its financial advisor in accordance with Section 2.06(a) hereof, shall have been approved by the financial advisors to Seller and Receiver and Buyer.

(q) City Resolutions. The City shall have adopted a resolution or resolutions approving the Contemplated Transactions and the approval appropriate under Municipality Act Section 5607(b)(3)(i).

(r) Swatara Township Resolution. The Township of Swatara shall have adopted a resolution for the approval appropriate under Municipality Act Section 5607(b)(3)(i).

(s) Lancaster County Resolutions. The County of Lancaster shall have adopted a resolution or resolutions for approvals appropriate under Municipality Act Section 5607(a)(11) and Municipality Act Section 5607(b)(2)(iv). Buyer shall be reasonably satisfied that the County's Act 101 Plan amendment will be duly and timely approved by DEP post-Closing.

7.02. Conditions to the Obligations of Buyer. In addition to the satisfaction of the conditions set forth in Section 7.01, the obligations of Buyer to consummate the Contemplated Transactions are subject to the satisfaction or waiver by Buyer at or prior to the Closing of the following further conditions:

(a) Seller's Obligations. Seller shall have performed and complied with, in all material respects, all of its covenants and obligations hereunder required to be performed or complied with by it on or prior to the Closing Date.

(b) Representations and Warranties. The representations and warranties of Seller contained in this Agreement shall be true and correct on and as of the Closing as if made at and as of such time (except to the extent that such representations and warranties are expressly

limited by their terms to another date, in which case such representations and warranties shall be true and correct as of such other date), except to the extent that the failure of any such representations and warranties to be so true and correct as of such times shall not have had, or be reasonably likely to have, a Material Adverse Effect; and Buyer shall have received a certificate signed on behalf of Seller by a duly authorized officer with respect to Seller's obligations, representations and warranties to the foregoing effect to the extent such conditions, representations and warranties are made by Seller and not a third party.

(c) Permits and Approvals. Except for those Governmental Permits which may be transferred under the Law from Seller to Buyer pursuant to this Agreement (including the Governmental Permits listed on Schedule 2.01(j)), Buyer shall have received all Governmental Permits necessary for it to own the Acquired Assets and to conduct all operations substantially in the manner conducted by Seller thereon.

(d) Closing Deliveries. Buyer shall have received all of the Closing deliveries to be provided by Seller in accordance with Section 8.03.

(e) Independent Engineer's Report. The Independent Engineer's Report concerning the Acquired Assets previously provided to Seller shall not have been modified in any way that would materially adversely affect Buyer's ability to issue Acquisition Bonds as contemplated by this Agreement.

(f) Certain Authorization Issues. Buyer shall be satisfied that the Real Estate shall be zoned for the Facility and the MSW Services, and any government zoning authorizations referenced on Schedule 3.07 shall have been addressed to Buyer's reasonable satisfaction.

(g) DEP Consent Orders and Escrows. Buyer shall be satisfied in its reasonable discretion that any outstanding DEP consent orders relating to the Facility have been satisfied or sufficient funds have been escrowed for such satisfaction.

7.03. Conditions to the Obligation of Seller. In addition to the satisfaction of the conditions set forth in Section 7.01, the obligations of Seller to consummate the Closing is subject to the satisfaction or waiver by Seller at or prior to the Closing of the following further conditions:

(a) Buyer's Obligations. Buyer shall have performed and complied with, in all material respects, all of its covenants and obligations hereunder required to be performed or complied with by it on or prior to the Closing Date.

(b) Representations and Warranties. The representations and warranties of Buyer contained in this Agreement shall be true and correct at, and as of, the Closing, as if made at and as of such time (except to the extent that such representations and warranties are expressly limited by their terms to another date, in which case such representations and warranties shall be true and correct as of such other date), except to the extent that the failure of any such representations and warranties to be so true and correct as of such times shall not have had, or be reasonably likely to have, a Material Adverse Effect on Buyer's ability to consummate the Contemplated Transactions (it being understood that the representations and warranties in Section 4.07 must be true and correct in all respects on and as of the Closing Date and shall have

remained true and correct at all times from the date of this Agreement through the Closing Date) and Seller shall have received a Certificate signed on behalf of Buyer by a duly authorized officer with respect to Buyer's obligations, representing and warranties to the foregoing extent to the extent such conditions, representations and warranties are made by Buyer and not a third party.

(c) Closing Deliveries. Seller and the Receiver shall have received all of the Closing deliveries to be provided by Buyer in accordance with Section 8.04.

(d) Closing of Other Transactions in Restructuring Plan. All transactions set forth in the Receiver's Recovery Plan, in its final form, approved by the Commonwealth Court of Pennsylvania, must have been consummated, or Seller must have reasonable assurance that such transactions will consummate simultaneously with closing of the Contemplated Transactions.

(e) Insurance. Seller has reviewed, and is reasonably satisfied with, Buyer's insurance coverages, including self insurance.

(f) General Releases. Seller's receipt of general releases, in form and substance reasonably acceptable to Seller, from its material Facility creditors, as well as releases from Contract counterparties under the Assigned Contracts.

ARTICLE 8 CLOSING

8.01. Closing. The closing of the Contemplated Transactions (the "Closing") shall take place on such date as may be agreed to by Buyer and Seller, but in no event more than thirty (30) calendar days after the date on which all conditions set forth in Article 7 shall have been satisfied or waived, which is expected to be November 18, 2013, which date may be extended by the Receiver, in the Receiver's reasonable discretion with three (3) weeks' prior written notice, to a date that is on or before December 15, 2013, or otherwise with by mutual written agreement of the Parties. The Closing shall be deemed to be effective as of 11:59 p.m., Eastern time, on the Closing Date. If possible, the Closing shall be on the last day of a calendar month. If the last day of the calendar month is a weekend day, closing shall be held on the following business day, but deemed to be effective as of 11:59 p.m., Eastern time, of the last day of the immediately preceding month.

8.02. Time and Place of Closing. The Closing shall be held at 10:00 a.m., Eastern time, on the Closing Date at such place as the Parties may agree in writing.

8.03. Deliveries by Seller. At the Closing, Seller shall deliver to Buyer the following:

(a) a Bill of Sale, for the Acquired Assets in the form of Exhibit E attached hereto, duly executed by Seller;

(b) an Assignment and Assumption Agreement, in the form of Exhibit F attached hereto (the "Assignment and Assumption Agreement"), duly executed by Seller,

transferring to Buyer (i) all right, title and interest in and to the Assigned Contracts and (ii) the obligations included in the Assumed Liabilities;

(c) a Special Warranty Deed, in the form of Exhibit D attached hereto, duly executed and acknowledged by Seller, transferring to Buyer all right, title and interest in and to the Real Estate and Improvements;

(d) the MPSA Release Agreement and the CIT Settlement Agreement, duly executed by Seller;

(e) the certificate of Seller referenced in Section 7.02(b);

(f) the certificate of Seller as to the incumbency of the officers, directors or other authorized Persons of Seller executing this Agreement and the other Transaction Documents to which it is a party on behalf of Seller;

(g) a duly executed certificate from Seller (for federal income tax purposes) that such Person is not a “foreign person” as defined in Section 1445 of the Code, substantially in the form of Exhibit G attached hereto;

(h) keys, security codes and similar security items related to the buildings and structures situated on the Real Estate and/or comprising a part of the Real Property and the Acquired Assets;

(i) motor vehicle title certificates for any and all motor vehicles comprising part of the Acquired Assets, endorsed by Seller, as required by applicable Law, to transfer title thereof to Buyer;

(j) evidence of payment, or escrow, of all remaining amounts due or to be due under outstanding DEP consent orders relating to the Facility;

(k) if all Environmental Permits have not been transferred to Buyer, the Operating Agreement executed by Seller;

(l) a closing statement agreed to by Buyer, Seller and the Receiver setting forth in reasonable detail the financial transactions contemplated by this Agreement including the payments to be made from the Purchase Price at Closing (the “Closing Statement”);

(m) an opinion of legal counsel to Seller reasonably satisfactory to Buyer’s counsel with respect to the matters set forth in Section 3.01, Section 3.02, Section 3.03, and Section 3.04; and

(n) such other documents and instruments as may be reasonably necessary to effect the intent of this Agreement and to consummate the Contemplated Transaction.

8.04. Deliveries by Buyer. At the Closing, Buyer shall deliver to Seller the following:

(a) the Purchase Price in accordance with Section 2.05(a);

- (b) the Assignment and Assumption Agreement, duly executed by Buyer;
- (c) the MPSA Release Agreement and the CIT Settlement Agreement, duly executed by Buyer;
- (d) the certificate of Buyer referenced in Section 7.03(b);
- (e) a certificate of Buyer as to the incumbency of the officers, directors or other authorized Persons of Buyer executing this Agreement and the other Transaction Documents to which it is a party on behalf of Buyer;
- (f) an opinion of legal counsel to Buyer reasonably satisfactory to Seller's counsel with respect to the matters set forth in Section 4.01, Section 4.02 and Section 4.03;
- (g) such other documents, certifications, and instruments as may be reasonably necessary to effect the intent of this Agreement and to consummate the Contemplated Transaction; and
- (h) if all Environmental Permits have not been transferred to Buyer, the Operating Agreement executed by Buyer.

ARTICLE 9 INDEMNIFICATION

9.01. Indemnification by Buyer. To the extent permitted by applicable Law (without waiving its sovereign immunity) and subject to the terms and conditions of this Article 9, from and after the Closing Date, Buyer shall indemnify, defend and hold harmless Seller, the Receiver, and their respective Affiliates, and each of their respective officers, directors, employees, agents or other representatives (individually, a "Seller Indemnitee" and collectively, the "Seller Indemnitees"), from and against any and all Losses incurred or suffered by any Seller Indemnitee based upon, arising out of, by reason of or otherwise in respect of or in connection with:

- (i) any breach of any (A) representation or warranty made by Buyer in this Agreement or in any certificate, document, writing or instrument delivered by Buyer pursuant to this Agreement or (B) covenant or obligation of Buyer in this Agreement or in any other certificate, document, writing or instrument delivered by Buyer pursuant to this Agreement;
- (ii) any Acquired Assets;
- (iii) any Assumed Liabilities; and
- (iv) any Liability arising out of the ownership, management or operation of the Real Property, including the Facility, or the MSW Services after the Closing Date.

9.02. Indemnification by Seller. To the extent permitted by applicable Law (without waiving its sovereign immunity), and subject to the terms and conditions of this Article 9, from and after the Closing Date, Seller shall indemnify, defend and hold harmless Buyer, and its officers, directors, employees, agents and representatives (individually, a “Buyer Indemnitee” and collectively, the “Buyer Indemnitees”) from and against any and all Losses incurred or suffered by any Buyer Indemnitee based upon, arising out of, by reason of or otherwise in respect of or in connection with:

(i) any breach of any (A) representation or warranty made by Seller in this Agreement or in any certificate, document, writing or instrument delivered by Seller pursuant to this Agreement or (B) covenant or obligation of Seller in this Agreement or in any other certificate, document, writing or instrument delivered by Seller pursuant to this Agreement;

(ii) any Excluded Assets;

(iii) any Excluded Liabilities; and

(iv) any Liability arising out of the ownership, management or operation of the Real Property, including the Facility, or the MSW Services prior to the Closing Date; provided, however, the indemnity provided by this Section 9.02(iv) shall not include Environmental Liabilities related to the Acquired Assets (including, without limitation, the Ashfill) other than any fines or penalties for actions or omissions by Seller prior to the Closing Date.

9.03. Survival.

(a) Except as provided in this Section 9.03(a), a violation of the representations and warranties of Seller and Buyer in Article 3 and Article 4, respectively, that arises by reason of fraud or intentional malfeasance shall survive the Closing Date for a period of two (2) years (the “Survival Period”). Notwithstanding the preceding sentence, (x) a violation of the representations and warranties of Seller set forth in Section 3.11 that relate to personal property (even if the violation does not involve fraud or intentional malfeasance) shall survive for the Survival Period, and (y) (1) the representations and warranties of Seller set forth in Sections 3.01 and 3.02(a), (2) the representations and warranties of Buyer set forth in Sections 4.01, 4.02(a) and 4.07 and (3) the title covenants of the Deed, whether explicit or implicit, each shall survive for the respective statute of limitations for such claims. All other representations, warranties or covenants in this Agreement shall terminate on the Closing Date unless such representation, warranty or covenant specifically states that it shall survive the Closing Date (for the purpose of clarity, the representations and warranties in Section 3.11 that do not relate to personal property including, but not limited to, the representations and warranties related to real property and other property customarily insured through title insurance, shall terminate on the Closing Date). The rights of a Seller Indemnitee to assert a claim under Section 9.01, and the rights of a Buyer Indemnitee to assert a claim under Section 9.02, shall survive during the Survival Period (or, in the case of Sections 3.01, 3.02(a), 4.01, 4.02(a) and 4.07 for the respective statutes of limitations for such claims), and thereafter shall terminate and expire, except with respect to Liabilities for any item as to which, prior to the expiration of the Survival Period, an Indemnified Party has properly asserted a claim in writing as required pursuant to the provision

of this Article 9, in which event the Liability for such claim shall continue until such claim has been finally settled, decided, or adjudicated.

(b) In the event Seller delivers to Buyer, in writing prior to the Closing Date, updated versions of any of the Disclosure Schedules referenced in Article 3 of this Agreement, and Buyer and Seller expressly agree to an equitable adjustment to the Purchase Price with respect to any matter included on such updated versions, or if Buyer accepts such updated versions pursuant to this Section 9.03(b), Buyer shall be deemed to have waived its rights to indemnification under Article 9 with respect to only the specific matter as to which the Parties agreed to an adjustment to the Purchase Price or which Buyer so agreed to accept. In the event the Parties agree to any such Purchase Price adjustment pursuant to the preceding sentence, the Parties shall evidence such agreement in writing, which writing shall clearly specify the matter that formed the basis of the Purchase Price adjustment.

9.04. Notice; Payment of Losses; Defense of Claims. For purposes of this Section 9.04, the term “Indemnifying Party” shall include Buyer and Seller with respect to matters arising under Section 9.01 or Section 9.02, respectively.

(a) If any Seller Indemnitee or Buyer Indemnitee (an “Indemnified Party”) is entitled to indemnification under this Article 9 and shall incur or suffer any Losses in respect of which indemnification may be sought under this Article 9 against the Indemnifying Party, the Indemnified Party shall assert a claim for indemnification by providing a written notice (the “Notice of Loss”) to the Indemnifying Party stating the nature and basis of such claim in the Notice of Loss. The Notice of Loss shall be provided to the Indemnifying Party and the Receiver as soon as practicable after the Indemnified Party becomes aware that it has incurred or suffered a Loss. Notwithstanding the foregoing, but subject to Section 9.03, any failure to provide the Indemnifying Party with a Notice of Loss, or any failure to provide a Notice of Loss in a timely manner as aforesaid, shall not relieve the Indemnifying Party from any Liability that it may have to the Indemnified Party under Section 9.01 or Section 9.02, respectively, except to the extent that the ability of the Indemnifying Party to defend such claim is materially prejudiced by the Indemnified Party’s failure to give such Notice of Loss. If the Notice of Loss relates to a Third Party Claim, the procedures set forth in Section 9.04(b) shall be applicable. If the Notice of Loss does not relate to a Third Party Claim, the Indemnifying Party and Indemnified Party shall use their Commercially Reasonable Efforts to settle (without an obligation to settle) such claim for indemnification. If the Indemnifying Party and Indemnified Party do not settle such dispute within thirty (30) days after the Indemnified Party’s receipt of the Indemnifying Party’s notice of objection, the Indemnifying Party and Indemnified Party shall be entitled to seek enforcement of their respective rights under this Article 9.

(b) Promptly after receipt by an Indemnified Party of notice of the assertion of any claim or the commencement of any action, suit or proceeding by a third Person (a “Third Party Claim”) in respect of which the Indemnified Party shall seek indemnification hereunder, the Indemnified Party shall so notify the Indemnifying Party in writing, with copy to the Receiver, but subject to Section 9.03, any failure to so notify the Indemnifying Party shall not relieve the Indemnifying Party from any Liability that it may have to the Indemnified Party under this Section 9.04 except to the extent that the ability of the Indemnifying Party to defend the Third Party Claim is materially prejudiced by the Indemnified Party’s failure to give such

notice. In no event shall the Indemnified Party admit any Liability with respect to such Third Party Claim or settle, compromise, pay or discharge such Third Party Claim without the prior written consent of the Indemnifying Party. The Indemnifying Party shall have the right to assume the defense (at the expense of the Indemnifying Party) of any such claim through counsel chosen by the Indemnifying Party by notifying the applicable Indemnified Party within thirty (30) days after the receipt by the Indemnifying Party of such notice from the Indemnified Party. If the Indemnifying Party assumes such defense, the Indemnified Party shall have the right to participate in the defense thereof and to employ counsel, at the Indemnified Party's own expense, separate from the counsel employed by the Indemnifying Party. The Indemnifying Party may not settle or otherwise dispose of any Third Party Claim without the prior written consent of the Indemnified Party (which consent shall not be unreasonably withheld, conditioned or delayed), unless such settlement includes only the payment of monetary damages (which are fully paid by the Indemnifying Party), does not impose any injunctive or equitable relief upon the Indemnified Party and does not require any admission or acknowledgment of liability or fault of the Indemnified Party in respect of such claim.

(c) After written notice by the Indemnified Party to an Indemnifying Party and the Receiver of the election by the Indemnifying Party to assume control of the defense of any such Third Party Claim, the Indemnifying Party shall not be liable to such Indemnified Party hereunder for any costs or fees subsequently incurred by such Indemnified Party in connection with the defense thereof. If the Indemnifying Party does not assume control of the defense of such Third Party Claim within thirty (30) days after the receipt by the Indemnifying Party of the notice required pursuant to Section 9.04(b), the Indemnified Party shall have the right to defend such claim in such manner as it may deem appropriate at the reasonable cost and expense of the Indemnifying Party.

(d) From and after the Closing, the remedies provided in this Article 9 shall constitute the sole and exclusive remedy for any claims with respect to any breach or inaccuracy of any representation, warranty, covenant or agreement set forth in this Agreement except with respect to any claim based on grounds of fraud. Notwithstanding any other provision of this Agreement, the rights and remedies contained in this Article 9 shall constitute the sole and exclusive means of recourse with respect to the Real Property or the Acquired Assets, and Buyer expressly waives any and all claims, rights or causes of action Buyer may have against Seller, now or in the future arising under, in connection with or relating to any Environmental Liabilities.

(e) If any fact, circumstance or condition forming a basis for a claim for indemnification under this Article 9 shall overlap with any fact, circumstance, condition or agreement or event forming the basis of any other claim for indemnification under this Article 9, there shall be no duplication in the calculation of the amount of the Losses.

(f) Notwithstanding anything to the contrary in this Agreement, except as set forth in Sections 3.01, 3.02, 3.11 (as to personal property), 4.01 and 4.02, neither Party, nor the Receiver, shall have any liability to the other Party for any breach of or inaccuracy in any representation or warranty made by either Party to the extent that the other Party, any of its Affiliates or any of its or their respective officers, employees, counsel or other representatives

had Knowledge at or before the Closing of the facts as a result of which such representation or warranty was breached or inaccurate.

9.05. Duty to Mitigate.

(a) Each Indemnified Party shall use its Commercially Reasonable Efforts to mitigate Losses for which indemnification may be sought pursuant to this Article 9, including (i) using its Commercially Reasonable Efforts to secure payment from insurance arrangements available and existing on or after the Closing Date (an “Insurance Payment”) and (ii) using its Commercially Reasonable Efforts to secure reimbursement, indemnity, or other payment from any third Person obligated by Contract or otherwise to reimburse, indemnify or pay the Indemnified Party with respect to such Losses (a “Third Party Payment”, and together with an Insurance Payment, a “Mitigation Payment”). Notwithstanding anything to the contrary contained herein, the recovery by an Indemnified Party from any Indemnifying Party shall not relieve the Indemnified Party of its obligation to mitigate Losses pursuant to this Section 9.05.

(b) Any amounts payable to an Indemnified Party with respect to any Losses pursuant to this Article 9 shall be reduced by the amount of the Mitigation Payment, if any, received by the Indemnified Party with respect to such Losses. In the event a payment is made to an Indemnified Party with respect to any Losses and, thereafter, the Indemnified Party receives a Mitigation Payment with respect to such Losses, the Indemnified Party shall reimburse the Indemnifying Party an amount equal to the lesser of (i) the Mitigation Payment and (ii) the amount so paid by the Indemnifying Party.

(c) Any amounts payable to an Indemnified Party with respect to any Losses pursuant to this Article 9 shall be reduced by the amount of any net Tax benefits available to the Indemnified Party as a result of the payment, incurrence, or accrual of such Losses.

**ARTICLE 10
TAX MATTERS**

10.01. Transfer Taxes. All transfer, documentary, excise, sales, bulk sales, use, stamp, filing, recordation, registration and other such Taxes and fees (including any penalties and interest with respect thereto) incurred or payable, if any, resulting from the Contemplated Transactions (the “Transfer Taxes”) shall be borne one-half by Buyer and one-half by Seller. Buyer shall timely and accurately file all necessary Tax Returns and other documentation when due with respect to all such Transfer Taxes, and Buyer shall use Commercially Reasonable Efforts to provide such Tax Returns to Seller at least fifteen (15) days prior to earlier of (a) the due date for such Tax Returns and (b) the time such Tax Returns are filed. Both Buyer and Seller believe that exemptions from Transfer Taxes apply to both Buyer and Seller. If either Party fails to produce appropriate documentation or certifications to claim such exemptions, that Party shall be responsible for the entire transfer tax that is payable or incurred due to such party's failure to produce appropriate documentation to claim an available exemption.

10.02. Treatment of the Transactions Contemplated by this Agreement. Unless otherwise required as a matter of applicable Law, the Parties hereto agree that, for all federal and state income Tax purposes, the purchase and sale of the Acquired Assets pursuant to this

Agreement shall be treated as a purchase and sale of the Acquired Assets in lieu of condemnation.

10.03. Treatment of Indemnification Payments. Any payment made by Buyer or any of their respective Affiliates pursuant to Article 9 shall, to the extent permissible under applicable Law, be treated as an adjustment to the Purchase Price for all Tax purposes.

10.04. Reporting Requirements; Purchase Price Allocation.

(a) Buyer shall be the “reporting person” under Section 6045(e) of the Code and Treasury Regulations Section 1.6045-4(e) in connection with the Contemplated Transactions and, in such capacity, shall timely and properly make any filings required to be filed with the IRS pursuant to Section 6045(e) of the Code and the Treasury Regulations promulgated thereunder. Buyer shall timely and properly complete any “designation statement” or similar document requested by Seller or required by Code Section 6045 and the Treasury Regulations promulgated thereunder with regard to its capacity as the “reporting person.”

(b) The Purchase Price shall be allocated in accordance with the applicable provisions of the Code. Buyer shall make such Purchase Price allocation determination in good faith and represents and warrants to Seller that the allocations will represent a fair and reasonable value for the assets valued. Seller shall, if required by applicable Law, report the transactions contemplated by this Agreement in accordance with the allocations determined by Buyer.

10.05. No Withholding. All payments made by Buyer (or any of its Affiliates) to Seller (and its successors or assigns) pursuant to this Agreement shall be made without reduction or set-off for withholding on account of any Tax law.

**ARTICLE 11
TERMINATION**

11.01. Termination. This Agreement may be terminated at any time prior to the Closing by:

(a) the mutual written consent of Buyer and Seller;

(b) either Buyer or Seller, by written notice of termination delivered to the other with copy to the Receiver, if the Closing Date has not occurred by December 31, 2013 (the “Termination Date”); provided, that no Party shall have the right to terminate this Agreement pursuant to this Section 11.01(b) if such Party is then in material breach of any of its representations, warranties, covenants or agreements contained in this Agreement;

(c) either Buyer or Seller in the event that any court or Governmental Authority of competent jurisdiction issues a final, non-appealable injunction prohibiting the Contemplated Transactions, or a bankruptcy, insolvency or similar proceeding is instituted by or against Seller which affects the ability of Seller to consummate the Contemplated Transactions, for a period in excess of six (6) months; provided, that the issuance of a final, non-appealable injunction shall not be attributable to the breach of this Agreement by the Party seeking termination pursuant to this Section 11.01(c);

(d) Seller or Buyer if there has been a material breach by the non-terminating Party of any representation, warranty, covenant or agreement on the part of the non-terminating Party contained in this Agreement such that the conditions set forth in Article 7 would not be satisfied and (i) such breach is not reasonably capable of being cured prior to the Termination Date, or (ii) in the case of a breach of a covenant or agreement, if such breach is reasonably capable of being cured prior to the Termination Date, such breach has not been cured within a period of thirty (30) days of the breaching Party being notified by the non-breaching Party of such breach (or such longer time not to exceed one hundred twenty (120) days if such breach is not capable of being cured in thirty (30) days and the breaching Party is acting continuously and diligently to cure such breach); provided, that neither Party shall have the right to terminate this Agreement pursuant to this Section 11.01(d) if such Party is then in material breach of any of its representations, warranties, covenants or agreements contained in this Agreement; or

(e) Seller or Buyer if all of the conditions precedent to the terminating Party's obligations to consummate the Closing set forth in Article 7 have been satisfied or waived by the non-terminating Party (other than if the failure to satisfy any such condition resulted from the failure of the non-terminating Party to comply with its obligations under this Agreement), and the non-terminating Party breaches its obligation to deliver its required closing deliveries at Closing pursuant to Section 8.03 or Section 8.04; provided, that neither Party shall have the right to terminate this Agreement pursuant to this Section 11.01(e) if such Party is then in material breach of any of its material representations, warranties, covenants or agreements contained in this Agreement.

11.02. Effect of Termination. In the event this Agreement is terminated as provided in Section 11.01, this Agreement shall be deemed null, void, and of no further force or effect, and the Parties hereto shall be released from all future obligations hereunder; provided, that the obligations of the Parties set forth in this Section 11.02, Section 11.03 and Article 12 and the Confidentiality Agreement shall survive such termination.

11.03. Payment of Deposit and Other Remedies Upon Termination.

(a) If this Agreement is terminated by Seller pursuant to Section 11.01(d) or Section 11.01(e), then, immediately upon such termination:

(i) the Deposit, together with any interest and earnings thereon, shall be paid to Seller not as liquidated damages and not as a penalty but rather as a non-refundable payment; and

(ii) Seller may pursue any other remedies available to it at law or in equity.

(b) Except as set forth in Section 11.03(a), if this Agreement is terminated in accordance with its terms, for any other reason, then the Deposit, together with any interest and earnings thereon, shall be returned to Buyer promptly following such termination.

(c) Each of Buyer and Seller agrees to deliver to the Escrow Agent written instructions signed by each Party directing the disposition of the Deposit as provided in this Section 11.03.

**ARTICLE 12
MISCELLANEOUS**

12.01. Notices. All notices, requests, claims, demands and other communications under this Agreement will be in writing and will be delivered personally, sent by overnight courier (providing proof of delivery) to the Parties or sent by facsimile (providing confirmation of transmission) at the following addresses or facsimile numbers (or at such other address or facsimile number for a Party as will be specified by like notice):

If to Seller:

The Harrisburg Authority
212 Locust Street, Suite 302
Harrisburg, Pennsylvania 17102
Facsimile: (717) 525-7688
Attention: Shannon G. Williams, P.E., Executive Director

with a copy (which shall not constitute notice) to:

Klehr Harrison Harvey Branzburg LLP
1835 Market Street, Suite 1400
Philadelphia, Pennsylvania 19103
Facsimile: (215) 568-6603
Attention: Douglas F. Schleicher, Esq.

If to Buyer:

Lancaster County Solid Waste Management Authority
1299 Harrisburg Pike
Lancaster, Pennsylvania 17603
Facsimile: (717) 397-9973
Attention: James D. Warner, Chief Executive Officer

with a copy (which shall not constitute notice) to:

Hartman Underhill & Brubaker, LLC
221 East Chestnut Street
Lancaster, Pennsylvania 17602
Facsimile: (717) 299-3160
Attention: Alexander Henderson III, Esq.

If to the Receiver:

Receiver for the City of Harrisburg
Executive Offices
401 Finance Building, 613 North Street
Harrisburg, PA 17120

Facsimile: 717-231-5558
Attention: Major General William B. Lynch, USAF, Ret.

with a copy (which shall not constitute notice) to:

McKenna Long & Aldridge LLP
303 Peachtree Street, NE
Suite 5300
Atlanta, GA 30308
Facsimile: (404) 527-4198
Attention: Joseph O. Blanco, Esq.

Each such notice, request, claim, demand or other communication shall be effective (a) if given by facsimile, when such facsimile is transmitted to the facsimile number specified in this Section 12.01 and the appropriate facsimile confirmation is received, or (b) if given by any other means, when delivered at the address specified in this Section 12.01.

12.02. Amendments; No Waivers.

(a) Any provision of this Agreement may be amended or waived prior to the Closing Date if, and only if, such amendment or waiver is in writing and signed, in the case of an amendment, by Seller and Buyer or, in the case of a waiver, by the Party against whom the waiver is to be effective.

(b) No failure or delay by any Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

12.03. Expenses. Seller shall be solely responsible for all of Seller's costs and expenses incurred in connection with this Agreement. Buyer shall be solely responsible for all of Buyer's costs and expenses incurred in connection with this Agreement.

12.04. Successors and Assigns; Benefit. The provisions of this Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns. No Party may assign (other than by operation of law following the Closing), delegate or otherwise transfer any of its rights or obligations under this Agreement without the consent of the other Party.

12.05. No Third Party Beneficiary. This Agreement is not intended and shall not be construed to confer upon any Person other than the Parties hereto any rights or remedies hereunder; provided, that the City and its Receiver shall be a third party beneficiary of this Agreement for purposes of Section 6.02.

12.06. Governing Law. This Agreement and the legal relations between the Parties hereto arising hereunder shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without regard to the principles regarding the choice of law.

12.07. Consent to Jurisdiction. The Parties hereto agree that any suit, action, or proceeding seeking to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement or the Contemplated Transactions must be brought in the United States District Court for the Middle District of Pennsylvania or any state court sitting in Harrisburg, Pennsylvania, and each of the Parties hereby consent to the jurisdiction of such courts (and of the appropriate appellate courts therefrom) in any such suit, action or proceeding and irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such suit, action or proceeding in any such court or that any such suit, action or proceeding which is brought in any such court has been brought in an inconvenient forum. Each Party agrees that service of process on such Party as provided in Section 12.01 shall be deemed effective service of process on such Party.

12.08. Severability. If any term or other provision of this Agreement is invalid, illegal, or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the Contemplated Transactions is not affected in any manner adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, Buyer and Seller shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that the Contemplated Transactions contemplated hereby are fulfilled to the extent possible.

12.09. Table of Contents; Headings. The table of contents and the headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

12.10. Counterparts; Effectiveness. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when each Party shall have received counterparts hereof signed by the other Party.

12.11. Waiver of Jury Trial. EACH OF THE PARTIES HERETO KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY RIGHTS IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH, THIS AGREEMENT OR THE CONTEMPLATED TRANSACTIONS, OR ANY COURSE OF CONDUCT, COURSE OF DEALING OR STATEMENTS (WHETHER VERBAL OR WRITTEN) RELATING TO THE FOREGOING (INCLUDING ANY ACTION TO RESCIND OR CANCEL THIS AGREEMENT AND ANY CLAIMS OR DEFENSES ASSERTING THAT THIS AGREEMENT WAS FRAUDULENTLY INDUCED OR IS OTHERWISE VOID OR VOIDABLE). THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE PARTIES HERETO TO ENTER INTO THIS AGREEMENT AND SHALL SURVIVE THE CLOSING OR TERMINATION OF THIS AGREEMENT.

12.12. Limitations on Liability.

(a) NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS AGREEMENT, IN NO EVENT SHALL EITHER PARTY TO THIS AGREEMENT OR THE RECEIVER BE LIABLE FOR THE INDIRECT, SPECIAL, INCIDENTAL, CONSEQUENTIAL OR PUNITIVE DAMAGES OR LOST PROFITS OF THE OTHER PARTY, HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY, ARISING OUT OF THE PERFORMANCE OF, OR THE FAILURE TO PERFORM, ANY OBLIGATION(S) SET FORTH HEREIN, EXCEPT FOR SUCH DAMAGES CLAIMED BY THIRD PARTIES UNDER ARTICLE 9.

(b) No present or future officer, director, manager, employee, advisor, agent or attorney of or in Seller or Buyer, nor the Receiver, shall have any personal liability, directly or indirectly, under or in connection with the Transaction Documents, or any amendments thereto, and the Parties and their successors and assigns and all other Persons shall look solely to the Parties' assets for the payment of any claim or for any performance, and the Parties hereby waive any and all such personal liability.

(c) No officer, director, employee, agent or other representative of Seller, Receiver or Buyer shall have any personal liability or obligation whatsoever with respect to any of the matters set forth in this Agreement and any other documents, agreements, or instruments related thereto or any of the representations made by Seller or Buyer being or becoming untrue, inaccurate or incomplete in any respect.

(d) The limitations on liability contained in this Section 12.12 are in addition to, and not in limitation of, any limitation on liability applicable to Seller or Buyer provided in any other provision of this Agreement or by Law or by any other Contract.

12.13. Entire Agreement. This Agreement, including the Exhibits hereto, the Confidentiality Agreement, and the other Transaction Documents constitute the entire agreement between the Parties with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings, both oral and written, between the Parties with respect to the subject matter hereof and thereof.

12.14. Transfer Documents. No provision contained in any transfer document delivered pursuant to this Agreement or the Contemplated Transactions shall affect in any manner whatsoever any of the indemnification provisions contained herein.

12.15. Time of the Essence. Time is of the essence for this Agreement.

12.16. Disclosure. Any matter disclosed in any section or subsection of the Disclosure Schedules shall be deemed disclosed for the purposes of, and shall qualify, each representation and warranty in the section or subsection of this Agreement with the corresponding number, and any other representation or warranty in any other section or subsection of this Agreement where the relevance of such disclosure to such other representation and warranty is reasonably apparent, in each case even if there is no reference to the Disclosure Schedules in any such representation and warranty or the disclosure in the Disclosure Schedules does not reference the section or subsection of this Agreement in which it is set forth. The disclosure of a particular

item of information in the Disclosure Schedules shall not constitute an admission by Seller that such item is material, that such item has had or would have a Material Adverse Effect or that the disclosure of such item is required to be made under the terms of this Agreement.

12.17. No Right of Setoff. No Party nor any Affiliate thereof may deduct from, set off, holdback or otherwise reduce in any manner whatsoever any amount owed hereunder to the other Party hereto by any amount otherwise owed to it or any of its Affiliates.

[Remainder of Page Intentionally Left Blank; Signature Page Follows]

IN WITNESS WHEREOF, the Parties hereto have caused this Asset Purchase Agreement to be duly executed and delivered by their respective authorized officers as of the day and year first above written.

SELLER:

THE HARRISBURG AUTHORITY
By its duly authorized representative:

By: _____
Name: _____
Title: _____

BUYER:

LANCASTER COUNTY SOLID WASTE
MANAGEMENT AUTHORITY
By its duly authorized representative:

By: _____
Name: _____
Title: _____

ACKNOWLEDGED AND APPROVED BY:

THE RECEIVER FOR THE CITY OF
HARRISBURG

By: _____
Name: _____
Title: _____

EXHIBIT A

Definitions

For purposes of the foregoing Asset Purchase Agreement each of the following terms is defined as follows:

“Acquired Assets” is defined in Section 2.01.

“Acquired IP” is defined in Section 2.01(o).

“Acquisition Bonds” is defined in Section 2.06(a).

“Affiliate” means, with respect to any Person, any other Person which, directly or indirectly (including through one or more intermediaries), controls, is controlled by or is under common control with such Person. For purposes of this definition, the term “control” (including the terms “controlled by” and “under common control with”), as used with respect to any Person, shall mean the possession, directly or indirectly (including through one or more intermediaries), of the power to direct or cause the direction of the management and policies of such Person, through the ownership or control of voting securities, partnership interests or other equity interests, by contract, by authority granted by law, rule or regulation or otherwise.

“AGM” means Assured Guaranty Municipal Corp and Affiliates.

“AGM Release” means the general release executed by AGM releasing Seller, the City, their respective successors and Buyer from any and all claims it may have against Seller or the City or Buyer for matters relating to, or arising from, the Acquired Assets.

“Agreement” is defined in the Preamble of this Agreement.

“Anti-Money Laundering Laws” means laws, regulations and sanctions, state and federal, criminal and civil, that (i) limit the use of and/or seek the forfeiture of proceeds from illegal transactions, (ii) limit commercial transactions with designated countries or individuals believed to be terrorists, narcotics dealers or otherwise engaged in activities contrary to the interests or laws of the United States, (iii) require identification and documentation of the parties with whom a financial institution conducts business or (iv) are designed to disrupt the flow of funds to terrorist organizations. Such laws, regulations and sanctions shall be deemed to include the Patriot Act, the Bank Secrecy Act, 31 U.S.C. Section 5311 et seq., the Trading with the Enemy Act, 50 U.S.C. App. Section 1 et seq., the International Emergency Economic Powers Act, 50 U.S.C. Section 1701 et seq., and the sanction regulations promulgated pursuant thereto by the OFAC, as well as laws relating to prevention and detection of money laundering in 18 U.S.C. Sections 1956 and 1957.

“Ashfill” is defined in the Background paragraphs to this Agreement.

“Assigned Contracts” means (i) the Third Party Hauler Agreements and (ii) the O&M Agreements.

“Assignment and Assumption Agreement” is defined in Section 8.03(b).

“Assumed Liabilities” is defined in Section 2.07(a).

“Base Bond Amount” is defined in Section 2.06(a).

“Base Purchase Price” is defined in Section 2.03.

“Base TIC” is defined in Section 2.06(a).

“Bond Indenture Funds” is defined in Section 2.01(l).

“Books and Records” is defined in Section 2.01(n).

“Borough” means the Borough of Columbia, or such other municipality as Buyer may designate to serve as the seller of electricity under the Power Purchase Agreement.

“Business Day” means any day except Saturday, Sunday and any legal holiday or a day on which banking institutions in Philadelphia, Pennsylvania, generally are authorized or required by law or other governmental actions to close.

“Buyer” is defined in the Preamble of this Agreement.

“Buyer Indemnitee” or “Buyer Indemnitees” is defined in Section 9.02.

“Buyer’s Costs of Issuance” means the fees charged to Buyer in connection with the issuance of the Acquisition Bonds including the fees of underwriters, underwriter’s counsel, bond counsel, financial advisors, bond trustee, bond trustee’s counsel, independent engineers report, rating agencies, printing and related miscellaneous expenses, estimated to be One Million Six Hundred Seventy Five Thousand Dollars (\$1,675,000). Buyer’s Costs of Issuance do not include Buyer’s due diligence or negotiation professional fees of engineering, legal, or accounting firms.

“Buyer’s DSRF” means debt service reserve fund created in connection with the Acquisition Bonds, in an amount equal to the least of (i) the maximum annual debt service requirements payable upon the Acquisition Bonds, (ii) one hundred and twenty five percent (125%) of the average annual debt service on the Acquisition Bonds, and (iii) ten percent (10%) of the original proceeds of the Acquisition Bonds. Buyer’s DSRF is estimated to be Nine Million Five Hundred Eight Thousand Five Hundred Dollars (\$9,508,500).

“Buyer’s Pricing Model” means that certain excel spreadsheet prepared by Buyer’s financial adviser and delivered to Receiver’s financial advisor, dated as of February 22, 2013, and attached hereto as Exhibit H.

“CIT” means CIT Capital USA, Inc. and Affiliates.

“CIT Settlement Agreement” means a settlement agreement among CIT and Seller, among other parties, settling all claims that CIT has in connection with the Acquired Assets.

“City” means City of Harrisburg, a Third Class City of the Commonwealth of Pennsylvania. Action by the City means the approval of the Mayor, the requisite majority of City Council and the City Solicitor.

“City Disposal Agreement” means the December 1, 1993 Municipal Solid Waste Agreement between Seller and the City of Harrisburg, as amended.

“Claims” is defined in Section 6.04(c).

“Closing” is defined in Section 8.01.

“Closing Date” is defined in Section 8.01.

“Closing Statement” is defined in Section 8.03(l).

“Closure Funds” means funds of Seller held with respect to the closure of the Ashfill and/or the decommissioning of the Facility whether in DEP restricted accounts, or securing letters of credit or otherwise.

“Code” means the Internal Revenue Code of 1986, as amended.

“Commercially Reasonable Efforts” means efforts which are designed to enable a party to satisfy a condition to, or otherwise assist in the consummation of, the Contemplated Transactions and which do not require the performing party to expend any funds or assume Liabilities other than expenditures and Liabilities which are customary and reasonable in nature and amount in the context of the Contemplated Transactions.

“Confidentiality Agreement” means the Confidentiality Agreement, dated as of February 24, 2012, by and between Buyer and Seller, as the same may be amended from time to time.

“Contemplated Transactions” means the transactions contemplated under this Agreement and the other Transaction Documents, including the purchase and sale of the Acquired Assets.

“Contracts” means, without limitation, any and all (whether written or oral, express or implied) contracts, agreements, franchises, leases, easements, rights of way, mortgages, bonds, notes, guaranties, liens, indebtedness or similar undertakings to which any Person is a party or to which or by which such Person or the property of such Person is subject or bound, excluding any Governmental Permits.

“County” means the County of Dauphin, a Third Class County of the Commonwealth of Pennsylvania. Approval of the County means approval of the requisite majority of the County Commissioners.

“County Agreements” means the Delegation and Assumption of Capacity Assurance Responsibilities Agreement between the County and Buyer and the Cooperation Agreement between the County and Buyer both of which attached as Exhibit J.

“County Release” means the general release executed by the County releasing Seller, the City, their respective successors and Buyer from any and all claims it may have against Seller and the City and Buyer for matters relating to, or arising from, the Acquired Assets.

“Covanta” means Covanta Harrisburg, Inc. and Affiliates.

“Covanta Loan” means that certain unsecured loan in the initial principal amount of approximately Twenty Million Nine Hundred Thousand Dollars (\$20,900,000) extended by Covanta to Seller on or about December 27, 2007 for the purpose of retrofitting the Facility.

“Covanta Release” means the general release executed by Covanta releasing Seller, successors in interest to Seller, Buyer and all other Persons from any and all claims it may have against Seller, Buyer and other Persons for matters relating to, or arising from, the Acquired Assets, including claims relating to the MPSA and Covanta Loan.

“Dataroom” means that certain virtual dataroom through which Seller and its representatives have provided various materials, documents, and information throughout Buyer’s due diligence review process.

“Dauphin County Recycling Center” means the building and associated improvements owned by the County and used by the County for the operation of a recycling program pursuant to the DCRC Ground Lease and located upon the Real Estate. The building and associated Improvements does not form a part of the Real Property.

“DCRC Ground Lease” means the lease from Seller to Dauphin County of the portion of the Real Estate upon which the Dauphin County Recycling Center is located.

“Deed” means the Special Warranty Deed attached as Exhibit D.

“DEP” means the Department of Environmental Resources of the Commonwealth of Pennsylvania.

“Deposit” means Five Hundred Thousand Dollars (\$500,000) deposited by Buyer with the Escrow Agent pursuant to the Escrow Agreement pursuant to Section 2.04 and all interest earned upon the Five Hundred Thousand Dollars (\$500,000).

“Dewatering and Drying Building” means the building located upon the Real Estate and the part of the Real Property used to dewater and dry sewage sludge.

“DGS” means the Department of General Services of the Commonwealth of Pennsylvania.

“DGS Power Purchase Agreement” means the Intermunicipal Power Purchase and Sale Agreement attached as Exhibit I.

“Disclosure Schedules” means the disclosure schedules of Seller delivered to Buyer on the date of this Agreement in connection with this Agreement.

“DPW Facility” means the structure located upon the Real Estate and the part of the Real Property and used by the City’s Department of Public Works for equipment and vehicle maintenance, storage and repair, and other related activities, but specifically excluding the contents of the DPW Facility.

“Electrical Plant” means the turbine located on the Real Estate and the part of the Real Property which uses steam to generate electricity for sale.

“Employee Plans” means all “employee benefit plans” within the meaning of Section 3(3) of ERISA, all formal written plans and all other compensation and benefit plans and contracts of Seller in effect as of the date hereof, including all pension, profit sharing, savings and thrift, bonus, stock bonus, stock option or other cash or equity-based incentive or deferred compensation, severance pay, and medical and life insurance plans in which any Employees of Seller participate.

“Employees” is defined in Section 3.08.

“Encumbrances” mean all claims, security interests, liens, pledges, charges, escrows, options, proxies, rights of first refusal, preemptive rights, mortgages, hypothecations, prior assignments, title retention agreements, indentures, security agreements or any other encumbrances or the use, transfer or ownership of any property.

“Environmental Laws” means the Comprehensive Environmental Response Compensation and Liability Act, 42 U.S.C. §§ 9601 et seq., the Resource Conservation and Recovery Act, 42 U.S.C. §§ 6901 et seq., the Toxic Substances Control Act, 15 U.S.C. §§ 2601 et seq., the Federal Water Pollution Control Act, 33 U.S.C. §§ 1251 et seq., the Safe Drinking Water Act, 42 U.S.C. §§ 3003 et seq., the Clean Air Act, 42 U.S.C. §§ 7401 et seq., the Emergency Planning and Community Right to Know Act, 42 U.S.C. §§ 11001 et seq., and any analogous federal, state or local statute, law, regulation, or ordinance regarding the protection of public health or the environment, including without limitation the Pennsylvania Solid Waste Management Act, 35 P.S. §§ 6018.101 et seq., the Pennsylvania Municipal Waste Planning, Recycling and Waste Reduction Act, 53 P.S. §§ 4000101 et seq. (“Act 101”), the Pennsylvania Clean Streams Law, 35 P.S. §§ 691.1 et seq., the Pennsylvania Air Pollution Control Act, 35 P.S. §§ 4001, et seq., the Pennsylvania Storage Tank and Spill Prevention Act, 35 P. S. §§ 6021.101 et seq., the Susquehanna River Basin Compact, P.L. 91-575 (84 Stat. 1509 et seq.), any other statutes, laws, regulations or ordinances under which the Facility Permits have been issued or which otherwise regulate the operations of the Facility or at or on the Real Estate, and any and all other laws pertaining to the protection of land, water, air, health, safety or the environment, whether now or in the future enacted, promulgated or issued, all as such statutes, laws, regulations and ordinances are or may be amended from time to time.

“Environmental Liabilities” means all Liabilities or Losses arising from environmental or public health conditions, the Release of Hazardous Materials into the environment, or compliance with Environmental Laws, Environmental Permits or Environmental Orders, whether based on contract, tort, implied or express warranty, strict liability or criminal or civil statute. Environmental Liabilities includes any Liabilities or Losses related to any Remediation, the cost to achieve compliance with Environmental Laws, Environmental Permits, or Environmental Orders, any Lien in favor of any Governmental Authority for Environmental Liabilities, or any agreement with a Governmental Authority regarding Environmental Liabilities.

“Environmental Order” means any judgment, order, award or decree of any federal, state, local or other court, tribunal or administrative agency related to any Environmental Liability and any award in any arbitration proceeding (or Contract entered into in any administrative, judicial or arbitration proceeding with any Governmental Authority) regarding an Environmental Liability.

“Environmental Permits” means all permits, licenses, approvals, immunities, entitlements and other authorizations issued pursuant to any Environmental Law that are needed for, used in connection with or otherwise relating to the development, construction, operation, use, or maintenance of the Facility.

“Epstein Allegations” is defined in Section 3.09(e).

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

“Escrow Agent” means Fulton Bank.

“Escrow Agreement” means that certain Escrow Agreement by and among Buyer, Seller and the Escrow Agent, in the form of Exhibit C attached hereto.

“EWRS” means that certain effluent water reuse system located on the Real Estate and forming a part of the Real Property.

“Excluded Assets” is defined in Section 2.02.

“Excluded Liabilities” is defined in Section 2.07(b).

“Facility” is defined in the Background paragraphs to this Agreement.

“Final Net Adjustment Amount” is defined in Section 2.08(c).

“Financial Statements” means the audited balance sheets of Seller as of December 31, 2011 and the related audited statements of income and cash flows for the period then ended, including notes thereto, together with the report thereon Seller’s independent certified public accountants.

“GAAP” means the United States generally accepted accounting principles and practices as in effect from time to time and applied consistently throughout the periods involved.

“Governmental Authority” means the government of any nation, state, city, locality or other political subdivision of any thereof, any agency, entity or instrumentality exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, regulation or compliance, including any state or local public utility commission and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

“Governmental Authorizations” means any approvals, concessions, consents, franchises, licenses, permits and other authorizations of all applicable Governmental Authorities necessary for the consummation of the Contemplated Transactions, in each case other than Environmental Permits.

“Governmental Permits” means all permits, licenses, approvals, immunities, entitlements and other authorizations, franchises, registrations, consents and certificates of need held or applied for by any Person from any Governmental Authority, including all filings, certificates of occupancy, operating permits, sign permits, development rights and approvals, zoning, building, safety and health approvals and rights and all other permits needed for, used in connection with or otherwise relating to the development, construction, operation, use or maintenance of the Facility, in each case other than Environmental Permits.

“Hazardous Materials” means any substance, the Release, emission, discharge, use, treatment, storage, or disposal of which is regulated or governed by, or subject to, any Environmental Law, including petroleum and petroleum derivatives.

“Improvements” is defined in Section 2.01(b).

“Indemnified Party” is defined in Section 9.04(a).

“Indemnifying Party” is defined in Section 9.04.

“Independent Engineer’s Report” means the report issued by HDR Engineering, Inc. in connection with issuance of the Acquisition Bonds.

“Insurance Payment” is defined in Section 9.05(a).

“Intellectual Property” means all trademarks, trademark applications and registrations, trade names, service marks, service names, domain names, symbols, logos, know-how, copyrights and other proprietary materials or intellectual property rights used or held for use by Seller.

“IRS” means the Internal Revenue Service of the United States of America.

“Knowledge” (i) with respect to Seller, means the actual (and not constructive, imputed or implied) knowledge of Shannon G. Williams, P.E., Executive Director of Seller, and Jack D. Lausch, Facility Director of Seller, and (ii) with respect to Buyer, means the actual (and not constructive, imputed or implied) knowledge of James D. Warner and Thomas F. Adams. No such person shall have any personal liability or obligation whatsoever with respect to any of the

matters set forth in this Agreement and any other documents, agreements, or instruments related thereto or any of the representations made by Seller or Buyer, as the case may be, being or becoming untrue, inaccurate or incomplete in any respect.

“Law” means any federal, state and local law, statute, ordinance, rule, regulation, code (including any zoning code, fire code or health and safety code), Governmental Permit, order, decree or similar edict enacted, adopted, issued or promulgated by or any Contract with, any Governmental Authority, including all Orders.

“Legal Proceedings” means a claim, action, suit or other legal proceeding formally instituted in a court or other legal, administrative or governmental tribunal or similar judicial or governmental body.

“Liabilities” means liabilities or obligations of any nature, whether asserted or unasserted, liquidated or unliquidated, absolute or contingent.

“Lien” means, with respect to any property or asset, any lien, security interest, mortgage, pledge, charge, claim, assessment, lease, right of first refusal, option, limitation on transfer or use or assignment or licensing, restrictive easement or any other encumbrance or restriction of any kind.

“Losses” means obligations, Taxes, Liabilities, losses, penalties, charges, actual damages, deficiencies, costs and expenses (whether or not arising out of third-party claims), including interest, penalties and other losses, court costs, reasonable attorneys’ fees and expenses and all amounts paid in investigation, defense or settlement of any of the foregoing; provided, however, in no event shall Losses include punitive, consequential, incremental or special damages or lost profits and the amount of any Losses will be determined net of amounts recovered under insurance policies or other collateral sources (such as contractual indemnities of any Person which are contained outside of this Agreement) with respect to a particular Loss.

“Mass Burn Facility” is defined in the Background paragraphs to this Agreement.

“Material Adverse Effect” means any matter, event, change or effect that is or would reasonably be expected to be materially adverse to the assets, properties, business, operations, liabilities, results of operation, or financial condition of Seller, the MSW Services or the Facility; provided, that a “Material Adverse Effect” shall exclude any adverse effect resulting from (A) changes or conditions in the United States economy (or in any region thereof) or financial markets generally, (B) commencement, continuation or escalation of acts of terrorism or war, material armed hostilities, or other material international or national calamity or act of terrorism directly or indirectly involving or affecting the United States, (C) the pendency, execution, delivery, performance or public announcement of this Agreement or the consummation of the Contemplated Transactions, (D) changes in GAAP (or any interpretations thereof), (E) any change or development resulting from the unreasonable failure of Buyer to consent to any of the actions proscribed in Section 5.01, (F) proposed changes in Law not specific to the MSW Services or the Facility, (G) changes in legal, regulatory, political, economic or business

conditions, generally (H) changes of which Buyer was aware of on the date of this Agreement, or (I) changes due to the resignation or termination of any Employee or of the Receiver.

“Material Contracts” means the Assumed Contracts and (i) which require annual payments in excess of Ten Thousand Dollars (\$10,000) per annum, (ii) which are not terminable upon less than one hundred twenty (120) days’ notice without premium or penalty or (iii) which otherwise provide or require a material service to or from Seller with respect to the Facility, a list of which is set forth on Schedule 3.06.

“Member Communities” means the City of Harrisburg and County of Lancaster.

“Mitigation Payment” is defined in Section 9.05(a).

“MPSA” means that certain Management and Professional Services Agreement, dated as of May 29, 2007, executed by and among Seller and Covanta, as amended from time to time.

“MPSA Release Agreement” means the general release which may be part of an amendment to the MPSA, releasing Seller and its successors from any and all claims it may have against Seller for matters relating to, or arising from, the MPSA and which includes the Covanta Release.

“MSW” means (a) any garbage, refuse, industrial lunchroom or office waste and other material, including solid, liquid, semisolid or contained gaseous material, resulting from operation of residential, municipal, commercial or institutional establishments and from community activities and (b) any sludge not meeting the definition of residual or hazardous waste in the Solid Waste Management Act from a municipal, commercial or institutional water supply treatment plant, wastewater treatment plant or air pollution control facility and (c) leaves, garden residues, grass clippings, shrubbery and tree trimmings, and similar material. MSW does not include recycled materials or composted materials, or truckloads composed primarily of leaves, garden residues, grass clippings, shrubbery and tree trimmings, and similar material.

“MSW Services” is defined in the Background paragraphs to this Agreement.

“Municipality Act” means the Municipality Authorities Act of 1945 as enacted in the Commonwealth of Pennsylvania, as amended.

“Net Adjustment Amount” is defined in Section 2.08(b).

“Net Proceeds” means the par amount of the applicable bonds, less any original issue discount, and plus any original issue premium.

“Notice of Loss” is defined in Section 9.04(a).

“O&M Agreements” is defined in Section 2.01(e).

“OFAC” is defined in Section 4.08(a).

“Operating Agreement” means the agreement, between Buyer and Seller, sufficient for DEP to allow Buyer to operate the Facility after Closing and provide the MSW Services under Seller’s Environmental Permits, as provided in Section 6.09.

“Order” means any judgment, order, award or decree of any federal, state, local or other court, tribunal or administrative agency, and any award in any arbitration proceeding (or Contract entered into in any administrative, judicial or arbitration proceeding with any Governmental Authority), in each case other than Environmental Orders.

“Organizational Documents” means, as to any Person, such Person’s (i) certificate or articles of incorporation or formation or similar corporate charter, limited liability company formation or other instruments of organization or formation, (ii) articles of association, bylaws or other similar instruments and (iii) shareholder agreements, limited liability company agreements or operating agreements and other similar governing corporate documents, in each case, including any amendments thereto and restatements thereof.

“Other Environmental Allegations” is defined in Section 3.09(e).

“Party” or “Parties” is defined in the Preamble to this Agreement.

“Patriot Act” means the USA Patriot Act of 2001, Pub. L. No. 107-56.

“Permitted Encumbrances” means (i) immaterial Liens for Taxes, assessments and other governmental charges not yet due and payable or delinquent or being contested in good faith, (ii) immaterial mechanics’, workmen’s, repairmen’s, warehousemen’s, carriers’ or other like Liens arising or incurred in the ordinary course of business, (iii) Encumbrances relating to utility easements serving the Facility or which are immaterial, (iv) Encumbrances otherwise relating to the Real Estate as disclosed on Schedule B-2 of that certain title report ordered by Buyer in furtherance of the Contemplated Transactions, (v) the DCRC Ground Lease and the interest of any tenant party thereto, together with the County’s interest in the improvements comprising the Dauphin County Recycling Center, and (vi) any Encumbrances which do not materially detract from the value of such Acquired Assets as now used, or materially interfere with the MSW Services or any present use of such Acquired Assets. The term Permitted Encumbrances does not include any Excluded Liability or lien related thereto.

“Person” means a natural person, a corporation, a limited liability company, a partnership, a joint venture, an association, a joint stock company, a trust, a trustee, an estate, an unincorporated organization, a real estate investment trust or any other entity or organization, including a government or political subdivision or any agency or instrumentality thereof.

“Pricing Date TIC” is defined in Section 2.06(a).

“Pricing Model” means the spreadsheet attached as Exhibit H.

“Purchase Price” is defined in Section 2.03.

“RACP Grant” is defined in Section 2.01(p).

“Real Estate” means the land described on Exhibit B attached hereto and all rights, privileges, easements and appurtenances to such land or the improvements located thereon, excluding the Dauphin County Recycling Center, including any air, development, water, hydrocarbon or mineral rights held by or leased by the owner thereof or appurtenant to the land or improvements and all rights or interest relating to all licenses, easements, rights-of-way, claims, rights or benefits, covenants, conditions and servitudes and other appurtenances used or connected with the beneficial use or enjoyment of such land or improvements and all rights or interests relating to any roads, alleys or parking areas adjacent to or servicing such land or improvements (including access ways to and from both 19th Street and Route 230) and any award made to or to be made in lieu thereof and any award for damage to any parcel by reason of a change of grade in any street, alley, road or avenue, as aforesaid.

“Real Property” is defined in the Background paragraphs to this Agreement.

“Receiver” means the holder of the Office of the Receiver for the City of Harrisburg, Receiver for the Commonwealth of Pennsylvania, appointed pursuant to the Municipalities Financial Recovery Act (Act 47), Act of July 10, 1987, P.L. 246, as amended, 53 P.S. §§11701-101-117011710. The Receiver is, as of the date of this Agreement, General William Lynch.

“Recovery Plan” is defined in the Background paragraphs to this Agreement.

“Release” means any presence, emission, spill, seepage, leak, escape, leaching, discharge, injection, pumping, pouring, emptying, dumping, disposal, migration, or release of Hazardous Materials from any source into or upon the environment, including the air, soil, improvements, surface water, groundwater, the sewer, septic system, storm drain, publicly owned treatment works, or waste treatment, storage, or disposal systems.

“Remediation” means any investigation, clean-up, removal action, remedial action, restoration, repair, response action, corrective action, monitoring, sampling and analysis, closure, or post-closure in connection with the suspected, threatened or actual Release of Hazardous Materials.

“Resolving Accounting Firm” is defined in Section 2.08(c).

“Restated City Disposal Agreement” means the Assignment, Amendment and Restatement of Municipal Waste Disposal Agreement between the City and Buyer attached as Exhibit K.

“Seller” is defined in the Preamble of this Agreement.

“Seller Indemnitee” or “Seller Indemnites” is defined in Section 9.01.

“Seller’s Closing Costs” means certain fees and costs payable by Seller and/or the Receiver in connection with the sale contemplated by this Agreement in an amount not to exceed One Million Six Hundred Thousand Dollars (\$1,600,000).

“Specially Designated Nationals and Blocked Persons” is defined in Section 4.08(a).

“Steam Agreement” shall mean the agreement between Buyer and the Borough of Columbia under which the Borough leases the Electrical Plant from Buyer and Buyer sells steam to the Borough.

“Steam Lines” shall mean those certain steam lines originating from within the boundaries of the Real Estate.

“Subordinate Note” is defined in Section 7.01(m).

“Survival Period” is defined in Section 9.03(a).

“Tax(es)” means any tax, governmental fee or other like assessment or charge of any kind whatsoever (including withholding on amounts paid to or by any Person), together with any interest, penalty, addition to tax or additional amount imposed by any Governmental Authority responsible for the imposition of any such tax (domestic or foreign).

“Tax Return” means any return, report or similar statement required to be filed with respect to any Taxes (including any attached schedules and workpapers), including any information return or report, claims for refund, amended return and declaration of estimated Tax.

“Termination Date” is defined in Section 11.01(b).

“Third Party Claim” is defined in Section 9.04(b).

“Third Party Hauler Agreements” is defined in Section 2.01(e).

“Third Party Payment” is defined in Section 9.05(a).

“Third Party Reports” means, collectively, the third-party reports with respect to the Real Property received by or otherwise made available to Buyer in connection with this Agreement, including environmental reports, engineering reports, title commitments, surveys and zoning reports.

“Transaction Documents” means this Agreement, the Escrow Agreement, the MPSA Release Agreement, the CIT Settlement Agreement, the amended Receiver’s Recovery Plan as described in Section 7.01(a), the County Agreements between the County and Buyer, the Restated City Disposal Agreement between the City and Buyer, the Steam Agreement between Buyer and the Borough, the Power Purchase Agreement between the Borough and DGS, the resolution approving the amended County Act 101 Plan, the Subordinate Note, the AGM Release, the RACP Grant, the County Release, the Covanta Release and any other agreement, certificate, instrument or writing delivered in connection with this Agreement or the consummation of the Contemplated Transactions.

“Transfer Taxes” is defined in Section 10.01.

“Treasury Regulations” means, with respect to the Code or any specific section thereof, the regulations promulgated by the IRS (or any successor agency or regulatory body thereto) and pertaining to the Code or such specific section thereof.

“True Interest Cost” means the rate of interest, compounded semiannually, required to discount the payments of principal and interest to bondholders to the original purchase price.

“Unused Closure Funds” means the amount contained at Closing in Closure funds in excess of the amount required by DEP to be maintained to secure the closure obligations of the Ashfill and the decommissioning obligations of the Facility, as approved by DEP, or if DEP approval has not been obtained, as determined under Section 6.08.

“U.S. Person” is defined in Section 4.08(a).

“Water and Sewer Assets” means any and all assets owned by Seller and related to the Water and Sewer Services, excluding the EWRS.

“Water and Sewer Services” is defined in the Background paragraphs to this Agreement

EXHIBIT B

Real Estate and Legal Descriptions

That certain 59.5 acre parcel of real property owned by Seller located in the City of Harrisburg, Pennsylvania, and Swatara Township, Dauphin County, Pennsylvania, more fully described as follows:

[Attached]

EXHIBIT C

Escrow Agreement

[Attached]

EXHIBIT D

Form of Special Warranty Deed

[Attached]

EXHIBIT E

Form of Bill of Sale

[Attached]

EXHIBIT F

Form of Assignment and Assumption Agreement

[Attached]

EXHIBIT G

Form of Certificate of Non-Foreign Status

[Attached]

EXHIBIT H

Sources and Uses: Pricing Model

[Attached]

EXHIBIT I

DGS Power Purchase Agreement

[Attached]

EXHIBIT J

County Agreements

[Attached]

EXHIBIT K

Restated City Disposal Agreement

[Attached]

EXHIBIT L

Operating Agreement

[Attached]

EXHIBIT 2

Draft August 23, 2013

**ASSIGNMENT, AMENDMENT AND RESTATEMENT OF
MUNICIPAL WASTE DISPOSAL AGREEMENT**

Between

CITY OF HARRISBURG

and

**LANCASTER COUNTY
SOLID WASTE MANAGEMENT AUTHORITY**

Dated as of _____, 2013

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**ASSIGNMENT, AMENDMENT AND RESTATEMENT OF
MUNICIPAL WASTE DISPOSAL AGREEMENT**

THIS ASSIGNMENT, AMENDMENT, AND RESTATEMENT OF MUNICIPAL WASTE DISPOSAL AGREEMENT (this "Agreement") is made and entered into as of the ___ day of August, 2013, by and between the City of Harrisburg (the "City"), a Third Class City of the Commonwealth of Pennsylvania, and the Lancaster County Solid Waste Management Authority ("LCSWMA"), a municipal authority incorporated under the Authorities Act.

Background. The Harrisburg Materials Energy and Resource Recovery Facility (the "HMERRF" or "SRMC") is a solid waste acceptance, transfer and processing, steam and electric generation and ash disposal facility located at 1670 South 19th Street, Harrisburg, Pennsylvania, in the City of Harrisburg and Township of Swatara. The HMERRF was originally constructed, owned and operated by the City. The City sold the HMERRF to The Harrisburg Authority ("THA"), a municipal authority incorporated by the City under Authorities Act. THA owns the HMERRF as well as a sewer and water system serving the City and surrounding municipalities. THA is in financial distress due in part to high levels of debt upon the HMERRF (the "HMERRF Debt"). Most of the HMERRF Debt has been guaranteed by the City. In part due to the HMERRF Debt, a Receiver for the City (the "Receiver") has been appointed and is in the process of obtaining Court approval of a recovery plan for the City (the "Recovery Plan").

The HMERRF provides waste processing and disposal services to the City and others. On December 1, 1993, the City entered into a Municipal Solid Waste Disposal Agreement with THA, which was subsequently amended on June 4, 2003 to extend the term to 2036 and amended again on January 1, 2007 (as amended, the "THA Agreement"). The current City Regulated Municipal Waste Tipping Fee under the THA Agreement is Two Hundred Dollars (\$200.00) per Ton.

In order to provide efficient and effective municipal solid waste disposal services for the residents and businesses of the City, the HMERRF should be acquired and operated by LCSWMA (the "Acquisition"). The Acquisition and the other actions contemplated by the Recovery Plan will greatly contribute to the retirement in HMERRF Debt in excess of Three Hundred and Thirty Million Dollars (\$330,000,000) and to the return of the City to a sound financial footing.

In order for the Acquisition to generate a purchase price to THA sufficient to retire a significant portion of the HMERRF Debt and enable a successful Recovery Plan, it is necessary for, among other things, all certain solid waste generated within the City to be delivered, processed and disposed by LCSWMA under the long term rates as set forth in this Agreement. Without long term contracts the HMERRF has a very limited value. LCSWMA would not close under the Asset Purchase Agreement with THA at the Acquisition price stated in the Asset Purchase Agreement without the City's execution of this Agreement. Upon Acquisition, the HMERRF will be known as the Susquehanna Resource Management Complex.

Upon the Commencement Date, THA will assign the THA Agreement to LCSWMA, this Agreement will be an Amended and Restated THA Agreement, and THA will have no further responsibility under the THA Agreement. The City will collect, directly or indirectly, all City

Regulated Municipal Waste and arrange for its delivery to the SRMC. At present, the City collects certain City Regulated Municipal Waste and certain commercial City Regulated Municipal Waste is collected by private haulers under contract with the generators. The City has issued a request for proposals for a contract (a "Collection Contract") with a private Hauler or Haulers to collect and deliver to the R certain residential City Regulated Municipal Waste on behalf of the City. At this time, it is not known whether or not the City will enter into a Collection Contract or whether the City will continue to collect residential City Regulated Municipal Waste with the City's own forces.

This Agreement is intended to set forth the terms and conditions under which under which the SRMC will continue to accept, process and dispose of all City Regulated Municipal Waste delivered to the SRMC and under which the City, or its designated agent, will pay to LCSWMA certain Tipping Fees for City Regulated Waste delivered by the City and certain Shortfall Fees if receipts from City Regulated Municipal Waste fall below that which should be received by delivery of the Base Tonnage.

Capitalized terms used in this Agreement shall be defined as set forth in Article XI of this Agreement.

NOW, THEREFORE, with the foregoing background incorporated by reference and in consideration of the mutual obligations undertaken in this Agreement, and in consideration of LCSWMA entering into the Asset Purchase Agreement, the City and LCSWMA agree as follows:

ARTICLE I
TERM

Section 1.01 Commencement Date. Delivery and acceptance of waste under this Agreement shall commence on the date LCSWMA closes upon the Acquisition (the "Commencement Date"), which is expected to be on or about October 16, 2013, and shall continue until the twentieth (20th) anniversary of the Commencement Date (the "End Date") unless terminated early pursuant to this Agreement. If the conditions precedent set forth in Article II are not met on or before October 16, 2013, and neither party has terminated this Agreement pursuant to Section 1.03, the Commencement Date shall be the date LCSWMA closes upon the Acquisition.

Section 1.02 Termination before Commencement. If the Acquisition and the Commencement Date have not occurred on or before December 31, 2013, then, if all of the conditions precedent set forth in the following Article II are not satisfied or are not waived by the Party whose obligations are conditioned thereon, then either Party may, by notice in writing to the other Party, terminate this Agreement as of the date of such notice. Nothing in this Section 1.02 shall be deemed to relieve the Parties of their obligations pursuant to Article II, including but not limited to Section 2.04(b).

Section 1.03 Termination after Commencement. On and after the Acquisition and the Commencement Date, the City may terminate this Agreement at any time upon one hundred and

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eighty (180) days prior written notice to LCSWMA, provided that the notice of termination is accompanied by the Termination Fee.

Section 1.04 Termination Fee. In consideration of LCSWMA entering into the Asset Purchase Agreement and completing the Acquisition, in the event that, after the Commencement Date, this Agreement terminates for any reason other than by written notice of termination without cause by LCSWMA, or by termination by the City under Article IX by written notice after an uncured Event of Default of LCSWMA, then, in such event, the City shall pay, on or before earlier of the date the City gives notice of termination or the date of termination (the “Termination Date”), a dollar amount (the “Termination Fee”) which is equal to the net present value, using a discount rate of three percent (3%), of a daily cash flow stream calculated as follows:

(95.9 for each day between the Termination Date and the End Date inclusive)

times

(the Tipping Fee in dollars applicable to such day minus \$21.00).

Section 1.05 Extension of Term. As part of the Acquisition, in order to enable certain subordinated debt to be issued by LCSWMA to repay more of the SRMC Debt and allow the Recovery Plan to be implemented, the County may agree to extend Waste Flow Control beyond the End Date. If this Agreement is still in effect and the County extends Waste Flow Control of County Regulated Municipal Waste to the SRMC beyond the End Date, then this Agreement shall be extended for as long as such Waste Flow Control continues, up to a maximum of the tenth (10th) anniversary of the End Date. This Agreement may also be extended by mutual agreement of the parties. During any extended term after the End Date, the City Tipping Fee for City Regulated Municipal Waste shall be lowered to the same rate as the Tipping Fee for the remainder of County Regulated Municipal Waste, with no Tipping Fee Rebate.

ARTICLE II
CONDITIONS PRECEDENT

Section 2.01 General.

All rights, obligations and liabilities of the City and the LCSWMA under this Agreement on and after the Commencement Date shall be subject to the satisfaction of each of the respective conditions precedent set forth in Sections 2.02 and 2.03 on or before the Commencement Date.

Section 2.02 Conditions to City Obligations.

Unless waived by the City, the Commencement Date shall not occur unless each of the following conditions has been met to the City’s satisfaction:

(a) LCSWMA shall have delivered to the City a certificate of an authorized officer of LCSWMA, dated as of the Commencement Date, to the effect that each of the representations of LCSWMA set forth in Section 12.02 are true and correct as if made on such

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date, and an opinion of counsel to LCSWMA, in customary form and acceptable to the City, to the effect set forth in clauses (a) through (d) of Section 12.02;

(b) all applicable permits and licenses necessary for the disposal of Municipal Waste at the SRMC shall be in full force and effect;

(c) the Acquisition shall have closed and LCSWMA shall own the SRMC.

Section 2.03 Conditions to LCSWMA Obligations.

Unless waived by LCSWMA, the Commencement Date shall not occur unless each of the following conditions has been met to LCSWMA's satisfaction:

(a) the Receiver shall have approved this Agreement and the Recovery Plan shall have been approved by the Commonwealth Court, all appeal periods having expired;

(b) the Mayor of the City and a majority of the City Council shall have approved this Agreement by resolution or ordinance, and shall have adopted a resolution or ordinance which approves the Acquisition, this Agreement, and the appropriate approval of the sale of electricity generated by the SRMC in accordance with Section 5607(b)(3)(i) of the Authorities Act;

(c) each condition to closing under the Asset Purchase Agreement shall be met or waived by LCSWMA;

(d) the Acquisition shall have closed and LCSWMA shall own the SRMC, provided that LCSWMA shall have no obligation to close the Acquisition unless all the terms and conditions of the Acquisition Agreement between LCSWMA and THA are met to LCSWMA's satisfaction;

(e) THA shall have assigned the THA Agreement to LCSWMA;

(f) the Deposit Account shall have been funded in accordance with this Agreement and the City shall have granted LCSWMA a pledge and first position security interest in the Parking Revenues;

(g) the City and the County shall have taken all necessary and appropriate steps to impose Waste Flow Control and the County Plan shall continue to require all County Regulated Municipal Waste to be delivered to the SRMC;

(h) the City shall have delivered to LCSWMA a certificate of the City, dated as of the Commencement Date, to the effect that each of the representations of the City set forth in Section 12.01 are true and correct as if made on such date, and an opinion of counsel to the City, in customary form, to the effect set forth in clauses (a) through (d) of Section 12.01;

(i) no action, suit, proceeding or official investigation shall have been commenced by any Person or federal, Commonwealth or local governmental authority or agency

other than LCSWMA in any federal, Commonwealth or local court, that seeks to enjoin, assess civil or criminal penalties against, assess civil damages against or obtain any judgment, order or consent decree with respect to the City or LCSWMA as a result of the City's participation or intended participation in any transaction contemplated by this Agreement if any such action, suit, proceeding or investigation would, if adversely determined, materially affect this Agreement, or the performance by the Parties of their respective obligations under this Agreement or the transactions contemplated by this Agreement; provided, however, that this paragraph (b) shall not apply to any action, suit, proceeding or official investigation the probable results of which will not in the opinion of counsel to the City materially adversely affect this Agreement, the performance by the City or LCSWMA of their obligations under this Agreement, or their participation or intended participation in any of the transactions contemplated by this Agreement;

(j) no change shall have occurred after the Contract Date in any applicable federal, Commonwealth or local law, or any applicable federal, Commonwealth or local rule, regulation or ordinance thereunder, or in the interpretation thereof by any applicable regulatory authority, that would make the execution or delivery by the City or LCSWMA of this Agreement, or would make compliance by the City or LCSWMA with the terms and conditions of this Agreement or the consummation by the City or LCSWMA of the transactions contemplated by this Agreement, a violation of such law, rule, regulation or ordinance; and

(k) LCSWMA shall have obtained the necessary federal, state and local permits or approvals necessary for the operation of the SRMC, and all applicable permits and licenses necessary for the processing and disposal of Municipal Waste at the SRMC, or, in the alternative, it shall be apparent that such permits, approvals and licenses will be issued in due course and LCSWMA and THA shall have entered into an operating agreement allowing LCSWMA to operate under THA's permits, approvals and licenses.

Section 2.04 Satisfaction of Conditions Precedent.

(a) The Parties shall exercise good faith and due diligence in satisfying the conditions precedent set forth in this Article II and each Party shall give prompt notice to the other Party when the foregoing conditions precedent to its obligation have been respectively satisfied or waived in writing by the Party whose obligation is conditioned thereon.

(b) Neither Party shall be relieved of its obligations under this Agreement by the failure to satisfy any condition precedent to the extent that the satisfaction of such condition is within such Party's control.

(c) LCSWMA and the City shall each provide executed acknowledgment to the other Party that the conditions precedent to their respective obligations under this Agreement have been met immediately upon the satisfaction or waiver of such conditions precedent.

ARTICLE III
DELIVERY AND DISPOSAL OF REGULATED MUNICIPAL WASTE

Section 3.01 Overall Responsibilities. During the Term:

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(a) LCSWMA shall accept City Regulated Municipal Waste in accordance with all the terms and provisions of this Agreement, including charging the Tipping Fee inclusive of the Host Fee as set forth in Article IV below.

(b) The City shall maintain and enforce Waste Flow Control that requires Haulers and all other Persons to deliver all City Regulated Municipal Waste to the SRMC. Any Collection Contract of the City shall require delivery of all City Regulated Municipal Waste to the SRMC and payment of the Tipping Fees.

(c) LCSWMA shall accept, transfer, process or dispose all City Regulated Municipal Waste delivered to the SRMC.

(d) The City will pay, or cause to be paid, the Tipping Fee set forth in Section 4.01 for City Regulated Municipal Waste in accordance with the terms of LCSWMA invoices, which shall provide for payment net thirty (30) days.

(e) LCSWMA shall obtain and maintain all necessary licenses and permits in order to enable it to perform its obligations under this Agreement.

(f) LCSWMA shall be responsible for transportation and disposal of incinerator ash generated by the SRMC.

Section 3.02 Receiving Time.

LCSWMA shall keep the SRMC open for receiving City Regulated Municipal Waste during the Receiving Time, excluding Legal Holidays. Subject to applicable Commonwealth regulations and any permit issued thereunder, LCSWMA may receive Municipal Waste at the SRMC at such additional times as LCSWMA and the Haulers or generators may agree. LCSWMA may, in LCSWMA's discretion, accept the delivery of Municipal Waste at times other than the Receiving Time.

Section 3.03 Weighing of City Regulated Municipal Waste; Weigh Scale Records.

(a) LCSWMA shall operate and maintain the weigh scales located at the SRMC for the purpose of determining the total Tons of City Regulated Municipal Waste delivered to the SRMC. Disputes with respect to the accuracy of weigh scale records shall be resolved pursuant to the provisions of Article X.

(b) Each vehicle delivering City Regulated Municipal Waste shall be weighed-in, and the weight and origin of all such City Regulated Municipal Waste and the identity of the Hauler delivering such City Regulated Municipal Waste shall be recorded and maintained by LCSWMA for purposes of the preparation of LCSWMA's invoices for disposal services. LCSWMA shall maintain a weight record containing the weight, date, time, any applicable permit number and vehicle identification of each vehicle entering and exiting the SRMC delivering City Regulated Municipal Waste. LCSWMA may determine the weight of such vehicles leaving the SRMC by either weighing-out such vehicles or by establishing and relying on a system of posted tare weight measurements with regard to such vehicles. To the extent that Unacceptable Waste is delivered to the SRMC by or on behalf of the City but is not

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disposed of, LCSWMA may separately weigh such Unacceptable Waste leaving the SRMC and the Tons of such Unacceptable Waste shall not be credited to the total number of Tons of City Regulated Municipal Waste delivered by or on behalf of the City during any such month.

(c) LCSWMA shall cause the SRMC scales to be tested and recalibrated as often as may be required by Commonwealth law. The City shall have the right to review all test records and results. If all weighing facilities are incapacitated or are being tested, LCSWMA shall estimate the quantity of City Regulated Municipal Waste on the basis of daily truck volumes and estimated data obtained from historical information pertinent to the City and LCSWMA. These estimates shall take the place of actual weighing records during the scale outage.

Section 3.04 Haulers. So that LCSWMA can comply with the preceding Section of this Agreement:

(a) The City shall thirty (30) days before the Commencement Date provide LCSWMA with a list of all Haulers who will be delivering City Regulated Municipal Waste to the SRMC and a means of quickly and efficiently identifying and verifying such Haulers, as follows:

(i) If City Regulated Municipal Waste is collected by City employees in City vehicles, such employees and vehicles shall be identified to LCSWMA by the City.

(ii) If City Regulated Municipal Waste is collected by a private Hauler or Haulers pursuant to a contract with the City, such private Hauler employees and vehicles shall be identified to LCSWMA by the City.

(iii) If Persons other than City employees or contracted Haulers are entitled to collect and deliver to the SRMC City Regulated Municipal Waste (other than City Regulated Municipal Waste which has been generated within such Person's residential household) then those Persons shall and their vehicles shall also be identified to LCSWMA by the City.

(b) LCSWMA shall be entitled to require that all the Persons identified in the preceding Section 3.04(a) abide by the SRMC Rules and Regulations and agree to affix a clearly visible LCSWMA identifying placard to the applicable delivery vehicle.

(c) Upon the request of LCSWMA, the City shall take such action as may be appropriate to require all Persons delivering City Regulated Municipal Waste to the SRMC to comply with the SRMC Rules and Regulations. Such action may include appropriate provisions in any City collection contracts, instructions to City employees, and ordinances. The City shall provide LCSWMA with all requested information, including contracts, concerning City contracted Haulers and City employees engaged in delivering City Regulated Municipal Waste to the SRMC.

(d) The SRMC Rules and Regulations may regulate safety, routing of delivery vehicles, traffic control, inspection of delivery vehicles, and other matters. LCSWMA Rules and Regulations may require each Hauler vehicle delivering City Regulated Municipal Waste to have

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its tare weight and, if applicable, LCSWMA identifying number conspicuously displayed on the exterior of the vehicle in a location designated by LCSWMA and reasonably visible to the operator of the scale house at the SRMC.

Section 3.05 Delivery of Waste.

(a) The SRMC Rules and Regulations may regulate all Persons delivering City Regulated Municipal Waste to the SRMC. The City shall provide any requested assistance to enforce the LCSWMA Rules and Regulations with respect to such Persons.

(b) LCSWMA reserves the right, after providing a Hauler with notice and a reasonable opportunity to correct improper performance, to eject a Hauler from, or refuse entry by a Hauler to, the SRMC, to reject deliveries and/or impose penalties and costs upon any Hauler for (i) failure to comply with all applicable rules, regulations and requirements, (ii) delivery of Unacceptable Waste or (iii) acting in any manner that could result in governmental enforcement action against LCSWMA or that endangers the health or safety of the public or LCSWMA's employees or citizens.

(c) With respect to the delivery of City Regulated Municipal Waste to the SRMC, the City and LCSWMA shall each cooperate with each other, and use their respective powers and authorities, to ensure compliance by Haulers with (i) the SRMC Rules and Regulations, and (ii) all applicable governmental rules, regulations and requirements.

(d) LCSWMA may reject deliveries of (i) truckloads composed primarily of Leaf Waste as that term is defined in the Act 101; (ii) solid waste other than Municipal Waste; and (iii) Municipal Waste delivered at other than the Receiving Time.

Section 3.06 Hazardous Waste and Unacceptable Waste.

The Parties shall mutually cooperate in connection with all matters regarding Hazardous Waste and Unacceptable Waste under this Agreement.

Section 3.07 Residual Waste, Municipal Waste Sludge and Special Handling Municipal Waste.

LCSWMA may, but is not required to, dispose of Residual Waste and/or Municipal Waste sludge and/or Special Handling Municipal Waste generated within the City.

ARTICLE IV
TIPPING FEE

Section 4.01 Tipping Fees.

(a) LCSWMA shall charge and the City, or its designated agent or Hauler, shall pay a Tipping Fee for City Regulated Municipal Waste in accordance with the Tipping Fee Schedule attached hereto as Schedule I. Notwithstanding that the City may designate an agent or Hauler to deliver City Regulated Municipal Waste and/or pay the applicable Tipping Fee, the City shall remain fully liable to pay all Tipping Fees and Shortfall Fees under this Agreement. In

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addition to the Tipping Fees shown on Schedule I, LCSWMA may charge minimum access fees for small vehicles, fees for mixed loads, fees for delivery of unacceptable waste, fees for unloading assistance, fees for violations of the SRMC Rules and Regulations, and other fees charged generally to users of the SRMC under the SRMC Rules and Regulations. The City acknowledges and agrees that the Tipping Fees and processing and disposal services provided by LCSWMA under this Agreement are actual and necessary costs for necessary services for the operation of the City.

(b) The Tipping Fee is inclusive of all current governmental fees upon the processing and disposal of waste, including the Host Fee. The Tipping Fee shall be increased or decreased by the amount of any increases or decreases in such governmental fees due to Change in Law, other than the Host Fee.

Section 4.02 Host Fee.

LCSWMA shall collect and remit to the City a Host Fee of initially One Dollar (\$1.00) per Ton of solid waste received at the SRMC. Beginning January 1, 2015, this Host Fee shall be adjusted annually on January 1 of each calendar year by multiplying the Host Fee used during the prior year times the then effective Consumer Price Index divided by the Consumer Price Index of the prior year. The Host Fee shall be paid by LCSWMA to the City on a quarterly basis. Each calendar year shall be divided into four equal three month quarters, and the Host Fee shall be paid within thirty (30) days after the end of each quarter.

Section 4.03 Billing and Payments.

LCSWMA or its representative or agent shall prepare and mail invoices to each Hauler subject to the Deposit Account for Tipping Fees charged during each month within ten (10) days of the end of such month. LCSWMA shall provide the City with a summary of such invoices which shall include: (i) the total Tons of City Regulated Municipal Waste delivered to the SRMC during each such month and (ii) the total receipts from Tipping Fees applicable to the preceding month.

Section 4.04 Shortfall Fee; Security for Payment; Tipping Fee Rebate.

(a) On January 1 of each calendar year, LCSWMA shall calculate the total Tons of City Regulated Municipal Waste received during the prior calendar year (each the "Annual Tonnage") and the total receipts for Tipping Fees during the prior calendar year. LCSWMA shall provide the City with a statement of the calendar year Annual Tonnage and receipts (the "Annual Statement") within thirty (30) days after each annual anniversary

(b) In the event that the Annual Tonnage for any calendar year is less than the minimum Thirty-Five Thousand (35,000) Tons required (the "Base Tonnage"), the City shall pay to LCSWMA a shortfall fee (the "Shortfall Fee"). The Shortfall Fee shall be calculated by taking the Base Tonnage, less the Annual Tonnage, multiplied by the then applicable Tipping Fee. The Shortfall Fee shall be due and payable from the City thirty (30) days after the rendering of the Annual Statement.

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(c) In lieu of the payment of City Regulated Municipal Waste Tipping Fees at the time of delivery by City contracted Haulers or City employees, the following security shall be granted to LCSWMA.

(i) LCSWMA will create and maintain a segregated Deposit Account (the "Deposit Account"). The City shall ensure that at all times after the Commencement Date the Deposit Account contains a minimum balance of One Million Dollars (\$1,000,000). In the event that any Tipping Fee invoice is not paid within thirty (30) days of the due date, or in the event that the City shall fail to pay the Shortfall Fee within thirty (30) days of the due date, LCSWMA is hereby authorized to withdraw from the Deposit Account any amount necessary to satisfy such Tipping Fee invoice and/or such Shortfall Fee. In such event, the City shall replace the amount withdrawn within thirty (30) days of notice. LCSWMA's exercise of its rights pursuant to this Section 4.04(c) shall not in any way limit LCSWMA's right to recover any additional amounts due from the City as a result of failure of the City or its agents to provide timely payment under this Agreement.

(ii) The City is receiving certain annual payments (the "Parking Revenues") as a result of transactions concerning the facilities of the Harrisburg Parking Authority. The City shall pledge and grant LCSWMA a continuing security interest in the Parking Revenues to secure the City's payment of Tipping Fees and the Termination Fee.

(d) In the event that the Annual Tonnage for any calendar year is greater than Thirty-Eight Thousand (38,000) Tons (the "Rebate Tonnage"), LCSWMA shall pay to the City a Tipping Fee rebate (the "Tipping Fee Rebate"). The Tipping Fee Rebate shall be calculated by taking the Annual Tonnage, less the Rebate Tonnage, times One Hundred Dollars (\$100). The Tipping Fee Rebate shall be due and payable to the City thirty (30) days after the rendering of the Annual Statement.

(e) LCSWMA may set off against the Tipping Fee Rebate or the Host Fee any amounts due by the City to LCSWMA, with or without an Event of Default.

(f) For purposes of this Section 4.04, all calculations relating to any calendar year which is less than twelve (12) months because it is the first or last year of the term of this Agreement shall be prorated.

ARTICLE V
ADDITIONAL CITY OBLIGATIONS

Section 5.01 City Approvals.

(a) Prior to execution of this Agreement, the Mayor of the City and a majority of the City Council shall approve this Agreement by resolution or ordinance.

(b) Promptly after execution of this Agreement, the Mayor of the City and a majority of the City Council shall adopt a resolution or ordinance which approves the Acquisition, the Asset Purchase Agreement and this Agreement.

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(c) Promptly after execution of this Agreement, the Mayor of the City and a majority of the City Council shall adopt a resolution or ordinance which provides appropriate approval of the sale of electricity generated by the SRMC in accordance with Section 5607(b)(3)(i) of the Authorities Act.

(d) Promptly after execution of this Agreement, the City shall take any necessary and appropriate steps to impose Waste Flow Control and direct all City Regulated Municipal Waste generated within the boundaries of the City to the SRMC. The City acknowledges that the County Plan and the Dauphin County Municipal Waste Management Ordinance designate the SRMC as the delivery point until 2033 for all Regulated Municipal Waste generated within Dauphin County, including all Regulated Municipal Waste generated within the City, and agrees that the disposal of City Regulated Municipal Waste is governed by the County Plan and Dauphin County Municipal Waste Management Ordinance. The City acknowledges and agrees that LCSWMA may issue and enforce SRMC Rules and Regulations applicable to City Regulated Waste, Haulers, and the SRMC under the County Plan and the Dauphin County Municipal Waste Management Ordinance.

Section 5.02 Removal of City Property.

(a) The City shall remove all property of the City's Department of Public Works from the SRMC within six (6) months of the Commencement Date, including but not limited to equipment, supplies, inventory, and inoperable, discarded or waste materials.

(b) At the City's sole cost and expense, the City shall remove all other City property not purchased by LCSWMA as part of the SRMC, stored at the SRMC within thirty (30) days of the Commencement Date, including but not limited to, artifacts stored in the Drying and Dewatering Building.

(c) LCSWMA will pay the City One Hundred and Fifty Thousand Dollars (\$150,000) if the removal pursuant to Section 5.02(a) and 5.02(b) above is completed in a manner reasonably satisfactory to LCSWMA (the "Removal") within six months (6) months of the Commencement Date. LCSWMA shall pay to the City an additional early moving bonus of One Hundred and Fifty Thousand Dollars (\$150,000) if the Removal occurs within three months (3) months of the Commencement Date.

(d) The City shall commence Removal immediately upon the Commencement Date, shall coordinate Removal efforts with LCSWMA so as to avoid interference with LCSWMA's operation of, or damage to any part of, the SRMC, shall complete the Removal in a good and workman like manner, leaving all structures in broom clean condition and shall provide LCSWMA with written notice when the Removal is completed.

Section 5.03 Steam Lines. The City, THA or THA's successor shall take and maintain ownership of any portion of any steam lines connected to the SRMC that are located beyond the boundaries of tract upon which the SRMC is located.

Section 5.04 Water and Sewer. The City shall cause THA or THA's successor to provide to LCSWMA, for use at the SRMC, water, effluent water and sewer services as required by the Asset Purchase Agreement.

Section 5.05 Cooperation. The City will cooperate in good faith with LCSWMA to accomplish the requirements of this Agreement.

ARTICLE VI
INDEMNIFICATION

Section 6.01 Indemnification by LCSWMA.

LCSWMA shall protect, indemnify, and hold harmless the City and its respective officials, employees and agents, (the “City Indemnified Parties”) from and against all liabilities, actions, damages, claims, demands, judgments, losses, costs, expenses, suits, or actions and reasonable attorneys’ fees, and shall defend the City Indemnified Parties in any suit, including appeals, for personal injury to, or death of, any Person or Persons, or for loss or damage to property arising out of (a) the acts or omissions of LCSWMA in the performance (or nonperformance) of LCSWMA’s obligations under this Agreement, or (b) the acts or omissions, whether or not negligent, of LCSWMA in owning, operating or maintaining the SRMC during the term of this Agreement, or (c) the disposal by LCSWMA of the products of processing Regulated Municipal Waste. LCSWMA is not, however, required to protect, indemnify or hold harmless any City Indemnified Party for loss or claim resulting from performance (or nonperformance) of the City’s obligations under this Agreement or the negligence or willful misconduct of any City Indemnified Party. LCSWMA’s indemnity is for the exclusive benefit of City Indemnified Parties and in no event shall such indemnity inure to the benefit of any third Person. Notwithstanding the foregoing, nothing in this Section 6.01 shall require LCSWMA to indemnify any party with respect to environmental problems or liability with the SRMC prior to the Commencement Date.

Section 6.02 Indemnification by the City.

The City shall protect, indemnify, and hold harmless LCSWMA, its officers, directors and employees and their affiliates (including subsidiaries), and their respective officers, members, employees and agents (the “LCSWMA Indemnified Parties”) from and against all liabilities, actions, damages, claims, demands, judgments, losses, costs, expenses, suits, or actions and reasonable attorneys’ fees, and shall defend LCSWMA Indemnified Parties in any suit, including appeals, for personal injury to, or death of, any Person or Persons, or for loss or damage to property arising out of the acts or omissions of the City or Haulers in the performance (or nonperformance) of the City’s obligations under this Agreement. The City is not, however, required to protect, indemnify or hold harmless any LCSWMA Indemnified Party for loss or claim resulting from performance (or nonperformance) of LCSWMA’s obligations under this Agreement or the negligence or willful misconduct of any Contractor Indemnified Party. The City’s indemnity is for the exclusive benefit of LCSWMA Indemnified Parties, and in no event shall such indemnity inure to the benefit of any third Person.

ARTICLE VII
UNCONTROLLABLE CIRCUMSTANCES

Section 7.01 Excuse for Nonperformance.

The failure of either Party to perform any obligation under this Agreement due to an Uncontrollable Circumstance shall not constitute a breach of any such obligation.

Section 7.02 Mitigation.

Each Party shall be obligated to take all reasonable steps to mitigate the adverse effect of any Uncontrollable Circumstance.

Section 7.03 Notices.

Each Party shall be obligated to provide prompt notice to the other Party of the occurrence of an Uncontrollable Circumstance and to specify the extent of the adverse effect of such event on the performance of such Party's obligations under the Agreement.

Section 7.04 Adjustment to the Tipping Fee for Uncontrollable Circumstances.

In the event that Uncontrollable Circumstances give rise to increased costs of operation or maintenance or requires capital investment in the SRMC, LCSWMA may increase the Tipping Fees by the amount of the increased costs upon notice to the City containing a detailed accounting and justification for a proposed Tipping Fee increase to compensate for the increased cost. Within thirty (30) days of receiving such notice, if the City disputes the Tipping Fee increase or the amount thereof, the dispute shall be resolved by good faith negotiations between the Parties. If no resolution has been reached after thirty (30) days of good faith negotiation between the Parties, either Party may elect to resolve such dispute pursuant to Section 7.05.

Section 7.05 Arbitration.

In the event the Party receiving notice of the occurrence of an Uncontrollable Circumstance shall dispute the claimed adverse effect, the dispute shall be resolved by arbitration pursuant to Article X.

ARTICLE VIII
EVENTS OF DEFAULT

Section 8.01 Events of Default by LCSWMA.

The following shall constitute Events of Default on the part of LCSWMA:

(a) The repeated failure or refusal by LCSWMA to fulfill all or any of LCSWMA's obligations under this Agreement;

(b) (i) LCSWMA's being or becoming insolvent or bankrupt or ceasing to pay its debts as they mature or making an arrangement for the benefit of its creditors or

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consenting to or acquiescing in the appointment of a receiver, trustee or liquidator for a substantial part of its property, or (ii) a bankruptcy, winding up, reorganization, insolvency, arrangement or similar proceeding instituted by or against LCSWMA under the laws of any jurisdiction, which proceeding has not been dismissed within thirty (30) days, or (iii) any action or answer by LCSWMA approving of, consenting to, or acquiescing in, any such proceeding, or (iv) the levy of any distress, execution or attachment upon the property of LCSWMA which shall substantially interfere with LCSWMA's performance under this Agreement;

(c) The failure of LCSWMA to operate the SRMC for a continuous period of one hundred and eighty (180) days. Operation as a transfer station is sufficient.

Section 8.02 Events of Default by the City.

The following shall constitute Events of Default on the part of the City:

(a) The repeated failure or refusal by the City to fulfill all or any of its obligations under this Agreement, other than the obligation to pay money when due;

(b) (i) The City's being or becoming insolvent or bankrupt or ceasing to pay its debts as they mature or making an arrangement with or for the benefit of its creditors or consenting to or acquiescing in the appointment of a receiver, trustee or liquidator for a substantial part of its property, or (ii) a bankruptcy, winding up, reorganization, insolvency, arrangement or similar proceeding instituted by or against the City under the laws of any jurisdiction, which proceeding has not been dismissed within thirty (30) days, or (iii) any action or answer by the City approving of, consenting to, or acquiescing in, any such proceeding, or (iv) the levy of any distress, execution or attachment upon the property of the City which shall substantially interfere with the City's performance under this Agreement; and

(c) The failure on the part of the City to pay all or any amounts owed to LCSWMA under this Agreement, within thirty (30) days following the date such amounts become due, or to make such other arrangements with LCSWMA as may be mutually agreed in writing.

ARTICLE IX
REMEDIES

Section 9.01 Remedies of the City.

(a) An Event of Default under Section 8.01(a) shall entitle the City to institute a legal proceeding seeking specific performance of this Agreement, and LCSWMA agrees that with respect to such action brought against LCSWMA by the City, that the award of damages at law is not an adequate remedy for an Event of Default under Section 8.01(a), nor the equivalent of the performance of LCSWMA's obligations under this Agreement.

(b) If, within a period of thirty (30) days after LCSWMA shall have received notice from the City that an Event of Default has occurred under Section 8.01, and LCSWMA has neither remedied, nor has commenced and continued to pursue with due diligence, a remedy for any such Event of Default, the City may terminate this Agreement upon thirty (30) days'

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prior written notice to LCSWMA unless such Event of Default is cured within such thirty (30) day period, or such longer period as may be reasonably required.

(c) An Event of Default of the character described in Section 8.01(b) of this Agreement shall not require notice by the City as provided above, but shall terminate this Agreement forthwith.

(d) This Section 9.01 shall survive the termination of this Agreement.

Section 9.02 Remedies of LCSWMA.

(a) An Event of Default under Section 8.02(a) shall entitle LCSWMA to institute a legal proceeding seeking specific performance of this Agreement, and the City agrees that with respect to such actions brought against the City by LCSWMA, that the award of damages at law is not an adequate remedy for an Event of Default under Section 8.02(a) of this Agreement, or the equivalent of the performance of the City's obligations under this Agreement.

(b) If, within a period of thirty (30) days after the City shall have received notice from the City that an Event of Default has occurred under Section 8.02(c), and the City has neither remedied, nor has commenced and continued to pursue with due diligence, a remedy for any such Event of Default, nor has commenced an appropriate proceeding to dispute the existence of an Event of Default, LCSWMA may terminate the Agreement upon ten (10) days' prior written notice to the City unless such Event of Default is cured within such ten (10) day period, and in the event of failure to cure, case the Termination Fee shall be due.

(c) An Event of Default described in Section 8.02(b) of this Agreement shall not require notice by LCSWMA as provided above, but shall terminate this Agreement forthwith, in which case the Termination Fee shall be due.

(d) This Section 9.02 shall survive the termination of this Agreement.

Section 9.03 Manner of Termination Payment.

Within thirty (30) days following the termination or expiration of this Agreement for any reason, the Parties shall use best efforts to reconcile all amounts then due and payable to either Party under the terms of this Agreement, including but not limited to the obligation to pay the Termination Fee. The total amount of the net outstanding unpaid balance which either Party may owe the other, the City or LCSWMA as the case may be, shall, within sixty (60) days after termination or expiration of this Agreement, be paid by the applicable Party. This Section 9.03 shall survive the termination of this Agreement.

ARTICLE X
DISPUTE RESOLUTION

Section 10.01 Scope.

In the event any controversy, claim or dispute between LCSWMA and the City shall arise with respect to the provisions of this Agreement or the transactions contemplated by this Agreement, the City and LCSWMA shall resolve the dispute in accordance with this Article X.

Section 10.02 Resolution.

(a) The dispute shall be, unless otherwise agreed to by the parties, exclusively referred to, and finally determined by, arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association by three (3) arbitrators. The appointment of the arbitrators shall be in accordance with the Commercial Arbitration Rules of the American Arbitration Association. The prevailing party shall be entitled to collect its arbitration costs, attorneys' fees, expert fees or any other costs arising from arbitration from the other party in accordance with the provisions permitting the award of the same under the Commercial Arbitration Rules of the American Arbitration Association. Any award of the arbitrators may be entered as a judgment in any court of competent jurisdiction.

(b) Nothing set forth in this Section 10.02 shall prevent the City and LCSWMA from settling any dispute by mutual agreement at any time.

ARTICLE XI
DEFINITIONS

Section 11.01 Definitions.

For purposes of this Agreement, the following words and phrases shall be given the respective interpretations and meanings set forth below.

“Acquisition” is the acquisition of the SRMC by LCSWMA as set forth in the second Background paragraph of this Agreement.

“Act 101” means the Municipal Waste Planning, Recycling and Waste Reduction Act, Commonwealth Act of July 28, 1988, No. 101, 53 P.S. §§ 4000.101, *et seq.*, and as subsequently modified.

“Agreement” means this Municipal Solid Waste Disposal Agreement between the City and the LCSWMA, as amended, supplemented or extended.

“Annual Statement” is defined in Section 4.04(a).

“Annual Tonnage” is defined in Section 4.04(a).

“Asset Purchase Agreement” means the agreement between LCSWMA and THA under which the Acquisition of the SRMC is to occur.

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“Authorities Act” means the Municipality Authorities Act of 1945 (Act of 1945, P.L. 382 No. 164).

“Base Tonnage” is defined in Section 4.04(b).

“Business Day” means each Monday, Tuesday, Wednesday, Thursday, Friday and Saturday which is not a Legal Holiday.

“C&D Waste” means all construction and/or demolition waste, except Hazardous Waste and Unacceptable Waste.

“Change in Law” means the occurrence after the Commencement Date of an event described in paragraph (a) below unless such event is excluded pursuant to paragraph (b) or paragraph (c) below.

(a) Change in Law means any of the following:

(i) the enactment, adoption, promulgation or modification of any federal, state or local law, ordinance, code, rule or regulation; or

(ii) the order or judgment of any federal, state or local court, administrative agency or other governmental body; or

(iii) the imposition of any conditions on the renewal (or the suspension, termination, interruption, revocation, modification, denial or failure of renewal) of any governmental license, approval or permit necessary for the operation or maintenance of the SRMC as contemplated under this Agreement; or

(iv) the adoption, promulgation, modification or interpretation in writing by the governmental agency or unit having appropriate jurisdiction of a written guideline or policy statement of the governmental agency or unit having appropriate jurisdiction.

(b) Any event described in paragraph (a) above shall not be a Change in Law unless:

(i) the event changes the cost or ability of the Party relying thereon to carry out its obligations under this Agreement; and

(ii) the event affects the collection, transport, storage or disposal of Municipal Waste, or the operation or maintenance of the SRMC as contemplated under this Agreement, and

(iii) the event established requirements which are more burdensome than or in addition to:

(A) the most stringent requirements in effect on the Commencement Date; and

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(B) any requirements (except requirements to comply with future laws, ordinances, codes, rules or regulations) contained in any existing governmental licenses, approvals or permits with respect to the SRMC.

(c) an event which would otherwise be a Change in Law pursuant to paragraph (a) and paragraph (b) above shall not be a Change in Law if:

(i) the event is caused by the fault of the Party relying thereon, or

(ii) the event is a change in federal, state, local or any other tax law, ordinance, code, rule or regulation or similar tax legislation, or by the Internal Revenue Service or the United States Treasury Department or other governmental agency in interpretation of existing tax laws and regulations promulgated or proposed with respect to existing federal, state, local or other tax laws, and does not discriminate against Persons who operate mass burn, resource recovery or Municipal Waste disposal facilities; or

(iii) the event is the failure to obtain a permit unless such failure is directly caused by one of the events set forth in paragraph (a)(i) or (a)(iii) above.

“City” means the City of Harrisburg, a duly established Third-Class City under the laws of the Commonwealth.

“City Indemnified Parties” is defined in Section 6.01.

“City Regulated Municipal Waste” means municipal waste generated within the City except C&D Waste, Residual Waste, Municipal Waste Sludge, or Special Handling Waste.

“Collection Contract” has the meaning set forth in the fifth background paragraph of this Agreement.

“Commencement Date” means the date established pursuant to the provisions of Article I.

“Commonwealth” means the Commonwealth of Pennsylvania and each of its appropriate administrative, contracting and regulatory agencies, departments, bureaus and offices.

“Consumer Price Index” shall have the meaning set forth in Schedule I.

“Contract Date” means the date of execution of this Agreement as set forth at the head of this Agreement.

“County” means the County of Dauphin, Commonwealth of Pennsylvania, and its Department of Solid Waste Management & Recycling.

“County Plan” means the Dauphin County 2013 Plan Revision to the Dauphin County Act 101 Municipal Waste Management Plan, as now or hereafter amended or revised.

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“County Regulated Municipal Waste” means all Regulated Municipal Waste, including City Regulated Municipal Waste.

“Deposit Account” is defined in Section 4.04(c)(i).

“Designated Facility” means the SRMC.

“End Date” means the date set forth in Section 1.01

“EPA” means the United States Environmental Protection Agency or its successor.

“Event of Default” means any one or more of those events described in Sections 8.01 and 8.02 of this Agreement.

“Hauler” or “Haulers” means a Person or Persons transporting Regulated Municipal Waste to the SRMC other than Regulated Municipal Waste generated within such Person’s own residential household.

“Hazardous Waste” means any material or substance which, as of the Commencement Date, and by reason of its composition or characteristics is (a) toxic or hazardous waste as defined in the Solid Waste Disposal Act, 42 U.S.C. §§ 6901 *et seq.*, as amended, replaced or superseded, and the regulations thereunder, (b) material regulated by the Toxic Substances Control Act, 15 U.S.C. §§ 2601 *et seq.*, as amended, replaced or superseded, and the regulations thereunder, (c) special nuclear or by-products material within the meaning of the Atomic Energy Act of 1954, 42 U.S.C. §§ 2011 *et seq.*, as amended, replaced or superseded, and the regulations thereunder, or (d) material regulated as a Hazardous Waste by the Solid Waste Management Act 35 P.S. §§ 6018.101 *et seq.* If any governmental agency or unit having appropriate jurisdiction shall determine that substances which were not, as of the Commencement Date, considered harmful, toxic, or dangerous, are harmful, toxic or dangerous, are hazardous or harmful to health when disposed of at the SRMC, then any such substances or materials shall thereafter be Hazardous Waste for purposes of this Agreement as of the effective date of any such determination.

“HMERRF” or “SRMC” means the waste processing, transfer, disposal, recycling and/or energy recovery facilities of LCSWMA located at 1670 South 19th Street, Harrisburg, Pennsylvania 17104, as described in the first “Background” paragraph above. The term shall include the entire site including a transfer station, recycling drop-off facilities and ash landfill cells.

“HMERRF Debt” means all debt of THA applicable to the SRMC as described in the “Background” paragraph above.

“Host Fee” means the per Ton fee paid the SRMC under the County Plan for disposing of the County’s Regulated Municipal Waste as set forth in Section 4.02 of this Agreement.

“LCSWMA” means the Lancaster County Solid Waste Management Authority or its successor.

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“LCSWMA Indemnified Parties” is defined in Section 6.02.

“Legal Holiday” means Martin Luther King Day, Presidents Day, Memorial Day, Good Friday, Independence Day, Labor Day, Veterans Day, Columbus Day, Thanksgiving Day (and subsequent day), Christmas Day (and the previous or subsequent business day as designated) and New Year’s Day or any other holiday as agreed to by the City under the terms and conditions of any applicable union collective bargaining agreement.

“Municipal Waste” means (a) any garbage, refuse, industrial lunchroom or office waste and other material, including solid, liquid, semisolid or contained gaseous material, resulting from operation of residential, municipal, commercial or institutional establishments and from community activities and (b) any sludge not meeting the definition of residual or hazardous waste in the Solid Waste Management Act from a municipal, commercial or institutional water supply treatment plant, wastewater treatment plant or air pollution control facility and (c) leaves, garden residues, grass clippings, shrubbery and tree trimmings, and similar material. Municipal Waste does not include recycled materials or composted materials, or truckloads composed primarily of leaves, garden residues, grass clippings, shrubbery and tree trimmings, and similar material.

“Parking Revenues” is defined in Section 4.04(d)(ii).

“Party” or “Parties” means LCSWMA and/or the City.

“Person” or “Persons” means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, or government or any agency or political subdivision thereof.

“Receiver” has the meaning set forth in the second “Background” paragraph above.

“Receiving Time” means the period of operation of the SRMC consisting of 4:00 a.m. to 6:00 p.m. EST, Monday through Friday; 6:00 a.m. to 2:00 p.m. EST, Saturday, or such shorter period as may be required by any permit applicable to the SRMC.

“Recovery Plan” means the recovery plan for the City as described in the first Background paragraph above.

“Regulated C&D Waste” means C&D Waste generated within the County and regulated by the County pursuant to the County’s Rules and Regulations.

“Regulated Municipal Waste” means Municipal Waste generated within the County except C&D Waste, Residual Waste, Sludge, or Special Handling Waste, as regulated by the County pursuant to the County Municipal Waste Management Ordinance.

“Regulated Waste” means Municipal Waste (except Residual Waste, Municipal Waste Sludge, or Special Handling Waste) and C&D Waste generated within the County and regulated by the County, including City Regulated Municipal Waste.

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“Removal” means the complete removal of the City’s property from the SRMC as set forth in Section 5.02.

“Residual Waste” means any garbage, refuse, other discarded material or other waste, including solid, liquid, semisolid or contained gaseous materials resulting from industrial, mining and agricultural operations and any sludge from an industrial, mining and agricultural operations and any sludge from an industrial, mining or agricultural water supply treatment facility, waste water treatment facility or air pollution control facility, provided that it is not hazardous. The term shall not include coal refuse as defined in the Commonwealth Act of September 24, 1968 (P.L. 1040, No. 318), known as the Coal Refuse Disposal Control Act. The term shall not include treatment sludges from coal mine drainage treatment plants, disposal of which is being carried on pursuant to and in compliance with a valid permit issued pursuant to the Commonwealth Act of June 22, 1937 (P.L. 1987, No. 394) known as The Clean Streams Law.

“Schedule” means any exhibit or schedule attached to this Agreement and incorporated in this Agreement, unless otherwise expressly indicated by the terms of this Agreement.

“Shortfall Fee” is defined in Section 4.04(c).

“Special Handling Municipal Waste” means Municipal Waste for which any governmental agency or unit having appropriate jurisdiction requires special approval (other than that generally required for Municipal Waste) prior to disposal in a permitted Municipal Waste disposal facility.

“SRMC” has the meaning set forth in the first background paragraph to this Agreement.

“SRMC Rules and Regulations” shall mean the rules and regulations issued by LCSWMA under the authority of the Dauphin County Municipal Waste Management Ordinance and the County Plan.

“Term” shall mean the period from the Commencement Date until the Termination Date, inclusive.

“Termination Date” means the date set forth in Section 1.04.

“Termination Fee” means the payment set forth in Section 1.04.

“THA” means The Harrisburg Authority as described in the first Background paragraph above.

“THA Agreement” means the December 1, 1993, Municipal Solid Waste Disposal Agreement between the City and THA, which was subsequently amended on June 4, 2003 to extend the term to 2036 and amended again on January 1, 2007, as amended.

“Tipping Fee” means the per ton gate rate for City Regulated Municipal Waste acceptance charged by LCSWMA, which shall include the applicable Host Fee. The Tipping Fees for the Term are set forth in Schedule I, the Tipping Fee Schedule, attached to this Agreement and made a part of this Agreement.

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“Tipping Fee Rebate” is defined in Section 4.4(d).

“Ton” means two thousand (2,000) pounds.

“Unacceptable Waste” means all of the following, except for trace amounts normally found in household or commercial waste:

(a) any material that by reason of its composition, characteristics or quantity is ineligible for disposal at the SRMC pursuant to the provisions of (i) the Resource Conservation and Recovery Act of 1976, 42 U.S.C. §§ 6901 *et seq.*, and the regulations thereunder, or (ii) any other applicable law, rule or regulation (including, but not limited to, the following laws and the regulations, if any, promulgated under each: the Federal Insecticide, Fungicide and Rodenticide Act, 7 U.S.C. §§ 136 *et seq.*; the Federal Water Pollution Control Act, 33 U.S.C. §§ 1251 *et seq.*; the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601 *et seq.*; the Hazardous Sites Cleanup Act, Act 108, enacted October 18, 1988; and any similar or substituted legislation or regulations or amendments to the foregoing, as well as any other laws coextensive with the foregoing);

(b) any other materials that any governmental agency or unit having appropriate jurisdiction has determined to be ineligible for disposal at the SRMC;

(c) any waste that the SRMC is precluded from accepting pursuant to any existing permit governing the SRMC or the Act or Act 97;

(d) Hazardous Waste;

(e) except as provided in Section 3.08, Residual Waste;

(f) except as provided in Section 3.08, Special Handling Municipal Waste including but not limited to, asbestos, sludge, infectious waste, and chemotherapeutic waste;

(g) an individual truckload of Municipal Waste which contains refrigerators, washing machines, dryers, window air conditioners, hot water heaters and other major home appliances in quantity and/or automobile tires in quantity; and

(h) any other material that presents an endangerment to the SRMC or the public health or safety.

“Uncontrollable Circumstance” means any act, event or condition, other than a labor strike, that has had, or may reasonably be expected to have, a direct material adverse effect on the rights or the obligations of a Party under this Agreement, or a direct material adverse effect on the operation of the SRMC, or on the delivery of Municipal Waste to the SRMC, if such act, event or condition is beyond the reasonable control of, and without the fault of, the Party relying thereon as justification for not performing an obligation or complying with any condition required of such Party under this Agreement. Such acts or events shall include, but shall not be limited to, the following:

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(a) an act of God (except reasonably expected weather conditions for the geographic area of the SRMC), hurricanes, tornados, epidemic, landslide, lightning, earthquake, flood, fire or explosion or similar occurrence; or an act of the public enemy, war, blockade, insurrection, riot, general unrest, or restraint of government and people, civil disturbance or similar occurrence;

(b) the order, or injunction and/or judgment of any federal, Commonwealth or local court, administrative agency or governmental body with jurisdiction over the performance of either Party's obligations under this Agreement; excepting decisions interpreting federal, Commonwealth and local tax laws; provided that such order or judgment shall not be the result of the negligent or willful action or inaction of the Party relying thereon and neither the contesting in good faith of any such order or judgment nor the failure to so contest shall be construed as a willful or negligent action or inaction of such Party; and

(c) a Change in Law.

Such acts or events shall not include failure to obtain a permit or license, or failure to obtain renewal, amendment or modification of a permit or license, which events shall not be an Uncontrollable Circumstance unless due to Change in Law.

“Waste Flow Control” means the authority, by law, ordinance, regulation, resolution, or other legally binding provision or legally binding official act of the City or the County to direct all Municipal Waste generated within the boundaries of the City or the County to one or more designated Municipal Waste processing or disposal facilities.

“Week” means a period commencing Sunday at 12:01 a.m. and ending on midnight of the following Saturday.

Section 11.02 Terms Generally.

Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation,” except as the context may otherwise require. The words “approval” and “consent” shall be deemed to be followed by the phrase “which shall not be unreasonably withheld or unduly delayed” except as the context may otherwise require.

Section 11.03 Notices Generally.

Unless specifically provided elsewhere in this Agreement, at least fifteen (15) days prior written notice shall be required to be given of any breach of, or failure to fulfill any requirement of, this Agreement by a Party, in order to allow the Party receiving such notice to cure any such breach or to allow such Party time to prepare for, question or contest the fact that any such requirement of this Agreement has not been fulfilled.

ARTICLE XII
MISCELLANEOUS

Section 12.01 Representations of the City.

The City represents to LCSWMA that:

(a) the City is duly organized and existing in good standing under the laws of the Commonwealth and is duly qualified and authorized to carry on the governmental functions and operations as contemplated by this Agreement;

(b) the City has the requisite power, authority and legal right to enter into and perform its obligations set forth in this Agreement, and the execution, delivery and performance of this Agreement by the City (i) has been duly authorized, (ii) does not require the approval of any other governmental officer or body, other than those permits or approvals contemplated to be obtained before the Commencement Date, (iii) will not violate any judgment, order, law or regulation applicable to the City, and (iv) does not constitute a default under, or result in the creation of, any lien, charge, encumbrance or security interest upon any assets of the City under any agreement or instrument to which the City is a party or by which the City or its assets may be bound;

(c) this Agreement has been duly executed and delivered by the City and constitutes a legal, valid and binding obligation of the City, fully enforceable in accordance with its terms; and

(d) there is no action, suit or proceeding, at law or in equity, before or by any court or governmental authority, pending or, to the best of the City's knowledge, threatened against the City, wherein an unfavorable decision, ruling or finding would materially adversely affect the performance by the City of its obligations under this Agreement or the transactions contemplated by this Agreement, or which, in any way, would adversely affect the validity or enforceability of this Agreement, or any other agreement or instrument entered into by the City in connection with the transactions contemplated by this Agreement.

Section 12.02 Representations of LCSWMA.

LCSWMA represents to the City that:

(a) LCSWMA is duly organized and existing in good standing under the laws of the Commonwealth of Pennsylvania and is duly qualified and authorized to carry on the governmental functions and operations as contemplated by this Agreement;

(b) LCSWMA has the requisite power, authority and legal right to enter into and perform its obligations set forth in this Agreement, and the execution, delivery and performance of this Agreement, (i) has been duly authorized, (ii) does not require the approval of any other governmental officer or body, other than those permits or approvals contemplated to be obtained before the Commencement Date, (iii) will not violate any judgment, order, law or regulation applicable to LCSWMA or any provisions of LCSWMA's articles of incorporation or by-laws, and (iv) does not constitute a default under or result in the creation of, any lien, charge,

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encumbrance or security interest upon any assets of LCSWMA under any agreement or instrument to which LCSWMA is a party or by which LCSWMA or its assets may be bound;

(c) this Agreement has been duly executed and delivered and constitutes a legal, valid and binding obligation of LCSWMA, fully enforceable in accordance with its terms; and

(d) there is no action, suit or proceeding, at law or in equity, before or by any court or governmental authority, pending or, to the best of LCSWMA's knowledge, threatened against LCSWMA, wherein an unfavorable decision, ruling or finding would materially adversely affect the performance by LCSWMA of its obligations under this Agreement or the other transactions contemplated by this Agreement, or which, in any way, would adversely affect the validity or enforceability of this Agreement, or any other agreement or instrument entered into by LCSWMA in connection with the transactions contemplated by this Agreement.

Section 12.03 Interest on Payments.

All payments not made on the applicable due date shall bear interest from such date until the date payment is made at the lower of (a) the maximum rate permitted by Commonwealth law, or (b) the prime rate of The Chase Manhattan Bank, N.A., or in the event the Chase Manhattan Bank, N.A. no longer publishes a prime rate, the similar rate of a comparable bank.

Section 12.04 Compliance with Laws.

LCSWMA shall comply with all laws and regulations and permits issued thereunder in connection with the SRMC and governing disposal of Regulated Municipal Waste.

Section 12.05 Assignment.

This Agreement may be assigned by either Party for financing purposes, or to a successor governmental body, agency or authority. This Agreement may not be otherwise assigned by either Party without the prior written consent of the other Party, which shall not be unreasonably withheld.

Section 12.06 Notices.

All notices, demands, requests and other communications under this Agreement shall be deemed sufficient and properly given if in writing and delivered in person or by recognized carrier service to the following addresses or sent by certified or registered mail, postage prepaid with return receipt requested, at such addresses; provided, if such notices, demands, requests or other communications are sent by mail, they shall be deemed as given on the third day following such mailing which is not a Saturday, Sunday or day on which United States mail is not delivered:

(a) If to LCSWMA:

The Lancaster County Solid Waste Management Authority
1299 Harrisburg Pike
Lancaster, Pennsylvania 17603-2515
Attention: Chief Executive Officer

with a copy to:

Alexander Henderson, III, Esquire
Hartman Underhill & Brubaker, LLC
221 East Chestnut Street
Lancaster, PA 17602

(b) If to the City:

City of Harrisburg
[address]

with a copy to:

[counsel]

Either Party may, by like notice, designate any further or different addresses to which subsequent notices shall be sent. Any notice under this Agreement signed on behalf of the notifying Party by a duly authorized attorney at law shall be valid and effective to the same extent as if signed on behalf of such Party by a duly authorized officer or employee.

Section 12.07 Relationship of the Parties.

Neither Party shall have any responsibility to perform services for or to assume contractual obligations which are the obligation of the other Party; and nothing in this Agreement shall constitute either Party as a partner, agent or representative of the other Party, or be deemed to create any fiduciary relationship between the Parties.

Section 12.08 Waiver.

Unless otherwise specifically provided by the terms of this Agreement, no delay or failure to exercise a right resulting from any breach of this Agreement shall impair such right or shall be construed to be a waiver of such right, but such right may be exercised from time to time and as often as may be deemed expedient. To be effective any waiver must be in writing and signed by the Party granting such waiver. If any representation, warranty or covenant contained in this Agreement is breached by either Party and thereafter waived by the other Party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive, either expressly or impliedly, any other breach under this Agreement.

Section 12.09 Section Captions; References.

The table of contents, article and section headings and captions contained in this agreement are included for convenience only and shall not be considered a part of this Agreement or affect in any manner the construction or interpretation of this Agreement. Except as otherwise indicated, all references in this Agreement to Sections and Articles are to sections and articles of this Agreement.

Section 12.10 Severability.

In the event that any provision of this Agreement shall, for any reason, be determined to be invalid, illegal or unenforceable in any respect, the Parties shall negotiate in good faith and agree to such amendments, modifications or supplements of or to this Agreement or such other appropriate actions as shall, to the maximum extent practicable in light of such determination implement and give effect to the intentions of the Parties as reflected in this Agreement, and the other provisions of this Agreement, as so amended, modified, supplemented or otherwise affected by such action, shall remain in full force and effect.

Section 12.11 Amendment.

No amendment, modification or change to this Agreement shall be effective unless same shall be in writing and duly executed by the Parties.

Section 12.12 Agreement Governed by Commonwealth Law.

This Agreement shall be governed by the laws of the Commonwealth.

Section 12.13 No Other Agreements.

All negotiations and agreements prior to the date of this Agreement are superseded by this Agreement. This Agreement shall constitute the entire agreement between the City and LCSWMA with respect to the disposal services contemplated by this Agreement.

Section 12.14 Successors and Assigns.

This Agreement shall be binding upon and inure to the benefit of the respective successors, permitted assigns, administrators and trustees of the City and LCSWMA.

Section 12.15 Execution of Documents.

This Agreement may be executed in any number of duplicate originals, any of which shall be regarded for all purposes as an original and all of which shall constitute but one and the same instrument.

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IN WITNESS WHEREOF, the City and LCSWMA have caused this Agreement to be executed in their respective names, have caused their respective corporate seals to be affixed to this Agreement, have caused this Agreement to be attested, all by their duly authorized officers and representatives, and have caused this Agreement to be dated as of the date and year first written above.

CITY OF HARRISBURG

By: _____
Mayor

Attest: _____
President, City Council

Approved: _____
City Solicitor

**LANCASTER COUNTY SOLID WASTE
MANAGEMENT AUTHORITY**

Attest: _____
Secretary

By: _____
Chair

SCHEDULE I -- TIPPING FEE SCHEDULE

The City Tipping Fees will be lowered from the current rate of \$200 to \$190 upon the Commencement Date. Tipping Fees will be fixed through calendar 2019 as shown on the chart below, while the rate during calendar years 2020 through 2033 inclusive will be adjusted on January 1st of each calendar year by the Consumer Price Index, using calendar year 2019 as the base year.

2013	\$190.00
2014	\$190.00
2015	\$190.00
2016	\$190.00
2017	\$190.00
2018	\$190.00
2019	\$195.00

For purposes of Schedule I and this Agreement, Consumer Price Index shall mean all Urban Consumers (Area: U.S. City Average; Item: All Items) as maintained by the U.S. Department of Labor, Bureau of Labor Statistics or by a mutually-agreeable similar index if such index is no longer available.

EXHIBIT 3

**Asset Transfer of the Harrisburg Parking Authority's Parking System
Summary Of Proposed Terms
August 26, 2013**

This Summary of Proposed Terms ("Term Sheet") is intended as an outline and does not purport to list or fully set forth all of the terms, conditions, covenants, warranties and other provisions that will be contained in an asset transfer agreement (the "Transfer Agreement") and other definitive documentation (together with the Transfer Agreement, the "Transaction Documents") for the proposed acquisition transaction (the "Transaction") contemplated hereby. The Transaction summarized in this Term Sheet is expressly qualified by and made subject to, among other conditions, the preparation and execution of the Transaction Documents in form and substance satisfactory to the Receiver ("Receiver") for the City of Harrisburg ("City") and the Harrisburg Parking Authority ("HPA", and together with City, the "Transferor"), on the one hand, and Pennsylvania Economic Development Financing Authority (the "Transferee"), on the other hand, which documentation will include provisions in addition to those set forth below. This Term Sheet is not intended to, and shall not, create a binding legal obligation on any of the parties, and if there is a discrepancy between this Term Sheet and the Transaction Documents, the terms of the Transaction Documents will control.

On October 10, 2012, the Receiver selected the Harrisburg First Team as the party to begin exclusive negotiations for the asset transfer. The Harrisburg First Team is comprised of the individual firms Guggenheim Securities LLC, an affiliate of Guggenheim Partners ("Guggenheim"), Piper Jaffray & Co. ("Piper"), AEW Capital Management, L.P. ("AEW") and Standard Parking Corporation's subsidiary Standard Parking SP Plus Municipal Services ("Standard"). Each firms' involvement is specified solely as provided herein.

Concurrently with the Transaction, the City anticipates entering into a settlement agreement (the "Settlement Agreement") with Dauphin County, Pennsylvania (the "County"), and Assured Guaranty Municipal Corp. ("AGM") (the County and AGM in their capacities as creditors of the City, the "RRF Creditors") with respect to certain obligations of the City related to bonds issued by The Harrisburg Authority to finance its Resource Recovery Facility. HPA and the City contemplate application of the net proceeds of the Transaction (after defeasance and/or satisfaction of existing HPA bond indebtedness and other obligations and payment of costs and expenses related to the Transaction), for the benefit of the City with a portion of such proceeds being used to pay certain amounts to the RRF Creditors pursuant to the Settlement Agreement. AGM and the County will be providing credit enhancement for certain of the bonds anticipated to be issued by the Transferee as part of the Transaction. In their capacities as credit enhancers for certain bonds, AGM and the County are sometimes referred to as the "Credit Enhancers."

Transfer and Modernization Agreement Terms¹

Overview of the Transaction	The Acquired Assets will be transferred to PEDFA - a governmental entity. The Transferee will issue tax-exempt bonds (the " <u>Bonds</u> ") in one or more series to finance the acquisition of the Acquired Assets. The Transferor will enter into an agreement (" <u>Transfer Agreement</u> ") with
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¹ The terms of the Transaction are still being reviewed by various parties, are subject to minor modification and revision, and may be supplemented in the course of review, negotiation and underwriting.

**Asset Transfer of the Harrisburg Parking Authority's Parking System
Summary Of Proposed Terms
August 26, 2013**

	<p>PEDFA setting forth the terms of the Transaction and the transfer of the Parking Assets. The Parking Assets consist of a leasehold interest in the lands and the improvements thereon comprising the off-street Parking Assets and the rights to use such lands and improvements to operate a parking system for the public benefit and a license and the delegation of the rights and powers to operate the on-street parking meters. Such delegation does not include enforcement powers.</p> <p>The Transaction will be structured as an acquisition of a capital asset for federal income tax purposes and will be structured as a lease/license for state law purposes. THE OBLIGATIONS OF PEDFA UNDER THE TRANSACTION DOCUMENTS ARE NOT OBLIGATIONS OF THE COMMONWEALTH OF PENNSYLVANIA AND WILL BE NON-RECOURSE TO PEDFA AND LIMITED TO THE PARKING REVENUES.</p> <p>Pursuant to the Transfer Agreement, PEDFA will enter into a lease with the HPA² having a stated term of 40 years³ for the garages and the parking lots (the "<u>Lease</u>") and a license and franchise (the "<u>Franchise</u>") with the City for the parking meters and having the same term as the Lease. The Franchise will delegate to PEDFA the right to collect parking violation revenues, set hours of operation, and set rates and fines. Upon repayment of all obligations with respect to the Bonds and the Indenture, and agreements with other parties⁴ and expiration or termination of the Transfer Agreement, Lease and Franchise, pursuant to the Lease and Franchise, the Parking Assets will revert to the City (as to the parking meters) and the HPA or its successor (as to all of the other assets) in accordance with the terms of the Lease and the Franchise.</p> <p>Pursuant to the Lease, HPA will transfer rights to set rates and collect off-street parking revenues to PEDFA. Pursuant to the Franchise, the City will transfer to PEDFA rights to set rates and collect revenues for the parking meters. Initial rate adjustments are described below. PEDFA may provide for certain of its functions under the Transaction Documents (including the Franchise) to be performed by one or more qualified designees.</p> <p>In order to maintain qualified management throughout the terms of the Lease and Franchise, PEDFA or its qualified designee will enter into an Asset Management Agreement with AEW as the initial Asset Manager, subject to qualified management agreement restrictions. As the Asset Manager, AEW will enter into, with the approval of PEDFA, a Parking Management Agreement with Standard as the initial Operator, also subject to qualified management agreement restrictions. The governmental agency to which the Enforcement Powers are delegated will also enter into a contract with the initial Operator for it to perform the functions of issuing citations and booting and towing vehicles. The Asset Management Agreement and the Parking Management Agreement will provide long term operating and maintenance standards for the Parking Assets. PEDFA will also enter into an agreement with a qualified designee pursuant to which PEDFA will delegate to the qualified designee, and the qualified designee will undertake to perform, certain administrative and approval functions of PEDFA under the Transaction Documents.</p>
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² The City presently has title to certain garages and lots that will be transferred to HPA to permit all garages and lots to be subject to one Lease agreement.

³ The term will be subject to extension if the bonds and other obligations of PEDFA have not been paid at the end of the 40 years. In addition, the term may be shortened by "turbo" redemption of the bonds and other obligations payable under the Indenture being fully redeemed and satisfied prior to the stated maturities.

⁴ The City (Transferors) contemplates assigning part of its rights to future payments in the Transaction to the RRF Creditors. The Transaction Documents will permit such assignments and direction to the Bond Trustee to make payments from agreed upon portions of the Transferors' stream of future payments directly to the RRF Creditors.

**Asset Transfer of the Harrisburg Parking Authority's Parking System
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	<p>PEDFA will issue Parking Revenue Bonds (the "<u>Bonds</u>") to fund:</p> <ul style="list-style-type: none"> • Upfront payment of the cash portion of the Purchase Price to the Transferor⁵; • Initial contribution to a Capital Reserve Account; • Debt service reserve fund (cash funding will not be required if there is a debt service surety policy issued); • Reasonable operating reserves; • Premiums for property-related insurance; • Issuance, negotiation and diligence costs and underwriting fees; and • Other mutually agreed amounts. <p>The Transfer Agreement will provide for payment of the balance of the Purchase Price in the form of a note (the "<u>Note</u>") to the Transferor over time.</p>
Parking Assets	<p>10 parking garages with approximately 7,813 total spaces, 5 parking lots with approximately 1,306 spaces and parking meters assigned to approximately 1,250 metered parking spaces (final numbers and locations to be verified) throughout the Central Business District and adjoining areas of the City ("<u>Parking Assets</u>").</p> <p>Possible exclusions: City Island garage/lot, Mulberry/Dewberry Lot</p>
Acquired Assets	<p>The Parking Assets and associated assets (together the "<u>Acquired Assets</u>") consisting of:</p> <ul style="list-style-type: none"> • The Parking Assets; • Rights to collect enforcement fines and revenues (excluding adjudication fees and penalties); • All tangible and intangible property related to the operation of the Parking Assets, excluding furniture, office equipment, computers, supplies and other items used by the HPA in its administrative capacity and not used directly with any of the transferred Parking Assets and excluding air space rights over existing garages and parking lots which may be negotiated for at a future date; • All easements, licenses, permits, authorizations, and approvals appurtenances, and any other property rights utilized in or necessary for the operation of the Parking Assets; • Existing leases with respect to Parking Assets; • Existing contracts with respect to Parking Assets; • Certain accounts receivable; and • All other assets necessary and appropriate for the operation of the Parking Assets.
Objectives	<p>The objectives of the Transaction and PEDFA's management and operations under the underlying documents are as follows:</p> <ul style="list-style-type: none"> • Provide upfront and ongoing consideration to HPA, City and others • Operate and manage parking system so as to generate sufficient net revenues to fund all scheduled debt service, reserve deposits and Note payments • Provide affordable customer rates while utilizing appropriate urban and regional planning best practices with respect to parking and traffic management • Provide a high level of customer service and updated technology where cost-effective • Cooperate with City efforts to manage traffic and assure the effectiveness of the

⁵ HPA will use a portion of the Purchase Price for the defeasance and/or satisfaction of the Existing Debt.

**Asset Transfer of the Harrisburg Parking Authority's Parking System
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	<p>residential permit parking system</p> <ul style="list-style-type: none"> • Insure long term operational flexibility for changing market dynamics, best practices, and technologies • Work with citizens and local businesses in support of specific customer parking needs
Operation of Acquired Assets	<p>Pursuant to the Transfer Agreement, Transferor will enter into the Lease with PEDFA to lease the off-street parking assets to PEDFA and to grant to PEDFA the rights to operate an off-street parking system for the public benefit. The City will grant the Franchise to PEDFA to operate the on-street parking system for the public benefit. Such grant does not include enforcement. PEDFA will implement the Lease and Franchise by contracting (directly or through its qualified designee) with AEW as initial Asset Manager (and having AEW contract with Standard as initial Operator). PEDFA may contract with a qualified designee to perform PEDFA's owner/lessee functions and to perform its functions under the Franchise.</p> <p>Enforcement powers will include the power to issue parking citations (for non-moving violations), and the power to boot and tow vehicles (the "<i>Enforcement Powers</i>"). The Enforcement Powers will be delegated by the City to another governmental agency or entity to be determined and such governmental agency will contract with Standard to perform the enforcement functions.</p>
Disposition of Liabilities	<p>The following liabilities will not be transferred as part of the transaction and PEDFA will be indemnified by the Transferor with respect to the following items:</p> <ol style="list-style-type: none"> 1. Existing HPA debt with associated liens on the Acquired Assets (the "<i>Existing Debt</i>"). 2. Pre-existing environmental liabilities, including but not limited to the current existence of, or prior events associated with, asbestos, underground conditions, Parking Assets operations, etc. Harrisburg First will commission an environmental review of the Parking Assets to assess pre-existing conditions. 3. Any existing payroll-related liabilities, including severance payment, accrued vacation, sick time, pension and other post-employment benefits ("<i>OPEB</i>"). 4. Third party obligations unrelated to the Parking Assets, including Civil War Museum parking lot maintenance obligations and Penn National garage operations obligations. 5. Pending claims and litigation and other HPA liabilities not specifically assumed. Indemnity against claims not specifically assumed. 6. Existing labor agreements. 7. Contracts and amounts due for repair or construction work, except to the extent expressly assumed. 8. Other agreed upon items.
Conditions Precedent	<p>The following conditions must be satisfied to issue the Bonds and close the Transaction:</p> <ol style="list-style-type: none"> 1. Subject to certain limitations and exceptions, the HPA, City, and City agencies will agree not to compete with or impair the operations of the Parking Assets and the meters within the Non-Compete Area for garages, lots, and meters during the terms of the Lease and the Franchise. 2. Terms of the Transfer Agreement and the forms of the Lease and Franchise to be

**Asset Transfer of the Harrisburg Parking Authority's Parking System
Summary Of Proposed Terms
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	<p>consistent with:</p> <ol style="list-style-type: none"> a. economic assumptions used in Harrisburg First's cash flow projections; b. tax treatment for a governmental purpose tax-exempt acquisition financing; c. minimum enforcement standards for on-street meters and enforcement conducted by personnel employed by the Operator; and d. other items identified in the due diligence process. <ol style="list-style-type: none"> 3. PEDFA agreeing to act as issuer of the Bonds and enter into the Transfer Agreement, Lease, Franchise, Trust Indenture, Leasehold Mortgage, Bond Purchase Agreement, and other necessary documents. 4. HPA and AFSCME negotiating a transition agreement providing for a modification of the existing collective bargaining agreement with respect to Article 29 acceptable to the Receiver and the Operator. Employees of the Operator may be represented by AFSCME under one or more CBA's to be negotiated by the Operator after closing. Operator will offer employment to an agreed upon number of HPA employees on terms consistent with transition terms being negotiated between HPA and AFSCME. The Operator will also be offering employment to certain current City enforcement personnel on similar terms. Such similar agreements, if any, as may be appropriate with the City employee AFSCME bargaining unit will also be a condition precedent. 5. Completion of independent reviews of the Parking Assets for structural condition, environmental pre-conditions, and financial feasibility. 6. PEDFA's rights under the Lease and the lien of the Leasehold Mortgage will be subject only to such title encumbrances as are satisfactory to Harrisburg First and PEDFA. The lien of the Leasehold Mortgage will be insured as a first lien by a title company doing business in the Commonwealth of Pennsylvania so as to insure the liens created thereby in an amount not less than the principal amount of the Bonds. 7. Adoption of City resolutions and ordinances necessary to implement and/or authorize the transfer of City-owned garages and lots to HPA, and the Transfer Agreement, Lease and the Franchise (including initial and subsequent rate increases, Advisory Committee, meter additions, on street signage, enforcement delegation, initial and subsequent citation rate increases, towing, booting, free parking, residential permit expansions, zoning changes, etc.⁶). 8. The liens on the Acquired Assets associated with the Existing Debt will be satisfied and removed as a condition precedent to the closing so that the Acquired Assets are conveyed free and clear of liens, pledges of parking revenues, covenants, encumbrances and other similar restrictions, other than permitted exceptions agreed to by PEDFA. 9. Applicable requirements and conditions of AGM and/or the County to provide credit enhancement must be satisfied as a condition to closing. 10. Expiration of all appeal periods applicable to necessary court and governmental approvals.
Transition Period Covenants	<p>The City and HPA will cooperate in due diligence activities.</p> <p>HPA will operate the Parking Assets in a manner consistent with past practice, the Exclusive Negotiation Agreement between the Receiver and Harrisburg First, and HPA's standstill</p>

⁶ To be reviewed and revised as appropriate

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	<p>arrangements with the Receiver.</p> <p>Satisfactory completion, with evidence of payment in full, of any existing repairs, contracts or work orders (including Walnut Street work) and escrow for payment for any incomplete work.</p> <p>HPA will provide advance notification of changes in contracts, employment, rates, parking taxes, capital improvements and change orders.</p> <p>Casualty loss prior to closing.</p> <p>No encumbrances, except those permitted.</p>
Reps and Warranties	Customary
Upfront Payment and Use of Proceeds	<p>The up-front portion of the purchase price (the "<u>Purchase Price</u>") will be funded from the proceeds of the Bonds.</p> <p>Bond proceeds will also fund a reasonably required debt service reserve fund (unless a debt service reserve fund surety policy is issued or no debt service reserve fund is required to market the particular series of bonds), a deposit to the Capital Reserve Account, working capital, capitalized interest and costs of issuance.</p> <p>Defeasance of HPA's existing bond indebtedness (the "<u>Existing Debt</u>") will be funded with a portion of the Purchase Price. The remainder of the Purchase Price will be used in accordance with the Receiver's Recovery Plan as approved by the Commonwealth Court.</p>
Parking Rates and Policy	<p>Off-Street rates – No off-street rate increases until January 1, 2014. Thereafter, the off-street schedule for monthly and transient rate increases is shown in Appendix B Initial Parking Rate Schedule.</p> <p>On-Street – No on-street rate increases until January 1, 2014. Thereafter, the on-street meter rates are shown in Appendix B Initial Parking Rate Schedule.</p> <p>On-Street Hours – Current meter hours are 9 hours each Monday through Friday.⁷ PEDFA will have the right to expand meter operation up to 11 hours each weekday and Saturday (meters will not be operated on Sundays and holidays) for the first five years of the Transfer Agreement. Thereafter, PEDFA will have the right to operate meters during a longer period.</p> <p>Enforcement Powers – A governmental agency ("<u>Enforcement Delegation Agency</u>") will be granted rights to enforce all non-moving violations observed in metered areas and in relevant areas with residential permit parking and will contract with the Operator to perform the functions to carry out the enforcement. On or before closing, meter violation rates will be set at \$30/citation with a \$20 late payment fee (up from \$14 citation currently with an \$11 penalty for late payers).⁷ Increases in meter violation citation rates will be adjusted to increases in 60-minute meter rates, such that such citation rates do not fall below 10 times the 60-minute meter rate within the CBD. Revenues associated with adjudication (other than the basic citation fine) will be retained by the City.</p> <p>The City will delegate to the governmental agency the right to tow or boot vehicles with multiple offenses or unpaid bills and collect associated revenues (net of any third party costs).</p> <p>Parking Policy within Non-Compete Area – PEDFA will work with the City to identify new residential permit parking areas (e.g. north of Forster), and the Enforcement Delegation Agency</p>

⁷ See Appendix B.

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	<p>will have the right to enforce parking violations in relevant residential permit parking areas.</p> <p>PEDFA will retain the ability to adjust rates as appropriate based on market demand fluctuations over time and in accordance with Appendix B Initial Parking Rate Schedule. PEDFA will have the right to increase rates above those permitted in Appendix B Initial Parking Rate Schedule, but only to the extent necessary to meet the Rate Covenants. PEDFA's ability to reduce overall rates (but not individual rates) will be restricted if such reduction would impair its ability to meet the Rate Covenants and in the event of a bond default or breach of debt service coverage ratio covenants.</p>
<p>Advisory Committee</p>	<p>One representative of each of PEDFA or its qualified designee, the Asset Manager, the Operator, HPA, the City's Mayor, the City Council, and DGS, so long as the Commonwealth Lease is in effect, shall comprise the Advisory Committee. The Advisory Committee shall review annually and provide input with respect to the following:</p> <ul style="list-style-type: none"> • Proposed expansion or contraction of system or operations • Contractual compliance • Residential permit parking • Enforcement • Technology and capital improvements • Customer enhancements • Rates and budgets • Community relations and outreach <p>The Advisory Committee shall act in an advisory role to PEDFA (or its designee) in its operation of the Parking Assets.</p>
<p>System Maintenance Standard</p>	<p>The System Maintenance Standard will be to maintain operating standards to keep the parking garages, lots and meters in good condition and repair throughout the life of the Lease and Franchise.</p>
<p>Compensation Events</p>	<p>PEDFA will have the right to injunctive or other relief with respect to events constituting breaches of the Compensation Event Covenants.</p> <p><u>"Compensation Event Covenants"</u> will include actions or omissions by the City, HPA, the County or the Commonwealth that breach covenants with respect to the following actions or occurrences and exceed the Compensation Event Threshold:</p> <ul style="list-style-type: none"> • Reducing number or changing location of metered spaces (see exception to City Non-Compete) • Street closures and bagging exceeding an agreed-upon level of historical street closures • Increases in parking taxes • Discriminatory laws, taxes, or fees • Violation of the Non-Compete Covenant • Violation of the Non-Impair Covenant • Costs or damages arising from pre-existing environmental liabilities • Other potential CEs to be determined <p>The <u>"Compensation Event Threshold"</u> will be defined as Compensation Events which,</p>

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	individually or collectively cause, or would be expected to cause, a to be determined percentage reduction in debt service coverage ⁸ in any " <i>Operating Year</i> " (the fiscal year for system operations and reporting) or an inability to meet the Rate Covenants.
Compensation Event Payments	To the extent one (or more) Compensation Events occurs (including cumulative impacts of related Compensation Events) that triggers the Compensation Event Threshold, in addition to being subject to injunctive relief, a Compensation Event Payment will be required. The HPA/City will be required to make a Compensation Event Payment in an amount equal to the loss incurred as a result of the Compensation Event(s). The City may elect to make payments from Additional Consideration otherwise payable to the City or any available moneys of the City. Compensation Event Payments will solely be used to fund a debt service or capital reserve for the benefit of the Bonds or to repay or defease outstanding debt.
City Non-Compete Covenant	The City, on behalf of itself and all City agencies, and HPA will covenant not to construct or operate competing garages or lots (or permit construction of new garages or lots) or new meters outside of Parking Assets and within the Non-Compete Area. Permitted exceptions are : <ul style="list-style-type: none"> • Parking related to new or renovated facilities will be exempted to the extent each newly created parking space is offset by a corresponding increase in occupancy in the Non-Compete Area related to the new facility • Street closures that do not exceed an agreed-upon level of historical street closures • Relocating parking meters from existing locations if the relocated metered space produces at least 90% of the gross revenue of the original space during the first six full calendar months following relocation, as compared to the same prior six month period from the previous calendar year, after adjustment for any differential in parking meter rates • HPA parking assets excluded from the Transaction • Other possible exceptions to be determined
City Non-Impair Covenant	The City will covenant not to take any actions that cause or would be expected to cause a Compensation Event, that individually or together with other Compensation Events, triggers the Compensation Event Threshold.
Third Party Governmental Approvals to Effectiveness	Commonwealth Court OAG Commonwealth General Counsel HPA PEDFA City of Harrisburg (including ordinances regarding Franchise) City Council Secretary of Community and Economic Development
Modifications	PEDFA, after consultation with the Advisory Committee, may make such modifications in hours and scope of operations to reflect best practices in parking management and changing conditions in the City of Harrisburg.

⁸ To be reviewed and revised as appropriate

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Lease	
Parties	HPA and PEDFA.
Leased Premises	<p>The Leased Premises consists of the underlying ground, together with any and all rights, powers, licenses, easements, rights of way privileges, franchises, and any and all interest in property, real, personal or implied existing thereon on the date of the Lease including the garages and the parking lots.</p> <p>The Lease will provide rights to operate the off-street parking system and the obligation to maintain the garages at the System Maintenance Standard.</p>
Permitted Uses	Sole and exclusive use of the Parking Assets for the parking of motor vehicles, and other ancillary uses, provided that the exclusivity of the on-street metered parking spaces will be subject to limited use by the City in the exercise of its police powers.
Term	From commencement, the term of the Lease shall extend for 40 years.
Base Rent and Licensing Fee	\$1/year.
Additional Consideration	<p>The City will be paid monthly a senior payment from revenues (the Senior Payment as described below in Bond Structure and Terms). In addition, payment of the balance of the Purchase Price ("<u>Additional Consideration</u>") remaining after payment of cash from the upfront proceeds will be made pursuant to the terms of the Note and the Indenture from Surplus Revenues.</p> <p>The Transferor shall be paid in each Operating Year, payments as part of the Purchase Price in the form of payments on the Note from a share of Surplus Revenues (defined below) until the Capital Reserve Account (defined below) equals its required levels (defined below). This initial percentage level of sharing is defined as "<u>Initial Additional Consideration Level</u>."</p> <p>In each Operating Year in which the Capital Reserve Account balance is at its required level, the payments as part of the Purchase Price in the form of payments on the Note will increase to 100% of the Surplus Revenues. If the Capital Reserve Account balance drops below its required level in any Operating Year, the payments to Transferor as part of the Purchase Price will drop to the Initial Additional Consideration Level until the Capital Reserve Account balance once again meets required levels.</p> <p>Payments on the Note shall only be payable to the extent there are Surplus Revenues available to pay Additional Consideration as set forth in the Bond Indenture or in the event the Indenture is no longer in effect, provided Surplus Revenues are available. PEDFA shall not be in default under the Lease, the Franchise, or the Note if Surplus Revenues are not available to pay any Additional Consideration.</p>
Parking Assets Residual	The Parking Assets Residual will comprise the Acquired Assets, as they exist at the end of the Lease and Franchise terms, and the remaining capital balances in the accounts held for the benefit of the Parking Assets including the Capital Reserve Account, as defined below.

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Franchise⁹	
Parties	City of Harrisburg and PEDFA.
Term	The term of the Franchise shall be the same as the term of the Lease.
Hours	Current meter hours are 9 hours each Monday through Friday. Under the Franchise, PEDFA will have the right to expand meter operation up to 11 hours each weekday and Saturday (meters will not be operated on Sundays and Holidays) for the first five years of the Transfer Agreement. Thereafter, PEDFA will have the right to operate meters during a longer period.
Other Terms	<p>The Franchise will grant PEDFA rights to operate the on-street parking system, including the obligation to maintain the parking meters. The Franchise will delegate to PEDFA the exclusive right to collect and receive revenue from associated citations (exclusive of adjudication fees and penalties). The Franchise will provide citation rates to be raised to \$30 for meter violations (and \$20 for late payments) and for PEDFA to raise future citation rates for meter violations so that citation rates for meter violations at all times equal or exceed 10 times the 60-minute rate at CBD meters.</p> <p>The City will also agree with PEDFA to minimize other parking restrictions (e.g. permits, designated zones) and interruptions in service (e.g. temporary street closures, bagging events, special events) that have potential to materially adversely impact meter revenues, subject to certain exceptions. PEDFA and the City will agree to cooperate to support and maintain an effective residential parking permit system in the Non-Compete Area.</p> <p>The City will agree to continue to maintain the associated asphalt, striping (to be discontinued where appropriate), sidewalks etc. and provide clear access to meters, payment kiosks and associated spaces including snow removal.</p>
Other Contracts	
Bond Purchase Agreement	PEDFA will enter into a Bond Purchase Agreement with Guggenheim Securities, LLC and Piper and/or a loan agreement with a Guggenheim affiliate.
Asset Management Agreement	<p>PEDFA or its qualified designee will enter into an "<i>Asset Management Agreement</i>" with the AEW or a subsidiary of AEW (sometimes referred to as AEW or "<i>Asset Manager</i>"), as the initial Asset Manager, subject to qualified management agreement restrictions. AEW will have on-going asset level management responsibilities as the counterparty to the Asset Management Agreement. AEW will act as the portfolio and asset manager directing moderate- to long-term strategic planning with direct oversight of the Operator responsible for day-to-day operations. Under the Asset Management Agreement, Asset Manager will be responsible for setting budgets, procuring third party experts, interfacing with PEDFA and its qualified designee, procuring certain insurance, and managing the Parking Assets capital plan. Under certain circumstances, the Credit Enhancers will have the right to require replacement of the Asset Manager.</p> <p>A portion of the Asset Manager fee may be payable only if certain conditions are met. The portion of the Asset Manager fee subject to performance standards will be the maximum portion permitted under applicable tax considerations. The performance standards will be</p>

⁹ To be reviewed and structured to minimize bankruptcy risk.

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	provided in the Asset Management Agreement.
Parking Management Agreement	<p>AEW will enter into a Parking Management Agreement with (Standard Parking SP Plus Municipal Services, or "Standard"), as the initial Operator, subject to qualified management agreement restrictions. Standard will have day-to-day on-street and off-street property-level as the initial Operator under the Parking Management Agreement. Under certain circumstances, the Credit Enhancers will have the right to require replacement of the Operator.</p> <p>A portion of the Operator fee may be payable only if certain conditions are met. The portion of the Operator fee subject to performance standards will be the maximum portion permitted under applicable tax considerations. The performance standards will be provided in the Parking Management Agreement.</p>
AGM Bond Insurance	<p>AGM will issue a municipal bond insurance policy and/or a debt service reserve fund surety policy to the Bond Trustee for the benefit of the holders of one or more series of the Enhanced Bonds. Pursuant to the Bond insurance policy, AGM will guarantee the timely payment of scheduled interest and principal on such series of Enhanced Bonds.</p> <p>PEDFA and AGM will enter into an Insurance and Reimbursement Agreement pursuant to which PEDFA will agree to reimburse AGM for payments made under the Bond insurance policy or the debt service reserve fund surety policy, plus interest, solely from Parking Revenues. THE OBLIGATIONS OF PEDFA UNDER THE INSURANCE AND REIMBURSEMENT AGREEMENT ARE NOT OBLIGATIONS OF THE COMMONWEALTH OF PENNSYLVANIA AND WILL BE NON-RECOURSE TO PEDFA AND LIMITED TO THE PARKING REVENUES AND THE ACQUIRED ASSETS. The Insurance and Reimbursement Agreement, the Indenture and the Intercreditor Agreement will address AGM's conditions to issuance of the Bond insurance policy, including notice and approval rights with respect to operations, budgets and other matters, and its rights and remedies in the event of default or breach of covenants.</p>
County Guaranty	<p>The County will provide a guaranty to the Bond Trustee for the benefit of the Bondholders of one or more series of the Enhanced Bonds. The guaranty will guarantee the timely payment of scheduled interest and principal on such series of Enhanced Bonds.</p> <p>PEDFA and the County will enter into a Reimbursement Agreement pursuant to which PEDFA will agree to reimburse the County for payments made under the Bond insurance policy, plus interest, solely from Parking Revenues. THE OBLIGATIONS OF PEDFA UNDER THE REIMBURSEMENT AGREEMENT ARE NOT OBLIGATIONS OF THE COMMONWEALTH OF PENNSYLVANIA AND WILL BE NON-RECOURSE TO PEDFA AND LIMITED TO THE PARKING REVENUES AND THE ACQUIRED ASSETS. The Reimbursement Agreement, the Indenture and the Intercreditor Agreement will address the County's conditions to issuance of its guaranty, including notice and approval rights with respect to operations, budgets and other matters, and its rights and remedies in the event of default or breach of covenants.</p>
Intercreditor Agreement	AGM, the County, DGS, the Bond Trustee, and PEDFA, will enter into an Intercreditor Agreement providing for the respective rights and remedies of the parties in the event of a bond default or a default under the Insurance and Reimbursement Agreement and/or the Reimbursement Agreement.
Bond Structure and Terms	
Bonds	PEDFA will pay the up-front portion of the Purchase Price set forth in the Transfer Agreement,

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	<p>and fund required capital reserves, debt service reserves, reasonable operating reserves, working capital, capitalized interest, premiums for insurance, and costs of issuance, negotiation and due diligence from proceeds of the Bonds.</p> <p>Initial Capital Reserve balances will be determined from the results of the Independent Engineer's review, Standard's recommendations, and applicable tax law limitations.</p> <p>Two or more series of bonds will be issued pursuant to an indenture (the "<u>Indenture</u>") – the Commonwealth Parking Lease Secured Revenue Bonds (the "<u>Commonwealth Lease Bonds</u>") and two or more series of enhanced Parking System Revenue Bonds (the "<u>Enhanced Bonds</u>"), (and together the Commonwealth Lease Bonds and the Enhanced Bonds are the "<u>Bonds</u>"). It is expected that the Bonds will achieve minimum investment grade ratings.</p> <p>In addition, Harrisburg First acknowledges a potential need to monetize a portion of the Surplus Revenues to provide additional up front proceeds, and subject to credit structure and internal review, may agree to either place or buy such obligations.</p>
Security	<p>The Bonds will be secured by:</p> <ul style="list-style-type: none"> • A first lien Leasehold Mortgage for the benefit of the trustee under the Indenture ("<u>Bond Trustee</u>") (on behalf of the Bondholders) on PEDFA's interest in the Parking Assets (the "<u>Leasehold Mortgage</u>") but not the parking meters or metered spaces; • Assignment to the Bond Trustee (on behalf of the Bondholders) of certain rights of PEDFA under the financing documents, the Lease, the License, the Franchise, the Asset Management Agreement, and the Parking Management Agreement; • First lien on Revenues generated by the Parking Assets, including parking meters and the Commonwealth Lease; • First lien on parking meter and other enforcement revenues (exclusive of adjudication); and • Funds held under the Indenture, including operating and capital reserves set aside at closing or additional amounts accumulated overtime.
Debt Service Reserve Fund or Surety	<p>A surety and/or an amount funded from the Bonds may be held as a debt service reserve fund on behalf of the Commonwealth Lease Bonds and the Enhanced Bonds. Such amount would be drawn to address shortfalls in debt service payments due to Bondholders. In the final year of the Bond term, debt service reserve funds (other than any surety) will be used instead of Revenues to make debt service payments on the Bonds.</p>
Operating Reserve	<p>Up to 4 months of operating expenses, funded out of bond proceeds.</p>
Revenues	<p><u>"Pledged Revenues"</u> will consist of:</p> <ul style="list-style-type: none"> • Parking Assets revenue (net of parking taxes or PILOT payments), including revenues from the Commonwealth Lease ("<u>Commonwealth Lease Revenues</u>")¹⁰ • Parking meter revenues, • Enforcement revenues, • Insurance proceeds,

¹⁰ Including revenues from the operation, management, and enforcement services that may be performed by Standard for DGS on Commonwealth-owned or leased parking facilities (not a part of the Parking Assets) under consideration

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	<ul style="list-style-type: none"> • Condemnation awards, • Asset sales proceeds, • Interest earnings, and • Licensing Fees, Rents, advertising and other miscellaneous revenues.
Lock Box	All Pledged Revenues will be deposited into a " <u>Lock Box</u> " under the control of the Bond Trustee on behalf of the owners of the Bonds (" <u>Bondholders</u> "). The Indenture will govern disbursements pursuant to flow of funds and capital funds requisition procedures. The Bond Trustee will hold all indenture-created funds.
Flow of Funds	<p>From the Lock Box, parking taxes (or the equivalent payments in lieu of taxes), if not segregated from revenues before deposit to the Lockbox, will be paid to the City by the Operator as received and when due.</p> <p>From the Lockbox, Commonwealth Lease Revenues (but no other Revenues) will flow on a monthly basis in the following order of priority:</p> <ul style="list-style-type: none"> • Monthly installments of debt service on the Commonwealth Lease Bonds • Replenish debt service reserve fund/surety for Commonwealth Lease Bonds <p>Remaining funds from the Commonwealth Lease Revenues after the above transfers, together with any other Revenues, will be distributed from the Lockbox on a monthly basis in the following order of priority¹¹:</p> <ul style="list-style-type: none"> • Budgeted operating expenses • Budgeted operating reserve replenishment • Unforeseen operating expenditures (distribution of amounts above a predetermined level will need approval from PEDFA or its qualified designee) • Base Management Fees • Monthly installments of debt service on the Enhanced Bonds and other amounts due under the Indenture • Additional Lease Rent and Senior Payment to the account of City • Performance Management Fees • Replenishment of Enhanced Bonds debt service reserve fund or surety • Payment of amounts due under the AGM Insurance and Indemnity Agreement and/or the County Guaranty, as appropriate • Surplus Revenues as allocated under Surplus Revenues and Allocation below • Excess Revenue distributed to PEDFA <p>Amounts designated as payable to the Transferor, HPA, or City may be subsequently assigned to others, subject to applicable securities laws, and it is contemplated that the Settlement Agreement may include such an assignment.</p>
Senior Payment	A " <u>Senior Payment</u> " from Pledged Revenues in the amount of \$1,500,000 per year, escalating at inflation, to the City.
Additional Lease	Additional rent under the Lease in the amount of \$500,000/year escalating at inflation for the

¹¹ Subject to revision based on bond counsel review, underwriting review, initial sizing of capital reserves, determination of terms of credit enhancement, and rating agency review.

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Rent	first six years (the " <u>Additional Lease Rent</u> "), payable to the lessor in the flow of funds prior to application of Surplus Revenues.
Surplus Revenues and Allocation	<p>Revenues remaining after payment of the Additional Lease Rent up to the annual Surplus Revenues Cap are "<u>Surplus Revenues</u>."</p> <p>Surplus Revenues, if any, will be allocated and distributed as follows¹²:</p> <ul style="list-style-type: none"> • Initial Additional Consideration Level up to 25%¹³ of Surplus Revenues will be paid to the Transferor or as designated by the City, as payments on the Note; • Remaining Surplus Revenues (75%¹³) will be deposited to the Capital Reserve Account until the Capital Reserve Account balance equals the Capital Reserve Account Requirement; • Thereafter, 100% of the Surplus Revenues will be paid to the Transferor or as designated by the City, as payments on the Note, provided that at any time the Capital Reserve Account balance is less than the Capital Reserve Account Requirement, payments on the Note will drop to the Initial Additional Consideration level until such time as the Capital Reserve Account balance again achieves the Capital Reserve Account Requirement <p>"<u>Surplus Revenues Cap</u>" means sum of the amount payable each year under the Note plus the amount required to be deposited to meet the Capital Reserve Account Requirement. Revenues each year in excess of the Surplus Revenues Cap are "<u>Excess Revenues</u>" and will be distributed to PEDFA.</p>
Annual Operating Budget	<p>On or before each Operating Year, PEDFA or its qualified designee shall cause to be prepared and shall adopt an operating budget for management of the Parking Assets for the Operating Year (the "<u>Operating Budget</u>"). PEDFA will cause the Asset Manager to develop an Operating Budget that meets the requirements set forth below.</p> <p>The Operating Budget shall show in reasonable detail:</p> <ul style="list-style-type: none"> A. Annual debt service on Commonwealth Lease Bonds B. Amounts necessary to replenish the debt service reserve fund or surety for Commonwealth Lease Bonds C. Operating Expenses D. Projected operating reserve cash flows E. Base and Performance Management Fees F. Annual debt service on Enhanced Bonds G. Additional Lease Rent Payments and Senior Payment H. Amounts necessary to replenish the Enhanced Bonds debt service reserve fund or surety I. Amounts necessary to pay amounts due under the AGM Insurance and Indemnity Agreement and/or the County Reimbursement Agreement, as applicable J. Amounts projected to be expended from the Annual Capital Budget, amounts necessary to fund the current Operating Year's deposit into the Capital Reserve Account, and budgeted Capital Expenditures

¹² Subject to revision based on bond counsel review, underwriting review, initial sizing of capital reserves, determination of terms of credit enhancement and rating agency review.

¹³ Subject to final negotiation and underwriting review.

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	<p style="margin-left: 40px;">K. Projected Surplus Revenues L. Projected Excess Revenues</p> <p>The Operating Budget shall be developed such that estimated Revenues are expected to meet the Rate Covenants. PEDFA may amend the Operating Budget at any time, subject to certain restrictions.</p>
Annual Capital Budget	<p>On or before each Operating Year, PEDFA shall adopt a capital budget for management of the Parking Assets for such Operating Year (the "<u>Annual Capital Budget</u>"). The purpose of the Annual Capital Budget will be to ensure the Long Term Capital Plan is implemented and that sufficient funds are made available to do so. The Annual Capital Budget shall show in reasonable detail:</p> <p style="margin-left: 40px;">A. expected sources of moneys to fund the Long Term Capital Plan, including currently available funds, proceeds of Additional Bonds, if any, issued for capital purposes, the current year's Capital Reserve Deposit, the Capital Reserve Account balance, and if needed, schedules for meeting the Capital Reserve Account Requirement, and reasonable expectations of Surplus Revenues projected to be generated</p> <p style="margin-left: 40px;">B. budgeted Capital Expenditures projected for the current Operating Year.</p> <p>PEDFA may amend the Capital budget at any time, subject to certain limitations.</p>
Capital Reserve Account and the Capital Reserve Account Requirement	<p>The Capital Reserve Account will be created to fund initial and on-going capital needs of the Parking Assets during the life of the Lease and the License. The account will also maintain a minimum balance equal to the property insurance deductible. This fund will be pledged to the Bond Trustee for the benefit of the Bondholders.</p> <p>At closing, a portion of the proceeds of the Bonds will be set aside in a sum to cover initial upgrades and modernization of the System. This amount will be determined based on the Independent Engineer's Review, input from Standard and applicable tax law.</p> <p>The "<u>Capital Reserve Account Requirement</u>" will be the amount needed in the current Operating Year, certified by the Independent Engineer to be sufficient, together with deposits to the Capital Reserve Account from Surplus Revenues reasonably projected to be available in the future, to fund the Long Term Capital Plan, plus the amount of uninsured exposure (including deductibles).</p>
System Maintenance Standard	<p>Subject to the sufficiency of funds in the Capital Reserve Account, PEDFA will be required to maintain the Parking Assets in compliance with the System Maintenance Standard throughout the life of the Lease and License. The System Maintenance Standard will be an Operator responsibility, subject to the sufficiency of funds in the Capital Reserve Account, in the initial and each subsequent Parking Management Agreement.</p>
Long Term Capital Plan	<p>A "<u>Long Term Capital Plan</u>" will be prepared, based on physical assessments of the Parking Assets by an Independent Engineer, covering projected Capital Expenditures for repair, renovation and replacement of the Parking Assets in each of the next 10 years in order to maintain all aspects of the Parking Assets to the System Maintenance Standard. The physical assessment will be updated at least every 5 years by an Independent Engineer.</p> <p>The initial Long Term Capital Plan will be incorporated into the Lease and will be revised at least every three to five years thereafter. The Asset Manager will retain an Independent Engineer and will prepare the Long Term Capital Plan – with input from the Independent Engineer - as</p>

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	<p>the level of capital expenditures projected in each of the next 10 years to be needed to maintain all aspects of the Parking Assets to the System Maintenance Standard. Consistent with the Rate Covenants, the Long Term Capital Plan will also certify the expected sources of moneys to fund the Long Term Capital Plan, including currently available funds in the Capital Reserve Account, proceeds of Additional Bonds and reasonable expectations of revenues projected to be generated. The Long Term Capital Plan will specify the required deposit to the Capital Reserve Account in the current year ("<u>Current Year's Capital Reserve Deposit</u>"), in order to satisfy the Capital Reserve Account Requirement.</p>
<p>Rate Covenants</p>	<p><u>Current Year Rate Covenant.</u> In each Operating Year, PEDFA will set, charge, modify as needed, and collect rates for parking facilities and collect other revenues generated by or associated with the Parking Assets ("<u>Current Year Rate Covenant</u>") such that:</p> <ol style="list-style-type: none"> 1. Revenues shall be sufficient to pay: <ol style="list-style-type: none"> A. Operating Expenses, B. Replenishment of the Operating Reserve C. Base and Performance Management Fees D. Annual debt service on Commonwealth Lease Bonds E. Additional Lease Rent payments and Senior Payment F. Replenish debt service reserve fund/surety for Commonwealth Lease Bonds G. Annual debt service on Enhanced Bonds and other amounts due under the Indenture H. Replenish Enhanced Bonds debt service reserve fund or surety I. The amount necessary to fund the Current Year's Capital Reserve Deposit into the Capital Reserve Account, including actual Capital Expenditures <p>AND</p> <ol style="list-style-type: none"> 2. Revenues less Operating Expenses (including payment of all amounts in the flow of funds waterfall that are senior to debt service on the Enhanced Bonds) shall equal or exceed 1.20¹⁴ times Enhanced Bonds debt service, <p>In the event Revenues are insufficient to meet the tests in both 1 and 2 above, PEDFA shall implement a rate increase or other actions reasonably projected to meet such tests.</p> <p><u>Prospective Rate Covenant.</u> Prior to the beginning of each Operating Year, PEDFA or its qualified designee, together with the Asset Manager, will cause to be prepared a projection that covers a 10-year period. Such projections will project revenues based on existing rates and operating costs, with adjustments for increases in revenues and expenses based on estimated market conditions at such time. The result will be an estimate of Net Revenues. The projections will take into account estimates of the Rate Covenant in each year ("<u>Prospective Rate Covenant</u>"), including actual debt service and projected Capital Expenditures based on the Long Term Capital Plan. The calculation will show the Capital Reserve Balance at the end of the 10-year period.</p> <p>In the event the projections show that either that the Current Year Rate Covenant will not be met in the current Operating Year or the Prospective Rate Covenant will not be met in any forecast year, or the Capital Reserve Account balance is less than the Capital Reserve Account Requirement at the end of any year in the 10-year period, PEDFA shall set and charge rates, as needed, collect other revenues generated by the Parking Assets and take other actions as necessary to either meet the Current Year Rate Covenant or bring the projected Capital Reserve</p>

¹⁴ Subject to final underwriting review.

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	Account balance to a level equal to the Capital Reserve Account Requirement.
Additional Bonds	No additional bonds shall be permitted except (a) refunding for debt service savings on the Enhanced Bonds; (b) refunding for debt service savings on the Commonwealth Lease Bonds; (c) capital expenditures subject to agreed upon conditions and debt service tests; and (d) other additional bonds subject to agreed upon conditions and debt service tests, but in most instances, only with the consent of the Credit Enhancers.
Insurance	Insurance will be required for the full replacement cost of the Parking Assets. An insurance consultant will set forth the recommended insurance program at closing and again every five years and determine the Full Replacement Cost of the Parking Assets. Insurance companies will have minimum ratings from AM Best of "A-."
KEY FINANCIAL ASSUMPTIONS	
The following assumptions underscore the proposed purchase price. These assumptions remain subject to due diligence and verification by independent parties, as indicated.	
Gross Revenues	<p>The following factors are the basis for revenue estimates:</p> <ol style="list-style-type: none"> 1. Monthly Parking <ol style="list-style-type: none"> a. Utilization b. Parking Rates 2. Transient Parking <ol style="list-style-type: none"> a. Utilization b. Parking Rates 3. On-Street Meter Parking <ol style="list-style-type: none"> a. Utilization b. Meter Rates 4. Enforcement Revenues 5. Other Revenues 6. Parking Taxes
Commonwealth Parking Lease	<p>PEDFA will enter into a 30-year¹⁵ initial term parking lease agreement ("<u>Commonwealth Lease</u>") with the Commonwealth Department of General Services ("<u>DGS</u>") to provide parking for approximately 4,600 passes to Commonwealth employees at the Parking Assets.¹⁶ Option to renew for 10-year extension at 90% of then market parking rates with scheduled increases or inflation factor.</p> <p>The Parking Rate will be as follows:</p> <ul style="list-style-type: none"> • 2014: \$140 / mo / pass [one pass = access to one unreserved space]

¹⁵ Subject to final agreement.

¹⁶ A separate agreement between Standard and DGS may be entered into providing for the operation, management and maintenance of additional parking facilities owned, leased or managed by DGS or the Commonwealth.

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	<ul style="list-style-type: none"> • 2015: \$150 / mo / pass • 2016: \$165 / mo / pass • 2017: \$180 / mo / pass <p>increasing each year thereafter by an agreed upon annual adjustment</p>
<p>Operating Expenses</p>	<p>The Harrisburg First financial model assumes:</p> <p>Payroll and related expenses reflect new wages at no less than 90% of current HPA wages, and an assumed reduction in benefits.</p> <p>Operator headcount at closing is expected to be up to 56 full time and part time positions (including enforcement personnel), based on the Separation Package described below. After 12 months, the Operator will maintain a headcount at least 31 full time equivalent positions for a specified period of time.</p> <p>Other operating expenses are projected in line with Standard's experience managing and operating similar sized off-street and on-street parking assets and other real estate assets. Utilities expense was based on the 2010 financial statement data, increased by 3% per annum for a three-year period to adjust to 2013 levels.</p>
<p>Labor Matters</p>	<p>Final labor matters will be structured to ensure Operator is not characterized as a successor to HPA for collective bargaining purposes.¹⁷</p> <p>All existing payroll-related liabilities (pension, OPEB, accrued vacation, unemployment, sick leave) of HPA employees will be fully satisfied or provided for at closing from existing HPA funds.</p> <p><u>Separation Package.</u> All or a portion of HPA bargaining unit employees will be offered a separation package for employees who are not hired by the Operator, payments for which will occur at closing using proceeds deducted from the Purchase Price or from existing HPA funds.</p> <p><u>Transition Period and new employment terms.</u> HPA and AFSCME will enter into a Transition Agreement that will make Article XXIX (Bargaining Unit Work) of the existing collective bargaining agreement inapplicable for the Transaction, confirm that the existing collective bargaining agreement will be inapplicable to Operator after closing, and add agreed upon terms that Operator will offer post-closing to HPA employees it hires. The Operator will offer employment to current HPA bargaining unit employees for specified positions based on weekly hours currently worked in those positions, and to City employees for parking enforcement officer positions. Any HPA employees who are not hired by Operator will be provided a separation package by HPA. The new terms of employment offered by Operator will include wages at no less than 90% of current wages for 12 months after closing, maximum employee contributions of 10% of health, prescription, dental, and vision insurance premiums for 12 months after closing. It is expected that the new employees hired by Operator will negotiate with respect to a collective bargaining agreement with Operator.</p> <p><u>Post-Transition Period.</u> After 12 months following closing, Operator may reduce headcount to 31 full time equivalent positions and will be required to maintain that minimum headcount for a specified period of time.</p>

¹⁷ To the extent necessary, the same issues will need to be addressed with respect to enforcement workers presently employed by the City who will be offered enforcement positions by Standard.

**Asset Transfer of the Harrisburg Parking Authority's Parking System
Summary Of Proposed Terms
August 26, 2013**

Existing Leases	Existing leases for the Parking Assets are identified on Appendix A. As other leases are identified, Harrisburg First will adjust revenues and expenses to reflect their contract terms, as appropriate.
Capital Investment Assumptions	<p>The schedule of capital investments is based on the level of capital improvements projected by the Independent Engineer, initially Desman, for garages plus the level of meter and garage technology improvements and future replacements as determined by Standard. Desman's initial report covers the physical conditions (structural, architectural, mechanical and electrical) and associated projected capital expenditures associated with each of the ten garages, and off-street surface lots and excluded garage equipment and on-street meters. In an important conclusion (different than CDM Smith), Desman projected that none of the garages will require a full replacement during the term. Desman capital expenditure projections (in 2013 dollars) were escalated by 3% per year for inflation.</p> <p>Standard projected the cost of on-street meter improvements and upgrades as well as garage technology upgrades (including flexible card access). On-street meters were assumed to be replaced with multi-station meters within the CBD and individual meters outside of the CBD. Meter and garage technology were assumed to be replaced every ten years. Capital expenditure projections for meter and garage technology replacements were escalated by 3% per year for inflation</p>

**Asset Transfer of the Harrisburg Parking Authority's Parking System
Summary Of Proposed Terms
August 26, 2013**

**Appendix A
HPA Existing Leases and Operating Agreements by Asset**

[To be determined at the conclusion of due diligence]

**Asset Transfer of the Harrisburg Parking Authority's Parking System
Summary Of Proposed Terms
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**Appendix B
Initial Parking Rate Schedule**

Monthly Unreserved Rates by Garage

	Locust	Market Sq	River	Chestnut	City Island	Fifth	H Univ	Seventh	South	Walnut
Category	High	Medium	Medium	High		High	Medium	High		High
HPA Rate	\$155	\$155	\$155	\$155	\$75	\$155	\$155	\$155	\$155	\$155
1/1/14 Rate	175	170	165	175	100	170	170	170	170	175
1/1/15 Rate	185	180	170	185	105	180	180	180	180	185
1/1/16 Rate	195	190	185	195	115	190	190	190	190	195
1/1/17 Rate	200	195	190	200	120	195	195	195	195	200

Monthly Reserved Rates by Garage

	Locust	Market Sq	River	Chestnut	City Island	Fifth	H Univ	Seventh	South	Walnut
Category	High	Medium	Medium	High		High	Medium	High		High
HPA Rate	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200

In the future, PEDFA monthly reserved rates will be 135% of the corresponding unreserved monthly rate, rounded to the nearest \$5/ month.

Monthly Unreserved Rates by Lot [TBD]

	Mulberry/Dewberry	10 th Street	Mulberry
HPA Rate	NA	NA	\$95
1/1/14 Rate	TBD	TBD	100
1/1/15 Rate			105
1/1/16 Rate			115
1/1/17 Rate			120

**Asset Transfer of the Harrisburg Parking Authority's Parking System
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Transient Rate Categories by Garage

	Locust	Market Sq	River	Chestnut	City Island	Fifth	H Univ	Seventh	South	Walnut
Category	High	Medium	Medium	High	City Island	High	Medium	High	South	High

Transient Rates

Hours	HPA		1/1/14 Rates				1/1/15 Rates			
	All	City Island	High	Medium	South	City Island	High	Medium	South	City Island
0.50			\$3.00	\$3.00	\$3.00		\$3.00	\$3.00	\$3.00	
2.00	\$5.00		7.00	7.00	5.00		8.00	8.00	6.00	
3.00	7.00		9.00	9.00	7.00		10.00	10.00	8.00	
4.00	8.00		11.00	11.00	8.00	\$5.00	12.00	12.00	9.00	6.00
5.00	9.00									
10.0			18.00	16.00	16.00		20.00	18.00	18.00	
11.0	16.00									
24.0	20.00	\$5.00	25.00	20.00	20.00	10.00	25.00	20.00	20.00	12.00

Transient Rates by Lot [TBD]

	Mulberry/Dewberry	10 th Street	Mulberry
HPA Rate	NA	NA	Only monthlies
1/1/14 Rate			

Meter Rates

Minutes	HPA		1/1/14 Rates	
	CBD	Other	CBD	Other
10	\$0.25			
15		\$0.25	\$0.75	
30				\$0.75
60	1.50	1.00	3.00	1.50

**Asset Transfer of the Harrisburg Parking Authority's Parking System
Summary Of Proposed Terms
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Current Hours: Rates are in effect Monday – Friday, 8:00 am to 5:00 pm.

New Hours: PEDFA will have the right to expand meter operation up to 11 hours each weekday and Saturday (meters will not be operated on Sundays and Holidays) for the first five years of the Transfer Agreement. Thereafter, PEDFA will have the right to operate meters during a longer period.

Meter Enforcement

	Meter Violation	Late Payment
City Rate	\$14	\$11
Initial Rate	\$30	\$20

Permitted Escalation of Parking Rates

Beyond the rates specified above, PEDFA can increase rates in each rate category (e.g. monthly unreserved) up to the greater than 3% or CPI per annum (the “Annual Cap”). Allowable rate increases are cumulative, whether or not the full inflation-related allowance is taken in any year.

It is critical that the Operator, Asset Manager, and PEDFA be allowed to operate under a dynamic framework that provides for the ability to adjust rates at different garages at different intervals, allows for the creation and collapsing of rate categories, and allows for price differentiation between transient and monthly (reserved, for example) categories.

The greater of 3% or CPI per annum cap applies on an average system-wide basis. For monthly garage rates, average rate means the arithmetic average of monthly rates at all garages. For transient garage rates, average rate means the arithmetic average of the all rates at all garages, provided that PEDFA is allowed to expand or collapse rate subcategories (e.g., deleting the 3-4 hour rate, or adding an 8-10 hour rate) so long as the average rate is within the Annual Cap. For meter rates, average rate in a given area (e.g., CBD, non-CBD) means the arithmetic average of the highest per hour charges in the area.

Monthly rates will be rounded to the nearest \$5 per month. Transient rates will be rounded to the nearest \$1.00 per period. Meter rates will be rounded to the nearest \$0.25 per period.

PEDFA will have the right to raise future citation rates for meter violations so that citation rates for meter violations at all times equal or exceed 10 times the corresponding 60-minute rate at CBD meters. Citation rates will be rounded to the nearest \$5.

Note: the above rate schedules (and related averages) do not apply to any individual negotiated parking arrangements or contracts, such as the Commonwealth Parking Lease or valet parking.

EXHIBIT 4

SECOND AMENDMENT TO THE COLLECTIVE BARGAINING AGREEMENT
BETWEEN THE CITY OF HARRISBURG AND FRATERNAL
ORDER OF POLICE CAPITAL CITY LODGE NO. 12

The Collective Bargaining Agreement between the City Of Harrisburg and Fraternal Order Of Police Capital City Lodge No. 12 for the period January 1, 2004 through December 31, 2015 is amended as follows:

1. All amendments shall be effective upon ratification by the City except as set forth below.
2. ARTICLE III is amended by extending the term to December 31, 2016.
3. ARTICLE VIII Section 1: Salaries, Subsection A) is amended as follows:

Section 1: Salaries

Salaries for the established work week of forty (40) hours, including meal period of one-half (1/2) hour each day, shall be as follows:

A) For the term January 1, 2004 to December 31, ~~2015~~2016, base wages for employees hired prior to January 1, 2013 shall be as follows:

January 1, 2004 - 3% increase
January 1, 2005 - 2% increase
July 1, 2005 - 1% increase
January 1, 2006 - 1% increase
July 1, 2007 - 2% increase
January 1, 2008 - 3% increase
January 1, 2009 - 3% increase
January 1, 2010 - 4% increase
January 1, 2011 - 4% increase
January 1, 2012 - 3% increase
~~January 1, 2013 - 3% increase~~ January 1, 2013 - 0% increase
~~January 1, 2014 - 3% increase~~ January 1, 2014 - 0% increase
~~January 1, 2015 - 3% increase~~ January 1, 2015 - 1% increase
January 1, 2016 - 1% increase

NEED NEW PAY SCHEDULES

EXHIBIT A

For all employees hired on or after January 1, 2013, the following pay scale shall apply:

	<u>01/01/2013</u>	<u>01/01/2014</u>	<u>01/01/2015</u>	<u>01/01/2016</u>	
<u>Police Officer IV</u>	<u>61,358</u>	<u>61,358</u>	<u>61,972</u>	<u>62,591</u>	<u>100.0%</u>
<u>Police Officer III</u>	<u>55,222</u>	<u>55,222</u>	<u>55,774</u>	<u>56,332</u>	<u>90.0%</u>
<u>Police Officer II</u>	<u>52,154</u>	<u>52,154</u>	<u>52,676</u>	<u>53,202</u>	<u>85.0%</u>
<u>Police Officer I</u>	<u>49,086</u>	<u>49,086</u>	<u>49,577</u>	<u>50,073</u>	<u>80.0%</u>
<u>Police Officer Trainee</u>	<u>46,018</u>	<u>46,018</u>	<u>46,478</u>	<u>46,943</u>	<u>75.0%</u>

The Trainee rate of pay shall apply from date of employment through the end of the Field Training Officer Program. Upon satisfactory completion of the Field Training Officer Program, an officer shall be paid at the Police Officer I rate through the Probationary Period set forth in Article VI. Upon satisfactory completion of the Probationary Period, the officer shall be paid at the Police Officer II rate for 12 months, and then shall move to the Police Officer III rate for 12 months, and then shall move to the Police Officer IV rate thereafter.

4. ARTICLE VIII Section 3: Vacations is amended to cap the vacation accrual at 22 days of vacation for employees hired on or after January 1, 2013, as follows:

Section 3: Vacations

Employees with less than one (1) year of service shall, during the term of this Agreement, be entitled to vacations of ten (10) working days per year. The following schedule shall apply to is for employees hired prior to January 1, 2013 with more than (1) year of service:

Start of 2 nd year to end of 5 th year	16 working days
Start of 6 th year to end of 10 th year	19 working days
Start of 11 th year to end of 15 th year	22 working days
Start of 16 th year to end of 20 th year	25 working days
Start of 21 st year to and beyond	30 working days

The following schedule shall apply to employees hired on or after January 1, 2013, with more than one (1) year of service:

<u>Start of 2nd year to end of 5th year</u>	<u>16 working days</u>
<u>Start of 6th year to end of 10th year</u>	<u>19 working days</u>
<u>Start of 11th year and beyond</u>	<u>22 working days</u>

(Rest of Section 3 remains the same.)

5. ARTICLE VIII Section 4: Holidays and Personal Days is amended to reduce the number of named holidays from 10 to 7 and to provide that compensation for working a holiday shall be a DOM (Day of the Month) only, as follows:

Section 4: Holidays and Personal Days

Effective upon the date of ratification of this Agreement, each employee shall be entitled to ~~sixteen (16)~~ thirteen (13) holidays during the term of this Agreement. If an employee in the bargaining unit is required to work on New Year's Day, ~~Martin Luther King Day, Washington's Birthday,~~ Easter, Memorial Day, July Fourth, Labor Day, ~~Columbus Day,~~ Thanksgiving Day, or Christmas Day, the employee shall be entitled to one (1) compensatory day off to be taken sometime during the calendar month in which the holiday falls, ~~or the employee shall, at the employee's option, be entitled to double pay for the hours worked. This option must be exercised at the time that monthly days off are selected.~~ The remaining six (6) holidays shall be considered as "H" days and shall be taken on a first come, first served basis, regardless of seniority, and may not be revoked by management. "H" days may only be selected after vacation selection is completed and is subject to manpower needs as determined by management. ~~Method of selection for Martin Luther King Day shall be either double pay for hours worked or a compensatory day which may be used anytime during the calendar year, however, it must be selected by September 30th, otherwise the day will be assigned by management.~~ Each employee in the Bargaining Unit during the term of this Agreement shall be entitled to three (3) personal days with said days to be taken at the employee's discretion during the year, subject to management's responsibility to maintain an efficient operation. If management determines that it is necessary to limit the number of employees on personal leave at the same time, the employee first requesting such leave shall be given a choice of personal leave in the event of any conflict in selection. Requests for emergency personal leave will be granted at any time with the understanding that an employee may be required to substantiate the emergency nature of the request and further, that it may be necessary in order to accommodate the emergency to reschedule requests of other employees for personal leave.

Upon separation of employment, holidays and personal days shall be prorated as follows:

First Quarter:	Holidays 1 ½ days, personal days ¾ day
Second Quarter:	Holidays 3 days, personal days 1 ½ days
Third Quarter:	Holidays 4 ½ days, personal days 2 ¼ days
Fourth Quarter:	Holidays 6 days, personal days 3 days

6. ARTICLE VIII Section 7: Drill, Schooling, Court Time and Telephone Standby Time is amended to allow for modification to an employee's shift to accommodate a scheduled court appearance as follows:

Section 7: Drill, Schooling, Court Time and Telephone Standby Time

Whenever an employee is directed by the Police Chief or Director of Public Safety to attend any drill or schooling during off-duty hours, he shall be compensated by equal compensatory time or pay, not less than two (2) hours. Dependent upon manpower needs, management may elect to change days off to accommodate training.

Time necessarily spent by members of the Police Bureau in court of any kind (including Magistrate's Court) shall be considered time on duty for which said employee shall receive pay at the applicable rate; and when time is during off-duty hours, a minimum of two (2) hours pay at such rates shall be paid. In light of the foregoing and the recommendation set forth at WF15 in the City's Act 47 Recovery Plan, the parties hereto agree that the City and the FOP will meet and negotiate mutually agreed upon changes and strategies which will permit the City to reduce the amount of court-related overtime payments made to employees.

Whenever any employee is directed by the Police Chief or his designee to be on telephone standby, such employee shall receive one-half (1/2) his/her regular rate of pay for each hour, but not less than the equivalent of three (3) hours of regular pay.

7. ARTICLE VIII Section 8: Longevity Pay is amended to freeze the longevity payments at present levels, as follows:

Section 8: Longevity Pay

During the term of this Agreement, each employee shall receive longevity, in addition to all other compensation, at the rate of one percent (1%) of his base pay for each year of service after the employee's third year of service up to a maximum of twelve percent (12%) through December 31, 2001, up to a maximum of 13% beginning January 1, 2002, subject however to the following:

Employees who are eligible for and receiving longevity as of the ratification of this Second Amendment shall have their longevity payment frozen at the current rate through December 31, 2016. Employees hired on or prior to December 31, 2012, who are not receiving longevity as of the ratification of this Second Amendment shall not be paid longevity during the term of this Agreement. Longevity pay shall not be paid to employees hired on or after January 1, 2013,

8. ARTICLE VIII Section 9: Medical and Hospital Insurance is amended as follows:

Section 9: Medical and Hospital Insurance

The City shall provide health care coverage for each employee and the members of his immediate family in accordance with the following; ~~with the City paying one hundred percent (100%) of the cost of such coverage in accordance with the current period of those providing coverage, as follows:~~

- A. Effective as soon as the parties are able to arrange implementation following ratification of this Second Amendment (but no earlier than July 1, 2013) the base health care plan provided to all active employees shall be Select PPO Blue – 100%/80% Co-insurance; \$250/\$500 In-Network Deductible; \$20/\$40 OV Co-pay; \$100 ER Co-pay. ~~Highmark Classic Blue Coverage including all medically necessary tests, chemotherapy coverage and one routine pap smear per 12-month period;~~

~~B. Effective January 1, 2014, the base health care plan provided to all active employees shall be the PPO Blue – 90%/70% Co-insurance; \$250/\$500 In-Network Deductible; \$20/\$40 OV Co-pay; \$100 ER Co-pay; \$500/\$1000 OOP Max.~~

~~B. Highmark Class Blue Major Medical Coverage to provide maximum benefits of \$250,000.00 until January 1, 1990, wherein the maximum shall be one million dollars (\$1,000,000.00) with a one hundred dollar (\$100.00) deductible provision per person up to three hundred dollars (\$300.00) per family, and providing that the insurer shall pay eighty percent (80%) of the cost of services up to \$2,000.00 per calendar year. The first \$2,000.00 shall be co-insured at eighty percent (80%), one hundred percent (100%) thereafter, and outpatient nursing care for LPNs and renewable clause for prosthetic devices;~~

~~C. Effective upon ratification of this Second Amendment, all current employees shall contribute to the premium cost of medical and hospital insurance in accordance with the below schedule, which is based on the percentage of base salary earned by a 6-year patrol officer:~~

Percent of Base Salary of 6 Year Patrol Officer

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<u>Single coverage</u>	<u>1.0%</u>	<u>1.5%</u>	<u>2.0%</u>	<u>2.0%</u>
<u>2 person coverage</u>	<u>2.0%</u>	<u>2.5%</u>	<u>3.0%</u>	<u>4.0%</u>
<u>3 person coverage</u>	<u>2.5%</u>	<u>3.0%</u>	<u>4.0%</u>	<u>5.0%</u>
<u>4 or more person coverage</u>	<u>3.0%</u>	<u>4.0%</u>	<u>5.0%</u>	<u>6.0%</u>

All employee contributions shall be by payroll deductions.

~~C. 365 Mental/Nervous Days;~~

~~D. Pathology with zero deductible;~~

~~E. Medical Emergency;~~

~~F. Follow up care to accident;~~

~~G. Students to age 25;~~

D. Effective July 1, 2013, or as soon as the parties are able to arrange implementation following ratification of this Second Amendment, prescription co-payments for all employees shall be as follows for the term of this Agreement:

Generic	\$25
Brand Restricted	\$50
Brand	\$75

Where and when available, employees shall be required to purchase generic prescriptions and shall be required to select mail order delivery.

E. Beginning with the calendar year commencing January 1, 2015, if the City's increases in its medical and health insurance COBRA rates exceed six percent (6%) over the prior year's rates, the City and the FOP shall negotiate changes in the design of the health care plans to reduce the amount of the City's increases in its share of the costs of monthly contributions. For purposes of calculating increases in costs, the COBRA rates established by the City's third party administrator(s) shall be used, and the annual increase shall be determined based on the effective date of the plan year. In calculating the six percent (6%) increase, the percentage shall be based on the amount paid by the City and shall not include employee contributions. In the event the City and the FOP are unable to reach agreement on plan design changes, the plan design changes shall be subject to an expedited interest arbitration procedure. Either party may request the appointment of a neutral arbitrator selected pursuant to the arbitration step of the grievance procedure. The decision of the arbitrator on this issue, shall be issued within forty-five (45) calendar days of the notice of submission to arbitration.

F. During the term of this Agreement, the City may at any time change the base health care plan provided hereunder to PEBTF coverage. In the event the City elects to change to PEBTF coverage, the base year for calculating cost increases in health care costs which exceed 6% shall be reset to the plan year in which the change is made to PEBTF coverage.

G.H. The current dental coverage at 100% UCR, plus three riders with orthodontic coverage limited to \$2,500 lifetime maximum per person, will be provided by UCCI;

H.I. The current vision coverage will be provided by OptiChoice for the life of this contract;

J. ~~Effective October 1, 2004, Police Officers will have the option of selecting Highmark BCBS Select PPO Blue healthcare coverage. Police Officers selecting PPO Blue shall have the ability to change coverage back to traditional coverage, provided that product is available, during open enrollment periods in 2005 and 2006. If, however, a Police Officer who selects PPO Blue coverage does not elect~~

~~to change coverage back to traditional coverage by the end of the 2006 open enrollment period, he/she will not be permitted to elect traditional coverage in any subsequent open enrollment period.~~

~~Effective January 1, 2007, all existing officers who have traditional healthcare coverage will be moved to the PPO blue coverage. Coverage for students under the existing PPO will be improved to mirror that which is currently in place with the traditional coverage.~~

~~Officers hired on or after January 1, 2007, will receive PPO Blue 100.~~

~~Effective January 1, 2004, prescription drug co-pays increased to \$5.00 for generic and \$10.00 for brand name drugs.~~

~~Effective January 1, 2008, prescription drug co-pays for existing officers will increase to \$10.00 for generic and \$20.00 for brand name drugs.~~

~~Officers hired on or after January 1, 2007, will have prescription drug co-pays of:~~

	<u>Retail</u>	<u>Mail</u>
Generic	\$10.00	\$20.00
Brand Restricted	\$25.00	\$50.00
Brand	\$30.00	\$60.00

~~Brand Restricted means no generic substitute is available or a physician stipulates that the brand is medically necessary.~~

I.K. If a police officer dies in the line of duty, his or her surviving spouse shall receive the ~~then current~~ health care coverage under the same medical and health plans (including vision, dental and/or prescription drugs) provided to active employees in effect as of the date of the officer's death at the City's expense for the remainder of his/her life or until he/she remarries. The officer's children shall receive ~~the~~ these same benefits until the age of eighteen (18) or until the age of twenty-two (22) if they are full-time college students unless the surviving spouse remarries. All conditions and restrictions applied to current employees, such as co-payment amounts, prescription restrictions or changes in plan design or coverage, shall be applied to such surviving spouses and dependent children receiving medical and health plan coverage; and

J.L. The City shall, at its option, enroll in Highmark Blue Shield's pre-certification program.

Employees who document to the City that they are adequately covered by other health insurance may, upon such documentation and written request to the City, opt to receive an annual payment during the first pay of December in lieu of health coverage as set forth herein. The annual

payment shall be subject to taxes and other usual payroll deductions and shall be placed in a separate check reflecting a payment of \$50 per month for each month the employee elected to forego health care coverage as set forth herein during the preceding calendar year. Employees may re-enroll in the City's health insurance plan by giving the City thirty (30) days' advance written notice, provided that once an employee re-enrolls, he/she may not opt to withdraw again prior to the end of the then current contract year.

All police officers retired prior to January 1, 1987, shall be permitted to participate in the City's group medical ~~insurance~~ coverage at the City's expense. Such participation shall cease when the retired officer qualifies for Medicare and Medicaid benefits.

All police officers hired prior to January 1, 1987, and retiring subsequent to January 1, 1987, who have completed twenty (20) years of actual service shall continue to participate in the City's group health insurance (including family coverage) in effect at the time of retirement at the City's expense provided that the retired employee or his/her spouse does not have alternative health care coverage in the following six areas: (a) physician services; (b) hospital services; (c) major medical; (d) dental; (e) vision; (f) prescription. In those areas where alternative health care coverage is available, the City shall not be required to provide coverage in those areas. Such participation, where provided, shall cease when the retired officer qualifies for Medicare and Medicaid benefits.

All police officers hired subsequent to January 1, 1987, shall have the applicable health care coverage in effect as of the date of their retirement continued at the City's expense (including family coverage) where such officer retires and collects a City pension under the City's Police Pension Plan, supplemental healthcare coverage, now known as Signature 65, for all officers and spouses qualifying, receiving or eligible for Medicare coverage.

Effective ~~08/01/06~~ August 1, 2006, police officers who retire and collect a City pension benefit may choose from among the health care coverages in effect for police officers at the time they begin to collect a pension benefit. Any police officer hired prior to ~~01/01/87~~ January 1, 1987, who retires prior to ~~01/01/08~~ January 1, 2008, shall receive City-sponsored health care if they vest, regardless of whether or not they collect a pension benefit. Any officer hired prior to ~~01/01/87~~ January 1, 1987, who does not retire prior to January 1, 2008, shall be treated the same as officers hired after ~~01/01/87~~ January 1, 1987, which means that health care coverage will not be provided for police officers between the time they vest and the time they begin to collect a pension benefit.

Notwithstanding the provisions above, effective upon ratification of this Second Amendment, all current employees (defined for purposes of this provision as those hired prior to the ratification date) who retire thereafter, shall receive post-retirement health care in accordance with the following conditions and limitations:

- (a) Retirees and their dependents shall receive post-retirement health care coverage under the same health plan provided to active employees, which coverage may be modified to the extent the coverage for active employees is modified. All conditions and restrictions applied to current employees, such as co-payment amounts, prescription

restrictions or changes in plan design or coverage, shall be applied to retirees receiving post-retirement health care coverage.

- (b) In order to be and remain eligible to receive post-retirement health care coverage, retirees must be receiving their pension benefit and must remit a percentage of their pension in accordance with the following table. The remittances shall be paid monthly in advance by direct deduction from the pension payments and direct payment to the City; retirees shall sign all necessary paperwork to permit such direct deductions and payments; provided, further, that if such direct deductions and payments from the pension payments are not authorized as required by law then the parties shall negotiate another method to guarantee payment.

<u>Coverage Type</u>	<u>% Pension Contribution</u>
<u>Single</u>	<u>2%</u>
<u>2 persons</u>	<u>3%</u>
<u>3 persons</u>	<u>4%</u>
<u>4 or more persons</u>	<u>5%</u>

- (c) Retirees must meet all current eligibility and other requirements set forth above. All conditions and restrictions set forth above shall continue to apply.
- (d) Retirees and their dependents shall not be eligible for post-retirement health care benefits if the retiree or dependent has available health insurance coverage elsewhere at a reasonably comparable benefit level and at the same or lower cost, including for example available coverage through a spouse or other employer.
- (e) Retirees and their dependents shall be entitled to receive post-retirement health care under this Agreement only until the date said retiree reaches the age of Medicare eligibility. Following the attainment of Medicare eligibility, retirees shall be entitled to receive only cash reimbursement in an amount not to exceed \$250 per month for supplemental insurance purchased by the retiree, increasing up to a maximum of \$350 per month reimbursement under the following schedule.

	<u>Maximum monthly reimbursement</u>
<u>Thru 12/31/2016</u>	<u>\$250</u>
<u>2017</u>	<u>\$260</u>
<u>2018</u>	<u>\$270</u>
<u>2019</u>	<u>\$280</u>
<u>2020</u>	<u>\$290</u>
<u>2021</u>	<u>\$300</u>
<u>2022</u>	<u>\$310</u>
<u>2023</u>	<u>\$320</u>
<u>2024</u>	<u>\$330</u>
<u>2025</u>	<u>\$340</u>
<u>2026</u>	<u>\$350</u>

The post-retirement health care benefits provided in this Section shall apply only to those police officers hired prior to the ratification date of this Second Amendment. All police officers hired after the date of ratification of this Second Amendment shall not be eligible to receive post-retirement health care benefits.

9. ARTICLE VIII Section 11: Shift Differential and Pay Differential is amended to eliminate the payment of shift differential and to provide for investigator differential in steps, as follows:

Section 11: Shift Differential and Pay Differential

Effective upon ratification of this Second Amendment, employees shall not receive shift differential premium payments.

~~Employees shall receive, in addition to all other compensation, shift differential as follows:~~

- ~~A. Employees scheduled to work between the hours of 1500 – 2300 shall receive 0.50¢ per hour premium pay for all hours actually worked on such shift. This does not include an officer who works what is considered a normal daylight shift.~~
- ~~B. Employees scheduled to work between the hours of 2300 – 0700 shall receive 0.75¢ per hour premium pay for all hours actually worked on such shift.~~

Detective positions shall be filled by officers who have participated in a Career Development Program within the Criminal Investigation Division (CID). Selection will be made from among the three highest scores as determined by the total number of points accumulated from: the Officer's most recent evaluation prior to beginning a Career Development Program, the Officer's evaluation completed during the Officer's participation in a Career Development Program, and the oral interview with the Commanding Officer of the CID, the Lieutenant from the CID, the Deputy Chief and two independent interviewers selected from law enforcement personnel from outside jurisdictions. All officers wishing to participate in a Career Development Program will have the opportunity to do so.

Whenever such a position is to be filled, the City shall notify all permanent officers with two (2) or more years of service as Patrol Officers, who have participated in a Career Development Program within the Criminal Investigation Division of said vacancy whether or not they wish to be considered for such position. Officers assigned to the Detective position may be removed at any time for just cause.

Effective with the ratification of this Second Amendment, employees newly assigned to an Investigator position shall receive a differential at the rate of an additional 1% per year added to the base wage for each of the first 5 years of service in the position of investigator up to a total of a 5% differential, which will then equal the differential for corporals and detectives, as shown on the attached pay schedules.

10. ARTICLE VIII Section 12: Clothing, Maintenance and Ammunition Allowance is amended to reduce the clothing allowance effective January 1, 2013, and eliminate the maintenance allowance effective January 1, 2014, as follows:

Section 12: Clothing, Maintenance and Ammunition Allowance

- A. Effective January 1, 2013, the initial clothing allowance for a new employee shall be for a period of three (3) years, after the first two years, the employee shall receive a check in the amount ~~an annual credit of Six Hundred twenty-five dollars (\$600 \$625.00)~~. ~~Officers will be permitted to purchase study materials from their clothing allowance. Standard study materials such as the PA Crimes Code, including the Rules of Criminal Procedure, and the PA Vehicle Code will be available at all times. Additional study materials will be made available for purchase as soon as they are decided upon.~~ Each employee shall have the annual clothing allowance ~~paid~~ credited in January of each year. ~~If an employee leaves City service, he/she, in the year that he/she leaves, will be considered to have earned credits for uniformed clothing allowance upon completion of each full three (3) month period. At the time of separation, an employee shall pay in cash any amounts ordered in excess of his earned quarterly credits. Employees who are in non uniform status shall receive their clothing allowance by January 31st of each year. All officers shall receive a copy of the billing for uniforms received.~~
- B. In addition, an officer will be granted three hundred twenty-five dollars (\$325.00) maintenance allowance per year. Said allowance shall be paid to the officers by April 30th of said year. The maintenance allowance shall be eliminated effective January 1, 2014. The City shall replace any items of official equipment which are damaged or destroyed in the "line of duty." In addition to the above, the City shall reimburse an officer for any "personal" property damaged in the "line of duty" up to a maximum of one hundred dollars (\$100) per item.
- C. In addition, the City shall provide to each employee one (1) three (3) boxes of factory loaded ammunition for target practice or an equal retail value in cash. Said ammunition or retail value shall be provided by June 30 of each year. The City shall also provide sufficient ammunition to fire one qualifying round (maximum one (1) box.)~~is provided for the specific purpose of Police Bureau sponsored yearly qualifications; one box is provided for yearly qualification and two boxes are provided for target practice.~~
- D. The FOP, along with the City, shall meet and discuss the uniform and equipment list provided to all employees. The Chief of Police shall have final authority regarding the uniform and equipment list.
- E. Employees ~~may~~ shall be given the choice of purchasing through the ~~maintenance allowance~~ City supplier an off-duty weapon approved by the Chief of Police,

provided that the payment, including all applicable taxes, for such weapon shall be made by the Employee in advance.

- FE. A joint committee shall be maintained to cover uniform changes to equipment and any other items that are required for safety and health.
- GF. A police range shall be made available on a monthly basis of two days per month for continuous firearms education as a result of MPOETC.
- HG. New employees shall be equipped with all uniforms and all necessary items prior to completion of the FTO program.

11. ARTICLE IX Section 3: Sick Leave and ARTICLE VIII Section 5 are amended as follows:

ARTICLE IX Section 3: Sick Leave

- A. ~~During the term of this Agreement~~Effective with the ratification of this Second Amendment, all employees in the Police Bureau shall be entitled to sick leave of ~~thirteen (13)~~twelve (12) working days in any one (1) year without diminution of salary and shall be entitled to accumulate sick leave to a maximum of two hundred twenty (220) days.
- B. Sick leave for three (3) or more consecutive working days, and/or sick leave usage in excess of three (3) days per calendar quarter, shall be granted only when a signed certification from the attending physician is submitted to the Police Chief upon the return to work of such employee. Failure to submit the signed certification shall be grounds for denial of the sick leave and potential discipline of the employee.
- C. The City reserves the right to have a physician of its choice visit and examine any person reporting off duty and claiming either sick leave or injury leave at any time, the cost of any such examination to be paid by the City.
- D. The City reserves the right to require production of a signed certificate from the attending physician of any employee in accordance with General Order 88-42, issued February 19, 1988, and amended March 20, 1989, and reissued as General Order 89-42. In addition, in those cases where a certificate may be required by the City, the City shall also have the right to have the employee examined by a City-designated physician at the City's expense.
- E. In furtherance of the recommendation set forth in POL 16 in the City's Act 47 Recovery Plan, the parties agree that the City shall be permitted to establish and implement a policy to address chronic use of sick leave by employees. The policy shall permit the City to impose sanctions in the event that certain criteria related

to chronic use of leave are met. Such criteria demonstrating chronic use of sick leave shall include, for example, (1) the use by an employee of more than twenty (20) sick days in a period of one (1) calendar year, where the employee has not otherwise received approval for an extended-period sick leave, (2) the occurrence of more than six (6) incidents or periods of sick day usage in a calendar year, (3) sick leave usage at a rate which exceeds by more than twenty percent (20%) the average sick leave usage of the remainder of the police force over the preceding calendar year or (4) a pattern of sick leave abuse, such as usage which occurs before and/or after holidays, vacations or other days off. Potential sanctions for abuse of leave can include exclusion for a fixed period of time from (1) special duty assignments and paid details, (2) overtime assignments (unless specifically requested and approved by the City) or temporary assignments to investigative units or other special assignments. Other sanctions may include potential employee discipline, disapproval of payment for sick leave where abuse of leave is established and a requirement that the employee obtain medical certification for each instance of sick leave usage. In establishing the policy called for in this paragraph, the City shall define and apply its conception of chronic use of sick leave in a manner which is in compliance with the provisions of this Agreement and all applicable state and federal laws, including the Family and Medical Leave Act and the Americans with Disabilities Act.

- EF. Where sickness in the immediate family requires the officer's absence from work, officers may use sick leave for that purpose. Immediate family shall be defined as the following persons residing in the member's household: husband, wife, child, or parent. The employer may require proof of such illness.
- FG. An employee who, on December 31st of any year, has accumulated sick leave in excess of sixty (60) days shall be permitted to sell back any leave in excess of sixty (60) days at fifty percent (50%) of the value of the leave, up to a maximum of twenty (20) days. The minimum number of days an Officer may sell back is ten (10) days. Officers wishing to sell back sick leave must notify the Chief of Police, in writing, of the number of sick leave days they intend to sell back, by no later than January 10th of the succeeding year. Officers who so notify the Chief will be compensated for the amount of leave sold back (at 50% of its value) by no later than the second pay period in February.
- GH. The clothing ~~and clothing maintenance~~ allowance for officers who extend their retirement date by using sick leave (to the extent permitted under Section I below) will be reduced by one-twelfth (1/12) for each month or part of a month that the officer uses sick leave to extend his/her retirement date. In addition, Police Officers who extend their retirement date by using sick leave will not be entitled to any clothing ~~or clothing maintenance~~ allowance for the year of their retirement. Any overpayment of the clothing ~~and/or clothing maintenance~~ allowance will be deducted from the officer's last paycheck or severance pay for earned but unused leave.

- I. Current employees (those hired prior to the date of ratification of this Second Amendment) who have any accumulated sick leave balance as of the date of ratification of this Second Amendment shall have that balance frozen as of the date of ratification up to a maximum 220 day accumulation. The frozen balance of accumulated sick leave may be used to extend the date of retirement (terminal leave) for retirements of current employees occurring before and including retirement on December 31, 2015. In no event shall the use of terminal leave extend a retirement date beyond December 31, 2015. Alternatively, current employees retiring on or before December 31, 2015 may receive payment upon retirement equaling Thirty Percent (30%) of the sick days' value for each day of the frozen balance of accumulated sick leave up to 220 days. For those employees retiring after December 31, 2015, no terminal leave shall be available, but the employee may sell back the accumulated frozen balance of sick leave at the rate of Fifty Percent (50%) for each day up to 220 days.

On and after the date of ratification of this Second Amendment, unused sick leave may be accumulated up to a maximum accumulation of 220 total sick days, including both the frozen balance and post-ratification accumulation. Any sick leave balance earned by employees following ratification of this Second Amendment shall not be available for terminal leave or pay-out (sell back) of any kind and shall be deleted from an employee's account upon separation from service. Any usage of sick leave shall first be subtracted from the balance accumulated after the effective date of ratification of this Second Amendment. After the exhaustion of that balance, any frozen sick leave balance shall then be used.

ARTICLE VIII Section 5: Separation Pay

~~Employees who are separated from employment as a result of retirement or reduction in force shall be paid one hundred (100) percent of accumulated and unused sick leave to a maximum of two hundred twenty (220) days at the then current salary rate of the employee, all of such pay to be determined at the regular straight time rate.~~

Payment of such separation leave pay in accordance with ARTICLE IX Section 3 Sick Leave Subsection (I) will be made by the City within thirty (30) days after the date of retirement or separation of such employee. In the event of death of any employee prior to retirement or separation, the widow/widower or estate of such employee shall be entitled to receive such terminal leave pay as would have been due to such employee had he/she retired or been separated at the date of death.

~~Employees hired after January 1, 1987, who are separated as a result of retirement or reduction in force shall be entitled to pay for unused, accumulated sick leave limited to thirty (30) percent of the accumulated leave to a maximum of two hundred twenty (220) days, at the then current salary rate of the employee, all of such leave to be determined at the regular straight time rate.~~

12. ARTICLE XXV Pension Vesting Rights is amended as follows:

ARTICLE XXV
Pension Vesting Rights

Members of the City of Harrisburg Police Pension Plan will be permitted to buy-back periods of military leave at any time during their active police service.

- A. Effective ~~01/02/01~~ January 2, 2001, the former A and B plans will be fully merged so that all provisions of Plan A shall apply to all members of the City of Harrisburg Police Pension Plan.
- B. Effective ~~01/02/01~~ January 2, 2001, the maximum retirement benefit will be increased to 62.5% of Final Average Salary after twenty-five (25) years of credited service and attainment of fifty (50) years of age.
- C. Officer contributions shall be required at the maximum rate allowed by applicable law.
- D. The City will provide a service-connected disability benefit payable upon work-related disability and inability to continue to function as a Harrisburg Police Officer. Said benefit shall be fifty percent (50%) of final average salary without reference to either age or length of service. In accordance with the Third Class City Code, the City shall be entitled to an offset for any workers' compensation benefits received by the officer.
- E. Under no circumstances will the members of the FOP be permitted to decrease the amount of their contribution levels currently in existence as of the date of this contract.
- F. In addition to all existing pension benefits, the pension benefits shall provide for vesting after twenty (20) years of service, which would allow an employee to retire with twenty (20) years of service. However, an employee would not begin to receive his pension benefits until he reached fifty (50) years of age.
- G. Effective ~~01/02/07~~ January 2, 2007, the pension benefit will be as follows:

20 years = 50.0%	24 years = 60.0%
21 years = 52.5%	25 years = 62.5%
22 years = 55.0%	26 years = 65.0%
23 years = 57.5%	27 years = 70.0%
- H. Effective with the ratification of this Second Amendment, any employee who retires on or before December 31, 2015 shall receive an increase in the employee's Base Salary effective on the day preceding retirement as follows:

	<u>P.O.</u>	<u>Cpl./Det.</u>	<u>Sgt.</u>	<u>Lt.</u>
<u>2013:</u>	<u>\$63,198.68</u>	<u>\$66,358.62</u>	<u>\$69,676.55</u>	<u>\$73,160.24</u>
<u>2014:</u>	<u>\$65,094.65</u>	<u>\$68,349.38</u>	<u>\$71,766.85</u>	<u>\$75,355.19</u>
<u>2015:</u>	<u>\$67,047.49</u>	<u>\$70,399.86</u>	<u>\$73,919.85</u>	<u>\$77,615.84</u>

The appropriate contractual longevity rate indicated by years of service shall be added to the above Base Salary to calculate a retiring employee's Final Annual Salary, which shall be used for pension purposes only.

To take advantage of the Base Salary adjustment provided herein, a retiring employee shall be required to make a lump sum contribution toward the pension plan equaling the amount of employee contributions plus interest (as determined by the Plan actuary) which would otherwise have been paid if the salary increases provided for above had been paid prior to retirement in accordance with the First Amendment to The Basic Labor Agreement. A retiring employee who does not make the required lump sum contribution shall not be eligible for the increase to Base Salary provided herein for pension calculation purposes.

The parties agree that the application of this Paragraph H. and the Base Salary adjustments offered herein shall be subject to the City obtaining a cost study. Further, in the event the Auditor General of the Commonwealth of Pennsylvania or any court of competent jurisdiction determines that the Base Salary adjustments provided herein are unlawful, the FOP agrees to indemnify and hold the City harmless for any losses incurred by the FOP or its employees, current and retired.

I. The above provisions of this Article shall apply only to employees hired prior to the ratification of this Second Amendment. All individuals hired after the ratification date of this Second Amendment shall be provided base pension benefits in accordance with the Third Class City Code, as follows:

- (1) To be eligible for pension benefits, an employee must have a minimum of twenty (20) years of service and have attained age fifty (50).
- (2) The normal retirement benefit paid shall be fifty (50%) percent of annual pay calculated in accordance with § 4303 of the Third Class City Code (52 P.S. § 39303).
- (3) Payment of service increments shall be based upon years of service multiplied by one-fortieth (1/40th) of retirement allowance with the caps provided in § 4303(b)(1) of the Third Class City Code (53 P.S. § 39303 (b)(1)).
- (4) Payment of disability benefits shall be made consistent with the provisions of § 4303(d) of the Third Class City Code (53 P.S. § 39303(d)) for disability occurring from injuries not sustained in the line of duty.

- (5) Payment of disability benefits shall be made consistent with the provisions of § 4303.2 of the Third Class City Code (53 P.S. § 39303.2) for disability occurring from injuries sustained in the line of duty.

13. ARTICLE XXIX is amended to eliminate the residency requirement as follows:

ARTICLE XXIX
Residency

Effective upon the date of ratification of this Second Amendment, the residency requirement contained in prior Collective Bargaining Agreements between the parties is eliminated, and employees, regardless of hiring date, shall not be required to establish or maintain a residence within the corporate limits of the City of Harrisburg. Each police officer hired on or after March 27, 2001, shall establish a residency within the corporate limits of the City of Harrisburg within six (6) month from the date on which the officer completes his/her probationary period. Thereafter, the officer shall be required to maintain a residence within the corporate limits of the City of Harrisburg for the duration of his/her employment with the City of Harrisburg, in accordance with the definition set forth in Section 2-711 of the Codified Ordinances of the City of Harrisburg.

14. ARTICLE XXXII is added to provide for the civilianization of certain positions and transfer of booking functions as follows:

ARTICLE XXXII
Bargaining Unit Work

Section 1: Civilianizing of Certain Agreed Positions

The parties hereto agree that, effective upon ratification of this Second Amendment, the following positions may be civilianized at the City's discretion: Special Events Coordinator/Court Liaison, Accreditation Manager, City Hall Security, PAL Coordinator and Parking Enforcement Supervisor. The FOP agrees that it shall aid or consent, as necessary, in any action or proceeding brought by or deemed necessary by the City to formalize the removal of the above positions from the bargaining unit.

Section 2: Transfer of Booking Functions

The parties agree that upon the completion and opening of Dauphin County's booking facilities, all booking functions and activities for the City shall be transferred and relocated to Dauphin County's facilities, and the relevant Dauphin County personnel shall assume said duties. The parties specifically agree that the transfer of booking functions and activities provided herein shall not constitute a diversion of bargaining unit work, and specifically further agree that any employees who performed booking duties prior to the ratification of this Agreement may be reassigned to patrol duties.

15. ARTICLE XXXIII is added to provide for restructuring of the patrol duty schedule as follows:

ARTICLE XXXIII
Restructuring of Patrol Duty Schedules

The City and the FOP agree that they will meet and negotiate mutually agreed upon changes to the patrol duty schedules, in order to implement savings, as discussed in POL01 of the Recovery Plan.

FRATERNAL ORDER OF POLICE

CITY OF HARRISBURG

EXHIBIT 5

DRAFT

**THIRD AMENDMENT TO THE BASIC LABOR AGREEMENT
BETWEEN
THE CITY OF HARRISBURG
AND
AMERICAN FEDERATION OF
STATE, COUNTY AND MUNICIPAL EMPLOYEES
DISTRICT COUNCIL 90, LOCAL 521**

The Basic Labor Agreement, as amended, between the City of Harrisburg (hereinafter usually the "City") and the American Federation of State, County and Municipal Employees District Council 90, Local 521, (hereinafter usually the "Union" or "AFSCME") commencing on January 1, 2007 and ending on December 31, 2014 is further amended as follows:

1. All amendments shall be effective upon ratification by the City except as set forth below. For purposes of this Agreement, ratification will be complete when the Agreement has been formally approved by all necessary representatives of the parties and all implementing legislation has been adopted.

2. Article XIII, Section 1 of the Basic Labor Agreement is hereby further amended to read as follows (additions indicated by underlining):

ARTICLE XIII
Vacations

Section 1.

A. All current City employees shall earn paid vacation leave in accordance with the Schedule A-1 that follows. Employees hired after the ratification of this Third Amendment shall earn paid vacation in accordance with Schedule A-2. All vacation leave that non-probationary employees earn in a calendar year will be made available on January 1st of that calendar year, provided that the employee is in an active status to earn leave. Probationary employees may only use earned vacation leave and, upon completion of the probationary period, such employees shall have available the applicable, prorated allotment of vacation leave in accordance with the following schedule:

SCHEDULE A-1

<u>Service Requirement</u>	<u>Allotment in Hours 7.5-Hour/Day Employees</u>	<u>Allotment in Hours for 8-Hour/Day or 12-Hour/Day Employees</u>
Month 1-12	5.00 hours per month	5.34 hours per month

EXHIBIT A

<u>Service Requirement</u>	<u>Allotment in Hours 7.5-Hour/Day Employees</u>	<u>Allotment in Hours for 8-Hour/Day or 12-Hour/Day Employees</u>
Months 13-36	6.88 hours per month	7.34 hours per month
Months 37-96	10.63 hours per month	11.34 hours per month
Months 97-168	15.00 hours per month	16.00 hours per month
Months 169-Separation	18.75 hours per month	20.00 hours per month

SCHEDULE A-2
Employees Hired Post-Ratification

<u>Service Requirement</u>	<u>Allotment in Hours 7.5-Hour/Day Employees</u>	<u>Allotment in Hours for 8-Hour/Day or 12-Hour/Day Employees</u>
<u>Month 1-12</u>	<u>5.00 hours per month</u>	<u>5.34 hours per month</u>
<u>Months 13-36</u>	<u>6.88 hours per month</u>	<u>7.34 hours per month</u>
<u>Months 37-96</u>	<u>10.63 hours per month</u>	<u>11.34 hours per month</u>
<u>Months 97- Separation</u>	<u>13.74 hours per month</u>	<u>14.67 hours per month</u>

All service requirements are calculated from the date of hire and vacation leave is earned on a monthly basis in accordance with the employee's seniority date.

B. Up to forty-five (45) days of vacation can be carried over into the next calendar year. Any employee who cannot adhere to the carry-over limitations set forth in this section because of work requirements may request the Bureau Director's approval to carry over additional vacation, which approval shall not be unreasonably withheld.

3. Article XIV, Section 3 of the Basic Labor Agreement is hereby amended to read as follows (additions indicated by underlining):

ARTICLE XIV
Sick Leave

Section 3.

A. In the event an employee with at least ten (10) years of service leaves the employ of the Employer for any reason, except termination for just cause, such employee shall be compensated for fifty percent (50%) of all sick leave that was accumulated up to a maximum of one hundred twenty (120) days. The maximum sick leave buy-back permitted under this provision is sixty (60) days. In the event an employee with at least five (5) years of service leaves the employ of the Employer for any reason, except termination for just cause, such employee shall be compensated for twenty-five percent (25%) of sick leave that was accumulated, up to a maximum of one hundred twenty (120) days. The maximum

sick leave buy-back permitted under this provision is thirty (30) days. All sick leave days will be bought back at the rate of the employee's base hourly wage as of December 31st of the year in which the days were accrued.

- B. In lieu of the compensation set forth in Section 3(A) above, an employee who, after being vested, leaves City employment, for any reason except termination for just cause, may elect to convert one hundred percent (100%) of all sick leave to pension service credits, except that no employee may convert sick leave to pension service credits for the purpose of meeting the Rule of 85 requirements pursuant to Section 11 (Article XXXIV) below. If the employee chooses this option, the Employer will make the required pension contributions on behalf of the employee for the amount of service credited.
- C. Any employee who has used more than his/her pro-rated and/or earned allotment shall have the value of the excess allotment used deducted from his/her final paycheck. If the value of the excess allotment is greater than the amount of the employee's final paycheck, the employee shall reimburse the Employer in a lump sum or sign a judgment note in the City's favor for the total amount due and execute a payment plan prior to receiving his/her final paycheck.

4. Article XVI of the Basic Labor Agreement is hereby amended to read as follows (additions indicated by underlining):

ARTICLE XVI
Compensation

Section 1. The compensation package for all bargaining unit employees shall be as follows:

1. 10/2007.....	\$750 Lump Sum Per Employee
2. 05/2008.....	\$1000 Lump Sum Per Employee
3. 01/01/2009.....	2%
4. 01/01/2010.....	3%
5. 01/01/2011.....	4%
5. 01/01/2012.....	3%
6. 01/01/2013.....	<u>30%</u>
7. 01/01/2014.....	<u>30%</u>
<u>8. 01/01/2015.....</u>	<u>1%</u>
<u>9. 01/01/2016.....</u>	<u>1%</u>

Section 2.

Employees shall receive longevity pay, in addition to their regular base pay salary, in an amount based on the following formula:

- 1. After five (5) years of service, employees shall receive a \$50.00 annual payment on the first pay date of December.

2. After ten (10) years of service, employees shall receive a \$100.00 annual payment on the first pay date of December.
3. After fifteen (15) years of service, employees shall receive a \$150.00 annual payment on the first pay date of December.

Such payment shall be subject to all applicable taxes.

Section 3. Effective 2008, employees shall receive longevity pay, in addition to their regular base pay salary, in an amount based on the following formula:

1. After five (5) years of service, employees shall receive one-quarter percent ($\frac{1}{4}$ %) of base pay;
2. After ten (10) years of service, employees shall receive one-half percent ($\frac{1}{2}$ %) of base pay;
3. After fifteen (15) years of service, employees shall receive three-quarters percent ($\frac{3}{4}$ %) of base pay;
4. After twenty (20) years of service, employees shall receive one percent (1%) of base pay.

Effective 2011, employees shall receive longevity pay, in addition to their regular base pay salary, in an amount based on the following formula:

1. After five (5) years of service, employees shall receive one-half percent ($\frac{1}{2}$ %) of base pay;
2. After ten (10) years of service, employees shall receive one percent (1%) of base pay;
3. After fifteen (15) years of service, employees shall receive one and one-half percent ($1 \frac{1}{2}$ %) of base pay;
4. After twenty (20) years of service, employees shall receive two percent (2%) of base pay.

Longevity payments will be made annually on the first pay date in December. Employees must have reached the years of service requirement by the Monday before paychecks are issued to be eligible for a longevity payment in that year. Longevity payments shall be subject to all applicable taxes.

Section 4.

Employees who are eligible for and receiving longevity as of the date of ratification of the Third Amendment shall have their longevity payment frozen at its then current rate through December 31, 2016. Employees hired on or prior to December 31, 2012 who are not receiving longevity as of the date of ratification of the Third Amendment shall not be paid longevity during the extended term of this Third Amendment. Longevity pay shall not be paid to any employees hired on or after ratification of this Third Amendment.

5. Article XXI Section 1 of the Basic Labor Agreement is hereby amended to read as follows (additions indicated by underlining):

ARTICLE XXI
Medical and Hospital Benefits

Section 1.

(a) The City shall make available for the employees and his/her eligible dependents, including a domestic partner (at the time of the request, the employee must be in compliance with all requirements of the City's Domestic Partner Benefits Program to qualify for the benefit and such benefit will not be retroactively approved), the following medical coverage:

~~Effective January 1, 2005, all AFSCME employees will be enrolled in the PPO Blue 100 plan.~~

~~It is understood that there is no Major Medical coverage under the PPO Blue 100 plan.~~

~~The lifetime maximum for a PPO Blue 100 Plan, or its equivalent under another provider, is \$2,000,000.00.~~

~~For the life of this contract, to include extensions, all employees hired on or after September 1, 2007, will contribute a percentage of their base salary pay toward the cost of health care benefits as follows:~~

- ~~1. Single Coverage: 2%~~
- ~~2. Two Person Coverage: 4%~~
- ~~3. Three Person Coverage: 5%~~
- ~~4. Four or More Person Coverage: 6%~~

1. Effective as soon as the parties are able to arrange implementation following ratification of the Third Amendment, the base health care plan provided to all active employees shall be Select PPO Blue – 100%/80% Co-insurance; \$250/\$500 In-Network Deductible; \$20/\$40 ~~Office Visits (OV)~~ Co-pay; \$100 ~~Emergency Room (ER)~~ Co-pay. Effective January 1, 2014, the base health care plan provided to all active employees shall be the PPO Blue –

90%/70% Co-insurance; \$250/\$500 In-Network Deductible; \$20/\$40 OV Co-pay; \$100 ER Co-pay; \$500/\$1,000 Out of Pocket ("OOP") Maximum.

2. Effective October 1, 2013 the later of ratification or October 1, 2013, all employees shall contribute to the premium cost of medical and hospital insurance in accordance with the below schedule, which is based on the percentage of base salary earned by an employee. Bases salary shall not include longevity, shift differential or overtime.

Percent of Base Salary

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<u>Single coverage</u>	<u>1.0%</u>	<u>1.5%</u>	<u>2.0%</u>	<u>2.0%</u>
<u>2 person coverage</u>	<u>2.0%</u>	<u>2.5%</u>	<u>3.0%</u>	<u>4.0%</u>
<u>3 person coverage</u>	<u>2.5%</u>	<u>3.0%</u>	<u>4.0%</u>	<u>5.0%</u>
<u>4 or more person coverage</u>	<u>3.0%</u>	<u>4.0%</u>	<u>5.0%</u>	<u>6.0%</u>

All employee contributions shall be by payroll deductions. Such contributions will become effective on the employee's date of hire and will be deducted beginning with the employee's first paycheck. Employees hired on or after 9/1/07 shall have their contribution modified to the schedule above.

- (b) Employees who document to the city that they are adequately covered by health insurance from a source other than the City may, upon such documentation and written request to the City, opt to receive a monthly payment of one hundred dollars (\$100.00) in lieu of receiving health insurance from the City pursuant to this Article. This payment shall be made on the first pay of every month.

Employees may re-enroll in the City's health insurance plan by giving the City thirty (30) days' advance written notice, provided that once an employee re-enrolls, he/she may not opt to withdraw again prior to the end of the then current contract year.

6. Article XXI Section 3 of the Basic Labor Agreement is hereby amended to read as follows (additions indicated by underlining):

ARTICLE XXI
Medical and Hospital Benefits

Section 3.

- (a) Employer shall have the right to purchase equivalent medical, hospital , and dental benefits from a different, qualified carrier. Employee benefits shall not be reduced as a result of any change of carrier(s).
- (b) In addition, the City may change the health insurance plan to PEBTF coverage if approved by PEBTF at any time during the term of the Agreement as extended by the Third Amendment and any subsequent amendments. In the event a change in the City's health insurance plan is made to move to PEBTF coverage, the base year for cost sharing for increases in health care costs provided for in Paragraph (c) below shall be re-set.
- (c) Beginning with the calendar year commencing January 1, 2015, if the City's increases in its medical and health insurance COBRA rates exceed six percent (6%) over the prior year's rates, the City and AFSCME shall negotiate changes in the design of the health care plans to reduce the amount of the City's increases in its share of the costs of monthly contributions. For purposes of calculating increases in costs, the COBRA rates established by the City's third party administrator(s) shall be used, and the annual increase shall be determined based on the effective date of the plan year. In calculating the six percent (6%) increase, the percentage shall be based on the amount paid by the City and shall not include employee contributions. In the event the City and AFSCME are unable to reach agreement on plan design changes, the plan design changes shall be subject to an expedited interest arbitration procedure. Either party may request the appointment of a neutral arbitrator selected pursuant to the arbitration step of the grievance procedure in Article XXVIII of this Agreement. The decision of the arbitrator on this issue shall be issued within forty-five (45) calendar days of the notice of submission to arbitration.

7. Article XXI Section 4 of the Basic Labor Agreement is hereby amended to read as follows (additions indicated by underlining):

ARTICLE XXI
Medical and Hospital Benefits

Section 4.

- (a) Effective ~~with the~~ upon ratification of the Third Amendment to the Agreement, ~~any~~ retirees eligible for coverage shall receive post-retirement health care coverage under the same health plan provided to active employees, which coverage may be modified to the extent the coverage for active employees is modified. All conditions and restrictions applied to current employees, such as

co-payment amounts or changes in plan design or coverage, shall be applied to retirees receiving post-retirement health care coverage.

(b) Effective upon ratification of the Third Amendment to the Agreement, for retirees retiring under the Rule of 85 retirement window provided for in Section 11 (Article XXXIV), the City shall pay one hundred (100%) percent of the cost of health insurance up to Medicare eligibility, provided that the retiree has attained the age of fifty-five (55) by 12/31/2013. Retirees retiring under the Rule of 85 retirement window who have not attained the age of fifty-five (55) by 12/31/2013 shall be eligible only for the 60% payment toward coverage provided for below up to Medicare eligibility.

(c) Effective upon ratification of the Third Amendment to the Agreement, for those retirees retiring at the age of sixty (60) with twenty (20) years of service, but who do not retire during the Rule of 85 retirement window, the employee shall pay an amount equal to the amount which the employee would pay for individual coverage as of the date of retirement. In order to be and remain eligible to receive post-retirement health care coverage, retirees must be receiving their pension benefit. The retiree's remittances for the cost of coverage shall be paid monthly in advance by direct deduction from the pension payments and direct payment to the City; retirees shall sign all necessary paperwork to permit such direct deductions and payments; provided, further, that if such direct deductions and payments from the pension payments are not authorized as required by law then the parties shall negotiate another method to guarantee payment. Upon reaching Medicare eligibility, a retiree shall be eligible only for the reimbursement provided for in subsection (f)(1) below. ~~For the life of this contract, to include extensions, the City agrees to pay one hundred percent (100%) of the cost of health insurance for employees retiring on or after June 1, 2007, at the age of sixty (60) with twenty (20) years of service. This coverage does not include prescription drugs, dental or vision coverage.~~

(d) The City agrees to pay sixty percent (60%) of the cost of health insurance for employees retiring on or after January 1, 2002, with twenty (20) or more years of service or at least fifteen (15) years of service at age sixty-five (65). This coverage does not include prescription drug, dental or vision coverage. Upon reaching Medicare eligibility, a retiree shall be eligible only for the reimbursement provided for in subsection (f)(1) below.

(a)(e) Retirees who are not eligible for Medicare:

1. Coverage under this Section shall include the health care product in effect for the retiree only until the retiree is Medicare eligible. ~~When the employee becomes Medicare eligible, Signature 65 coverage will be provided, if the employee enrolls in Medicare Part A and Part B, as~~

required by the City's provider. ~~Signature 65 coverage will not include Major Medical.~~

2. The retiree may elect to continue to cover his/her eligible dependents, until the dependents are Medicare eligible, by paying the full cost of the coverage.
3. The dependent's portion of the premium cost will be deducted from the retiree's monthly pension payment.
4. Dependent coverage will cease if the retiree fails to pay the required cost when due or when the dependent is Medicare eligible, regardless of whether the dependent enrolls in Medicare.
5. If the retiree should die, the surviving spouse and eligible dependents may continue coverage under the same conditions as when the retiree was alive, provided the surviving spouse or dependent pays the full cost of the coverage.

~~(b)~~(f) Retirees who are eligible for Medicare:

1. ~~Coverage under this Section shall include a Medicare supplemental plan, known as Signature 65, if the employee enrolls Medicare Part A and Part B, as required by the City's provider. Effective upon the ratification of the Third Amendment to the Agreement, retirees eligible for coverage shall receive post-retirement health care under this Agreement only until the date said retiree reaches the age of Medicare eligibility. Following a retiree's attainment of Medicare eligibility, the entitlement to receive post-retirement health care shall cease and retirees shall be entitled to receive only cash reimbursement in an amount not to exceed \$250 per month for supplemental insurance purchased by the retiree, increasing up to a maximum of \$350 per month reimbursement under the following schedule:~~

Maximum monthly reimbursement

Thru 12/31/2016	\$250
2017	\$260
2018	\$270
2019	\$280
2020	\$290
2021	\$300
2022	\$310
2023	\$320
2024	\$330
2025	\$340
2026	\$350

AFSCME may file a grievance on behalf of a retiree under this section in accordance with the grievance and arbitration procedures set forth in the Basic Labor Agreement.

2. The retiree may elect to continue to cover his/her eligible dependents by paying the full cost of coverage.
3. The dependent portion of the premium cost will be deducted by the retiree's monthly pension payment.
4. Dependent coverage will cease if the retiree fails to pay the required cost when due or when the dependent is Medicare eligible, regardless of whether the dependent enrolls in Medicare.
5. If the retiree should die, the surviving spouse and eligible dependents may continue coverage under the same conditions as when the retiree was alive, provided the surviving spouse or dependent pays the full cost of coverage.

(e)(g) Retirees shall not be eligible for post-retirement health care benefits if the retiree has available health insurance coverage elsewhere at a reasonably comparable benefit level and at the same or lower cost, including by way of example, available coverage through a spouse or other employer. In such circumstance, the retiree's coverage under the City's plan shall be suspended. Coverage under the City's plan may be reinstated upon proof of the termination of coverage or eligibility for such coverage under the alternative plan. AFSCME may file a grievance on behalf of a retiree whose coverage is suspended or denied reinstatement to the City's plan under this section in accordance with the grievance and arbitration procedures set forth in the CBA. ~~retiree may suspend coverage under the plan if the retiree and/or spouse become covered under the plan of another employer. Coverage may be reinstated only upon proof of the termination of coverage under the other employer's plan.~~

(h) Employees not meeting the above requirements may elect to continue the coverage set forth above by paying the full monthly cost via deduction from the monthly pension payment.

(i) The above provisions related to post-retirement health care shall not be applicable to any individuals hired after the date of ratification of the Third Amendment to the Agreement, and no post-retirement health care or reimbursement will be available to such employees.

8. Article XXII of the Basic Labor Agreement is hereby amended to read as follows (additions indicated by underlining):

ARTICLE XXII
Vision And Prescription Benefits

Section 1. The City shall provide vision benefits for each employee and his/her eligible dependents, including domestic partners (at the time of the request, the employee must be in compliance with all requirements of the City's Domestic Partner Benefit Program to qualify for the benefit and such benefit will not be retroactively approved), through the provider of choice, at no substantial reduction in the current benefit level.

Section 2. ~~The City shall provide prescription drug benefits through the provider of its choice, at no substantial reduction in the current benefit level, as follows:~~

- ~~1. Participating Pharmacy: 25% of the prescription cost per prescription~~
- ~~2. Mail Order: \$10 or 15%, whichever is less, for up to a 90-day supply~~

~~There shall be no co-pay for generic drugs.~~

Effective as soon as the parties are able to arrange implementation following ratification of this Third Amendment, prescription co-payments for all employees shall be as follows for the term of this Agreement:

Generic \$25
Brand Restricted \$50
Brand \$75

Where and when available, employees shall be required to purchase generic prescriptions and shall be required to select mail order delivery.

~~The co-payments set forth above shall be the same for a 30 day supply from a participating pharmacy or a 90 day supply if using mail order.~~

Participating pharmacy – 30 day supply
Mail order – 90 day supply

~~Where and when available, employees shall be required to purchase generic prescriptions and shall be required to select mail order delivery.~~

Section 3: All existing and future retirees will be provided with a pass-through prescription benefit which will apply to both retail and mail order programs.

Employees retiring on or after 06/01/07 will have the ability to purchase prescription drug coverage at the City's rates, provided the cost of such is deducted from the employee's

pension benefit and provided that it is understood that coverage may periodically change to mirror the coverage available to active employees.

~~**Section 4:** Prescription drug co-pays for employees hired on or after 09/01/07 shall be as follows:~~

	Retail¹	Mail Order²
1. Brand Restricted³	\$25.00	\$50.00
2. Brand	\$30.00	\$60.00

~~—¹Up to maximum 30 day supply.~~

~~—²Up to maximum 90 day supply.~~

~~—³Restricted means that no generic substitute is available.~~

~~There shall be no co-pay for generic drugs.~~

9. Article XXXI Section 4 of the Basic Labor Agreement is hereby amended to read as follows (additions indicated by underlining):

ARTICLE XXXI
Miscellaneous

Section 4. Residency:

Effective upon the date of ratification of the Third Amendment to the Agreement, the residency requirement contained in prior Collective Bargaining Agreements and prior versions of the Agreement between the parties is eliminated and employees, regardless of hiring date, shall not be required to establish or maintain a residence within the corporate limits of the City of Harrisburg.

~~New members of the bargaining unit hired on or after March 1, 1999 will be required to live within the corporate limits of the City of Harrisburg within one (1) year of their date of hire. During their employment with the City of Harrisburg, bargaining unit members hired prior to March 1, 1999 will not be required to live within the corporate limits of the City of Harrisburg, nor to move into the corporate limits of the City of Harrisburg if they change residence.~~

~~The Residency Ordinance, Chapter 2-711, Subsection 2.7116 Exception B (Those Employees whose work stations are located more than fifteen (15) miles beyond the City limits shall be exempt from provisions of this chapter) shall be amended to apply equally to bargaining unit employees.~~

~~In addition, new members of the bargaining unit hired on or after 09/01/07 will be required to live within the corporate limits of the City of Harrisburg within twelve (12) months of the completion of their probationary period.~~

10. Article XXXI Section 11 of the Basic Labor Agreement is hereby added to read as follows (additions indicated by underlining):

ARTICLE XXXI
Miscellaneous

Section 11. Leave Payouts

Employees who retire under the Rule of 85 retirement window through December 31, 2014 and are otherwise entitled to a pay out of accrued leave pursuant to Article XIII or XIV of the Agreement shall receive such pay out as follows:

- Up to \$12,500 per employee no later than June 30, 2014
- Up to an additional \$12,500 per employee no later than June 30, 2015
- Any remaining payout no later than April 30, 2016

Pay outs of accrued leave for Water and Sewer employees being transferred to the Harrisburg Authority may occur sooner if necessary to utilize Water and Sewer funds or shall be paid out by The Harrisburg Authority upon transfer of the Water and Sewer operations to the Authority in accordance with an agreement between AFSCME and The Harrisburg Authority.

11. Article XXXIV Sections 5 and 6 of the Basic Labor Agreement are hereby added to read as follows (additions indicated by underlining):

ARTICLE XXXIV
Pension

Section 5. Early Retirement Window

Effective for the period of time beginning on the date of ratification of the Third Amendment to the Agreement and ending December 31, 2014, any employee who would meet a Rule of 85 (where a combination of an employee's age and years of service add up to 85) by no later than December 31, 2013 shall be eligible for normal retirement without an early retirement reduction being applied.

Section 6. Employee Contributions

The present five (5) percent employee contribution toward the pension shall be reduced to the percentage rates stated below for the following years only as follows:

- 2013 (effective 10/01/2013) – 3%

- 2014 – 3%
- 2015 – 4%
- 2016 – 4%

12. Article XXXV of the Basic Labor Agreement is hereby amended to read as follows:

Article XXXV Successors

Pursuant to an agreement reached between the City of Harrisburg and the Harrisburg Municipal Authority, the work performed by bargaining unit employees of the Department of Public Works, Bureaus of Water and Sewer will be transferred to the Harrisburg Municipal Authority. Bargaining unit employees of the Department of Public Works, Bureaus of Water and Sewer will be offered employment with the Harrisburg Municipal Authority pursuant to an agreement reached between AFSCME District Council 90 and the Harrisburg Municipal Authority.

In the event the Employer leases, transfers or assigns any of its facilities to other sub-divisions, corporations, or persons, and such sale, lease, transfer or assignment would result in the layoff, furlough or termination of employees covered by this Agreement, the Employer shall attempt in good faith to arrange for the placement of such employees with the new Employer. The Employer shall notify the Union, in writing, at least thirty (30) days in advance of any such sale, lease, transfer, or agreement.

12.13 Article XXXVI of the Basic Labor Agreement is hereby amended to read as follows (additions indicated by underlining):

ARTICLE XXXVI
TERM OF AGREEMENT

This Agreement shall be in full force and effect from January 1, 2007 through December 31, ~~2014~~2016.

**FOR THE
CITY OF HARRISBURG:**

**FOR
AFSCME COUNCIL 90, LOCAL 521:**

MAYOR

DATE

DIRECTOR, COUNCIL 90

DATE

CONTROLLER

DATE

STAFF REPRESENTATIVE

DATE

BUSINESS ADMINISTRATOR

DATE

PRESIDENT, LOCAL 521

DATE

VICE-PRESIDENT, LOCAL 521

DATE

Approved as to Form and Legality:

ACTING CITY SOLICITOR

EXHIBIT 6

Suburban Claimants' Payment Schedule

Date	Payment
At Plan Consummation	\$ 4,500,000
2014	\$ 1,500,000
2015	\$ 1,500,000
2016	\$ 1,500,000
2017	\$ 1,000,000
2018	\$ 1,000,000
2019	\$ 225,000

EXHIBIT 7

Schedule of Contractors

Vendor	Amount	Date	COV/PO Number	Description
JEM Group, LLC	\$ 15,261.44	3/18/2010	COV-0015	Building Modifications
JEM Group, LLC	\$ 79,401.38	3/18/2010	COV-0038	Roofing
JEM Group, LLC	\$ 42,029.46	3/18/2010	COV-0039A	Siding
JEM Group, LLC	\$ 131,854.60	4/9/2010		
JEM Group, LLC	\$ 122,718.09	4/9/2010		
JEM Group, LLC	\$ 60,123.00	8/1/2010		
JEM Group, LLC	\$ 26,302.02	8/1/2010		
JEM Group, LLC	\$ 311,253.36	8/1/2010		
	<u>\$ 788,943.35</u>			
Innovative Engineering	\$ 34,379.63	3/18/2010	COV-0024A,0024B,0024C	Fuel Oil System
Innovative Engineering	\$ 3,070.94	4/9/2010		
Innovative Engineering	\$ 11,215.10	12/10/2011		
	<u>\$ 48,665.67</u>			
Jordan Contracting	\$ 25,026.46	3/18/2010	COV-0035	Structural Steel Platforms
Jordan Contracting	\$ 23,737.63	4/9/2010		
	<u>\$ 48,764.09</u>			
DM Coatings	\$ 58,528.53	3/18/2010	COV-0040	Painting
DM Coatings	\$ 83,742.22	8/1/2010		
	<u>\$ 142,270.75</u>			
D&S Contractors, Inc	\$ 27,378.19	3/18/2010	COV-0010B	Heat Trace and Freeze Protection
D&S Contractors, Inc	\$ 14,446.75	3/18/2010	COV-0069	Misc. Plant Lighting
	<u>\$ 41,824.94</u>			
SSM Industries	\$ 6,644.15	12/10/2009	COV-0030	Emergency Showers / Eyewash
SSM Industries	\$ 33,238.30	12/10/2011	COV-0024A,0024B,0024C	Fuel Oil System
	<u>\$ 39,882.45</u>			
Rogele, Inc	\$ 105,059.80	3/18/2010	COV-0018	Civil Site Work & Paving
Castline Energy Construction	\$ 211,143.25	3/18/2010	COV-0054,0055	Air Heater Tubes
Greiner Industries, Inc.	\$ 23,946.97	3/18/2010	COV-0067	Cable Tray Remediation

Midwestco Filter Resource, Inc.	\$	4,999.00	8/1/2010	COV-0046	Dust Monitors
C. G. Powertech, Inc.	\$	35,117.03	8/1/2010	COV-0061	Valves and Mechanical Materials
Paragon Industries & Supply, LLC	\$	115,280.03	8/1/2010	COV-0073	Clinker Roller
TOTAL		<u>\$ 1,605,897.33</u>			

EXHIBIT 8

NECESSARY COMPONENTS OF THE TASK FORCE GOVERNANCE PROPOSAL AND ACTION PLAN

More specifically, among other things, the Task Force will propose, as part of its Governance Proposal and Action Plan, the following for both Strong EDC and Strong IIC:

- the number and composition of an independent board of directors
- voting procedures for the board of directors
- eligibility requirements for board membership
- procedures regarding appointment and removal of board members
- establishment of standing committees of the board such as an executive committee
- development of committee charters for audit and finance committees and all other standing committees
- development of investment policies and procedures as part of the development of the finance committee charter
- development of audit committee policies and procedures
- development of public relations strategy and marketing of activities
- development of internet and social media policies and procedures
- development of board policies and procedures for making low-interest loans and/or equity investments, and eligibility criteria for applicants
- development of board policies and procedures for implementation, monitoring, review and revision, in each case as appropriate, of Strong EDC's and Strong IIC's 5-year action plans
- development of policies and procedures to monitor and review the performance of private contractors and other service providers to Strong EDC and Strong IIC

- development of grant application and policies and procedures for board use in the review of grant applications and the awarding and making of grants
- development of grant criteria to be used in requesting grant applications
- development of effective, IRS-mandated conflict of interest policies and procedures to detect, monitor and resolve conflicts of interest of board members with respect to conducting its activities
- development of policies and procedures for the retention of counsel, accountants and other advisors and consultants to the board of directors
- development of job descriptions for the executive officers who would report to the board of directors
- development of reasonable compensation arrangements for the executive officer job descriptions
- development of decision criteria for joint venture, co-development and direct investments in projects
- development of expenditure responsibility policies and procedures for receiving reports and ensuring accountability by recipients of Strong EDC or Strong IIC funds for their use of such funds and resources by grant and loan recipients, borrowers and equity investments
- development of annual budget criteria and budget variance criteria
- development of annual reporting mechanisms for the board to report annually on achievement of its annual goals
- development of governance monitoring metrics and self-evaluation procedures for the board of directors

- development criteria for distribution of liquidation proceeds when Strong EDC of Strong IIC, as applicable, is dissolved or liquidated
- development of appropriate accounting controls and management information systems.