

Pennsylvania Economic Development Financing Authority

October 16, 2013

A meeting of the Pennsylvania Economic Financing Authority (PEDFA) was held on October 16, 2013 after proper notice was given pursuant to the terms of the Act of July 3, 1986 (the "Sunshine Act"). The meeting was held in PUC Hearing Room #5, Commonwealth Keystone Building, 400 North Street, Harrisburg, Pennsylvania at 11:00 a.m.

The following Board Members were present: Carolyn Newhouse, for the Honorable C. Alan Walker; the Honorable Glenn E. Moyer; the Honorable George Greig; Gwenn Dando, for the Honorable Julia Hearthway; and Thomas Petrone.

The following Board Members were present via telephone: Robert Kane; Allan Dabrow; Franklin Schoeneman; Helen Billak; Fred Rinaldi; Ronald Brown; and Richard Harper.

The following DCED staff members were present; Stephen Drizos, Executive Director, Center for Private Finance; Chris Houston, Esq., Office of Chief Counsel; Carol Longwell, Esq., Office of Chief Counsel; Craig Petrasic, Center for Private Financing; Brian Deamer, Center for Private Financing.

Ms. Newhouse called the meeting to order.

It was moved by Ms. Dando and seconded by Mr. Petrone that the Board approve the Minutes of September 18, 2013. The motion carried.

**DISCUSSION ON PARKING TRANSACTION**

Mr. Drizos stated, "At the last meeting we wanted to get people up to date on what is going on. The transaction has been fluid and we have received questions, which I assume everyone received yesterday afternoon with questions and answers attached.

We have asked the people from the Receiver's office to come here again today to give us an update as to where the transaction is standing and if there is anything that has changed since our last meeting with regard to some of our challenges and to further open it up for questions for clarity."

Mr. Lynch stated, "We appreciate PEDFA's role in this. It seems as though a lot has happened in the short time since we met last. Steve Goldfield is with me and he participated in a nine hour meeting in Philadelphia in hashing out the details of the parking transaction. We have got universally good press in the national media. The comparison between what is going on in Harrisburg and other cities is significant. Everything I read puts Harrisburg as the better alternative to bankruptcy. The thrust of the Bloomberg article is something that we have been saying for some time, which is that this is a unique solution. We are very pleased with this and we think it is going in the right direction. We had a bump in the road with our asset manager, AEW, who has withdrawn from the transaction. We don't see that as a big problem. I think it is important to note there are lots of moving parts to this and we are less

concerned with getting everything precisely correct forever now. We are concerned with establishing a relationship with the various partners in these agreements.

The Chamber put on a State of the City address and breakfast last Friday and I think it was well done. The Mayor was the best I have ever heard her. She was upbeat and optimistic. It seemed to be well received and got good press.”

Mr. Goldfield stated, “I will bring you up to date on what has transpired since our last meeting. It will give you a little sense of what our schedule is going forward.

One of the questions that was raised last meeting related to the employees of the Harrisburg Parking Authority. They are going to transition to become employees of Standard Parking, not of PEDFA. Since our last meeting they put to a vote the transition agreement and they are having an opportunity to meet with people at Standard. My understanding is they voted 43-0 to approve the transition agreement. We have gone out of our way with employees and unions to make things as comfortable as possible.

The last time we were here there were questions on how the documents would work. The trust indenture from PEDFA’s bond counsel was distributed. They received comments. There were 15 lawyers representing 15 different parties. The indenture is going to come out a second time tomorrow and we are going to have conference calls tomorrow and Friday and a meeting with Dilworth on Friday to go through the indenture. The asset transfer and lease are the documents pursuant to which Harrisburg Parking Authority is going to transfer the parking garages and parking lots to PEDFA. We had conversations about needing to have the asset transfer agreement completed by this Friday, because City Council is meeting next week and introducing an ordinance to approve the asset transfer agreement. Everyone knows the transaction needs to come together with the resource recovery facility. If the market holds the way it has been up until yesterday it will affect \$128 to \$130 million dollars after paying off the creditors that have negotiated settlements for less than the full amount that they believed they were entitled to. There is only about \$90 million dollars left for the main creditor’s short guarantee and the county. They are going to get \$212 million just to create the resource recovery facility bonds on the market. That transaction is now at the rating agencies and is ready to go the market in about two weeks. This transaction is not going to be ready to go out to market in two weeks. We need to get ready to come to your board with final documents for consideration. It will probably be marketed in two consecutive weeks. The goal right now is to aim for the week before Thanksgiving. Once we price we lock into proceeds, once we lock into proceeds it is okay to tinker with closing documents and certificates. The money is to make sure that the city makes it through this year. Its economic development, infrastructure, healthcare benefits and working capital are wrapped together in this plan. This transaction is the transaction that fuels the solution.

The other thing we want to point out is that we did select as our finalist the Guggenheim team. Ramiro is one of the principles at Guggenheim. They had put together a team that included Guggenheim, AEW, Standard and their legal team.

As of last week AEW made a business decision to withdraw from this transaction and I believe the other transaction like this. That is a public type transaction. This is kind of a small deal for them. They are involved in half a billion or a billion dollar transactions for public pension funds that are away from the public spotlight. As we were negotiating responsibilities and negotiating fees and they were seeing what was all involved in this and I believe in Cincinnati it went up to the top to their general counsel who was looking at the documents and they made a business decision that this may not be a business they want to get involved with in the long run for a variety of reasons. Ramiro had direct conversations with them. Guggenheim believes this is a good business to get involved with to help municipalities who are in distress and to structure things like this where it helps the owner from a cash flow standpoint and an upfront standpoint. They don't have to decide today what this is going to be worth in the next 75 years to get some residual cash flow. Guggenheim believes this is a model that others are going to replicate. This is state of the art. In addition to the Bloomberg Business Week article that came out which compared this to Chicago, Guggenheim believes this is something they are going to be able to show in other places and it will make sense. AEW decided that would like to go back to their large public pension and other out of the spotlight transactions."

Mr. Albarran stated, "I just want to say there was no hidden message in any way from AEW or any hidden issue. This is purely a business decision and we are not concerned. There are no hidden concerns. We will get this resolved."

Mr. Goldfield stated, "The other thing I wanted to emphasize is the Office of the Receiver, the city, the underwriters, the creditors and everyone around the table all had questions as to what Ramiro just alluded to, that is, is there something wrong that we need to be aware of? We are going to be offering securities under federal securities law and there is nothing worse than not finding out from a member of your team that there may be something wrong in your structure or your security. We have all done due diligence on making sure that it is a business decision."

Mr. Drizos stated, "I have independently verified all this information as well."

Mr. Goldfield stated, "We have three potential replacement asset managers. The view of the Office of the Receiver is that Guggenheim has been involved for more than 18 months on this go round and even longer in looking at this before and knows the assets, the modeling and knows what we want and need better than anyone. Guggenheim happens to have private investments and asset management experience in house and so we asked them if they would consider being the asset manager, with the understanding that most asset managers will contract certain things out. We are trying to put together an A-team to replace, but not to delay, what we are trying to accomplish."

Ramiro has taken this up to the highest levels of his firm and I think it is likely that Guggenheim will become the asset manager on this team with perhaps a sub-contract with a parking specialist. There are not a lot of great asset managers out there that just do parking. We found three. One of them was not acceptable to the city and we are talking to the other two right now. From the standpoint of PEDFA and from the standpoint of CREDC it will be Guggenheim up front and that is who we are all comfortable

with right now. I think Ramiro needs to get one more sign off at the highest levels at Guggenheim to make sure that they are able to do that.”

Mr. Moyer asked, “I feel like when the Director said this, in my mind about 50% of the air was sucked out of this room. I mean on AEW stepping aside and becoming aware of that. Guggenheim brought them to the table, right?”

Mr. Goldfield stated, “Yes.”

Mr. Moyer stated, “Guggenheim vetted them.”

Mr. Albarran stated, “Yes.”

Mr. Moyer asked, “Ramiro, do you deal with AEW on other transactions?”

Mr. Albarran stated, “Yes, between the two firms we have. But not under this structure.”

Mr. Moyer stated, “AEW besides CREDC is one of the primary parties that PEDFA was going to be relying on, I think, in this transaction.”

Mr. Drizos stated, “That is correct.”

Mr. Moyer stated, “I thought when we listened to them last time, again, you say there are three remaining to do this, I thought we had found the one that had experience in what they were doing in a very limited universe and now they walked. I guess I’m struggling with whether or not I should be more concerned about that than your implying that now Guggenheim could have put themselves out there as an expert in this and offered their services originally and didn’t. Now they are our fall back. I guess I want to get some comfort from Guggenheim as to what their expertise is as they make a bid in whatever we are going to be comfortable with. This is one of our major partners that fell out.”

Mr. Goldfield stated, “I agree. I think that this just happened at the end of last week and I think it is incumbent us to bring Guggenheim Asset Management Group, which Ramiro is not in, to this board to vet them as we are now with or without subcontractors who specialize in parking. Ramiro, how many dollars and assets does the Real Estate Management Department of Guggenheim currently manage?”

Mr. Albarran stated, “I think it is about \$7 billion.”

Mr. Goldfield stated, “We understand and we hear you and we think that a lot of what is going to happen over the next year or two has already been put into place. We know what the capital spend is going to be. We are putting \$10 million dollars aside and there is going to be a couple million dollars on complete meter replacement. That has already been decided by Guggenheim and Standard. AEW saw a lot of what is going to happen in the next year or two has been vetted by this group. What we want is an entity that is going to be involved for the long term, because it is a 40 year deal and to be able to deal with changing demographics, economies and physical structure. We are going to be bringing in engineers every three years to do a complete new capital improvement plan. It is not perfect, but we

believe that they know this business and know how to do what needs to be done and they are in the best position to take us further. You will be able to see what works for you.”

Mr. Moyer asked, “How long were you going to be with AEW? Certainly more than three to four years.”

Mr. Goldfield stated, “10 years. The tax law usually breaks down to a five year, 10 year or 15 year agreement. We were moving shorter and the creditors wanted shorter, because the shorter you have the more of the compensation you can base on performance. The five year deal would have been fine. AEW and Standard wanted to try to get a 15 year deal and we were compromising at 10 years.

My recommendation, at this juncture, would not be to go 10 years with Guggenheim. We need to vet them and look at who they are going to have as their partners. We may end up saying 10 years, but we may want to look at it in three to five years. The documents will enable a new entity to come in.”

Mr. Moyer asked, “Will we expect to see then some sort of request for proposals from the three that are out there that do this business? Or are we going to go straight in on Guggenheim and say because we are at the 11<sup>th</sup> hour we are going to go with them?”

Mr. Goldfield stated, “The first question of if we are going to have an RFP is no. It is not that we are at the 11<sup>th</sup> hour, it is that we vetted a structure and we vetted Harrisburg First, which is a pseudonym for Guggenheim in putting together a team. One of our team members is gone and we will allow them under procurement rules. This is going to be the essence of the structure that we awarded.”

Mr. Moyer stated, “So other than Guggenheim walking away, because somebody says we are not interested in it, we should replace AEW on our term sheet with Guggenheim asset manager.”

Mr. Goldfield stated, “If that is where we end up. Hopefully we will know shortly. Standard Parking is going to be the day to day operator of everything. One of the entities that we interviewed said we are really looking for a CEO. PEDFA is not going to be an active owner. You need a CEO and the CEO senior staff at your disposal to make long term plans and good short term judgment. The first year or two we got the capital spend on what we are going to fix, and what the rates are going to be. Objective criteria on what is going to go up and what is not. Up to 4,600 cars are coming into the Commonwealth. That is a scheduled fee. We are not going to be moving rates. There is a lot of momentum for this transaction and what we need to do is replace the visionary CEO that will take it from year two or three to the end.”

Mr. Greig asked, “What are the assets with AEW?”

Mr. Goldfield stated, “I thought it was \$24 billion dollars.”

Mr. Greig asked, “What value relationship to parking initiative?”

Mr. Goldfield stated, "One of the procurement process concerns that were raised by the screening and evaluation team is that AEW did not have public parking experience. Standard and Guggenheim worked with them and they did a lot of diligence and they came up to speed quickly.

One of the things that the creditors had said is how do you pay them that much money? They don't have this kind of parking experience. But this is one of the first of its kind in that we have a public parking system. There are one or two asset managers out there and they usually bring their parking operator with them. Their parking operator wasn't selected. Standard was. What we think at this point is that with AEW, they do this for pension funds but they don't have public parking system experience. It now looks like it makes sense to get a good asset manager that has good experience with property management. It looks like we are going to do a subcontract arrangement with somebody. The top firms that we have been looking at within the last week don't have parking experience. It took AEW almost a year to get where they were a couple weeks ago. They got up to speed and they were good. We think anyone would be good in a year that does what they do with this. Guggenheim knows the assets and players and knows how to do the property management piece. We think that bringing in some specialty parking management services with them is the best step."

Ms. Billak asked, "Who are these specialty parking services?"

Mr. Goldfield stated, "Because we are talking to two of them right now, I will tell you the one we are not talking to. Once Guggenheim and the Board determine what they want to do we will give you as much information as you want. The one entity that we were looking at was Laz Parking, which has Laz Real Estate Investment Management. All they do is parking. They do a lot of public parking. We talked to them about their knowledge about their system and they had a lot of knowledge. The City is not interested in them in them becoming the asset manager."

Mr. Drizos stated, "In the conversations we have had we have made it pretty clear. When a decision would be made it has been our position, at this point that the contract not be for 10 years. It would be for that period of time, maybe three years or four years, so we can see how the contract is going. The issues that would be in place at closing are pretty much taken care of in that first three or four years which is the most critical aspect of their job. It has been our position that we have a short contract just to see where we would be in three years if that is the case. We have been involved in these discussions. We have been involved in all the meetings for the most part. It is still fluid."

Mr. Moyer stated, "The parking assets on the term sheet, I think last time there was a mention that there were still some assets that had not been determined. Where are we in what is in the basket and what is not in the basket?"

Mr. Goldfield stated, "The two lots that were on the fence were 10<sup>th</sup> Street and City Island. Both are going to be needed beginning in 2015 or 2016 in connection with a move from outside of the central business district to inside the central business district of about 900 employees. Tenth Street is going to be used for that purpose. Right now it is not in operation. We are trying to figure out a way if that is not needed, it can be released from the indenture back to the city. Right now it has no impact on the monetization up front. We have a meeting regarding City Island. We only need a little bit of it and we

are trying to make sure that all the merchants and all the businesses that need City Island for their parking get City Island for their parking. It is open and available to the public. Just the garage that was built for the mass transit and a little bit of parking around that is going to be cordoned off. We could bring it over now and then subdivide what we don't need and give it back to the city. Or we could leave it behind with a notion that it will transfer by 2016 after it gets subdivided, which is the portion that we need. The legal team is looking at what is easier to do."

Mr. Petrone stated, "Is there a possibility with Washington in the state it is right now, it will have an impact on the transaction?"

Mr. Drizos stated, "Yes it could. It could from the standpoint of what it would do to the markets. I would suggest to you that it would have a ripple effect that would go into the municipal bond market. What we have seen in the last few days is the short term market that has been more affected than the long term market. We have been able to gather some more proceeds in the market place. Nobody can guess as to what it would do. It does have an effect from a proceeds standpoint."

Mr. Dabrow asked, "Before we have our next meeting is it possible to get an organization chart on what roles and responsibilities everyone has? I am having trouble following who is in and who is out."

Mr. Drizos stated, "That has been fluid as well. Yes, we will definitely get that to you very soon."

Mr. Brown stated, "It seems to me that the questions that I have fall into three categories. First, what would be anticipated and who is working for PEDFA should the Authority enter into this parking transaction? Secondly, what is our exposure in terms of potential or contingent liability for entering into this transaction? Third, being new to the Board and appointed this year, has the Authority ever entered into a comparable transaction? Is there anything that we have presently as a structure or a prior issue similar to what is being proposed now?"

Mr. Drizos stated, "On the comparables, I would say that comparable is a relative term. PEDFA has done a transaction, and understand that PEDFA is a conduit financier. The structure of this transaction and a couple of other transactions has been put together in a form to be able to comply with state laws, as well as federal tax laws. There was a transaction that was done in the late 90's with AMTRAK. It had some of the challenges that we have in this transaction. The most recent transaction that is sort of like it would be the Forum Place transaction where there was a lease provided with General Services. PEDFA has ownership of the building for financing purposes only. This transaction sits on its own. The only other transaction that we did act as a conduit was the \$3 billion dollar Unemployment Compensation deal. Our interface was much greater than you find in your typical conduit financing.

On the liability issue we have been spending a good bit of time on visiting that. Those liabilities are there and they will be there. We are trying to identify every possibility that could happen and insure against that."

Ms. Longwell stated, "As Steve indicated that is something that we are looking at and as the documents are evolving these issues are coming up. We are looking at insurance in trying to insure over some of those issues. We also have the general concept of sovereign immunity which is given to PEDFA, which is considered to be a Commonwealth entity. We have those concepts that are interplaying. As we are going through we are looking at all of these issues. When we come to the Board we will only be bringing this transaction when counsel is comfortable that the Authority is properly indemnified or protected through insurance for any liability issues."

Mr. Drizos stated, "As far as the PEDFA issue and as far as the commitment that needs to be made, one of the primary reasons we are working with CREDC is to be able to take care of those day to day issues, such as creating reports and reporting to PEDFA. We will be reporting to the Board of Directors on a semi-annual period or whenever there are questions.

They would be handling discussions with General Services and make sure that is working well. CREDC has a reputation and we work with them on a number of occasions. They give us a great deal of continuity. It will be an operational expense and they will be getting paid for that. But it is extremely critical to be able to have someone in place to be able to service PEDFA as mandated with certain issues with the trustee bank that may come up, the indenture is going to run the show. There will be certain requirements and reporting that has to be made. CREDC will be the one responsible to do that. They are providing a service for PEDFA to be able to maintain the integrity of the transaction for 40 years."

Mr. Black stated, "From our experience with Forum Place we are getting there and we will have a comfort level for the PEDFA Board and working with the asset manager."

Mr. Goldfield stated, "One of the things that I want to point out is when I look at the liabilities I look at the debt service on the bonds. It could have a \$285 million dollar bond issue and debt service on that. That is a half billion liability. That is one category of liability. We have three series of bonds. One is going to be a Commonwealth of Pennsylvania contract. So your credit risk of not getting paid is whether Commonwealth of Pennsylvania pays the bond holders. That has all of the revenues of the system plus the Commonwealth. It is very secure. The other two pieces are Dauphin County which is a AA- and Assured Guarantee who is AA-. These would be the bond holders. You are going to structure this the same way that you structure other transactions. If anyone is going to be responsible it is going to be the Commonwealth, AGM and the County. On the liability side I want to make that clear."

Mr. Drizos stated, "I would like to clarify that when he mentions the Commonwealth, he is talking about the leases from DGS. Not the Commonwealth as a general obligation guarantor."

Mr. Goldfield stated, "Correct. That is around 4,500 to 4,700 spaces with a fixed dollar amount payment. The other side of the liability is what I call property casualty liability. You have buildings, environmental issues and other liability issues. One of the things that we are doing that PEDFA is going to see more and more is audit diligence so that you know what is there going into it. There are going to be conversations and Carol will be involved in what gets transferred over. Here we have a lease and an asset transfer agreement and there are going to be definitional issues as to what is included and what is

not. You will have the opportunity to ensure that people are going to pay for the insurance. As Carol stated, indemnification and sovereign immunity. I know that when we get to the end of the asset transfer agreement and due diligence you will have it articulated as a clear response to the question you asked.

This is a unique transaction. There are some similarities with Forum Place. You will find that Dave Black has met with the team on several occasions. We had discussed what their role is going to be. They are going to do less for PEDFA than they need to for PEDFA on the Forum Place and still have few administrative burdens on PEDFA. They will probably review a quarterly report and on an annual basis they will review and make recommendations. I think it is less intensive on them and more intensive on the bond trustee.”

Mr. Moyer asked, “The next step is we will get an updated term sheet and working toward our next normally scheduled meeting or is there one in-between?”

Mr. Drizos stated, “We are not sure. It is still fluid. If the documents are in their final shape, I don’t know if that is going to happen yet. We will probably know more after this week. We have some aggressive work going on with the asset agreement, transfer agreement and indenture. We will probably have a better feel at the beginning of next week as to where they are at. We just don’t know yet. When we get the new agreement we will get you all copied.”

Mr. Goldfield stated, “We are absolutely going to have a written presentation of the new asset manager and what the construct looks like. I know Guggenheim will come in if you want to designate a committee to have conversations with what the construct is.”

Mr. Drizos asked, “What would you like to have? If there is a desire to have a committee to sit down and make a recommendation that is fine with me.”

Mr. Moyer stated, “This is the most significant decision this Board, in my mind, has ever made. We should have all the board involved in any conversation, because I think everyone should have the ability to ask the questions.”

Mr. Drizos stated, “We will do that. We can have a special meeting to do that. I will work with the Receiver’s office and work with what I think would work and send it out to you and generate the questions. We could have a formal time on a conference call or whatever that we could go over these questions. We had a couple questions we got early on, which we emailed out to you. We wanted to share the questions, as well as the answers in the interim.”

Ms. Longwell stated, “There would be a special meeting then if you are going to have a presentation. If the Board wants to ask questions it will be at a special meeting.”

Ms. Newhouse asked, “How much advance notice would we need?”

Ms. Longwell stated, “Three days. It is up to the Board and scheduling, because we still need to make a quorum.”

Mr. Drizos stated, "In the meantime if you have any questions or concerns just send me an email."

### **PEDFA APPLICATION**

Mr. Drizos stated, "We have run into a situation regarding the application because we are a conduit. The single application, which the Department uses, is often in conflict on terminology as to what we need. We all know that is the case under the PEDFA appendix and the single application. It has been reviewed and previewed and we have come up with a new PEDFA application that will be a document that will be within the bond closing documents. We just wanted to show it to you. We would recommend that you vote to accept it. It is really administrative.

It was moved by Mr. Moyer and seconded by Mr. Petrone that that Board move to accept the new PEDFA Application. The motion carried.

### **ADJOURNMENT**

It was moved by Mr. Moyer and seconded by Ms. Dando that the Board adjourn.