Pennsylvania Economic Development Financing Authority

December 4, 2013

A meeting of the Pennsylvania Economic Financing Authority (PEDFA) was held on December 4, 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 #1, Commonwealth Keystone Building, 400 North Street, Harrisburg, Pennsylvania at 2:30 p.m.

The following Board Members were present: Carolyn Newhouse, for the Honorable C. Alan Walker; the Honorable Glenn Moyer; Michael Vovakes, for the Honorable Julia Hearthway; Richard Harper; and Jason Brehouse, for the Honorable Kim Ward.

The following Board Members were present via telephone: the Honorable George Greig; Robert Kane; Allan Dabrow; Franklin Schoeneman; Nicholas Haden; Fred Rinaldi; Thomas Petrone; and Ronald Brown.

The following DCED staff members were present: Stephen M. Drizos; Center for Private Financing; Carol Longwell, Esq., Office of City Counsel; Craig Petrasic, Center for Private Financing; Brian Deamer, Center for Private Financing; and Melanie Clark; Center for Private Financing.

Ms. Newhouse called the meeting to order at 2:30 p.m.

It was moved by Mr. Harper and seconded by Mr. Moyer that the Board approve the Minutes of the October 28, 2013. The motion carried.

<u>RESOLUTION – HARRISBURG PARKING TRANSACTION</u>

Mr. Drizos stated, "First of all I would like to say thank you to our board members in being able to get together so quickly. We do apologize for having to cancel the meeting last week at such a late hour. However, we the staff and legal felt that the transaction was not where it needed to be to come to the board and we felt that for the integrity of the transaction we had to postpone the meeting to today."

Mr. Lynch stated, "I would like to add my thanks to Steve's and state that this is a very important piece of this whole puzzle for us today. It is an integral part of this plan. I personally appreciate your flexibility in coming back together today and also your patience. There has been a lot of work that has been done by a lot of very talented people. I think this is much better today than it was a week ago and I think it is at the point where it is ready for you. I know Mr. Drizos believes that as well. Steve is tough so we appreciate his due diligence and once again we thank you."

Mr. Goldfield stated, "I want to echo that we really appreciate your patience and since last week we had two long due diligence calls with all the underwriters and the legal team. We had document sessions on the Friday after Thanksgiving, on Saturday and tax sessions on Sunday and all day sessions on Monday and a due diligence session yesterday. While I was very disappointed that we didn't make it before the board last week, I agree that it was the right decision and that we got a lot of work done and the documents are now in very good shape. Also, hats off to PEDFA's staff and legal team who have done an unbelievable job. We had 17 or 18 people on calls going through 100 plus page documents thoroughly line by line. In the 25 years that I've been doing this you have the A team all around. We are very happy to have the transaction in the shape that it is in now.

We received ratings on the bond series. There are three series. They are the A series, B series and the C series. Standard and Poors rating agency came out with ratings of AA for both the B's and C's and an underlying investment grade BBB for the series A tranche. The Series B tranche is going to be guaranteed by a general obligation guarantee of Dauphin County which has an AA rating from Standard and Poors. It is going to be double barreled guaranteed on the C series both of Dauphin County and AGM. AGM has a AA minus.

Yesterday AGM brought this to its credit committee and reported orally to us that it would like to guarantee the A series. We haven't seen a commitment letter yet. If they do guarantee the A series, assuming the conditions are satisfactory to PEDFA and to the legal team, that series would go out with an AA minus wrap with an underlying investment grade credit.

The other things in terms of the plan, I will call on the underwriting team to talk about that and to answer any questions. The context again is that the resource recovery facility is being sold. Those bonds are out in the market as we speak. The preliminary official statement (POS), the marketing document, went out last week. The current schedule for that transaction is to open up to take orders for those bonds next Monday and to underwrite those bonds next Tuesday. The closing on that transaction is scheduled for December 23. After due consideration by this board the transaction and documents are approved, the underwriting team will expect to get out into the market in the next 24 hours. The idea would be to have an internet road show. First it will be published on the internet. It will be accessible. We will make sure the board has access to it as well. There will be a lot of internet road show. It will be live telephonically. There will be real time slides and there will be questions and answers scheduled for next week.

Ramiro and Jay will talk about how they envision marketing in the month of December."

Mr. Albarran stated, "I would echo the complexity of the transaction and it was a good period of time to take and to get the documents in a good position for the board's consideration today.

I will introduce Jay Murphy who has been in the business for a long time. He runs our underwriting desk and will be the chief architect for the distribution of bonds as we enter into the market place. I would like to follow up on Steve's comments in terms of the schedule here.

We do plan to have that investor call. This is a complicated transaction. We do have good ratings. We have a verbal commitment from AGM to wrap the A bonds as well. You will be looking at a transaction that is likely all AA. That is a great position going into the market place. There will be a lot of questions as represented by the many pages that you have in front of you. It is a complicated transaction so we think it is important to have a dialogue with the investors and go through the presentation and provide a venue for questions and answers. That plan is currently scheduled for next Monday or Tuesday. We want to be in the best position as we approach the market place in that presentation. That is the reasoning for it. The people on the various desks and the sales people - Gugghenheim, our co-senior manager, Piper Jaffrey, as well as Citigroup, Bank of America Merrill Lynch, PNC and Morgan Stanley are the various players in terms of getting out into the market place."

Mr. Murphy stated, "It has been a complicated transaction. My job and our team's job are to bring not only investors up to speed on the credit, but also the co-managers that Ramiro spoke about. In order for them to maximize the distribution and lower the interest rate it is going to take an understanding of the transaction and how this came about and where is Harrisburg headed. I think the ratings that Ramiro talked about signal a lot about of the strength the bonds that we offering to the market. From an investor standpoint, once you understand the story I think the reception should be very good. The game plan right now is to get the official statement out and then the education process kicks in starting next week with investors and the syndicate to sell the securities all next week. Having a whole week in getting the structure out in front of people will give us benefit. The other added benefit is that next week the competing issues in the market probably total about $10 billion. From the aspect of capturing their attention I think the education process next week and the launch into the pricing of bonds are important."

Mr. Albarran stated, "That is our plan and we wanted to give the board a sense as to what this transaction means in terms of bringing this to its conclusion."

Mr. Drizos stated, "The people from Standard and Trimont could speak at this point."

Mr. West stated, "I'm Rick West and I am working with Trimont and on the phone is John Gass from Trimont. With me is John Kemp from Standard Parking and Chris Sherman is on the phone as well.

In terms of giving you an overview the first thing is we had the opportunity to be working on the transition plan, but also effectuating the transition for some time. I think it is going well. We are looking forward to the bid closing coming up and to moving forward to service the community. One of the things we are appreciative of is the fact that we are centralizing as many services as there are. There is not just dealing with one or two organizations. It is working with HPA and multiple different people in different departments in the city. The reception has been great. It gives us the best opportunity for a smooth and strong transition for all the support we are getting.

Another thing is the opportunity that Standard Parking brings to the table. It is not just their experience and presence and the team they are assembling here. It mainly is people coming over from HPA. It is the fact that they have national specialists not only off street parking but on street municipal parking."

Mr. Kemp stated, "We are in a very beneficial situation from the standpoint of having the opportunity to work locally with people with deep experience and knowledge in the market coming over from the HPA side. When you combine that with our specialists, be it IT, marketing and on street, the mix is very good."

Mr. Drizos stated, "John, I would also like you to address the issue with regard to a question from a board member in the past in regard to the union and the union representatives. I would like you to go through the happenings that took place with people accepting their buyout."

Mr. West stated, "AFSCME has two different collective bargaining agreements with the city employees and with HPA. All the city employees are staying with the city. They are not transitioning over. As to the HPA employees there are a lot that are transitioning over and some because of the automation will be moving to the on street side as well. There is new hiring going on as well because of the number of people that are taking the buyout."

Mr. Drizos stated, "The issue that I was addressing is they were under a union agreement and because so many people accepted the buyout, it skewed things as far as the union is concerned."

Mr. Goldfield stated, "The expectation the first year is to have a bit of a heavier staffing for transition for a number of reasons. There is going to be a huge shift in technology and John and Rick can talk to that on what you can expect to see on the streets of Harrisburg and how it may improve things.

The first year, the expectation was to have around 44 people. HPA had more than that and everyone was offered an opportunity to interview if there was their exact same job they could interview for that. If it was an accounting job, that is in Texas, because that is where the centralized accounting occurs. Every person was given an opportunity to look at openings in the city, HPA or openings at Standard. At last count that we got two days ago was that 23 people from HPA have determined they wanted to have a job at Standard, which means that Standard has to at a minimum hire another 21 people or so. There will be hiring opportunities. They have already advertised so they have a full complement when they start. It is not the case that all 23 people that are interviewing get jobs. We did set up a construct that for at least a year the people that have been there for a while will get at least 90% of their salary and healthcare. As it turns out it is going to be very close to a 50/50 proposition. If less than 50% of the complement is people coming from HPA then we can't make the majority of the people take the union. More people have taken buyouts than have interviewed for jobs."

Mr. West stated, “One thing I will add is Standard’s practice that they are following is people who have said they wanted to work for Standard and take one of the positions as soon as they are cleared through the hiring process, Standard is making conditional offers for them as the transaction closes just to remove any questions of what is going to happen. We are trying to make sure we are very sensitive to everybody.”

Mr. Drizos stated, “I would like for you touch on the technology side.”

Mr. West stated, “There are two categories. First, all the off street parking is gated lane facilities with card access for monthly parkers and the ability to process validation programs. A lot of these things are happening by human beings in processing things manually. One of the things that is limiting about that is you are limited to the peak hours of operation. Many of the garages close overnight. By putting in full automation we are going to be able to offer people the opportunity over time, as services are rolled out, to pre-purchase parking online and have that pre-purchased voucher interface with the location equipment. These are all products that we would create. They have not been created yet. It also gives the ability with the centralized management and monitoring these facilities from Texas to keep the garages open, unless there is a security reason not to keep them open 24/7. The service will improve and revenue will improve and everything becomes automated. Even lanes that don’t have cashiers will be the same level automation to the lanes that do have cashiers. When you have more lanes open you are improving services as well.

The on street is more transforming from a service standpoint to the public. There will be a combination of single space smart readers and multi-space smart readers. It is an online device that is communicating back into the cloud to other devices. From a payment option standpoint people will have the option to buy a prepaid card and load with whatever amount of money on it and use that. The other option is using a credit or a debit card and they will have the option of using currency. We find with these different paying options being rolled out is that quickly with 50% of the transaction become one of these non-cash form of tenders. It is more convenient.

Another option is pay by phone. No matter how people pay we are able to centralize that information so from a violation management standpoint you know the car is paid. There are great services that come with the pay by phone. Such as if you park at a two hour meter but you bought one hour parking your app will text you when are 15 minutes from up and if you want to add another hour you could do that.   There a lot of benefits there. You want the public to have the option to pay for anything anyway they want to pay for it.   If someone does have a violation there is the ability to come to a retail office make a payment or mail it or online. These are all things from a revenue standpoint that will improve revenue, but it also improves service to people that can do things 24/7 when it is convenient to them.”

Mr. Kemp stated, “I’ve worked on these specific types of rollouts in different cities and I think we have everything in place.”

Mr. Goldfield stated, “There is another component that I want to talk about; for instance, near Philadelphia when you go to these pay display machines and you put your credit card in is what Rick has described is it goes automatically up to the max, which if $5.00 and then you have to toggle down. Most times if you start at $5.00 it is amazing the revenue that comes from little things like that.

There is a very important part of this transaction that involves the Commonwealth of Pennsylvania with DGS in looking over a dozen different contracts with different payment amounts and different terms and all different provisions. Everything was managed and it was hard to manage regarding who had passes and how many passes each agency had and how much they paid for it. Some agencies paid the full market price and some agencies didn’t. We spent a better part of the last year working with consolidating not just those agencies that DGS controls parking for, but the House, Senate, Treasurer and so forth. We are up to about 4,300 parking spaces which is a significant amount of spaces. One of the things that Standard has visited with DGS on is how to make the system more user friendly for state officials and professionals who work with them. The cellular phone cloud based information can very easily show them where the closest place is to park. We are trying to make it very user friendly and the technology enables us to do more and more things.”

Mr. West stated, “Some of the things some employers take advantage of is individuals who are paying for their commuter parking themselves do have the ability to have up to $240 a month taken out pre-cash through their paycheck through their employer payroll system. This is an underutilized program that has been around for 40 years and has a real impact on people’s lives.”

Mr. Harper asked, “Do you have the number of non-Commonwealth spaces at which we break even versus losing? What occupancy rate do you need to in addition to the Commonwealth rates?”

Mr. West stated, “We have looked at the updated, current state of what are the monthly parking population and what is the transient parking. With the update being whatever is changing on the government contract.”

Mr. Goldfield stated, “In addition to the Commonwealth parking that starts out at $6 million dollars as a starting point for the Commonwealth of a total of $17 million of revenues. And a million one at the outset of that is on street.”

Mr. Albarran stated, “The revenues of the transaction are three primary revenues. The first is the DGS contract. The second is the monthly parkers and a subset of that are the transient parkers in the garages and the on-street revenues. The question you ask is a complicated question to answer because the breakeven is a cross between the three revenues that are being described. Roughly we would need to satisfy the operating expenses and the debt service of the bonds. There are other obligations that extend beyond that. We could have a 50% reduction in the non-DGS revenues that are inside of that and still meet the obligations of maintaining the system on a daily basis and making sure it is operating according to standards and then payment debt series on the three series of bonds."

Mr. Harper asked, "Has there been any recent analysis of any changing trends in parking usage?"

Mr. Albarran stated, "We have done several things to analyze the system. Desmond has put together a full use analysis of the facility including the occupancy of the garages as they sit and regular updates we have received from the Parking Authority itself. The most recent was the monthly occupancy report for monthly parkers as of the end of October. There has been a decline in the parking base. The strength of the Commonwealth entering into the DGS lease provides a foundation for the transaction. We will have ebb and flows for the non-Commonwealth agency parkers. We have built in a good deal of cushion to absorb that over time."

Mr. Goldfield asked, "Tell us some of the stress tests that you have placed upon expected revenue and expenses, because that is what you did during due diligence?"

Mr. Albarran stated, "We have looked at 70% above revenues as a core basis. We have increased the expenses on the system by 20% and we have looked at hyper-inflation scenarios. The DGS is a 30 year lease and we have 40 year bonds and what happens if the Commonwealth takes other actions? We have looked at all of those transactions as we gone through due diligence. Not just relying on where we are today as a starting point. We have looked at those historical trends and have a very good sense as to where the system sits today. The Parking Authority took actions last week to affect the rates permissible under the Asset Transfer Agreement and those are in place. There has been a tremendous amount of dynamic stressing to both revenues and expenses. The forward revenues reflect the proposed rates under the Asset Transfer Agreement."

Mr. Harper stated, "As we look at the bulk of business people, increasing that street parking costs is going to have an impact on people that have businesses downtown. They are very concerned about that. I remember hearing something about concession parking or some sort of a credit parking."

Mr. Goldfield stated, "One of the additions to the complement in Harrisburg has been approved by the city and has 80 additional meters in the midtown area. When you discuss this with the merchants and the city council members who have represented the merchants and the homeowners and they said they would like to get people off the street from in front of their house. They would like permits. They want people to turn over at their stores. We don't want it to be like it is. We also don't want meters to impede commerce. For those 80 meters they are going to be installed with a grace period. One way would be you put your credit in when you come and you stick your credit card in when you go. We are not going to do that, initially all over the city. The merchants have said it would be good to have turnover, because right now you have this very little enforcement and so people park and stay. It causes traffic issues for people looking for a spot. It causes a loss of commerce. The rates are going to go up so that eight hours on the street is more expensive than parking in a garage. The second things that will go up are the tickets. Right now it is $14 for a ticket and it is $16 to park in a garage. Now that it is going to be electronic they will be able to collect data for the first time. There will be an ability in the next few years to look into Second Street. It is working great in the mid-town can we do it on Second Street? We will have to look at what is good for the merchants and the making sure the bond holders get paid off. Until you have the data which we don't right now we can't make those kinds of decisions. Standard and Trimont have committed that as soon as they get data they will look at that citywide. Right now it is 48 midtown meters."

Mr. West stated, "From a smaller city standpoint an on-street space is meant to be the convenient shorter trip space and having available occupancy because that is what brings people downtown. As we rollout out the technology that will facilitate the communication to the user where parking is or what it costs."

Mr. Harper asked, "Could you address the security issue also?"

Mr. West stated, "Police officers have been used on Friday, Saturday and some other schedules will continue that practice. Everything is being scheduled through January 12."

Mr. Dabrow asked, "There has been discussion about Standard being or not being a successor and there was some discussion about guaranteeing some group of people, 90% of the raises and benefits?"

Mr. Goldfield stated, "The concern that Standard's labor lawyers had was that as the Office of the Receiver was trying to make sure that we had a smoother transition as possible and that we offer the most opportunity for the existing HPA employees as possible and enter into a transition agreement. Standard is not going to negotiate a new collective bargaining agreement the day they take over. It will take some time. We have put together a transition agreement for a year from the time that the transaction takes place until a year later. It was under that transition agreement that we were getting frequent comments from Standard's labor lawyers that we need to make sure that we are not a successor.

Mr. Dabrow asked, "Who is the transition agreement with?"

Mr. Goldfield stated, "The transition agreement is between Standard and AFSCME who is representing them in the negotiation of the transition agreement."

Mr. Dabrow asked, "So Standard and AFSCME entered into an agreement to do what?"

Mr. Kemp stated, "Standard did not enter into an agreement with AFSCME."

Mr. Dabrow stated, “Okay. So who entered into an agreement with AFSCME?”

Mr. Mitchell stated, “The Harrisburg Parking Authority entered into the transition agreement with AFSCME and then the requirements for the employment offers salary and benefits, so part of that transition agreement are incorporated into the Asset Transfer Agreement between HPA and PEDFA.”

Mr. Dabrow asked, “And what binds Standard and Trimont to this agreement?”

Mr. Mitchell stated, “Under the Asset Transfer Agreement PEDFA is required to require Trimont and Standard to adhere to those terms and those terms are incorporated into the agreement.”

Mr. Dabrow asked, “And what is it at the end of the day Standard and Trimont are responsible for agreeing with?”

Mr. Mitchell stated, “To offer employment all of the HPA employees and to offering those wages of 90% of HPA’s wages, as well as minimal levels of employment.”

Mr. Dabrow asked, “Are all the positions going to be offered under this or Standard and Trimont coming in with their own staffing?”

Mr. Mitchell stated, “All of the available positions in Harrisburg are being offered to existing employees of HPA. Some positions will not exist in Harrisburg as Steve mentioned a few minutes ago. Accounting is all centralized with Standard and that would not exist anymore. Some of the positions are bargaining unit positions.”

Mr. Goldfield stated, “The bargaining unit positions that did not have a position at Standard we are offering a buyout or another job at Standard or in the city. A lot of people took the buyout and 23 people applied for jobs at Standard in the bargaining unit. In mid management they were offered the same buyout or if there was a job, they could do that. One of the very senior veterans of HPA is coming over to be a manager within the City of Harrisburg. There may be one other management person who is coming over. Jeff, because the agreement is between AFSCME and HPA and because the Asset Transfer Agreement specifies what the terms of the people who do come over wages and benefits need to be, it shouldn’t matter whether AFSCME is not representing them? It is moving through the other contracts and it is still guaranteeing whether they have AFSCME or not for the next year. Whoever gets a job has that guaranteed level of wages and benefits.”

Mr. Mitchell stated, “That is correct. There are positions of employment that AFSCME could negotiate on behalf of employees who take jobs with Standard. At this point it means that the workers who are hired by Standard from HPA, as well as the non-HPA employees who are hired that they go through organizing a bargaining unit for this. There will not automatically be one if the numbers remain where they are right now.

Mr. Dabrow stated, “It just sounds like more than 50% of the initial complement.”

Mr. Mitchell stated, “My understanding of that is that 50% of the employees that Standard hires to work in the system need to be existing members in order to be able to bargain on their behalf. Standard may be able to clarify. Since fewer than 50% of the existing employees are taking a position, I think it would require the union to organize a vote.”

Mr. Dabrow stated, “It is 50% or more of the represented complement if hired by Standard would form a union.”

Mr. Mitchell stated, “My understanding is that employment beyond those being specified in the transition agreement those additional terms of employment will be dictated by Standard pursuant to their normal policies until such time that AFSCME and the bargaining unit negotiates those with Standard.”

Mr. Dabrow stated, “I was trying to understand an analysis to determine if the labor costs impact is the only thing that would change within the first year.”

Mr. Goldfield stated, “When we were in the RFQ process for the Office of the Receiver we had a question that we put out to the final four respondents. It was, what would the upfront and overtime proceeds look like if you had no union representation, what would it look like if you had union representation using unions that you are currently working with and what would it look like if you had AFSCME who currently represents the HPA? We had the final four price that out and it was more if AFSCME represented the employees. It was only a week ago that we heard that if there are 44 people that are going to be working and only 21 are HPA we would have this issue. We have not altered the assumption that it would be AFSCME represented employees for the period of the lease.”

Mr. Albarran stated, “The bottom line is we were oversizing the workforce relative to the agreements that were referenced earlier in this conversation. That was a larger workforce then the stabilized workforce at Standard pursuant to the way they manage other operating systems across the country. The reality are those opportunities are going to be offered to HPA employees. There was a commitment to honor that level of employment at the benefits and salary levels that were discussed earlier as well. Not all of those positions need to be put in place. Now the question for Standard of those HPA employees pursuant to the agreement that was described is created in the transaction. How many more people now are needed in terms of the staffing level to get to a fully operational system? Rather than be in a situation where we have more employees than needed, we are currently in a situation now pursuant to the buyouts where we have less HPA employees that are needed. We continue to model the greater workforce, not through the entire term, but the initial period of time. Then we will get to a standardized workforce over time. For now, we are looking at what is the right staffing level and how are we going to be putting that into the transaction? That is the relative upside in terms of the model. We have not changed the model for an overstaffed level. That is how we are looking at it from financial perspective."

Mr. Goldfield stated, "The labor concessions that we are talking about are completely outside of AFSCME-represented HPA members. It was the AFSCME union that represented the city employees. It was water and sewer, Fraternal Order of Police and the firefighters. So the labor concessions were estimated at a savings of around $4 million dollars a year, to help the structural budget deficit. That is a combination of revenue increases and expenditure reductions and labor concessions are the expenditure reductions. The reduction in force was not intentioned to have reduction in force in parking and HPA either. The reduction in force is comprised of another layer of the plan, which is that the water and sewer have now transferred to the Harrisburg Authority. The reason for doing that is complicated. The city was under consent decrees to improve sewer treatment and it was going to be $50 million dollars plus and the city was not going to have market access. The city had been taking sewer rate charges and funneling them into their General Fund in order to balance the budget for a number of years. We had to stop that. Nobody in the credit markets would loan money, including PENNVEST who has been solid with the city. They were the first lender to step up in $26 million towards the $50 million plus if all of the money that comes in from sewer is segregated out of the city when this transition takes place. Once the water and sewer people come over and the resource recovery facility is sold then you have billing and operations at the city. Billing and operations needs to go with water and sewer and could leave just the sanitation at the city and move the billing and operations, water and sewer people to THA. The tradition across the board is that you send your water bill and trash bill on the same bill. Part of the sale of the ROF was keeping that trash bill with water and sewer. Operations and revenue involving water and sewer are moving to THA and that is where you make a savings on the expense side as well."

Mr. Dabrow asked, "What you are saying is all these moving parts have to come together for this to work?"

Mr. Goldfield stated, "There are two moving parts that must come together. The water and sewer has already started the transition. There are about 20 other parts that we are working on. There are two major parts that need to happen simultaneously on December 23. That is the parking transaction and the resource recovery facility. The reason is there are $212 million dollars of resource recovery facility bonds in the public markets right now and the net proceeds from the resource recovery facility after about seven creditors get repaid is $90 million. So if all that happened was the resource recovery facility was sold and $90 million went to Dauphin County and to AGM, somebody would have to cut a check for $120 million dollars. So in order to eliminate approximately $490 million dollars of debt at the City of Harrisburg to get rid of the resource recovery facility, because the real key to this transaction is that the City of Harrisburg gets its tax revenues back. It gets reoccurring revenues for the next 40 years. That supplemented by the concessions and the labor reductions create a balanced budget for the City of Harrisburg.

This transaction and the resource recovery facility closing and funding are critical to happen simultaneously."

Mr. Dabrow stated, "Are you saying it will be 40 years before Harrisburg will be able to stand on its own?"

Mr. Drizos stated, "Harrisburg will, theoretically, be able to stand on its own after we close. We are closing the gap with a lot of their debt and credit issues are going to be satisfied by this transaction. They should be healthy on January 1."

Mr. Goldfield stated, "We are putting Harrisburg in a position to succeed upon closing. It will have all the tools, but it will be up to the elected representatives and the people in the city to make it happen and work. The only reason that you are hearing 40 year lease is that it started at 75 years and the city said no. The longer the lease is the more money you can get up front. We had an insurmountable math problem, which was to pay off these bonds and get the city on its feet. Longer can create more, but when you get out that long present value doesn't generate that much. When we went out to bid a lot of bids were 75 year leases and we said no. We made everyone start at 50 years and some dropped out and some dropped their numbers and the city said shorter. The city wanted shorter and we were trying to balance the desire of the city, because the city felt it was getting rid of its parking assets. We believe if the city didn't have the resource recovery facility that this transaction makes a lot of sense. It creates a lot of ongoing revenues and brings state-of-the –art technology and private management in. There is no doubt that there will be less employees at the HPA in the next couple of years. There is no doubt they would have been moving toward technology. It is a lot slower because it is political. This is going to get exactly where it would go, but more quickly. The 50 year deals were whittled down to somewhere around 40 years. We have done a lot of modeling and the city and the county are going to take all of the extra cash flow, if there is extra cash flow and pay off all of the bonds early. I call this a 40 minus deal. From a tax analysis standpoint a 40 year lease with these assets is the minimum. It isn't that the city will finally be in recovery after the lease. The city will get these assets back, but our intention is to set the city up on December 23. First, they will be able to pay their general obligations for the first time in three years. Secondly, they will pay down to a traditional level for a city of its size, so it gets good terms. It will have a fund balance so when tax bills go out and taxes don't roll into for a couple months they have money to take care of their needs. There is going to be economic development infrastructure and retirement benefit monies going into the city. There will be $490 million dollars of debt taken off the books. That is off HPA and the resource recovery facility and we are working on something called the Verizon Bonds. The balance sheet will be cleaned up and will be in good shape on January 1."

Mr. Drizos stated, "It is a new beginning."

Mr. Dabrow asked, "What do we get back?"

Mr. Goldfield stated, “The transaction is a sale. There are cash flows that go to PEDFA on an annual basis. There are cash flows that go to PEDFA and are put aside for a rainy day and for capital and at the end of the deal go to PEDFA. The residual cash flow at the end goes to PEDFA. Because of the tax analysis to make this a tax exempt bond transaction this has to be a sale and PEDFA has to have the benefits of ownership. There are notes that go to other people, but everything above the costs of the operations and the debt service goes to PEDFA.”

Mr. Dabrow asked, “At the end of 40 years what are we doing then?”

Mr. Goldfield stated, “It automatically reverts to the city under the lease. The lease has a 40 year term and provided all obligations have been satisfied, for $1.00 it reverts back to the city.”

Mr. Dabrow asked, “So it is actually a lease as it’s structured and a sale for tax purposes?”

Mr. Goldfield stated, “Yes.”

Mr. Drizos stated, “The transaction is structured in a way that we have components, referred to as turbo bonds, that if we have the excess revenues we are able to call those bonds. We would exercise that ability and you could see a 35 year transaction.”

Mr. Brown asked, “What is the anticipated term of these three series of bonds? What duration are we looking at for A, B, and C?”

Mr. Goldfield stated, “The A series is 30 years and the B and C is 40 years.”

Mr. Brown asked, “The subordinate notes, how do they play into that scenario?”

Mr. Goldfield stated, “There are four subordinate notes. They are payable after operations, debt service, capital maintenance reserve, so you would look at it as a surplus cash flow note. They are going to have amortizations, but if you don’t have the money to pay them you skip to the next year. It is an annual look. PEDFA has residual benefits as well.”

Mr. Brown asked, “Who will hold these notes?”

Mr. Drizos stated, “A trustee.”

Mr. Brown asked, “The cash flow goes to whom if there are any?”

Mr. Goldfield stated, “They all go to HPA, because HPA and the city are selling the assets and the sales price equals the upfront amount plus installment notes. All those notes go to HPA. Once that transaction closes HPA will assign two of them, at the direction of the city for the benefit of creditors of the city, called Dauphin County and AGM, in the amount of $77 million dollars and $20 million dollars respectively.”

Mr. Moyer stated, “The other thing we can’t lose sight of is PEDFA being a Commonwealth agency, the benefit to the Commonwealth to manage its parking and therefore its employee costs relative to a predictable cost for the large number of parking spaces that Commonwealth use. This is a unique part of making this transaction happen and that is an overall benefit to the General Fund.”

Mr. Goldfield stated, “Absolutely. We just met with the Secretary of Budget and we have been meeting with DGS in talking about the various ways that is true. One of the things that DGS has begun to do is manage parking like airlines manage seats and they overbook it. On a given day they may have 10% of the people that have passes are not parking there. The way this is structured is that we are giving more passes than we are charging the Commonwealth for. The HPA has approved a rate increase commencing January 1, 2014 and the per month per space cost is $175.00. The starting price for a parking pass for the Commonwealth is going to be $127.00. They are going to pay for less spaces than they have passes and they will pay about $135.00. Still it will be $40.00 per space less, but in addition they get 10% more passes than they paid for. The Budget Office is very happy to hear that it is a predictable below market cost and the technology is going to enable them to figure out if they can put more cars in for less cost. They have been doing this for a couple years at the Forum Place. That is why we dropped 400 cars. They got moved out of HPA to the Forum Place. There is no doubt this transaction is the lynch pin. I cannot overstate the importance for the City of Harrisburg and it is a very good transaction to help the Commonwealth manage from a budget standpoint.”

Mr. Moyers stated, “Regarding the Resolution that we are asked to vote today. I know the Resolutions are drafted to cover as many possible conditions as possible. On page 4, it caught my attention that we are still referring to a series or subseries that it is federally taxable or tax exempt. Do we have a verification in the final sense of a tax status of these bonds?”

Mr. Feller stated, “I am with Dilworth Paxson, Philadelphia, bond counsel. This is a very complex transaction. Sometimes in transactions of this nature you have to look at the use of the various facilities that are being financed or acquired and determining whether there is any use of those facilities that may not qualify for tax exempt finance. One of the things we are looking at in trying to finesse the numbers is the amount of private use of these various garages and parking lots attributable to parking contracts of various types entered into by the Parking Authority with various third parties. There are many contracts of that nature. Some of them are short term and some are month to month. A typical example is a local building owner in a partnership of some type that contacted the Parking Authority and said that we need 50 spaces for employees. The Parking Authority enters into an agreement for a period of time to allocate 50 spaces to this developer for its employees and very often they have a discounted rate associated with that. That arrangement can constitute private use of a facility and that private use portion if it exceeds a certain amount, which is 10%, is not eligible for taxing and financing. We are looking at all of these different arrangements in trying to quantify the amount of private use and trying to determine how we can terminate effective when this transaction closes to reduce the percentage.

We have left open the possibility and have built it into the Resolution that a small piece of this transaction would have to be taxable, in order to give us a cushion so we know we are not going over that 10% limit. We are not talking about very much. The numbers are in the $10 million dollars to $15 million dollar range relative to the $100 or so million dollar transaction. We are still reviewing that. We have a special tax counsel that is involved in this transaction and we are working closely with them to finesse the numbers and see if we can do this without having to issue taxable debt. We felt it was prudent to put it in just in case."

Mr. Drizos stated, "I would also like to add that what our counsel has determined is for PEDFA to be on the very conservative side of that decision."

Mr. Moyer stated, "But that is a determination, given the bonds that go out we have to have that very soon."

Mr. Goldfield stated, "I was at the city council meeting where the city council enacted the ordinances necessary to increase its fines and meter rates and improve the transactions. There are resolutions and other actions that have been taken by city council. There is expected to be one last resolution considered by city council on December 17th, because they were concerned that all of the documents were not in as good a shape as they are today and they wanted to make sure that Mr. Grover and Mr. Hess and they hired a special bond specialist counsel and reported back to them that everything was in the condition that we reported would be in the term sheet and plan."

Mr. Grover stated, "City council approved a resolution in the term sheet with the parking transaction back in September. They have adopted by ordinance the Asset Transfer Agreement on November 26 that approved the intergovernmental cooperation agreements with PEDFA and DGS. The adopted the resolution to add 88 parking meters in midtown. The only outstanding issue that we know related to parking is a resolution to what we are calling the 2013 Downtown Co-Op Parking Operation Agreement. This essentially replaces a 1984 parking contract with different groups that include the city, Harristown Development and the Harrisburg Counsel. The reason it wasn't voted on is the numbers were not filled in when it was presented to us. It confirms that HPA will be turning rents over to the city and that they would turn over the proceeds of the transaction to about $35 million dollars upon the close of the transaction."

Mr. Goldfield stated, "One of the documents that is going out to the buyers of the bonds is called the Preliminary Official Statement and it's a prospectus in corporate offering and it is supposed to have everything in there that a reasonable investor would want to know about. You will see from the bond holder perspective you will see a none compete area that is memorialized and it is taken directly out of the Asset Transfer Agreement, which is the binding legal document pursuant to which the city an HPA may not compete within the competing parking area. That was drawn with the help of HPA, with the help of CDN Smith, their consultants with Neil Grover and Jason Hess to have the central business district, plus the midtown meters and other buffers around that. There are remedies that can be taken if the city or HPA do try to compete. That is a very essential covenant in the Asset Transfer Agreement from the city and HPA to PEDFA."

Mr. Brehouse asked, "In year 20 the parking lease can be reduced by 10%. Understanding the dynamics can change, what was the rationale of 10%?"

Mr. Goldfield stated, "It was negotiated and discussed with the underwriters to see from a marketing standpoint what we could do. It was stress tested. It has been discussed in great detail. If you were to look from the Commonwealth standpoint being bound for 20 years for the number of spaces is probably one of the difficult to think through. Yes, from a budget standpoint it makes sense. The number one issue we discussed with the Commonwealth and the Commonwealth was concerned that it was a long time. Where are people going to be working and what are they going to be driving? So we put two safety nets in. First, at any time the Commonwealth can put a space back and say there is one space more than they need so take it back. As long as the team can find a parker at market, yes we would do that. Secondly, after 20 years no questions asked and no replacement. You can drop 10% of your cars if you want too. A larger number would have been more comforting to the Commonwealth. It would have been more difficult from an underwriting standpoint."

Mr. Brehouse asked, "At one point the Asset Manager pulled out and Guggenheim stepped into that capacity? I'm just clarifying that in reality that is no longer the case. It is strictly Trimont."

Mr. Goldfield stated, "Yes. The decision hadn't been made and Guggenheim was considering it. We were looking at some others and the ultimate decision is that Trimont is the Asset Manager. Trimont combined their insurance, construction, building management and asset management with a long time parking expert, Rick West. The combination of the two of them plus Standard is a pretty good team."

Mr. Drizos stated, "We went through a diligent period in interviewing other possibilities. I'm more comfortable with these people and the more I'm convinced we made the right decision.

We also have the people from CREDC, Dave Black, if anybody has any questions to them.

I feel it is appropriate for me to make a couple of comments. First of all, our board, our team, and PEDFA has done an absolutely wonderful job with the direction, patience and work with the Office of General Counsel to our Chief Counsel. Special kudos goes out to Carol Longwell and also Craig Petrasic, Brian Deamer and Melanie who had to put up with me. I cannot say enough about them. They have done a tremendous job. I would like to say as far as the city is concerned this is something unique. I applaud whichever side of the issues you were on for the courage to move forward. I think you clearly will find that this a great solution and hence we are here today and I would like to take it over to the Deputy Secretary and we are asking for your approval of the Resolution."

Ms. Newhouse stated, "This was a great team."

It was moved by Mr. Petrone and seconded by Mr. Harper that the Board approve the Resolution of the Harrisburg Parking Transaction. The motion carried.

ADJOURNMENT

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