

HARRISBURG PA UPDATE

JANNEY FIXED INCOME STRATEGY

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Four months after Moody's downgraded the City of Harrisburg to below investment grade, City financial managers are considering options to make the PA capitol's debt load more affordable, prompting worries about a voluntary restructuring.

Recent news stories have highlighted the fiscal distress of Harrisburg, PA (Ba2/NR). In October of 2009, Moody's downgraded the City's debt from Baa2 to Ba2, and retained the credit on Watchlist for potential further downgrade. Many of Harrisburg's financial challenges emanate from the City's guarantee of about \$288 million in debt issued to retrofit and modernize a waste management facility originally built in 1969. Harrisburg skipped over \$3.5 million in debt service and swap payments last year, leading to draws on reserves as well as assistance payments from Dauphin County.

> *Options Harrisburg can use to reduce its heavy debt burden include asset sales, tax hikes, applying for state protection, and, in a worst case, filing for Chapter 9 bankruptcy.*

In hearings this week, City Council members said every option to address the City's fiscal challenges was on the table. Potential actions include tax and fee increases, asset sales and applying for help from Pennsylvania. The possibility of filing for bankruptcy, under Chapter 9 of the federal Bankruptcy Code, was also mentioned as an option. State help is available under Pennsylvania Act 47, known as the "Distressed Municipalities Act," which provides resources to distressed communities potentially including grants, interest free loans, and administrative assistance. It also governs when and how a municipality can file for bankruptcy under federal laws. According to the state's website (<http://www.newpa.com/get-local-gov-support/technical-assistance/request-assistance/act-47/index.aspx>), 25 communities in the state have had distress determinations since the law's 1987 enactment, including the cities of Scranton, Pittsburgh and most recently Reading.

The prognosis for Harrisburg is unclear, as the financial hurdles it faces are substantial. Possible asset sales include an historic downtown market, an island in the Susquehanna River which includes the stadium for the City's minor league baseball team, and some or all of the City's parking, sewer and water systems. As Moody's noted in an October 2009 report, the City has a "stagnant tax base with a notable tax-exempt component, low income and wealth levels and a high poverty rate." The City cannot "tax" its way out of the hole, and the political will to do so is limited in any case.

It is unlikely Harrisburg will arrive at a solution to its problem in the near future; what is more likely is that the City will seek state support through the aforementioned Act 47, and subsequently develop a plan to dig out of its hole. Historically, few of the communities invoking Act 47 have found quick fixes, and the act is certainly not a panacea. Altoona, for example, was determined to be under fiscal distress in December 1987—shortly after the enabling legislation was passed—and remains under state supervision to this day. The circumstances surrounding Harrisburg are unprecedented. It remains to be seen if bankruptcy will be an element of any plan, although it seems unlikely in the near future since city officials and the state will need time to analyze the problems and develop possible solutions before taking the most aggressive of potential actions.

ALAN SCHANKEL
MANAGING DIRECTOR
aschankel@janney.com

TOM KOZLIK
MUNI CREDIT ANALYST
tkozlik@janney.com

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