

**HARRISBURG CITY
LONG-TERM LIABILITIES
AS REPORTED
2016 FISCAL YEAR
INDEPENDENT AUDIT REPORT
(CAFR)**

**Section No. 2
Exhibit No. 17**

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

9. LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2016 is as follows:

Primary Government

	Beginning of Year	Additions	Transfers	Accretion	Retirements/ Settlements	End of Year	Current Portion
Governmental activities:							
Workers' compensation claims	\$ 3,580,745	\$ 353,692	\$ (843,037)	\$ -	\$ (509,829)	\$ 2,581,571	\$ 659,333
Bonds payable (Note 10)	19,384,564	-	-	1,006,374	(4,495,000)	15,895,938	4,325,533
Notes payable (Note 12)	34,580,572	-	-	1,616,122	(4,933,740)	31,262,954	4,816,859
Capital lease obligations (Note 14)	3,420,351	-	(155,228)	-	(873,241)	2,391,882	392,063
Vested compensated absences	5,292,047	3,436,939	(377,226)	-	(3,251,444)	5,100,316	462,318
Due to bond insurer (Note 13)	13,696,609	1,000,000	-	-	(17,862)	14,678,747	-
Settlement with suburban municipalities (Note 15)	3,725,000	-	-	-	(1,500,000)	2,225,000	1,000,000
Governmental activities Long-term liabilities	<u>\$ 83,679,888</u>	<u>\$ 4,790,631</u>	<u>\$ (1,375,491)</u>	<u>\$ 2,622,496</u>	<u>\$ (15,581,116)</u>	<u>\$ 74,136,408</u>	<u>\$ 11,656,106</u>
	Beginning of Year	Additions	Transfers	Amortization	Retirements/ Settlements	End of Year	Current Portion
Business-type activities:							
Workers' compensation claims	\$ 91,987	\$ 330,456	\$ 843,037	\$ -	\$ (80,941)	\$ 1,184,539	\$ 302,531
Bonds payable (Note 10)	6,729,604	-	-	3,483	(310,000)	6,423,087	325,000
Capital lease obligations (Note 14)	11,209	1,647,151	155,228	-	(121,878)	1,691,710	275,623
Vested compensated absences	138,868	324,294	377,226	-	(275,220)	565,168	36,909
Business-type activities Long-term liabilities	<u>\$ 6,971,668</u>	<u>\$ 2,301,901</u>	<u>\$ 1,375,491</u>	<u>\$ 3,483</u>	<u>\$ (788,039)</u>	<u>\$ 9,864,504</u>	<u>\$ 940,063</u>

Workers' compensation claims and compensated absences typically have been liquidated by the General Fund and the enterprise funds.

In December 2015, City Council approved a tax anticipation note in the amount of \$4,500,000, bearing interest at a fixed rate of 1.86 percent, and maturing on June 30, 2016. The City did not draw against this note.

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Component Units

	Beginning of Year	Additions	Amortization	Retirements	End of Year	Current Portion
Redevelopment Authority of the City of Harrisburg:						
Bonds payable (Note 10)	\$ 93,590,000	\$ -	\$ -	\$ (52,840,000)	\$ 40,750,000	\$ 1,880,000
Notes payable (Note 12)	1,049,802	-	-	(61,298)	988,504	341,549
Due to other governments	170,832	-	-	-	170,832	-
Total long-term liabilities	94,810,634	-	-	(52,901,298)	41,909,336	2,221,549
Less:						
Unamortized discount	(31,864,755)	-	4,348,243	8,821,078	(18,695,434)	-
Redevelopment Authority of the City of Harrisburg Long-term liabilities	<u>\$ 62,945,879</u>	<u>\$ -</u>	<u>\$ 4,348,243</u>	<u>\$ (44,080,220)</u>	<u>\$ 23,213,902</u>	<u>\$ 2,221,549</u>

10. BONDS PAYABLE

Bonds payable at December 31, 2016 are as follows:

	Primary Government		Total Primary Government
	Governmental Activities	Business-type Activities	
Bonds payable	\$ 15,895,938	\$ 6,450,000	\$ 22,345,938
Unamortized discount	-	(26,913)	(26,913)
Total bonds payable	<u>\$ 15,895,938</u>	<u>\$ 6,423,087</u>	<u>\$ 22,319,025</u>
	Component Unit		
	Redevelopment Authority		
Bonds payable	\$ 40,750,000		
Unamortized discount	(18,695,434)		
Total bonds payable	<u>\$ 22,054,566</u>		

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Bonds payable are accounted for in the following activities:

	Governmental Activities	Business-type Activities	Total Primary Government
General Obligation Bonds			
Series D of 1997	\$ 15,895,938	\$ -	\$ 15,895,938
Total general obligation bonds	<u>15,895,938</u>	<u>-</u>	<u>15,895,938</u>
Revenue Bonds			
Senators Revenue Bonds			
Series A-2 of 2005	-	6,450,000	6,450,000
Less: Unamortized discount	<u>-</u>	<u>(26,913)</u>	<u>(26,913)</u>
Total revenue bonds	<u>-</u>	<u>6,423,087</u>	<u>6,423,087</u>
Total bonds payable	<u>\$ 15,895,938</u>	<u>\$ 6,423,087</u>	<u>\$ 22,319,025</u>

Bonds payable are accounted for in the Redevelopment Authority:

Guaranteed Revenue Bonds, Series A of 1998	\$ 40,750,000
Less: Unamortized discount	<u>(18,695,434)</u>
Total bonds payable	<u>\$ 22,054,566</u>

A settlement agreement was entered into on January 30, 2015 between the City, Assured Guaranty Municipal Corporation (AGM), and the Redevelopment Authority related to certain portions of the Strawberry Square Site located in City (Verizon Building) and subject to the Federally Taxable Guaranteed Revenue Bonds, Series A of 1998.

If sufficient revenues are not generated to pay the debt service on the Federally Taxable Guaranteed Revenue Bonds, Series A of 1998, any shortfalls in funds will be paid for by the City. In accordance with the Reimbursement Agreement between the City and the Redevelopment Authority, the Redevelopment Authority is required to reimburse the City for amounts paid by the City under the guarantee. Interest will accrue on amounts owed by the Redevelopment Authority at a rate of 8% annually. As of December 31, 2016, no amounts were paid by the City to the Redevelopment Authority under the guarantee. The City paid \$500,000 to the Redevelopment Authority in April 2017 to be used toward the May 2017 principal payment of the Federally Taxable Guaranteed Revenue Bonds, Series A of 1998. Based on anticipated deficits of future cash flows, the City has accrued the present value of future anticipated payments under the guarantee in the amount of approximately \$15.7 million at December 31, 2016.

Under the terms of its respective debt agreements, the City is required to maintain certain balances in restricted trust accounts, to make timely payments to the trustee or to a sinking fund for principal and interest, and to insure and maintain assets acquired with the proceeds of the debt. During the year ended December 31, 2016, the City was not in compliance with such covenants. See Note 21 for further information on the City's compliance.

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The composition of bonds outstanding included in the primary government at December 31, 2016 is as follows:

General Obligation Bonds

5.45%-5.52%, General Obligation Refunding Bonds, Series D of 1997, dated December 30, 1997, principal payable in semi-annual installments of \$1,195,285 to \$4,325,533 through September 15, 2022, to be serviced through general revenues of the City, issued to advance refund the City's General Obligation Bonds, Series B-1 of 1997, which was originally issued to fund certain capital projects of the City. \$ 15,895,938

Revenue Bonds

4.95%-5.29%, Senators Revenue Bonds, Series A-2 of 2005, dated January 2005 Series A-2 matures at various amounts from 2006 through 2030, issued to renovate the baseball stadium. 6,450,000

Total primary government bonds payable 22,345,938
Less: unamortized discount (26,913)
Net primary government bonds payable \$ 22,319,025

The composition of bonds outstanding of the Redevelopment Authority at December 31, 2016 is as follows:

Revenue Bonds

Guaranteed Revenue Bonds, Series A of 1998, dated December 19, 1998, consisting of term bonds maturing from 2017 to 2033 in annual installments of various amounts. \$ 40,750,000

Less: unamortized discount (18,695,434)
Net Redevelopment Authority of the City of Harrisburg \$ 22,054,566

Debt Service Requirements

The annual requirements to amortize all bonds outstanding as of December 31, 2016, using interest rates in effect at December 31, 2016 for variable rate issues, are as follows:

	General Obligation		Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Primary Government						
2017	\$ 4,325,533	\$ 169,467	\$ 325,000	\$ 327,403	\$ 4,650,533	\$ 496,870
2018	4,090,079	399,921	340,000	310,859	4,430,079	710,780
2019	3,877,269	617,731	360,000	293,287	4,237,269	911,018
2020	1,195,285	289,715	375,000	274,690	1,570,285	564,405
2021	1,199,608	375,392	395,000	254,895	1,594,608	630,287
2022-2026	1,208,164	466,836	2,315,000	933,645	3,523,164	1,400,481
2027-2030	-	-	2,340,000	255,507	2,340,000	255,507
	15,895,938	2,319,062	6,450,000	2,650,286	22,345,938	4,969,348
Less unamortized discount	-	-	(26,913)	-	(26,913)	-
Primary Government, net	\$ 15,895,938	\$ 2,319,062	\$ 6,423,087	\$ 2,650,286	\$ 22,319,025	\$ 4,969,348

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	General Obligation		Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Redevelopment Authority of the City of Harrisburg						
2017	\$ -	\$ -	\$ 1,880,000	\$ -	\$ 1,880,000	\$ -
2018	-	-	1,910,000	-	1,910,000	-
2019	-	-	1,930,000	-	1,930,000	-
2020	-	-	1,960,000	-	1,960,000	-
2021	-	-	1,990,000	-	1,990,000	-
2022-2026	-	-	10,330,000	-	10,330,000	-
2027-2031	-	-	11,080,000	-	11,080,000	-
2032-2033	-	-	9,670,000	-	9,670,000	-
	-	-	40,750,000	-	40,750,000	-
Less unamortized discount	-	-	(18,695,434)	-	(18,695,434)	-
Redevelopment Authority of the City of Harrisburg, net	\$ -	\$ -	\$ 22,054,566	\$ -	\$ 22,054,566	\$ -
Total	\$ 15,895,938	\$ 2,319,062	\$ 28,477,653	\$ 2,650,286	\$ 44,373,591	\$ 4,969,348

11. DEFEASANCE OF DEBT

The City and its component units defeased general obligation and other bonds in prior years by placing the proceeds of net bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the City's financial statements. At December 31, 2016, the following bonds outstanding are considered defeased:

City of Harrisburg	
General Obligation Bonds, Series A of 1995	\$ 11,805,000
Harrisburg Parking Authority	
Parking Revenue Bonds, Series T of 2007	14,310,000
Parking Revenue Bonds, Series U-1 of 2011	7,490,000
	<u>\$ 33,605,000</u>

12. NOTES PAYABLE

The City entered into various promissory notes under Section 108 of the Housing and Community Development Act of 1974 (Public Law 93-383), as amended. The proceeds from the notes were to administer acquisition, relocation, clearance, rehabilitation, and disposal of City properties. These notes do not have continuing compliance requirements.

As collateral, the City pledged all grants approved or for which the City may become eligible under Title I of the Housing and Community Development Act of 1974, as amended, and program income derived from disposition by sale or lease of any real property to the extent acquired or rehabilitated with the guaranteed loan funds, including any interest earned on such disposition proceeds.

Interest payments are required to be made to the Federal Financing Bank on the daily unpaid principal balances.

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The composition of promissory notes outstanding under Section 108 (included in governmental activities) at December 31, 2016 is as follows:

Variable based on 90-day LIBOR plus 20 basis points (1.2% at December 31, 2016), Section 108 Note, dated May 13, 2000, interest payable semiannually and principal payable in annual installments of \$300,000 to \$335,000, through August 1, 2019, to be serviced through general revenues of the City.	\$ 950,000
4.99%-5.77%, Section 108 Note, dated September 14, 2006, interest payable semiannually and principal payable in annual installments of \$210,000 to \$225,000, through August 1, 2026, to be serviced through general revenues of the City.	<u>2,115,000</u>
	<u>3,065,000</u>

The composition of notes payable included in the primary government at December 31, 2016 is as follows:

5.45%-5.52%, General Obligation Refunding Notes, Series F of 1997, dated December 31, 1997, principal payable in annual installments of \$3,592,634 to \$5,790,917 beginning September 15, 1999 through September 15, 2022, to be serviced through general revenues of the City, issued to currently refund the City's General Obligation Bonds, Series of 1995, which was originally issued to pay for certain capital projects of the City.	27,637,388
4.13%, Pennsylvania Infrastructure bank loan, principal payable through March 26, 2018, to be serviced through general revenues of the City, used to fund City street resurfacing projects.	<u>560,566</u>
	<u>28,197,954</u>
Total primary government notes payable	<u>\$ 31,262,954</u>

The composition of notes payable of the Redevelopment Authority at December 31, 2016 is as follows:

3.75%, 2000 Infrastructure Bank Loan, for bridge financing of the Transportation Center improvements until grant money is received and is payable in annual installments through December 31, 2009. However, the final principal payment has not been paid as of December 31, 2016, as the Redevelopment Authority is seeking loan forgiveness.	\$ 271,427
2008 loan agreement, for financing construction of Susquehanna Harbor Safe Haven and is to be forgiven over a fifteen-year period, given that certain compliance requirements are met.	250,002
4.83% for the first three years and variable based on the prime rate thereafter (3.75% at December 31, 2016), 2008 loan agreement, for financing construction of Susquehanna Harbor Safe Haven and is payable through December 10, 2026.	<u>467,075</u>
Total Redevelopment Authority of the City of Harrisburg	<u>\$ 988,504</u>

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The annual requirements to amortize all notes payable outstanding as of December 31, 2016, using interest rates in effect at December 31, 2016 for variable rate issues, are as follows:

Year Ending December 31,	Governmental Activities	
	Principal	Interest
Primary Government		
2017	\$ 4,816,859	\$ 311,997
2018	4,609,491	500,446
2019	4,137,634	674,071
2020	6,000,917	1,468,045
2021	5,597,064	1,745,328
2022-2026	6,100,989	2,123,622
	<u>\$ 31,262,954</u>	<u>\$ 6,823,509</u>

Year Ending December 31,	Redevelopment Authority of the City of Harrisburg	
	Principal	Interest
2017	\$ 341,549	\$ 106,405
2018	71,526	14,391
2019	72,983	12,934
2020	74,495	11,421
2021	76,066	9,850
2022-2026	351,885	23,517
	<u>\$ 988,504</u>	<u>\$ 178,518</u>

13. DUE TO BOND INSURER

At times during 2013, the City's bond insurer made payments to bondholders on behalf of the City. These amounts and the accrued interest were reported as due to the bond insurer in the City's General Fund, because they were due and payable. During the year ended December 31, 2013, the City and the bond insurer entered into an agreement to restructure the amounts due to the bond insurer. Under the agreement, the City's is obligated to reimburse the bond insurer for payments made pursuant to the insurance policy at an interest rate of 6.10% per annum compounded semi-annually. In return, the bond insurer has agreed to forebear from exercising its rights and remedies under the Bonds, the Ordinance, and other applicable law. During the year ended December 31, 2016, the bond insurer paid \$1 million to bondholders on behalf of the City. The balance due to bond insurer at December 31, 2016 was \$14,678,747.

Under the agreement, repayment is based on a schedule that includes future drawdowns. As such, no repayment schedule is available for amounts due at December 31, 2016. However, principal payments are not scheduled to begin until 2023.