City of Harrisburg

Ambac Forbearance Liability/Series 2005A-2 Paydown and Refinancing Analysis

September 22, 2021

Key Debt Components

G.O. Debt and Forbearance Liability

- In 1997, the City issued non-callable General Obligation debt to refund other outstanding bonds
- Bonds insured by Ambac Assurance Corp, mature in 2022
- In 2012, the City defaulted on the Bonds and Ambac agreed to make scheduled principal and interest payments on the Bonds
- The City incurred a forbearance debt that is now about $26.2 million and accrues interest at 6.75%

G.O. Guarantee – Harrisburg Redevelopment Authority, Series 2005 A-2 Bonds

- The City provides a guarantee on non-callable taxable bonds issued by the HRA in 2005 to renovate the minor league baseball stadium
- Bonds insured by Ambac, mature in 2030
- $5,844,152 of principal and interest payment will remain on the bonds after the November 15, 2021, debt service payment

Ambac Agreement Summary

- The City and Ambac reached an agreement that provides principal and temporary interest rate reductions in its outstanding forbearance liability in exchange for the defeasance of the outstanding Harrisburg Redevelopment Authority Series 2005A-2 Bonds (Stadium Bonds) by December 31, 2021
- The agreement also provides for additional discounts on the forbearance liability for prepayments up to $4 million by December 31, 2021
- Maximizing the benefit of the agreement would result in an immediate $3,288,900 discount on the liability, plus interest savings from a rate reduction from 6.75% to 5%
- After these prepayments, the City would have the option (but not obligation) to refinance the remaining forbearance liability and/or paydown with available cash

Alternative Strategy

- There is an alternative strategy that suggests that the City leave the Stadium Bonds outstanding, forgo the benefits of the Ambac agreement, and instead repay the forbearance liability with fund balance proceeds over the course of one to three years (or maybe more)
- Projections of several modeled scenarios show that this strategy would deplete the City's existing fund balance well below the target level outlined in the Five-Year Plan[1] and fail to maintain reserves sufficient to meet other potentially critical capital needs of the City over the next five years
- Projections show a negative fund balance, which is inconsistent with the goals of the Five-Year Plan and, short of new funding sources or reduced expenses, is infeasible
- The alternative strategy is more expensive on a present value basis, even under conservative assumptions

[1]Five-Year Plan target fund balance equal to two months of operating expenses, or about $11.9 million

Scenario Analysis Summary

	Existing	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
		No Ambac Agreement Benefits			Maximize Ambac Agreement Benefits		
		Repay w/Cash One Year	Repay w/Cash Three Years	Repay w/Cash Five Years	Repay w/Cash Five Years	Hybrid 4.80% Refi	Hybrid 3.36% Refi
Gross Outflows[1]	44,086,549	31,882,667	33,223,458	34,710,907	30,756,439	34,995,480	32,794,020
PV Outflows (3.36%)[1]	36,005,721	31,177,810	31,458,215	32,248,114	28,844,583	30,142,724	28,327,234
Projected Fund Balance[2]							
YE 2021		(1,704,740)	19,680,438	16,000,438	16,000,438	16,000,438	16,000,438
YE 2022		(7,756,599)	1,128,579	7,448,579	8,102,284	10,115,444	10,322,078
YE 2023		(4,098,107)	(5,438,898)	4,218,165	5,523,215	11,865,601	12,268,064
YE 2024		(766,965)	(2,107,756)	2,660,401	4,613,396	13,284,928	13,882,207
YE 2025		1,566,541	225,749	(1,261,701)	96,648	13,705,928	14,502,561
Fund Balance Target[3]		$11,900,000	$11,900,000	$11,900,000	$11,900,000	$11,900,000	$11,900,000

[1] Includes cash outflows of the Ambac forbearance liability and Series 2005A-2 Stadium Bonds
[2] Projected fund balance based on revenue and expense assumptions in the 2021 Adopted Five-Year Plan, adjusted for the following: 1) annual debt service expenses based on the assumptions in each scenario; 2) mid-year 2021 results and revised 2021 projections; 3) beginning 2021 fund balance is net of encumbrances of approximately $2.6 million, which are assumed to carryover on a rolling basis
[3] Equal to approximately two months of operating expenses

- Proceeding with the refinancing approach outlined in the Five-Year Plan is the best way for the City to achieve its fiscal goals
  - Maximize benefits of the Ambac Agreement before December 31, 2021 deadline
  - Take necessary steps to put City in position to execute a refinancing
  - Determine optimal mix a refinancing proceeds and fund balance to address remaining Ambac forbearance liability
  - Develop a plan of finance which will depend on factors such as the City's ability to maintain target fund balance levels, the outcome of the credit rating agency process, and market conditions

Summary

This analysis includes six modeled scenarios:

	Scenario 1 Repay Ambac 1 Year	Scenario 2 Repay Ambac 3 Years	Scenario 3 Repay Ambac 5 Years	Scenario 4 Repay Ambac 5 Years	Scenario 5 Hybrid (Higher Int Rate)	Scenario 6 Hybrid (Lower Int rate)
Ambac Agreement	No	No	No	Yes	Yes	Yes
Forbearance Repayment						
12/15/21	$26,685,178	$5,300,000	$9,980,000	$4,000,000	$4,000,000	$4,000,000
2022	-	$12,500,000	$2,500,000	$2,500,000	-	-
2023	-	$10,225,969	$6,888,906	$6,888,906	-	-
2024	-	-	$4,888,906	$4,888,906	-	-
2025	-	-	$6,255,607	$7,498,628	-	-
Cash Defease Stadium Bonds	NA	NA	NA	Approx. $4,980,000	Approx. $4,980,000	Approx. $4,980,000
Refinance Rate	NA	NA	NA	NA	4.80%[1]	3.36%[2]
PV Disc. Rate[3]	3.36%	3.36%	3.36%	3.36%	3.36%	3.36%

[1] Conservative rate based on feedback from multiple underwriting firms; rate used for multi-year planning purposes; City likely to achieve much lower interest rate

[2] Based on taxable A3 scale as of September 2, 2021 + 100 basis points

[3] PV Discount Rate equal to All-in Cost of Lower Rate scenario

Other financing assumptions: $350,000 cost of issuance; Dated date – March 15, 2022; 2032 maturity to match existing debt

Projection Assumptions

Projected fund balance based on revenue and expense assumptions in the 2021 Adopted Five-Year Plan, adjusted for the following:

1) annual debt service expenses based on the assumptions in each scenario;

2) mid-year 2021 results and revised 2021 projections;

3) beginning 2021 fund balance is net of encumbrances of approximately $2.6 million, which are assumed to carryover on a rolling basis.

Scenario 1 – Paydown Ambac Liability in One Year (no Ambac discounts)

Year	Forbearance	Series 2005 A-2	Aggregate	PV
2021	26,685,178	-	26,685,178	26,685,178
2022	-	653,705	653,705	632,455
2023	-	651,345	651,345	609,686
2024	-	647,945	647,945	586,787
2025	-	648,375	648,375	568,089
2026	-	647,276	647,276	548,690
2027	-	649,503	649,503	532,680
2028	-	650,144	650,144	515,872
2029	-	649,197	649,197	498,375
2030[1]	-	-	-	-
2031	-	-	-	-
2032	-	-	-	-
	26,685,178	5,197,489	31,882,667	31,177,810

	Proj 2021	Proj 2022	Proj 2023	Proj 2024	Proj 2025
Revenues	66,476,063	65,358,263	68,076,053	68,711,161	69,218,608
Expenses	71,026,945	71,410,122	64,417,562	65,380,019	66,885,102
Cash Surplus/Deficit	(4,550,882)	(6,051,859)	3,658,492	3,331,142	2,333,506
Ambac Repay	26,685,178				
Series 2005A2 Defease					
Subtotal	26,685,178				
Beg Fund Balance	29,531,320	(1,704,740)	(7,756,599)	(4,098,107)	(766,965)
End Fund Balance	(1,704,740)	(7,756,599)	(4,098,107)	(766,965)	1,566,541

[1] Assumes Stadium Bond Debt Service Reserve Fund is released resulting in no Net Debt Service in 2030

Scenario 2 – Paydown Ambac Liability in Three Years (no Ambac discounts)

Year	Forbearance	Series 2005 A-2	Aggregate	PV
2021	5,300,000	-	5,300,000	5,300,000
2022	12,500,000	653,705	13,153,705	12,726,108
2023	10,225,969	651,345	10,877,314	10,181,615
2024	-	647,945	647,945	586,787
2025	-	648,375	648,375	568,089
2026	-	647,276	647,276	548,690
2027	-	649,503	649,503	532,680
2028	-	650,144	650,144	515,872
2029	-	649,197	649,197	498,375
2030[1]	-	-	-	-
2031	-	-	-	-
2032	-	-	-	-
Total	28,025,969	5,197,489	33,223,458	31,458,215

	Proj 2021	Proj 2022	Proj 2023	Proj 2024	Proj 2025
Revenues	66,476,063	65,358,263	68,076,053	68,711,161	69,218,608
Expenses	71,026,945	71,410,122	64,417,562	65,380,019	66,885,102
Cash Surplus/Deficit	(4,550,882)	(6,051,859)	3,658,492	3,331,142	2,333,506
Ambac Repay	5,300,000	12,500,000	10,225,969		
Series 2005A2 Defease					
Subtotal	5,300,000	12,500,000	10,225,969	-	-
Beg Fund Balance	29,531,320	19,680,438	1,128,579	(5,438,898)	(2,107,756)
End Fund Balance	19,680,438	1,128,579	(5,438,898)	(2,107,756)	225,749

[1] Assumes Stadium Bond Debt Service Reserve Fund is released resulting in no Net Debt Service in 2030

Scenario 3 – Paydown Ambac Liability in Five Years (no Ambac discounts)

Year	Forbearance	Series 2005 A-2	Aggregate	PV
2021	8,980,000	-	8,980,000	8,980,000
2022	2,500,000	653,705	3,153,705	3,051,185
2023	6,888,906	651,345	7,540,251	7,057,986
2024	4,888,906	647,945	5,536,851	5,014,242
2025	6,255,607	648,375	6,903,982	6,049,084
2026		647,276	647,276	548,690
2027		649,503	649,503	532,680
2028		650,144	650,144	515,872
2029		649,197	649,197	498,375
2030[1]		-	-	-
2031		-	-	-
2032		-	-	-
Total	29,513,418	5,197,489	34,710,907	32,248,114

	Proj 2021	Proj 2022	Proj 2023	Proj 2024	Proj 2025
Revenues	66,476,063	65,358,263	68,076,053	68,711,161	69,218,608
Expenses	71,026,945	71,410,122	64,417,562	65,380,019	66,885,102
Cash Surplus/Deficit	(4,550,882)	(6,051,859)	3,658,492	3,331,142	2,333,506
Ambac Repay	8,980,000	2,500,000	6,888,906	4,888,906	6,255,607
Series 2005A2 Defease					
Subtotal	8,980,000	2,500,000	6,888,906	4,888,906	6,255,607
Beg Fund Balance	29,531,320	16,000,438	7,448,579	4,218,165	2,660,401
End Fund Balance	16,000,438	7,448,579	4,218,165	2,660,401	(1,261,701)

[1] Assumes Stadium Bond Debt Service Reserve Fund is released resulting in no Net Debt Service in 2030

Scenario 4 – Paydown Ambac Liability in Five Years (Ambac discounts)

Year	Forbearance	Series 2005 A-2	Aggregate	PV
2021	4,000,000	4,980,000	8,980,000	8,980,000
2022	2,500,000	-	2,500,000	2,418,731
2023	6,888,906	-	6,888,906	6,448,300
2024	4,888,906	-	4,888,906	4,427,455
2025	7,498,628	-	7,498,628	6,570,097
2026	-	-	-	-
2027	-	-	-	-
2028	-	-	-	-
2029	-	-	-	-
2030[1]	-	-	-	-
2031	-	-	-	-
2032	-	-	-	-
Total	25,776,439	4,980,000	30,756,439	28,844,583

	Proj 2021	Proj 2022	Proj 2023	Proj 2024	Proj 2025
Revenues	66,476,063	65,358,263	68,076,053	68,711,161	69,218,608
Expenses	71,026,945	70,756,417	63,766,217	64,732,074	66,236,727
Cash Surplus/Deficit	(4,550,882)	(5,398,154)	4,309,837	3,979,087	2,981,881
Ambac Repay	4,000,000	2,500,000	6,888,906	4,888,906	7,498,628
Series 2005A2 Defease	4,980,000				
Subtotal	8,980,000	2,500,000	6,888,906	4,888,906	7,498,628
Beg Fund Balance	29,531,320	16,000,438	8,102,284	5,523,215	4,613,396
End Fund Balance	16,000,438	8,102,284	5,523,215	4,613,396	96,648

[1] Assumes Stadium Bond Debt Service Reserve Fund is released resulting in no Net Debt Service in 2030

Scenario 5 – Hybrid, “Higher Rate” (4.80%) Conservative (Ambac discounts)

Year	Forbearance	Series 2005 A-2	Aggregate	PV
2021	4,000,000	4,980,000	8,980,000	8,980,000
2022	486,840	-	486,840	471,014
2023	2,559,680	-	2,559,680	2,395,966
2024	2,559,760	-	2,559,760	2,318,151
2025	2,560,880	-	2,560,880	2,243,775
2026	2,557,920	-	2,557,920	2,168,325
2027	2,555,760	-	2,555,760	2,096,067
2028	2,554,160	-	2,554,160	2,026,659
2029	2,548,000	-	2,548,000	1,956,048
2030[1]	2,547,040	-	2,547,040	1,891,748
2031	2,545,920	-	2,545,920	1,829,447
2032	2,539,520	-	2,539,520	1,765,526
Total	30,015,480	4,980,000	34,995,480	30,142,724

	Proj 2021	Proj 2022	Proj 2023	Proj 2024	Proj 2025
Revenues	66,476,063	65,358,263	68,076,053	68,711,161	69,218,608
Expenses	71,026,945	71,243,257	66,325,897	67,291,834	68,797,607
Cash Surplus/Deficit	(4,550,882)	(5,884,994)	1,750,157	1,419,327	421,001
Ambac Repay	4,000,000	-	-		
Series 2005A2 Defease[1]	4,980,000				
Subtotal	8,980,000	-	-	-	-
Beg Fund Balance	29,531,320	16,000,438	10,115,444	11,865,601	13,284,928
End Fund Balance	16,000,438	10,115,444	11,865,601	13,284,928	13,705,928

[1] Assumes Stadium Bond Debt Service Reserve Fund is released resulting in no Net Debt Service in 2030

Scenario 6 – Hybrid, "Lower Rate" (3.36%) (Ambac discounts)

Year	Forbearance	Series 2005 A-2	Aggregate	PV
2021	4,000,000	4,980,000	8,980,000	8,980,000
2022	280,206	-	280,206	271,097
2023	2,363,851	-	2,363,851	2,212,662
2024	2,364,944	-	2,364,944	2,141,724
2025	2,361,527	-	2,361,527	2,069,106
2026	2,356,232	-	2,356,232	1,997,356
2027	2,355,676	-	2,355,676	1,931,971
2028	2,349,298	-	2,349,298	1,864,106
2029	2,346,755	-	2,346,755	1,801,556
2030[1]	2,349,155	-	2,349,155	1,744,774
2031	2,346,703	-	2,346,703	1,686,293
2032	2,339,675	-	2,339,675	1,626,590
Total	27,814,020	4,980,000	32,794,020	28,327,234

	Proj 2021	Proj 2022	Proj 2023	Proj 2024	Proj 2025
Revenues	66,476,063	65,358,263	68,076,053	68,711,161	69,218,608
Expenses	71,026,945	71,036,623	66,130,067	67,097,018	68,598,254
Cash Surplus/Deficit	(4,550,882)	(5,678,360)	1,945,986	1,614,143	620,354
Ambac Repay	4,000,000	-	-		
Series 2005A2 Defease	4,980,000				
Subtotal	8,980,000	-	-	-	-
Beg Fund Balance	29,531,320	16,000,438	10,322,078	12,268,064	13,882,207
End Fund Balance	16,000,438	10,322,078	12,268,064	13,882,207	14,502,561

[1] Assumes Stadium Bond Debt Service Reserve Fund is released resulting in no Net Debt Service in 2030