

Harrisburg incinerator bail out a huge risk to Lancaster

Harrisburg charged with securities fraud in first-of-kind filing by SEC

by Bill Keisling with Robert Field

Lancaster County residents are asking whether the Lancaster County Solid Waste Management Authority's bid to buy the troubled Harrisburg incinerator makes sound business sense.

Minutes from LCSWMA's own board meetings should add to their concern.

The incinerator sale is one of the political deals designed to pay off the City of Harrisburg's and Dauphin County's \$370 million in debt and thus avoid bankruptcy court protection that would result in considerable losses to creditors.

As we wrote this past week, LCSWMA's board was told by its CEO, Jim Warner, that the \$100 million sales price of the incinerator (about \$150 million total cost) was actually negotiated by Dauphin County's commissioners. It isn't because it's a fair market price for the facility, the LCSWMA had offered \$45 million, but because it was a figure necessary to protect bond insurers stiffed by earlier bad bond deals.

A forensic audit report, state senate hearings of last year, and now this week's SEC charges show that Dauphin County and the bond industry themselves helped run up the staggering \$370 million incinerator debt. Many who were involved benefited in fees from irresponsible financing and perhaps

fraudulent bond swaps in the go-go 2000s. The incinerator and the Harrisburg Authority for decades were used as piggy banks by Harrisburg's former mayor to dole out political largesse and balance the city's general fund budget.

That's what LCSWMA's proposed bond sale is going to help pay off: bad ideas and political deals of the past.

Warner further told his board, *"the total borrowing could reach \$150 million, including 'the subordinated debt to pay off the Covanta loan; that principal will likely only be due in 20 or more years which could be another \$15 to \$20 million, putting the total debt at around \$150 million.'"*

In 2007 incinerator operator Covanta loaned the City of Harrisburg \$25 million to fix the yet-again broken incinerator. It makes no sense that Lancaster County residents be made to pay for a bad \$25 million loan made by a private company to a city in another county.

Acquiring the Harrisburg incinerator may have real merit at the original \$45 million price, a sum consistent with market value.

With a Net Worth of about \$125 million and Profit of around \$6.5 million annually, a \$45 million price was affordable. But at \$150 million, the LCSWMA is gambling with its fiscal sustainability and future county trash collection prices.

But even then to be prudent there would need to be evidence of the following:

1) Various forms of insurance coverage by approved sources that were are qualified to be re-insured by the state government. This does not appear to be the current situation for all of LCSWMA current insurance policies.

2) An independent engineering evaluation that the long mechanically troubled incinerator was now reliable. CEO Jim Warner wants the public to rely on assurances from operator Covanta which stands to recover the entire \$25 million owed it if the deal goes through.

3) An independent feasibility study projecting an attractive return on the investment.

LCSWMA claims it has performed these studies, but won't release them to the public due to a "non-disclosure agreement" with the Harrisburg Authority. The uncertainty about what was studied and by who leaves a huge credibility gap, especially for a public authority. 'Trust us' isn't good enough!

To help make the deal work at the hugely inflated price, the state will have to buy electricity from the plant at above market rates for decades to come. In short, this is the equivalent of placing a new tax on Pennsylvanians, something that Gov. Tom Corbett has vowed not to do.

The landfill around the Harrisburg incinerator is full of incinerator ash. LCSWMA's Warner says his authority will ask environmental officials for permission to dump even more ash on the site. Current research suggests the ash, generated at very high temperature, is inert and likely presents no health problems.

However, should years of rain water lead to an unanticipated problem in the future as some fear, LCSWMA would likely be responsible. In that hypothetical case, Lancaster County residents would pay the huge costs through higher trash rates to remove and bury the ash or some other form of safeguarding.

Making matters even more artificial, the Harrisburg Receiver's office says it will ask the EPA and the state Department of Environmental Protection to grant the incinerator and LCSWMA a "distressed city" exemption so LCSWMA won't have to address all environmental problems. This is another subsidy.

Based upon the information available from an uncooperative and extremely defensive LCSWMA, the entire deal as currently framed makes no prudent business sense. There is nothing per se wrong about a single entity such as LCSWMA becoming the de facto regional bulk waste disposal authority. But it should not be at the extreme risk and very possible huge loss to the residents of Lancaster County.

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