

Office of City Controller

Daniel C. Miller

10 N 2nd Street, Suite 403
Harrisburg, Pennsylvania 17101

Wanda Williams, President
Members of Harrisburg City Council
10 N 2nd St.
Harrisburg, PA 17101

September 11, 2013

Dear Ms. Williams and all Members:

As the City of Harrisburg's elected fiscal watchdog, I have read and studied the receiver's plan, and feel compelled to share some of my concerns with City Council.

Whether Council ultimately votes to support or reject the plan, it should be sure that its decision is based on a comprehensive understanding of the details and their short and long term ramifications. Council took a step in the right direction by seeking assistance from Alvarez and Marcel to conduct an independent review of the parking transaction.

One of the first questions that should be answered is whether the plan represents shared pain and shared sacrifice.

In my view, with the sale and transfer of municipally owned assets, the burden is placed disproportionately on the residents and taxpayers of the city. While it's true that the city's major creditors have agreed to accept an immediate partial payment of approximately \$210 million of the nearly \$300 million debt, the plan calls for additional distribution of future funds that will make the creditors whole.

As willing participants in the incinerator retrofit financing deal at the root of many of the city's financial woes shouldn't the plan require these creditors to make substantial concessions?

I am also uncomfortable with the plan's proposed increases in parking fees and the questionable assumptions of its financial projections.

To begin with, there has been no cost benefit analysis to determine how the increases will affect businesses and no consideration of their effect on residents, particularly low income city dwellers and elderly residents who live on fixed incomes, who find it necessary to park in one of the areas subject to the new fees.

Shouldn't we have those answers before we move forward? Shouldn't Council consider just how much additional revenue could be raised from the parking proposal if rate hikes are off-set by dramatically reduced demand?

Given the interdependence of various elements of the plan, shouldn't City Council have an independent professional Economic Impact Statement on each of the elements before approving any part of the measure?

What follows is a specific breakdown of the various elements of the receiver's plan that raise red flags, major concerns and troubling questions for me. If they also raise red flags and troubling questions for Council members, shouldn't we have answers and assurances before we proceed?

Receiver Lynch's plan dismantles city government by removing control of basic city functions from the city's residents. It reinforces the misperception that residents of a majority minority city can't govern themselves.

The city loses control of its parking assets for a minimum of 40 years, allowing others to set rates, terms and conditions.

The city loses control of the sewer and water systems, including billing and collections, with the transfer of this asset to The Harrisburg Authority.

The city's solid waste collection is outsourced.

*The plan creates a competing entity, **funded by the city**, for the purpose of economic development. However, the board is not controlled by the city and may include non-residents.*

*The plan also creates a competing entity, **funded by the city**, for the purpose of infrastructure improvement. However, the board is not controlled by the city and may include non-residents.*

Receiver Lynch's plan doesn't call for any real concessions from AGM or Dauphin County, and minimal to no concessions from others. Is that fair and shared pain?

Upon the sale of the incinerator and lease of the parking assets these major creditors get a lump sum payment and get the rest from future revenues.

Other claimants make minimal to no concessions:

CIT--\$3.5 million concession

AMBAC-no concession

MetroBank-no concession

SunTrustLeasing-no concession at this time

Covanta-what appears to be a \$16.5 million concession could be made up through grants and contracts

Receiver Lynch's plan leaves other debt issues unresolved.

The plan does not address the potential \$7.4 million annual debt service due from the City Guaranteed Harrisburg Redevelopment Authority for the Verizon building beginning in 2017.

The plan doesn't address the shortfall on stadium bond payments.

The plan doesn't contemplate the loss of parking revenue which would be due in the event of a Harrisburg University debt default.

The Receiver's plan may result in considerable liability after the sale of the incinerator to the LCSWMA.

The city is party to a long term contract that requires it to produce a minimum amount of tonnage, 35,000 tons annually at \$190 per ton, to the LCSWMA. Increases in recycling or reductions in solid waste for any other reason still leaves the city financially obligated for the contracted amount, a minimum of \$6,650,000 annually.

The Receiver's plan balances the city budget with smoke, mirrors and uncertainty.

Although recent history has proven the state subsidy to be unreliable, the plan relies on \$5 million annually from the Commonwealth.

The plan relies on \$4 million in savings from union contracts that have not yet been achieved.

Although the 100% increase in the city's EIT is only scheduled to last until 2016, the likelihood that it will become permanent can't be ignored. Other distressed communities in the Act 47 program have seen their EIT increased to 3.4% and more.

As if these issues were not troubling enough, the Receiver's plan projects very little future revenue to go to the city's general fund where the city's democratically elected officials determine the best use of this revenue for the benefit of the citizens of Harrisburg. Rather, the plan generously funds non-city controlled entities that don't answer to the residents of the city. The \$3.7 million the plan assigns for OPEB debt (retirees health insurance) is insignificant in comparison to the \$180 million unfunded liability.

Yet, none of the loss of Harrisburg's citizens' decision making powers is necessary. The monetization, refinancing, added subsidy from the Commonwealth and fee increases projected with the lease of the parking assets could all be achieved without removing them from the city's control.

In the end, the question is whether this plan is best for the citizens of Harrisburg or best for Wall Street, which enabled the city's slide into its current morass. I feel confident that City Council, in consultation with their independent advisor, will thoroughly consider all the ramifications of this plan before taking action. I am also confident that the Council's final decision will be in the city's best interest.

I also encourage Council to request a formal opinion from advisors, Alvarez and Marcel, asking if this is the best deal that Harrisburg could achieve either in or outside of bankruptcy.

I am available to assist in any way Council may find appropriate and helpful.

Best regards,

A handwritten signature in black ink that reads "Daniel C. Miller". The signature is written in a cursive style with a large, stylized 'D' and 'M'.

Daniel C. Miller

cc: William Leinberger