



**Office of the Mayor
The City of Harrisburg**

M.L.K. City Government Center
10 North Second Street
Harrisburg, PA 17101-1678

Linda D. Thompson
Mayor

(717) 255-3040

October 1, 2010

Governor Edward G. Rendell
Commonwealth of Pennsylvania
Main Capitol Building - Room 225-C
Harrisburg, PA 17120

Re: Request for Determination of Financial Distress

Dear Governor Rendell:

Attached is the City of Harrisburg's Request for Determination of Financial Distress. As the duly-elected Mayor and Chief Executive Officer of this City, and for the reasons stated herein, I respectfully seek a determination of distress from the Commonwealth of Pennsylvania.

As indicated in the attached Request for Determination, I have identified three (3) criteria as set forth in Section 201 of the Municipalities Financial Recovery Act (Act 47) that I believe are present and the reasons related thereto.

Additionally, I believe further manifestation of four (4) criteria in Section 201 of the Act is imminent and inevitable, as indicated in the Request.

As the public record indicates, this Administration attempted to hire the Chicago firm of Scott Balice Strategies (SBS) as the City's Restructuring and Fiscal Recovery Advisor. This firm was selected via a compliant public bidding process and was based on their municipal government experience and thorough comprehensive approach to restructure the City's debt and lead the City down the road to fiscal viability.

Unfortunately, despite the Commonwealth's financial support of \$850,000 in grants and loan to hire SBS, a majority of Harrisburg City Council voted down the hiring of SBS, deciding to take a different route.

Governor Edward Rendell

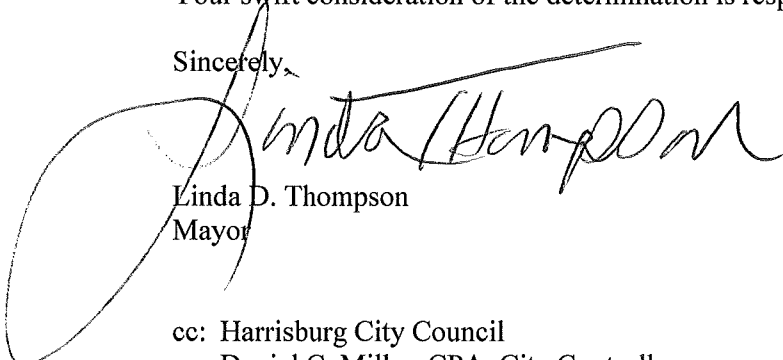
Page 2

October 1, 2010

In my opinion, the City has no more time to delay the comprehensive plan development and implementation. Recent lawsuits filed against the City regarding The Harrisburg Authority's Incinerator debt is further evidence of concern and frustration of the political stalemate that exists. As a result, I have no choice but to take this leadership move.

Your swift consideration of the determination is respectfully requested.

Sincerely,



Linda D. Thompson
Mayor

cc: Harrisburg City Council
Daniel C. Miller, CPA, City Controller
Paul C. Wambach, City Treasurer
Robert F. Kroboth, Interim Chief of Staff/Business Administrator
Philip J. Harper, Esq., City Solicitor
Beth Ann Gabler, Esq., City Clerk
Fred Reddig, Executive Director, Governor's Center for Local Government Services, DCED
Marita J. Kelley, Local Government Policy Specialist, DCED
Harry Krot, Local Government Policy Specialist, DCED
File

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF COMMUNITY and ECONOMIC DEVELOPMENT
GOVERNOR'S CENTER FOR LOCAL GOVERNMENT SERVICES

Request for a Determination of Municipal Financial Distress
Under the Municipalities Financial Recovery Act

Name of Municipality Harrisburg, County Dauphin
(City, Borough, Township)

1. Party Seeking Determination of Distress

Mayor Linda D. Thompson

2. Please identify below one or more of the criteria set forth in Section 201 of the Municipalities Financial Recovery Act that you believe are present and the reasons why you believe the municipality meets these criteria. Please include supporting data as required.

Criterion (3) – the City defaulted on certain of its guaranty obligations on The Harrisburg Authority's Resource Recovery Facility (RRF) Revenue Bonds and Notes and other related RRF debt since November 2009. See Appendix A. However, the City did meet all of its direct General Obligation Bonded Debt and Lease/Rental payments.

Criterion (5) – the City did fail to make required payments to two (2) judgment creditors after said judgments were recorded in favor of the creditors. The City and creditors subsequently negotiated payment plans in settlement of the judgments.

Criterion (9) – the City has been seeking forbearance from its guaranteed Harrisburg Authority RRF Revenue Bonds and Notes debt service payment obligations and other related RRF debt obligations, the total of which exceeds 100% of the General Fund Budget.

3. List below all judgements recorded against the municipality.

The City has various pending actions that may result in judgments against the City which are outlined in the most recent Legal Representation Letter provided to the City's independent auditor December 17, 2009. Confirmed judgments against the City include Conrail v. City of Harrisburg in which the City must pay \$300,000 in three annual installments of \$100,000, the first of which was made this year. The next includes Eichelberger v. City of Harrisburg in which the City must pay \$660,000 in two (2) annual installments of \$330,000, the first of which was paid this year.

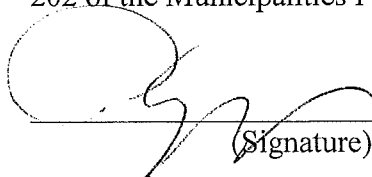
4. State below other material allegations justifying the relief afforded by this Act, or if the requesting party is a municipality, state why you believe the manifestation of the criteria in Section 201 of the Act is imminent and inevitable.
- A) Criterion (3) – defaults on future bond and note guaranty obligation payments with due dates of October 1, 2010, November 1, 2010, December 1, 2010 and December 15, 2010 in the approximate aggregate amount of \$43,561,696 are imminent and inevitable. See Appendix A.
 - B) Criterion (4) – while the City has not missed a payroll yet, such occurrence is imminent if a funding of unfunded debt or some other financing arrangement (TRAN) does not occur within the next twelve (12) to twenty-six (26) days.
 - C) Criterion (8) – without funding as described in 4.B. above, the City will likely default on making its 2010 Minimal Municipal Obligation on the Police Pension Plan due on or before December 31, 2010.
 - D) Criterion (10) – while the Thompson Administration considers bankruptcy the option of last resort to restructure the City's debt, if no other option is pursued it is likely that the filing of a municipal debt readjustment plan pursuant to Chapter 9 of the Bankruptcy Code will be inevitable.

4. State below other material allegations justifying the relief afforded by this Act, or if the requesting party is a municipality, state why you believe the manifestation of the criteria in Section 201 of the Act is imminent and inevitable..


Certification of Requesting Party.

Original signatures must be provided and the request must be duly notarized.

I (We) hereby certify that the requesting party is a party that has standing under Section 202 of the Municipalities Financial Recovery Act to seek a determination of distress.

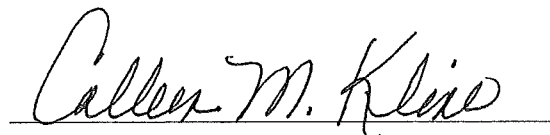
 (Signature) 10/1/2010 (Date)
Philip J. Harper (Name - Please Print) Acting City Solicitor (Title)
10 N. 2nd Street Harrisburg, PA 17101 (Address)
717-255-3065 (Telephone) 717-255-3056 (Fax)

I (We) hereby certify that I (We) have reviewed the information contained in this request and that the information provided herein is true and correct to the best of my (our) knowledge.


(Signature of Requesting Party)

Taken, Sworn and subscribed before me, this 1st day of October, 2010.

Seal



COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Colleen M. Kline, Notary Public
City of Harrisburg, Dauphin County
My Commission Expires July 4, 2014
Member, Pennsylvania Association of Notaries

APPENDIX A

THA - RRF 2010 - Estimated Payment Summary - For Discussion Purposes

Advance to Trustee	Debt Series	Guarantor(s)	Payment to Bondholder	Estimated Payment	Payment Made By:	Approx. DSRF Balance Available PRIOR to Payment?	Approx. DSRF Balance AFTER Payment?
1/1/2010	Covanta	City	1/1/2010	\$637,500	City	No DSRF	No DSRF
End of February	1998A	City	3/1/2010	\$280,085	DSRF	\$3,891,469	\$3,611,384
	2003ABC	City	3/1/2010	\$1,792,460	DSRF	\$5,408,240	\$3,615,780
4/1/2010	Covanta	City	4/1/2010	\$637,500	Unpaid	No DSRF	No DSRF
End of April	2002A	City	5/1/2010	\$425,194	AGM	\$0	\$0
End of April	2003D	City & County	6/1/2010	\$2,687,445	DSRF	\$3,151,276	\$463,831
	2003E	City & County	6/1/2010	\$322,102	County	\$0 *	\$0
	2003F	City	6/1/2010	\$314,743	AGM Surety Policy	\$369,526	\$54,783
Assured Guaranty Surety Policy							
6/1/2010	Swap Cap Fee Swaps	City & County	6/1/2010	\$284,616	County	No DSRF	No DSRF
		City & County	6/1/2010	\$519,536	County	No DSRF	No DSRF
7/1/2010	Covanta	City	7/1/2010	\$637,500	Unpaid	No DSRF	No DSRF
End of August	1998A	City	9/1/2010	\$320,085		\$3,611,384	\$3,291,299
End of August	2003ABC	City	9/1/2010	\$1,659,154		\$3,615,780	\$1,956,626
2003B (\$29.085MM) is variable rate after 6/15/2010 - Assumed at 1.5%							
10/1/2010	Covanta	City	10/1/2010	\$637,500		No DSRF	No DSRF
End of October	2002A	City	11/1/2010	\$1,215,282		\$0	\$0
End of October	2003D	City & County	12/1/2010	\$2,687,450		\$463,831 *	(\$2,223,619)
	2003E	City & County	12/1/2010	\$1,777,103		\$0 *	\$0
	2003F	City	12/1/2010	\$1,714,745		\$54,783	(\$1,659,962)
12/1/2010	Swap Cap Fee Swaps	City & County	12/1/2010	\$284,616		No DSRF	No DSRF
		City & County	12/1/2010	\$560,000		No DSRF	No DSRF
Variable-Estimate only							
12/1/2010	2003 D-1 Bonds: \$31.048 Million needs remarketed on the 12/1/2010 Mandatory Tender Date. If not remarketed, bond rate will become 10%.						
12/15/2010	2007 Working Capital Notes: \$34.685 Million matures and is due on 12/15/2010.						
TOTAL ESTIMATED PAYMENTS				\$19,394,615	(Not including maturity of Wkg. Capital Notes)		

*Trustee reports that the County is making monthly payments to fund the DSRF deficiencies.

F

Philip J. Harper, City Solicitor
Email: pharper@cityofhbg.com

Christina N. Hinkson
Deputy City Solicitor
Email: chinkson@cityofhbg.com

Jason M. Hess
Assistant City Solicitor
Email: jhess@cityofhbg.com



City Government Center
10 North Second Street, Suite 402
Harrisburg, PA 17101
Phone: (717) 255-3065
Facsimile: (717) 255-3056

Michael Brownsweiger, Paralegal
Email: mbrownsweiger@cityofhbg.com
Colleen M. Kline, Office Manager
Email: ckline@cityofhbg.com
Gina Lauffer, Legal Assistant
Email: glauffer@cityofhbg.com

City of Harrisburg Office of the City Solicitor

December 17, 2009

Maher Duessel
Certified Public Accountants
3211 North Front Street – Suite 101
Harrisburg, PA 17110
c/o Ms. Tracey L. Rash, CPA, CGFM

Dear Ms. Rash:

The Business Administrator for the City of Harrisburg has requested that the City Solicitor's Office provide you with information regarding any contingencies with respect to which this office, in-house, devoted any substantive attention on behalf of the City of Harrisburg in the form of legal consultation or representation.

I have reviewed the Law Bureau's records relevant to all legal matters that existed as of December 31, 2008 and during the period from that date to the effective date of this letter, December 17, 2009. It is my opinion that there are no existing or contingent liabilities of the City, involving amounts exceeding \$26,250 individually or in the aggregate within the definition of materially being handled in-house except for the following:

The Harrisburg Authority and the County of Dauphin v. CIT Capital USA, Inc. and Aerial Technologies of Harrisburg
U.S. Middle District Court of PA

Nature of Claim: This suit involves the retrofit of the Harrisburg Resource Recovery Facility, and a loan obtained by The Harrisburg Authority from CIT to fund the completion of the retrofit. To date the City has not been named as a party.

Herre Borthers, Inc. & Joseph Strong, Inc. d/b/a Strong Fire Protection & H&R Mechanical, Inc. v. City of Harrisburg & Pennsylvania Commerce Bancorp, Inc.
Dauphin County Court of Common Pleas

Nature of Claim: This suit involves the filing of mechanics' liens by contractors engaged in the Capital View Commerce Center project for which the City served as the pass-through for

HUD and Commonwealth loan and grant funding. The contractors are seeking the release of monies to the contractors for work performed on the project.

Progress on the Case: To date, the case is progressing through litigation. The litigation has been stalled because the developer, who is at the center of this litigation, has filed bankruptcy on behalf of himself individually and on behalf of two entities which he created to manage the project.

Management's Response: The City has responded with a vigorous defense to the allegations alleged in the Plaintiffs' complaint.

Likely Outcome: The City does not expect an unfavorable outcome as financial audits have determined that the City acted in accordance with Federal and State requirements regarding the disbursement and funds throughout the term of the project.

Eichelberger v. City of Harrisburg

Dauphin County Court of Common Pleas

Nature of Claim: This suit involves a de facto taking of property at 157 Paxton Street arising from the City's economic development and transportation project commonly known as Southern Gateway. Plaintiff is seeking the payment of just compensation.

Progress on the Case: A determination that a de facto taking of the property has been made by the court and a determination of just compensation is being made at this time.

Management's Response: The City selected a preferred plan for the Southern Gateway that requires the condemnation of the subject property. The City must pay just compensation and is attempting to release already allocated Federal Highway Administration funding to either pay the just compensation or reimburse the City after payment is made.

Likely Outcome: The City will pay just compensation once an amount is determined by the court. Since the City will receive the real estate in fee simple in exchange for the payment of just compensation the potential overall loss to the City is limited to attorneys' fees and other costs associated with the litigation estimated to be \$75,000 - \$100,000.

Handwerks v. City of Harrisburg

Dauphin County Court of Common Pleas

Nature of Claim: Handwerks is a paving contractor that conducted a major street paving project in the City in 2008. Handwerks is seeking a price escalation from the City over the agreed upon contract price.

Progress on the Case: The case is in the early stages of litigation.

Management's Response: The City has filed preliminary objections to the Plaintiff's complaint asking that the complaint be dismissed for failure to state a claim.

Likely Outcome: The City believes the outcome will be favorable as the contract did not provide for a cost escalation and applicable PennDot regulation do not presume a right to cost escalation due to the funding source used to fund the project. Handwerks is seeking \$250,000 plus costs.

Dauphin County v. The Harrisburg Authority and City of Harrisburg

Dauphin County Court of Common Pleas

Nature of Claim: Dauphin County seeks reimbursement for the payment on its guarantee of the 2003 Series D SWAP.

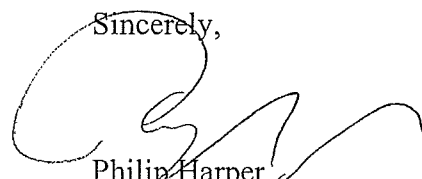
Progress on the Case: The case is proceeding through litigation and is currently in the discovery phase.

Management's Response: The City's elected officials and management are exploring options to deal with Resource Recovery Facility debt to include resolution of this reimbursement.

Likely Outcome: It is desired that a settlement can be reached that makes the County whole and addresses the future debt service obligations of The Harrisburg Authority. Possible exposure exceeds \$775,000 plus costs.

Finally, to the best of my knowledge, there exists one possible unasserted claim. It is my belief that the County of Dauphin will claim additional reimbursements for payments on its guarantees of the 2003 Series D and E bonds which payments were made December 1, 2009. The potential loss amounts to \$1,507,467 plus costs. Finally, this will confirm as correct the City's understanding, as set forth in its audit letter to the City Solicitor, concerning the duties of disclosure and the applicable requirements of Financial Accounting Standards No. 5 contingencies.

Sincerely,



Philip Harper
Acting City Solicitor

Cc: Robert F. Kroboth
William Leinberger