



The Honorable Linda Thompson
City of Harrisburg
10 North Second Street, Suite 402
Harrisburg, PA 17101

Dear Mayor Thompson:

I am responding to the letter from Solicitor Hess, dated November 8, 2011, referencing the Consent Agreement and stipulations and concessions you are seeking from Assured Guaranty.

I am disappointed by the actions taken by the Harrisburg City Council to propose an unworkable solution to address the City's outstanding debt obligations. These actions further underscore City Council's continuing unwillingness to negotiate in good faith. Assured Guaranty spent almost four hours in discussions with you, and City Council members on Monday, November 7th, regarding the Act 47 plan and Assured Guaranty's possible concessions toward the \$26 million of "stranded debt" only to be presented with a consent agreement asking for \$100 million in additional "concessions." There is absolutely no rationale for a \$100M concession which you acknowledged in your interviews after the session with City Council on Monday night. The additional limitation requiring compliance with Resolution 25 of 2010 (a resolution establishing conditions to and procedures for the sale or lease of City Assets) is yet another obstacle to achieving the best possible sale price outcome.

Assured Guaranty has attempted for over two years to reach a viable solution with absolutely no cooperation from City Council. Unfortunately, certain Council members declined at every meaningful juncture to work cooperatively. Even in our meeting this week, they and their counsel continue to blame Assured Guaranty for the City's financial situation, even accusing our company of making millions off the transaction. These allegations are made notwithstanding the substantial involvement and acceptance of these obligations by the prior administration and City Council. Let me reiterate, Assured Guaranty was approached by both the City and the Authority in 1998 to provide insurance for the City's guaranteed Resource Recovery Facility (RRF) debt obligations that were already structured by the Harrisburg Authority, for a total one-time premium of approximately \$3.8 million. Through November 1, 2011, Assured Guaranty has paid \$6.7 million on behalf of the City of Harrisburg (not including substantial legal fees incurred to date as well). While we are entitled and expect to be repaid the \$6.7 million we have advanced to date, we have offered in connection with the Act 47 plan other concessions well in excess of our premiums. We estimate that our guaranty initially saved the City over \$13 million in financing costs and represents a substantial benefit that Harrisburg has already received.

Assured Guaranty was induced to insure the RRF bonds based on the City's unlimited and unconditional promise to support the bonds with its guaranty. The City guaranty is a full faith and credit general obligation of the City. This means that the City promised to pay the RRF bonds from all of its available resources, including a legal obligation to levy ad valorem taxes in amounts sufficient to pay debt service on the RRF bonds when due. Assured Guaranty relied on the City's full faith and credit and its promises to pay the bond obligations if the Authority did not. The City has not only failed to honor its obligations, but it has continued to pay other GO debt holders in full while failing to budget for and to pay its obligations relating to the RRF bonds.

It is disappointing that certain City Council members seek to shift blame to Assured Guaranty that squarely belongs to the City and Authority for their mismanagement of the RRF project. Other than providing the City and Authority with access to low cost funding, Assured Guaranty played no role in the underwriting or structuring of the RRF transaction and had no responsibility for selecting the contractor that ultimately failed to complete the RRF project or managing the construction process that resulted in significant cost overruns.

Assured Guaranty has worked and will continue to work with interested parties who seek viable and realistic solutions to the complex issues facing the City, however, the unreasonable stipulations and concessions presented in the Consent Agreement would make such a viable and realistic solution unreachable.

Sincerely,



Holly Horn

Chief Surveillance Officer Public Finance

Assured Guaranty

Cc: Jason M. Hess, Acting City Solicitor
Frederick Reddig, DCED