From: Papenfuse, Eric
Sent: Friday, January 30, 2015 11:49 AM
To: Reddig, Frederick
Subject: Verizon Settlement Agreement

Shortly before noon today, I shall be signing the Verizon Tower Settlement Agreement. I do so, not because I think it is a good enough deal for the residents of Harrisburg, but because I feel the consequences of not signing it would be worse. Over the past 72-hours I have been under enormous pressure by members of your team and others to sign the documents associated with this settlement without doing my due diligence or even reading the associated contracts. I began by carefully scrutinizing the documents associated with the 1998 Bond transaction, materials it was suggested that I ought not read, and found them horribly negligent. Then, on Wednesday, I reviewed for the first time materials such as the DGS lease and the energy modernization agreement, which no other elected official associated with the City of Harrisburg had reviewed, and found them, in my judgment, not to have been negotiated with the City's best interests sufficiently at heart. On Thursday, I questioned HDC about their operating expenses, which in my judgment are too high, and, among other threats from member s of your team, was told that if I didn't sign anyway the City would lose its 5-million per year in state funding. To the Wolf Administration's great credit they immediately squashed that unauthorized representation.

The fundamental problem with the settlement agreement is that not enough money from the nearly 4-million-dollar-per-year DGS lease is being used for debt service on the 1998 bonds. As a contribution toward the City's 42-million-dollar-obligation, the DGS minimum allocation toward debt service is only 11 million, ranging from an anemic $500,000 to an equally disappointing $750,000 each year for the next 18 years. As a point of comparison, over $800,000 per year in operating expenses is going toward paying for 25% of the maintenance for the common areas in Strawberry Square, and if any savings are achieved there through belt-tightening, such savings, under the lease terms, will pass back to the Commonwealth and HDC and not be used by the City for debt service. The agreement's minimum allocation for 1998 debt service, as you know, decreased over the course of your negotiations at the same time that evidence from the Parking Transaction began to mount that the City would receive significantly less from waterfall payments in future years than the Strong Plan had originally anticipated. A recalibration of the Verizon Tower settlement agreement's objectives by your team should have occurred at that time. Instead of lobbying AGM to let the city have the option to borrow even more money (2.7 million) at over 6%-interest per year, the focus should have been on increasing the debt service allocation to make up for the parking shortfall. That would have meant renewed scrutiny of the DGS lease and modernization contracts, neither of which – it pains me greatly to admit – I am able to alter at this time.

As my conversations with yesterday revealed, DGS feels they have been overcharged for years by HDC and this is their opportunity, in some respects, to make up for those other transactions. HDC also indicated yesterday that they felt the taxes were too high on the tower and would look to appeal them. Neither calculation has the City's long-term interests at heart, which is, in part, why there should have been greater public scrutiny of the settlement's underlying assumptions. But, perhaps most importantly, at the heart of this deal there never should have been an expensive, multi-million-dollar energy modernization project that was NOT PUBLICLY BID. The settlement agreement became suspect, in my opinion, the minute the State told HDC that they must use one particular company, rather than bid the project. Having spoken with the new DCED Secretary this morning, I know that such a “gift” would never occur under Governor Wolf’s watch. A less-expensive, less-ambitious energy project may have meant more money for debt service payments.

This settlement agreement, which I am about to sign, fundamentally means that the City’s debt load is maxed out through 2033. That, ultimately, is the continuing legacy of Mayor Stephen Reed. The City is certainly better for the new state workers and parkers moving downtown, which is why I am signing this agreement today. And it should be noted that our Solicitor has also gone to great lengths to preserve the City’s right to contest the legitimacy of the original 1998 bond transaction. While I cannot yet prove fraud, I have enough concerns about the legitimacy of the self-liquidating debt report and associated legal opinions that I will be turning over everything to the Attorney General’s Office for consideration as a part of their ongoing criminal investigations.

Yours sincerely,

Eric Papenfuse | Mayor of the City of Harrisburg
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