COUNCIL OF THE CITY OF PHILADELPHIA

COMMITTEE ON FINANCE

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Room 400, City Hall
Philadelphia, Pennsylvania
Wednesday, April 19, 2006
10:30 a.m.

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PRESENT:
COUNCILWOMAN JANNIE BLACKWELL, CHAIR
COUNCILMAN FRANK DiCICCO
COUNCILMAN W. WILSON GOODE, JR.
COUNCILMAN JAMES F. KENNEY
COUNCILMAN JUAN RAMOS
COUNCILWOMAN BLONDELL REYNOLDS BROWN

BILL 050188 - An ordinance amending Title 19 of The Philadelphia Code, entitled "Finance, Taxes and Collections," by creating a Rainy Day Fund to cushion the impact of unanticipated declines in City revenues...

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COUNCILWOMAN BLACKWELL: Good morning. Thank you for coming to today's Finance Committee hearing regarding Bill No. 050188 authorizing the City to establish a Rainy Day Fund.

I'd like to acknowledge the presence of Councilman Goode, Councilman Kenney and to let you know the others are on their way.

We will now ask the Clerk to read the title of Bill 050188.

THE CLERK: Bill No. 050188, an ordinance amending Title 19 of The Philadelphia Code, entitled "Finance, Taxes and Collections," by creating a Rainy Day Fund to cushion the impact of unanticipated declines in City revenues; providing for the circumstances under which City monies must be deposited into the Rainy Day Fund and the circumstances under which expenditures may be made from the Rainy Day Fund; and providing for the custody and management of the Rainy Day Fund; all under certain terms and conditions.

COUNCILWOMAN BLACKWELL: Thank you very much.

Scheduled to testify today are Brett Mandel of Philadelphia Forward, Nicole Westerman, Chief of Staff to the Pennsylvania Secretary of the Budget, and Jessalynn Moro, Senior Director of Fitch Ratings.

Before I call on our first witness, I'll ask Councilman Kenney to make a few comments regarding the bill, and I would also like to acknowledge the presence of the Vice-Chair, Blondell Reynolds Brown.

Councilman Kenney.

COUNCILMAN KENNEY: Thank you, Madam Chairperson.

I want to thank you, Majority Leader Blackwell, for scheduling this hearing, and I want to thank you all for coming today.

Today's hearing is the first of two on the issue of establishing a Rainy

Day Fund and will address the concept of these types of funds. The next hearing on this bill will address the specifics of implementing a reserve fund here in Philadelphia.

As we all know, loss of revenues and increases of expenditures can create serious short-term deficits. In turn, the City can be forced into choosing between raising taxes and cutting services, which would further impair the City's ability to attract and retain businesses and jobs.

Furthermore, deficits damage the City's credit worthiness and increase the cost of borrowing for essential capital projects. Therefore, the City should establish a Rainy Day Fund to curtail revenue shortfalls and deficits, provide greater continuity and predictability in the funding of vital government services and minimize the need to increase taxes to balance the budget.

I'd like the Chair and the

people here to know today that I've had some discussions with the Mayor. The Administration is interested in implementing some type of fund, and the time between this hearing and the next hopefully we'll be negotiating some amendments or changes that will be satisfactory. The Administration would get us where we need to be as a government with the establishment of the fund.

So I want to thank you for your scheduling this hearing for me and look forward to the testimony.

COUNCILWOMAN BLACKWELL: Thank you, Councilman Kenney.

We would like to invite Brett Mandel of Philadelphia Forward to come forward and testify first.

Again, we thank you all for coming, and as he's coming, we congratulate him, as he is a new father, and nothing could be more rewarding.

MR. MANDEL: Thank you so much.

COUNCILWOMAN BLACKWELL: Please identify yourself for our record and then feel free to begin your testimony.

MR. MANDEL: My name is Brett Mandel and I'm the Executive Director of Philadelphia Forward.

Madam Chair and members of City Council, thank you for providing this forum to discuss a Rainy Day Fund for the City of Philadelphia. I come to speak in favor of this concept.

Anyone who creates a budget, whether it is for a household or for a major city, understands that it is prudent to save money when one can to create a reserve for when times are not so good. From the fable, we are warned to be like the ant that works all summer to save food for the long winter instead of the grasshopper that plays in the sun and then faces the cold with bare cupboards. Our celebrated founding father tells us that "a penny saved is a penny earned."

More than a decade ago, Philadelphia was on the brink of bankruptcy, but with tremendous discipline and good fortune, the City built a fund balance surplus of $300 million by 2000. Unfortunately, like that grasshopper, we spent away that surplus and promptly flirted again with fiscal crisis without pennies earned or saved.

It is past time that Philadelphia join the many other states and cities that have a Rainy Day Fund to help discipline spending when times are good and provide reserves that prevent unwise cuts when times are not so good. The vast majority of states have established Rainy Day Funds or similar revenue-stabilization mechanisms. In addition, many cities, including New York City, Houston, Detroit, Baltimore and San Antonio, have similar funds. Throughout the country, Rainy Day Funds provide governments with important budgeting flexibility during difficult economic times.

In Philadelphia, the establishment of a Rainy Day Fund could provide the City with fiscal discipline. By restricting the use of some surplus funds, the City will be less able to expand frivolous spending in times of plenty and better able to weather a slow economy. Such a move would also improve the City's bond rating, which will reduce the cost of City borrowing.

Additionally, the move could help eliminate one of the more frustrating two-steps of the City's annual budget dance. While many of the assumptions made in creating the budget turn out to be darn close to the reality that unfolds during the actual fiscal year, some of the predictions made in the budget inevitably turn out to be wrong. While it is always better to be conservative, each year in recent memory, the City Administration has systematically underestimated the amount it will generate in local tax revenues. While those underestimated funds have materialized, the City Administration has used the additional funding to spend on priorities that were never part of the enacted budget, often after arguing against other policy prescriptions, saying the City could not afford them. A Rainy Day Fund would discourage the systematic underestimation of revenues, which should yield a more transparent budget process and an improved debate about the City's spending priorities.

With the City once again enjoying the relative prosperity of a budget surplus, it is time that we create a Rainy Day Fund as a mechanism to enforce budgetary discipline so that we emulate the ant who saved during the summer months. The pennies we save will earn the thanks of Philadelphians in future years who will be better prepared to deal with the inevitable coming of winter.

COUNCILWOMAN BLACKWELL: Thank you very much.

MR. MANDEL: I'm certainly happy to offer myself as a resource now or in the future as we continue the discussions on this concept and answer any questions.

COUNCILWOMAN BLACKWELL: Thank you. I have a few questions, but we would like to note the presence of Councilman Frank DiCicco. And so the Chair notes we do have a quorum.

Mr. Mandel, if we were to enact this legislation, would deposits to the fund be required for Calendar Year '06?

MR. MANDEL: I believe so, if the tax revenues exceed what has come in.

Councilman, I'll ask for your guidance.

COUNCILMAN KENNEY: Again, Madam Chair, I think it will have to do with negotiations between the Council and the Administration relative to the time of its coming into effect and which fiscal years it affects and how it affects the Five-Year Plan. The intention was for it to happen for 2007, which is the budget we're considering now, but I don't know if that's going to be the case by the time we pass the budget. So I guess it will have to do with the timing of when the bill is passed.

COUNCILWOMAN BLACKWELL: I understand.

COUNCILMAN KENNEY: Thank you.

COUNCILWOMAN BLACKWELL: How do other cities and states fund their Rainy Day Fund?

MR. MANDEL: There are a variety of mechanisms that we've seen. When I was with the Controller's office and we looked at this in depth, there are some that explicitly in their governing document, like their City Charter, basically mandate that if more money comes in from certain resources, whether it's local tax revenues or all other resources, a percentage of that has to go into a Rainy Day Fund, or if some money is left unspent, a portion of that money has to go into a Rainy Day Fund.

Other cities that have decided not to make that part of their governing document, like in New York City, have essentially a legal deal made between the Mayor and City Council that says every year we're going to take whatever else we didn't spend and put some of it towards buying --

COUNCILWOMAN BROWN: Point of information. What kind of deal?

MR. MANDEL: New York City has, I believe, what they call a revenue-stabilization account, where it's not that the Charter says you must do X, Y, Z, but that there's been a legal deal crafted between the Council President and the Council and the Mayor that says we will do this if this happens. If we have extra revenue, we will use it to -- I believe in New York they pay down some debt and set aside some.

COUNCILWOMAN BROWN: Thank you.

MR. MANDEL: So you can mechanically make it part of the law, the Charter, and say this is what has to happen. You can make it part of a flexible agreement. I believe that what is placed before you would not change the Charter in Philadelphia, but create a rolling "each year we will do this" kind of process. Certainly in the future, you could amend the Charter to make that happen. As I said, a number of states, a number of cities have it as part of governing documents. Others just make it part of annual practice.

COUNCILWOMAN BLACKWELL: Under this bill, deposits are required if the Rainy Day Fund falls below five percent of the three-year average of General Fund expenditures. Is it this way, in your opinion, in most of the other places you referenced in your remarks?

MR. MANDEL: Again, there are a variety of different ways to do it. I think a five percent target apparently is a good one. The people from Fitch here can certainly talk about what would impress them or not impress them. If one of the goals of this is to make sure that Philadelphia's budget practices are favorable to the eyes of rating agencies, I would trust what they have to say much more than any percentage that I pick. But five percent seems to be a pretty good goal.

COUNCILMAN KENNEY: Point of information.

COUNCILWOMAN BLACKWELL: Councilman Kenney.

COUNCILMAN KENNEY: Madam Chair, in the bill as it exists now unamended, it calls for a 25 percent of unanticipated revenues for the fiscal year ending the previous June 30. So 25 percent of what came in over and above what we anticipated to take in. And then

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also 25 percent of the General Fund balance existing on the previous June 30. So whatever balance was available; for example, the projected balance of here's the 168 million, 25 percent of that would be put in also.

And then there are rules as relative to the expenditure of those funds, which are enumerated again unamended in this particular bill, but I suspect that there will be some changes to both the percentage and any other triggers.

COUNCILWOMAN BLACKWELL: I see. How does PICA fit into this?

COUNCILMAN KENNEY: We have not heard from PICA on this yet. I would anticipate, based on PICA's previous history, that they would be supportive of this type of savings plan in an effort to maintain the City's fiscal stability and be able to pay bond holders and the other things.

I mean, again, it's probably

more effective in times when we're doing better. Again, if we have a year where anticipated revenues fell short -- I mean, actual revenues fell short of anticipated revenues, we wouldn't put anything in the fund, because we'd be in a situation where we'd have to make spending choices and cuts potentially. In the good years when we can save a little money, that would hopefully offset any downturns in the economy that we would experience.

MR. MANDEL: And I would just clarify, I was speaking the five percent would be what the overall Rainy Day Fund would represent in terms of the budget. You can pick the percentage in terms of if we're above this, more goes in, less goes in, it's a flat amount, but the overall aspiration, apparently five percent is a pretty good number that our overall Rainy Day Fund should probably not be much more than $150 million, $175 million.

COUNCILWOMAN BLACKWELL: And we're talking about a two-thirds vote of Council as opposed to a simple majority because of the nature of the bill, I assume.

Only two more questions. Under this bill, under Bill No. 050188, drawdown requires two-quarters of job loss, one; a one percent shortfall in anticipated revenues for the year, two; or an unanticipated emergency. Is this the way most other states have done it, and how do they spend these dollars? Do they just go into our General Fund, and how do you perceive it working for us?

MR. MANDEL: Again, there's a variety of ways to do it. Certainly it's not uncommon for other states or cities to have a trigger that says only under these certain conditions. The creation of some kind of emergency provision is certainly common. You would not want to totally tie the hands of officials. If, God forbid, there was some crisis that the citizens and City Council were crying out to do something with this money, you would want the ability to do that. It's good, though, to have some kind of objective standard so that you can turn to to say, We have had X number of quarters of job loss or we have seen revenues dip; therefore, we can tap in the Rainy Day Fund.

COUNCILWOMAN BLACKWELL: So I assume we're still working on the fail-safe provisions as we work with the Administration.

COUNCILMAN KENNEY: Madam Chair?

COUNCILWOMAN BLACKWELL: Yes. Councilman Kenney.

COUNCILMAN KENNEY: PICA's involvement probably will be removed in a formal way, because in order to do that, we'd have to change the Charter to formalize their involvement. Certainly PICA's advice would be sought and also the advice of other fiscal experts within the City government, outside the City government, but ultimately I think it's our decisions, the Council along with the Administration, to make the decision on whether or not to spend it, which would create a requirement for two-thirds vote. The money would be segregated in a separate account with the City Treasurer identified as a Rainy Day Fund and kept separately and invested separately. So it wouldn't be part of the overall General Fund.

COUNCILWOMAN BLACKWELL: Thank you.

Are there further questions from members of the Committee?

(No response.)

COUNCILWOMAN BLACKWELL: All right. We thank you very much, Mr. Mandel.

MR. MANDEL: Thank you.

COUNCILWOMAN BLACKWELL: Next, Nicole Westerman, Chief of Staff to Secretary of the Budget.

Welcome. Please identify yourself for our record and begin your testimony.

MS. WESTERMAN: Good morning. My name is Nicole Westerman. I'm the Chief of Staff to the Secretary of Budget of the Commonwealth of Pennsylvania, Secretary Michael Masch.

Good morning, Chairwoman Blackwell --

COUNCILWOMAN BLACKWELL: Good morning.

MS. WESTERMAN: -- members of the Committee and other Councilmembers. Thank you for inviting me to testify here today.

As you consider your own bill for a Rainy Day Fund, I'd like to tell you about the Rainy Day Fund of the Commonwealth of Pennsylvania. First I'll give you just a brief description of the fund. Then I'll describe the reasons that the fund was created in Pennsylvania. Then I'll describe the law that has established the Rainy Day Fund. I'll provide a little bit of historical background. And I'm going to conclude by telling you about the status of the Rainy Day Fund today.

The Commonwealth of Pennsylvania has had a statutorily created Rainy Day Fund since 1985. The current fund is called the Budget Stabilization Reserve Fund and is intended to ultimately be funded in an amount equal to six percent of General Fund revenues. Each year, 25 percent of the General Fund surplus is transferred into the fund. Any use of money from the fund has to meet statutory conditions. Any specific use must be proposed by the Governor and approved by two-thirds of each chamber of the General Assembly.

Funds have been withdrawn twice in the life of the fund. On both occasions, the entire balance -- ordinarily the entire balance was used. Since 1985, the all-time balance of the fund has been $1.13 billion in FY2001. The current balance is about $334 million. We expect to make a $68 million deposit into the fund after the close of the fiscal year.

Now I'd like to tell you about the original purpose of the Rainy Day Fund as expressed in the original statutes in 1985.

As expressed in that statute, the findings were as follows --

COUNCILWOMAN BLACKWELL: That's '85, you said?

MS. WESTERMAN: 1985.

COUNCILWOMAN BLACKWELL: Thank you.

MS. WESTERMAN: First, economic uncertainty arising from national and international events over which the Commonwealth cannot exercise control impairs the ability of the Commonwealth to accurately predict its anticipated revenues and expenditures.

Second, overestimates of

revenues and underestimates of expenditures can create serious short-term deficits that generate the need for deficiency appropriations and tax increases.

Third, financing short-term deficits created by economic uncertainty in the past has led to excessive tax increases and erratic changes in tax rates and policies that impaired the attractiveness of this Commonwealth as a location for job creation and business expansion.

Fourth, recurring deficits occurring during economic downturns can damage the credit worthiness of the Commonwealth and increase the cost of borrowing for essential capital projects.

Finally, the need to cope with problems arising from the effect of economic uncertainty has often caused lengthy delays in adopting a budget for the Commonwealth, caused cut-offs of vital public programs and endangered the stability and reliability of vital public services and programs.

The conclusions of the statute were as follows: That it is a valid and proper public function to set aside a portion of Commonwealth revenues into a fund in order to, first, minimize future revenue shortfalls and deficits; second, provide greater continuity and predictability in the funding of vital government services; and, third, to minimize the need to increase taxes to balance the budget of the Commonwealth during periods of economic distress.

Now I'm going to describe the current law of the current Rainy Day Fund of the Commonwealth.

The intent, as I noted, was to create a reserve in an eventual amount of six percent of the revenue of the General Fund of the Commonwealth. Funding is as follows: In any year in which there is a surplus in the General Fund, 25 percent of the surplus shall be deposited by the end of the next succeeding quarter into the fund. If at the end of any fiscal year the ending balance of the fund already equals or exceeds six percent of actual General Fund revenues, 10 percent of the surplus rather than 25 percent shall be deposited into the fund. And, importantly, the General Assembly may at any time provide additional amounts from any funds available to the Commonwealth as an appropriation to the fund.

Use of the funds have the following conditions: Money should be appropriated only when emergencies involving the health, safety or welfare of the residents of this Commonwealth or downturns in the economy resulting in significant unanticipated revenue shortfalls cannot be dealt with through the normal budget process.

Also, money shall not be used to begin new programs, but to provide for the continuation of vital public programs in danger of being eliminated or severely reduced due to financial problems resulting from the economy.

When the Governor determines an appropriation from the fund is necessary because the above conditions are met, the Governor shall present a request for an appropriation, along with the specifics of the proposal and suggested legislation to the Chairs of the Appropriation Committees of the Senate and the House. The General Assembly may then, through approval of a separate appropriation bill by a vote of two-thirds of the members of each chamber, appropriate money from the fund to meet the needs identified in the Governor's proposal. Any appropriations that lapse shall be returned to the Rainy Day Fund.

Now I'd like to just give a little bit of historical background, as there have been a couple of different iterations of the fund since 1985.

As I noted, in 1985, statute established what was called the Tax

Stabilization Reserve Fund. The intent was a reserve in an amount not to exceed three percent of estimated revenues of the General Fund. The General Assembly could appropriate money from any fund to the Reserve Fund. However, the important thing to note is that the Commonwealth was not required to make any deposits at all into the fund.

There was a two-thirds approval vote required to access the funds, and the same restrictions on the use of the funds applied then as they do now.

During the seven years when contributions to the fund were not mandatory, it should be noted that there were five consecutive years of contributions, followed by two years when there were no contributions at all.

In 1991, legislation was passed requiring 10 percent of any ending balance in the General Fund to be transferred to the reserve by the end of the succeeding quarter. Five years later, in 1996, the required transfer was increased from 10 percent to 15 percent.

In 2002, the Tax Stabilization Reserve Fund was repealed and was replaced with the current reserve, which is called the Budget Stabilization Reserve Fund. As previously noted, the current target reserve is six percent rather than three percent, and the required transfer is 25 percent of the year-end balance rather than the 15 percent.

Finally, I'm going to talk a little bit about the current status of the fund.

Reserves were built up substantially during the latter part of the 1990s and they peaked at over a billion dollars in FY2001. The fund was depleted in order to balance the FY2003 General Fund budget of the Commonwealth.

It should be noted that the funds were not appropriated through two-thirds vote of the General Assembly.

Rather, the Tax Stabilization Reserve Fund was repealed so that the balance reverted to the General Fund. Then the current Budget Stabilization Reserve Fund was created.

The current balance of $334 million is about what it was between FY1997 and FY1998. It is about 1.4 percent of current year revenues.

Some rating agencies recommend that reserves of at least five percent of annual revenues be held in a Rainy Day Fund. To meet this threshold, the Commonwealth would have to increase the fund balance to $1.3 billion, an increase of nearly a billion dollars from where we are now.

While the entire Rainy Day Fund was used in one year to balance the FY2003 budget, the recession that spurred the use of those funds affected the Commonwealth severely for three years. When Governor Rendell entered office, he faced a $2.4 billion deficit in FY2004, but there were no longer any funds left in the Rainy Day Fund to help him close that gap. Governor Rendell was required, therefore, to make painful budget cuts, such as cuts in the library funding to the City of Philadelphia, that the previous Administration had been able to avoid.

So while it is a priority to continue to grow the Rainy Day Fund, it is also important to remember that the Rainy Day Fund is no substitute for prudent fiscal stewardship and, when necessary, the responsibility to make tough decisions to develop and implement a balanced budget.

Thank you again for inviting me to speak here today.

COUNCILWOMAN BLACKWELL: Thank you very much.

The Chair notes that Councilman Juan Ramos is here. We know they had a Gas Commission hearing prior to this hearing.

Are there questions for Ms. Westerman?

(No response.)

COUNCILWOMAN BLACKWELL: Thank you very much. That was important testimony.

Ms. Jessalynn Moro, Fitch Ratings, Senior Director.

Thank you very much for coming. Please identify yourself to the record and begin your testimony.

And the Chair notes for members of the Committee that we do have information in your packet this morning.

Thank you.

MS. MORO: Thank you for having me. My name is Jessalynn Moro and I'm a Senior Director at Fitch Ratings and I'm responsible for local tax-back credits in the northeast region, including the City of Philadelphia, and I'll be speaking today from a report I had provided called "The Bottom Line, Local General Government Reserves and the Policies that

Shape Them." This is a report that Fitch published in 2005 speaking to Fitch's perspective on reserve funds and providing some examples of reserve funds across the country and how other local governments approach these types of issues.

If I can, I'm going to read the summary and then I'm going to speak off of the paper a bit just to speak generally about our position. And I think it's important to remember that, again, I work for a rating agency and my position is really only how the reserve funds are regarded when it comes to the rating itself, but happy to answer any questions.

In Fitch Ratings' November 12, 2002 report "The 12 Habits of Highly Successful Finance Officers," which discussed the importance of management practices to credit ratings, Fitch identified the establishment and maintenance of operating reserves as a key element in its analysis of local governments' credit quality. This follow-up report expands on Fitch's view of appropriate reserve levels and the policies that shape them.

In an analysis of an issuer's financial flexibility, Fitch reviews the level of reserve funds maintained, typically in the form of fund balance; the level of reserve funds in proportion to tax-supported spending responsibilities including debt service; and the liquidity and availability of such funds.

Policies driving reserve levels often are just as important to Fitch as the reserves themselves. Gaining a clear understanding of the reserve policy, how the policy was created, and the longevity over which it is applied and adhered to, or institutionalized, can provide insight into an issuer's ability and willingness to pay debt service.

The best reserve policies

provide both specificity and flexibility, accomplishing one or more of at least three main criteria: Establishing a target level of reserves, or a reserve floor; specifying the appropriate circumstances for drawing down those reserves; and directing the replenishment of reserves.

So that's just a summary of the report and some of the things we focus on. Now I'm going to go through some of the criteria, the first of which is a reserve floor, and this is the most basic element of any fund balance or reserve policy whereby the governing body decides what level of reserves is appropriate for that governing body. And the size of that reserve -- I know I heard the number five percent before. That's a fine number. We don't really prescribe what that percentage should be. What's more important is for the local government to come up with a number or a percentage preferably that really helps to offset some of the risks associated with the credit. Again, speaking just from the rating's perspective. So you can have a triple A rated credit that has a five percent reserve and you can have an A minus rated credit with 25 percent reserves because of the other risks associated with that credit.

So it's really important to establish a reserve target that is appropriate for you based on how you view your risk profile and your cash flow needs and the other things you're dealing with.

And as far as the reserve floor is concerned, what we really like to see and what I'm hearing today is the direction you're trying to go, is a reserve as a percent of the budget. And how we look at it is as a percent of expenditures. And typically I'm talking about the General Fund.

Finally, the way that we measure these reserves is often by looking at an audit and by looking at the fund balance, and it's important not only to look at that number, but also to look at the cash that the issuer maintains to see if that reserve is actually liquid or if much of it is tied up in receivables and not really available if times got tough.

The next level of detailed reserve policies will have guidelines by which the reserves can be drawn down, and the most acceptable use of these reserves, again, from a Fitch Ratings' perspective and as it pertains to the rating, is for non-recurring revenue. So equipment or one-time capital expenditures, these are the types of expenditures that we typically like to see the fund balance be drawn down for. And when it's included in the reserve policy what types of expenditures are acceptable, it really creates a first offense against deficit spending. And we all know that deficit spending can be pretty detrimental to the rating, especially if it's carried out over a period of time.

And the other piece of information that's important to Fitch when you're talking about drawing down the reserve is having some agreement by the leadership whereby the strongest policies that we see require some sort of majority vote of the Council or the governing body and some sort of approval by the Executive Branch agreeing that, yes, this is a good use of the money and we have a majority vote to actually use the funds for such purposes.

Finally, the less common thing we see in a reserve policy, but I think very useful, is the reserve replenishment function, which basically says we established a floor, we drew it down for reasons that we stated and now here is our commitment to bringing that reserve level back up to the level that we established to begin with. And the problem with this is that it's often very difficult, because at the time you're using the reserves, it usually means that the times are tough and the money is tight. So it's often hard to come up with some sort of replenishment mechanism, but I think it's important from the rating's perspective to show that the governing body is actually committed to maintaining the level established, and maintaining that level and the commitment to maintaining that level can be demonstrated by having a reserve replenishment criteria in the reserve policy itself.

Finally, the best policies that we see are really institutionalized. And what I mean by that is, I think the most strict way to show that is really by having the reserve policy in the City Charter, but certainly that's not necessary in order to get credit per se from the rating agencies. But at least to have some sort of ordinance, some sort of written document that's been reviewed and agreed upon by all leading parties and that shows a commitment across the government to maintaining this policy. Certainly that's much more powerful than if I just speak one on one to a finance director who says, I'd like to keep this money in the bank. That's fine, but if you've got the City Council and the Mayor and everyone on board, it really shows the rating agencies and investors that you're committed to keeping those reserves.

Finally, I think it might be useful just to talk a little bit about how reserve policies really affect the rating. We have many criteria that we look at when we come to a rating conclusion, and the financial flexibility is a big part of that, and the reserve policy can be a demonstration of what the financial flexibility of the City or the local government is. And it's also important to remember that no matter what the policy states, actions always speak louder than words. So if you have a good policy that's in place but you're not following it, it's hard for us to give credit to that. And I would say in general that the higher rated credits tend to have a higher degree of financial flexibility, which I'm sure you understand.

So those are the remarks I was prepared to discuss. I'm happy to answer any questions you may have, and, again, thank you for having me.

COUNCILWOMAN BLACKWELL: Thank you very much.

Are there questions for Ms. Moro, questions from members of the Committee?

Councilman Kenney.

COUNCILMAN KENNEY: Thank you, Madam Chair.

Just two questions. Does Fitch have an opinion relative to a two-thirds majority or a simple majority in the spending down of the funds? Is two-thirds better, or simple majority is enough?

MS. MORO: I wouldn't say we have an opinion. I think either one of those is fine. Again, the overall goal being that seeing that there's overall support for the actions taking place.

COUNCILMAN KENNEY: So it's important for the rating agencies and for Fitch that both the Administration and the Council, along with the finance people in the City, are all on the same page.

MS. MORO: That would be the best-case scenario. Certainly we see different levels of support, but that would be the ultimate and I would say would get the most credit.

COUNCILMAN KENNEY: Has there been any analysis by Fitch or anyone that you're aware of kind of doing some investigation as to the cost of borrowing money for municipalities and governments that have Revenue Stabilization Funds and those that do not? Obviously the rating that you get affects the cost of your money. So I assume that there's a correlation between governments that have these funds and their better ratings. Is that accurate?

MS. MORO: First, to answer the first question, I'm not aware of any studies that have been done, and certainly we don't track how the bonds price after we issue the rating. But certainly I can tell you that higher rated credits tend to have a high degree of financial flexibility and most of the time have pretty stringent, what I would call, management practices in place, a fund balance reserve policy being one of those.

COUNCILMAN KENNEY: And one of the elements of that higher rating can be a Revenue Stabilization Fund.

MS. MORO: Yes, that's true.

COUNCILMAN KENNEY: Thank you.

Thank you, Madam Chair.

COUNCILWOMAN BLACKWELL: Thank you very much.

Are there further questions for Ms. Moro?

(No response.)

COUNCILWOMAN BLACKWELL: Thank you very much.

MS. MORO: Thank you.

COUNCILWOMAN BLACKWELL: Is there anyone else here who would like to testify? Anyone else?

(No response.)

COUNCILWOMAN BLACKWELL: Any further comments or questions from members of the Committee?

(No response.)

COUNCILWOMAN BLACKWELL: Then at the sponsor's request, we will recess this hearing subject to the call of the Chair.

Thank you very much. Thank you all.

(Committee on Finance adjourned

at 11:00 a.m.)

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CERTIFICATE

I HEREBY CERTIFY that the proceedings, evidence and objections are contained fully and accurately in the stenographic notes taken by me upon the foregoing matter on April 19, 2006, and that this is a true and correct transcript of same.

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MICHELE L. MURPHY

RPR-Notary Public

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