COUNCIL OF THE CITY OF PHILADELPHIA
PUBLIC HEARING AND PUBLIC MEETING
BEFORE THE COUNCIL COMMITTEE ON FINANCE

- - -

Room 400, City Hall
Philadelphia, Pennsylvania
Tuesday, 5/8/01
1:36 p.m.

- - -

BILL 010209 - Approving the Fiscal Year 2001 Capital Budget, providing for expenditures for the capital purposes of the Philadelphia Gas Works.

BILL 010210 - Constituting the Fourth Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1998; authorizing the Mayor, the City Controller, and the City Solicitor, or a majority of them, to sell either at public or private sale Gas Works Revenue Bonds.

(Full text of both bills contained herein.)

PRESENT: COUNCILWOMAN JANNIE L. BLACKWELL, Chair
COUNCILWOMAN MARIAN B. TASCO, Vice Chair
COUNCILMAN DAVID COHEN
COUNCILMAN FRANK DICICCO
COUNCILMAN JAMES F. KENNEY
COUNCILMAN BRIAN J. O'NEILL
COUNCILMAN ANGEL L. ORTIZ

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P R O C E E D I N G S

COUNCILWOMAN BLACKWELL: Good afternoon. A quorum being present, we are now ready to begin our Finance hearing with regard to Bill No.'s 102 -- excuse me, 010209 and 010210.

To my left, we have Councilman David Cohen; to his right, the Vice Chair of the committee, Marian Tasco; to my right, Councilman Jim Kenney. Also present in the room was Councilman Frank DiCicco, who was also here. Councilman Nutter is also available. Both have just stepped outside of the chambers, but they are here, so obviously, we have a quorum and we are now ready to begin our hearing.

The clerk will please read the title of both bills.

THE CLERK: Bill No. 010209, an ordinance approving the Fiscal Year 2001 Capital Budget, providing for expenditures for the capital purposes of the Philadelphia Gas Works, including the supplying of funds to be obtained in connection therewith and rejecting the forecast for Fiscal Years 2002 through 2006.

Bill No. 010210, an ordinance

constituting the Fourth Supplemental Ordinance to the General Gas Works Revenue Bond Ordinance of 1998; authorizing the Mayor, the City Controller, and the City Solicitor, or a majority of them, to sell either at public or private sale Gas Works Revenue Bonds Third Series of the City of Philadelphia in one or more subseries to be issued to pay: one, the cost of certain capital programs, as hereinafter more particularly described; and 2, the cost of refunding or redeeming all or a portion of certain outstanding Gas Works Revenue Bonds; and authorizing the application of proceeds of the Third Series Bonds for such purposes; authorizing the City to obtain credit enhancement for the Third Series Bonds, determining the sufficiency of Gas Works revenues, covenanting the separation of Gas Works revenue account and proceeds of the Third Series Bonds from general accounts of the City; covenanting the payments of interest and principal and specifying the purposes of the Third Series Bonds; authorizing covenants and actions in order that the Third Series Bonds shall not be arbitrage bonds; authorizing the Third Series Bonds to be issued in book-entry form and providing book-entry provisions to apply in such case; and providing that this ordinance is supplemental to the 1998 general ordinance, and that the provisions of the 1998 general ordinance to the extent not modified, amended, or superceded by this ordinance are applicable.

COUNCILWOMAN BLACKWELL: Thank you very much.

We understand that the Gas Commission is present. Our Vice Chair Marian Tasco is prepared to submit an amendment to Bill No. 010209, and we believe that this has been circulated; in fact, we're sure that this has been circulated to all members of the committee, as well as to the stenographer. If there's anyone else who needs a copy of the amendment, please indicate so and we will make sure that you have a copy.

Councilwoman Tasco.

COUNCILWOMAN TASCO: Thank you, Madam Chair.

I'd like to offer several friendly amendments to Bill No. 010209. These amendments reflect action taken by the Gas Works at a public meeting held April 24, 2001 with respect to the following:

1. Various requests by the Philadelphia Gas Works that the Fiscal Year 2001 capital budget proposal be amended;

2. The Philadelphia Gas Works request that the capital spending projection for the 2001 fiscal year, which projection relates to spending against the proposed Fiscal Year 2001 budget and to the spending against previously-approved budget to be revised.

On May 3, 2001, I transmitted to all members of City Council the following items related to these proposed amendments: a fax sheet, a proposed amended ordinance, applicable Gas Works pronouncements, and the Philadelphia Gas Works compliance Fiscal Year 2001 Capital Budget filing.

I ask for your favorable consideration of the proposed amendments and the amended bill.

Thank you.

COUNCILWOMAN BLACKWELL: Thank you very much.

Again, we note that the amendments have been circulated and everyone has a copy.

And we are now glad to move on to our testimony. We ask our City Treasurer, Folasade Olanipekun, and Kumar Kischinchand, Interim President and CEO of PGW to come forward and begin your testimony.

(Witnesses come forward.)

COUNCILWOMAN BLACKWELL: How did I do with the pronunciation, Madam Treasurer? Thank you.

MS. OLANIPEKUN: Very good.

Madam Chair, I believe that Kumar's going to provide testimony on Bill No. 200 and I'm going to provide testimony on 210.

COUNCILWOMAN BLACKWELL: Thank you.

Please identify yourself for the record and begin.

MR. KISCHINCHAND: Good afternoon, Chairwoman Blackwell and members of the Finance Committee.

COUNCILWOMAN BLACKWELL: Good afternoon.

MR. KISCHINCHAND: My name is Kumar

Kischinchand. I'm the Interim President and CEO at Philadelphia Gas Works.

MS. OLANIPEKUN: And I'm Folasade Olanipekun, City Treasurer.

COUNCILWOMAN BLACKWELL: Thank you.

MR. KISCHINCHAND: Thank you for giving us the opportunity to testify on Bill 010209, on PGW's Fiscal Year 2001 Capital Budget. We've distributed my written testimony, I believe, to the Finance Committee last week, late last week. Chairwoman, with your permission, I'll just touch on the highlights and summarize it.

COUNCILWOMAN BLACKWELL: Thank you, Commissioner, thank you.

MR. KISCHINCHAND: Thank you very much.

Essentially, what PGW requests is an appropriation in the amount of $58,417,000 during fiscal year 2001. The money is targeted for the core business. We've refocused our spending on the basic services that we provide to our customers, and that requires that we make improvements to our physical infrastructure. To that end, we anticipate spending about 88 percent of our total budget request, which is about a little over $51.2 million, on the distribution, infrastructure, the service lines, the metering, as well as gas-processing functions in PGW.

Specifically, we are requesting $8.1 million for our gas processing department to finish off at least one of our liquefied natural gas facilities. And in addition to that, this particular line encompasses some rehabilitation of the Passyunk facility, which had a disastrous fire on December 22nd of last year.

I'd like to stress that the LNG plant, this is the liquified natural-gas plant, not only provides an economic benefit to the company and to the ratepayers, but it also provides the flexibility to supplement gas supplies when our pipeline capacity is used up, particularly during the cold winter months.

We are also requesting about $36.5 million, a little over that, for our distribution system rehabilitation, and this includes the replacement of gas mains and the service lines to reduce our inventory of the cast-iron mains, which are rather old, and also enhance the safety of the system itself and provide the reliable field service.

This budget item also includes money for enforced relocation. When some of the utilities go into the street and we need to move the gas lines, this particular line item will provide money for that relocation of those lines. And there is money in this particular line item for the installation of mains for any new customers that we may get during the fiscal year.

You will also notice that we are requesting about $6.5 million for field services. This money will be used for installation of approximately 20,000 AMRs in the residential properties and also for meters and regulators as well as replacement of these items in the industrial and commercial sectors of the City. There is money also incorporated in this line item for telemetering services for industrial-commercial customers.

The rest of the budget deals with procurement of human services, information systems, some vehicles and mobile equipment, building services, and some miscellaneous information-technology software and hardware.

So that briefly covers our request for these items for Fiscal Year 2001. We request your favorable consideration of this request to pass it on to the full Council for approval.

I can -- I'll try to answer as many questions as you have on this particular budget if you're ready ask questions on this bill first before we go to 210, or whatever your pleasure.

COUNCILWOMAN BLACKWELL: We would like to have all of our testimony.

MS. OLANIPEKUN: Sure.

COUNCILWOMAN BLACKWELL: Thank you. Again identify yourself for the record, please, and begin your testimony. Thank you.

MS. OLANIPEKUN: Sure. Good afternoon. My name as Folasade Olanipekun, and I'm the City Treasurer. I'm here today to provide testimony in support of Bill No. 210. With me today is Kumar Kischinchand, Interim Chief Executive Officer, and Tom Knudsen, Interim Chief Financial Officer of the Philadelphia Gas Works. And also here today is Janice Davis, Director of Finance for the City, and Dan Cantu-Hertzler, Chair of the Corporate and Tax Group of the City

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Law Department for the City, and certain members of the bond finance team.

The purpose of Bill No. 210 is to authorize the City to issue the third series of Gas Works Revenue Bonds (the "Third Series Bonds") in one or more series pursuant to the First Class City Revenue Bond Act of 1972 and the General Gas Works Revenue Bond Ordinance of 1998 in an amount not to exceed $180 million, exclusive of original-issue discount, capitalized interest, and cost of issuance.

Proceeds from the Third Series Bonds will be used for the following purposes:

First, approximately $120 million will be used to finance the cost of capital projects, including the Capital Program of the Gas Works for Fiscal Years 2001 and 2002. The majority of the funds will be expended on the refurbishment of the liquefaction equipment at the LNG facility at Richmond Point and the cast-iron main-replacement program. Bond proceeds will also be used to pay the cost of other projects, including the purchase of automatic meter-reading devices, information technology, and building services.

Second, and if necessary, approximately $50 million will be used to refinance a portion of debt service due on certain outstanding series of prior bonds issued by the Gas Works due July 1 and August 1 of 2001. This refunding, if necessary, will give PGW short-term budgetary relief because it will relieve them from making certain debt-service payments in Fiscal Year 2001. It should be noted that the refunding portion of the bond issue will only be undertaken if absolutely necessary to ensure that PGW can meet all of its current obligations and maintain sufficient working capital to safely operate the system.

Bill No. 210 also authorizes bonds proceeds to pay any financing costs incurred by issuing the Third Series Bonds, make any required deposits into the Sinking Fund Reserve, and repay to the City and the Gas Works amounts advanced for the project cost.

As required by the First Class Revenue Bond Act and the General Gas Works Ordinance, I am submitting on behalf of the Finance Director her financial report, which is based on the analysis of Black & Veatch Corporation, the consulting the engineer. Black & Veatch, a qualified firm with extensive experience in providing engineering studies, evaluated PGW and presented an evaluation of the PGW system and a financial feasibility evaluation.

In summary, the Black & Veatch report makes certain assumptions and opinions, as outlined in their report, and concludes that the project revenue and Gas Works revenues, which are pledged as security for the bonds are sufficient to comply with the covenants set forth in the General Ordinance in 1975 and 1998, including the rate covenants. Further, the capital improvements that are proposed for the period of September 1, 2000 August 31, 2006 will enable PGW to maintain its system in a good condition.

This report was transmitted to members of City Council on April 27th of last month, and I am transmitting an additional copy along with the Director of Finance's report this afternoon.

Also, as required by the First Class City Revenue Bond Act and the General Gas Works Revenue Ordinance, I am submitting on behalf of the City Solicitor an opinion which states that under the proposed bond ordinance, the holders of the bond will have no claim upon the taxing powers or general revenues of the City. The only claim that they will have is on the pledge revenues of the PGW system.

Subject to necessary approvals, we anticipate selling the Third Series Bonds the second week of June 2001, closing a schedule to occur by the end of June 01. It is important that the bonds be sold by the end of June so that PGW can continue its capital projects to ensure that the system is maintained and in good operating condition. Issuing these bonds will also ensure that PGW has the funds to reimburse itself for critical capital investments mandated by its board of directors and the Public Utilities Commission.

It is essential to the health and welfare of the citizens of this city that PGW have the money to continue to operate. Therefore, we respectfully request approval of Bill No. 210.

I am also requesting that Council consider the amendment that the City is proffering on behalf of PGW. It's a friendly amendment to Bill No. 210. The amendment that I'm offering will apportion how the aggregate $180 million authorization being requested in this bill will be used.

In summary, up to 120 will be used as new money to fund the capital projects for PGW for Fiscal Years 2001 and 2002, and if necessary, up to $60 million will be used for the refunding of prior outstanding bonds. Specifically, I will read the amendments into the record.

COUNCILWOMAN BLACKWELL: Thank you.

MS. OLANIPEKUN: The language that I'm going to read actually comes -- well, should come in Section. . . in Section 1 of the ordinance.

We wish to amend Bill No. 210 by adding to the second paragraph of Section 1 the following sentence: "Not more than an aggregate principal amount of $60 million shall be used for refunding or redeeming Gas Works revenue bonds, referred to in Section 2(ii) of this ordinance, together with cost of issuance related thereto and any required deposits to the Sinking Funds Reserve related thereto, as referred to in Sections 2(iii) of this ordinance, and not more than a principal amount of $120 million shall be used for capital projects cost of issuance related thereto, required deposit to the Sinking Fund reserve related thereto, paying other project costs or refunding outstanding bond anticipation notes or other obligations the City issued in respect of project costs, all as referred to in Section 2(i), 2(iii) and 2(iv) and (v) of this ordinance."

COUNCILWOMAN BLACKWELL: Thank you very much.

We have a question on the amendment. Councilman Kenney?

COUNCILMAN KENNEY: Thank you.

I would just request an explanation of the amendment. I recognize the verbiage of the amendment. Could someone explain the purpose, the need.

MS. OLANIPEKUN: Sure.

COUNCILMAN KENNEY: And what it's supposed to accomplish.

MS. OLANIPEKUN: The bill, as it is in front of the Finance Committee, states that up to an aggregate principal amount of $180 million will be authorized to issue a certain amount of bonds of no more than $180 million. The amendment, as proposed, breaks down exactly what the $180 million is going to be used for. That is, of the $180 million, $120 million will be for new money, the new monies for the capital programs of PGW Fiscal Years '01 and '02. And the amendment also states that no more $60 million will be used to refinance certain prior outstanding PGW bonds.

So that's what -- the amendment's basically breaking down how the $180 million is going to be used.

COUNCILMAN KENNEY: Thank you.

COUNCILWOMAN BLACKWELL: Thank you very much.

Let me also note that we circulated -- for members of the committee, we circulated a letter from the Mayor that we will submit as part of the record. In our briefing, we requested a statement before we had this public hearing with regard to a succession clause for members of the union for 1400 employees. We did get a response from the Mayor. It certainly isn't one that we would have liked to get, but the Mayor did reject our request, but that is part of your package.

In fact, I will read this sentence: "I

must, therefore, reject your request that I endorse the union's demand for a successor clause and a no-layoff provision as a condition for Finance Committee consideration of bills authorizing PGW bonds." And then he goes on to say that he supports the bonds and talks about the LNG facility and other issues.

So certainly, we will make a copy of his letter a part of the record, and we will note to the committee members that he did respond and you did transmit our request from our briefing.

MS. OLANIPEKUN: Councilwoman, I'm sorry.

COUNCILWOMAN BLACKWELL: Yes.

MS. OLANIPEKUN: I just wanted to offer into the testimony the report of the Director of Finance, along with the engineering report, as well as the City Solicitor's opinion regarding that these bonds are nonrecourse; and as requested by the Finance Committee, a list of the professionals who are working on this bond transaction.

COUNCILWOMAN BLACKWELL: Thank you very much. Thank you.

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Does that conclude your testimony?

MS. OLANIPEKUN: I'm sorry. Yes, that does conclude my testimony. I'll be happy to answer any questions.

COUNCILWOMAN BLACKWELL: Thank you.

Let me ask you, aside from a safety point of view, what does refurbishing the LNG tanks do for the City?

MR. KISCHINCHAND: The LNG tanks -- this particular money is not meant specifically for tanks, but it's for a process, it's a liquifaction process. What it does is, it allows us to bring in the piped gas, liquify it, and then store it in or LNG tanks to be used at a time when we need it. This saves the pipeline capacity during the period of time when we are fully utilizing the pipeline capacity and yet the demand in the City is higher than what our pipelines can provide. Then we can utilize the gas at that juncture. It also saves us money in keeping the cost of buying that capacity down.

So it essentially saves us in the neighborhood of about $17 million as well as provides us with the flexibility to provide the gas on demand for peak hour and peak day.

COUNCILWOMAN BLACKWELL: Can PGW meet its rate covenance under the previous ordinance?

MR. KISCHINCHAND: The numbers I have seen, yes, it will, mm-hmm.

COUNCILWOMAN BLACKWELL: On May 2nd, there was an article published stating that PGW was filing a decrease on its gas cost rate. How does this affect the rate increase requested in the amount of $65 million?

MR. KISCHINCHAND: I have with me our chief financial officer. With your permission, I'd like him to come up front and perhaps testify to some of the details on that issue.

COUNCILWOMAN BLACKWELL: Thank you.

MR. KISCHINCHAND: Thank you.

(Witness comes forward.)

COUNCILWOMAN BLACKWELL: Thank you. Please identify yourself for the record.

MR. KNUDSEN: Yes, Madam Chairwoman. My name is Tom Knudsen, and I am Interim Chief Finance Officer of PGW.

To answer the question, it really has no direct effect on the amount that was requested of $65 million for the reason that the 65 million assumed within it a much lower cost of gas than we're experiencing, and that in reducing the amount of -- essentially reducing the rates associated with these gas cost reductions, we're still above the level of gas assumed in the $65 million request.

So there is no effect, in other words.

COUNCILWOMAN BLACKWELL: Okay. With respect to PGW's labor issue and the letter I just referred to from the Mayor, what will management do, and what is management's position with regard to longtime employees of PGW?

And in conjunction with that, how would a strike, which nobody wants, affect PGW's operating costs? Because there's some rumor that it would save money and, therefore, they're worried that the union is kind of being cornered that way in order to save money.

It's a two-part question.

MR. KISCHINCHAND: Okay. In terms of the labor being impacted, you know, we obviously have a number of people who've been employees for a long time, as you said, long-term employees, and they have a lot of experience. We would much rather have them work, and through attrition, cut our costs down and streamline our operations to the extent that we can.

These people have worked for a long time, they have a great deal of experience, and we value them, we respect them. And to the extent that there are going to be cost-cutting measures that are going to be applied, we are going to be working with them during the labor negotiations also to see how they can -- both parties can get to a point where we can operate and be financially successful.

You're second part of the question? I'm sorry, what was that?

COUNCILWOMAN BLACKWELL: How would a labor strike, which none of us want --

MR. KISCHINCHAND: The labor strike cost.

COUNCILWOMAN BLACKWELL: I'm glad to hear that you want to protect the longtime employees.

MR. KISCHINCHAND: On the cost savings, from what I understand, the last time there was a strike, apparently the labor unions, through grievance process or administration process, got unemployment. So I think, in fact, if I'm not mistaken, it cost the company a lot more than otherwise.

If, for instance, there were a strike and the issue of unemployment compensation didn't arise, there may be some savings. We don't have those numbers because we don't know if, in fact, the labor union is going to elect to strike, and if they do, for what length of time.

So those are unknowns at this point.

COUNCILWOMAN BLACKWELL: There are rumors about out-sourcing collection and call center work. Is that true? And if so, where does that fit in and how is that money paid? From where does it come?

MR. KISCHINCHAND: The PUC has sent us a tentative order to put out an RFP, a request for propose, essentially to out-source the overflow for the call center. We -- we are still negotiating with them. We have not responded finally to that tentative order at this juncture. I think the Administration and the management is discussing this issue as to how respond to the PUC.

We have not issued an RFP at this point.

COUNCILWOMAN BLACKWELL: Okay. I will tell you, we absolutely want to try to protect our residents who, in turn, know how to protect our citizens, given that we're talking about gas.

MR. KISCHINCHAND: Mm-hmm.

COUNCILWOMAN BLACKWELL: With regards to PGW's commercial paper, the Mayor indicated that if the bond ordinance didn't go through, it could jeopardize outstanding commercial paper. How can this be when the proceeds from the bonds can only be used for capital projects and not for paying down debt? Does this suggest that the bond proceeds are going to be reprogrammed? And is that, in fact, legal?

MR. KISCHINCHAND: No. I'll have Tom Knudsen answer that. The short answer is no.

MR. KNUDSEN: Mm-hmm, the answer is no. It's just an important concept.

The company spends operating funds to essentially keep the construction program going during the year. When we have funds in the capital fund, we draw those and reimburse ourselves. In the present instance, we have exhausted the proceeds from the 1999 bond sale, and we are now funding ongoing construction programs from operating funds.

This bond sale will allow us to reimburse ourselves for the funds that we have laid out from operations. We, in turn, will then use the operating funds to meet certain requirements of the letters of credit.

So, there is no -- there is no contradiction here.

COUNCILWOMAN BLACKWELL: Have we ever tried to shift money from capital to address operating needs? That was a bit of a question. . .

MR. KNUDSEN: We -- we -- when the -- when the --

COUNCILMAN KENNEY: The simple answer is yes?

MR. KISCHINCHAND: No, not during my tenure, no.

COUNCILMAN KENNEY: We know that.

MR. KNUDSEN: All funds are spent on capital projects at PGW.

COUNCILWOMAN BLACKWELL: Say that again?

MR. KNUDSEN: All the -- whatever money is drawn from the capital fund, that is used on capital projects.

MR. KISCHINCHAND: Mm-hmm. In other words, the bond proceeds -- money from the bond proceeds goes towards capital-improvement program.

COUNCILWOMAN BLACKWELL: How much money was paid to Accenture Consulting Group? I understand there are some more recent consultants.

MR. KNUDSEN: Yes. Accenture is -- Anderson Consulting Group is the new name. They are experts in computer, call center, and customer accounting, interfaces, and problems. And we paid them $75,000 to come in to give us an evaluation of where we are and to propose an outline for a plan for assuring that we can raise the performance of all of this area, just not the call center, but the whole customer affairs area, to PUC standards levels.

COUNCILWOMAN BLACKWELL: Would you

supply us with information with regard to how many consultants have been hired in the past three years and the cost?

MR. KNUDSEN: We can. That is a matter of public record. It has been supplied in the various proceedings with which you're engaged right now.

COUNCILWOMAN BLACKWELL: Thank you.

The base component of PGW's goal of attracting viable MBE/WBE firms for inclusion in the procurement process is certification. From July 1, 2000 to December 31, 2000, MBE/WBE procurement activities totaled $540,546.85. Not-certified firms were awarded $323,579.14, or 59.8 percent of contracts.

Why? Can you explain why can this is happening?

MR. KISCHINCHAND: With your permission, I'd like to ask Kenneth Williams, who's our Manager of Procurement as well as MBE Coordinator, to come forward and respond to that specifically if you don't mind, please.

COUNCILWOMAN BLACKWELL: Thank you very much.

MR. KISCHINCHAND: Thank you.

(Witness comes forward.)

COUNCILWOMAN BLACKWELL: Please identify yourself for the record. And thank you.

MR. WILLIAMS: Yes. Good afternoon. My name is Kenneth W. Williams. I'm the Procurement Manager and also responsible for MBE Procurement at PGW.

In response to the question, we have a history of dealing with the Minority Business Enterprise Council. However, we have not adopted the approach of having those firms that who come to us and testify and certify through our own internal process that they are minority and women business enterprises. We have not sent those firms to MBEC for certification. We have encouraged them, but we have no teeth to force them to do that.

COUNCILWOMAN TASCO: Do they have to be certified by the City to do work with PGW?

MR. WILLIAMS: To my knowledge, there is no statute that --

COUNCILWOMAN TASCO: What is your plan for minority participation for PGW? Do you have a plan for minority participation with PGW?

MR. WILLIAMS: Yes. Currently, we have some ongoing initiatives. We've broadened our advertising base in an effort to attract and retain additional minority and women business enterprises.

As I mentioned, we work in close concert with MBEC. We've been through a number of forums with them. We have relationships with other agencies. We share vendor lists with other agencies such as SEPTA, the National Minority Supply Development Council, the National Association of Women Business Owners.

COUNCILWOMAN TASCO: What is the percentage of participation on construction?

MR. WILLIAMS: Under construction?

COUNCILWOMAN TASCO: On construction.

MR. WILLIAMS: On construction. Bear with me one second, please.

COUNCILWOMAN BLACKWELL: And while you're looking for that information, may we say that we expect as matter of policy and procedure that you deal with the certification process.

MR. KISCHINCHAND: If it's at Council's

pleasure, we'll have all of our vendors who may not be certified by MBEC to be so certified, but we request that there be a transition period where -- rather than have them go out of business and not give them any business immediately, that there be a transition period so that while they're going through the process of certification through MBEC, we can continue to give them some business. If that's okay with the committee.

COUNCILWOMAN BLACKWELL: Thank you, Commissioner.

MR. WILLIAMS: With regard to Councilwoman Tasco's question, current levels of MBEC participation specific to construction is in the area of 8 percent.

COUNCILWOMAN TASCO: 8 percent?

MR. WILLIAMS: Yes.

COUNCILWOMAN TASCO: What are you doing to encourage more participation?

MR. WILLIAMS: We've undertaken a number of things. Beyond our gas main and service installation work, the biggest things in construction for PGW have been our paving contracts. To that end, over the last six years or so, we have taken steps to break those contracts up. In other words, what we've done is divide the City into quadrants, thereby allowing interested bidders to bid on any one section or the entire city.

COUNCILWOMAN TASCO: And. . . ?

MR. WILLIAMS: Unfortunately, the result has been that we haven't had any success with MBEs over the last three years. We did have a rise in construction doing some of that work, going back probably into 1995, 1996. We currently have a City-certified WBE, Anthony Borecki (ph.) & Sons that's doing -- they were recently awarded three sections to (indiscernible) and roadway, which is asphalt, paving, (indiscernible), and concrete.

COUNCILWOMAN TASCO: What is the percentage of participation of subcontractors? And what do you do to encourage majority contractors to subcontract? Are there any requirements that they subcontract?

MR. WILLIAMS: As part of our RFP process, we do have what is internally called "an attachment D," which is very similar to the

City's participation plan. What we do is, we look at the scope of the job, we assign ranges and levels of participation, and ask that the contractors try to meet those levels.

Similar to the City process, there is a waiver fee. For example, if we set the rates at 20 to 25 percent and the contractor comes back and says, I can do 10 percent, they will ask for a waiver for that 10 to 15 percent difference.

So we are making some inroads there.

COUNCILWOMAN TASCO: But you don't hold them to the 25 percent?

MR. WILLIAMS: I'm sorry?

COUNCILWOMAN TASCO: You don't hold them to the 25 percent?

MR. WILLIAMS: Currently, we have no mechanism to do that.

COUNCILWOMAN BLACKWELL: Well, might I note that we have a copy of your PGW M/WBE procurement activities and highlights, and I will read this sentence: "The base component of PGW's goal of attracting viable MBE/WBE firms for inclusion in the procurement process is certification."

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So this is in your own rules, so you do have a mechanism.

MR. WILLIAMS: Well, we do certify firms. I think the legal ramification of trying to hold vendors to those percentages is a different issue.

COUNCILWOMAN BLACKWELL: We're not going to fight about this, are we?

MR. WILLIAMS: Certainly not.

COUNCILWOMAN BLACKWELL: Thank you.

I think Commissioner Kischinchand already responded. We're very happy with his response.

MR. KISCHINCHAND: Thank you.

COUNCILWOMAN BLACKWELL: Councilman Kenney?

COUNCILMAN KENNEY: Thank you very much.

Good afternoon. On the same light with WBE/MBE and DBE policy, I'd be interested in, first of all, knowing when it comes to issues like bonds issues, either for the Gas Works or for the Water Department or for the Airport, whatever -- and maybe this is a question for the Treasurer --

who actually selects the professionals? What is the entity in government? Is it the Treasurer's Office, is it the Mayor's Office, is it a combination? What is the process for the selection of professionals, whether they're majority professionals or minority professionals?

MS. OLANIPEKUN: There are a number of processes that are used to select professions, depending on the category.

In the instance of investment bankers, we have a list of approved bankers that the City chooses from to assign to various bond financing teams. The list was compiled pursuant to an RFQ that was issued in April of last year, and these banks were asked to respond to a series of questions which the City then reviewed through my office. And based on review of the RFQ, a list was compiled, and there's 30-something banks that are approved on the list, and they serve in various capacities. They've been confirmed as either a senior manager or a co-manager.

But that's the list that we use from which we --

COUNCILMAN KENNEY: And those are the

banking institutions?

MS. OLANIPEKUN: That is correct, sir.

COUNCILMAN KENNEY: How about issues like bond counsel, financial advisors, co-managers, insurance, those issues? What's the policy and procedure for the selection of both majority and minority professionals in those areas of service?

MS. OLANIPEKUN: There are a number of firms in the City who have a strong bond practice, and it's from that pool that a form of rotation is done through which they're selected to serve on various bond transactions. Also factored into that is their expertise in a particular area such as airport, which has particular issues, and gas utilities, which has particular issues, and water.

COUNCILMAN KENNEY: As with most of the other issues that we deal with and which I wholeheartedly support relative to vendors and other types of business that comes through the City, that is expended by the City, and that there are specific goals that are attempted to be met at the assistance of the Council -- at the insistence of the Council and with the cooperation of the

Administration, is there a policy for WBE/MBE/DBE professional services in an effort to expand the base of potential professionals that are involved in this area of business and in other areas of the City?

MS. OLANIPEKUN: With respect to bond transactions, which are facilitated through my office, there is a strong effort towards including MBE/WBE. In fact, I'm very proud to say that on every bond financing, we try to assign at least two counsels, depending on the category, who are MBE or WBE. And with reference to the selection of the underwriters and various bankers who serve in the syndicate, we try to ensure that there are three of the three.

There is no formal policy; it's more of an informal policy.

COUNCILMAN KENNEY: So in other words, there's no written policy?

MS. OLANIPEKUN: There's no written policy, no.

COUNCILMAN KENNEY: Is there any written policy or informal policy in an effort to expand the base of minority participation in the areas of professional services?

MS. OLANIPEKUN: Actually, there is not but, Councilman Kenney, there is a very small pool of -- it's a very limited pool of minority firms that do specialize in the area of bond financing, and we use them very actively. And minority firms that are interested in serving in the capacity, I can think of one we have actually brought into the fold, so we do encourage that.

But, again, there's no written policy.

COUNCILMAN KENNEY: What efforts have we made to identify minority-owned, female-owned, disabled-owned professional firms, either law firms, insurance companies, and the like, financial advising companies, to expand the base of people that can participate?

My understanding of this policy, which I support, was an effort to take firms of minority status and to try to couple them and partner them with majority firms with great experience in these areas so that those firms could learn and be mentored by them and, therefore, ultimately participate fully in competition with this, by expanding the base of firms that are skilled and knowledgeable in this very technical area.

Could you tell me what the City has done, or what the Treasurer's Office has done, to expand that base of people to reach out to -- do we know how many minority law firms, for example, there are in the City of Philadelphia? Have we talked with the Barristers Association and attempted to do outreach relative to bringing more and more people into the fold?

MS. OLANIPEKUN: From my office directly, there has not been an outreach, but I can't speak for the Administration, I don't know what type of outreach policy that they are employing. But as I said, I do know that we've engaged one or two minority firms in this administration that did not practice bond financing in the prior administration.

COUNCILMAN KENNEY: Well, I'd be interested and request to the Chair that if there's some policy that could be established in written form that would give us some indication, similar to what we do with other vendors through MBEC, through our discussions now with the Gas Works are, that there is a written policy of best policy, best practices, best efforts and goals as to how we can expand the pie here so that more people can participate in this. And I would like to see it in writing.

And the other thing I'd like to see in writing is, even though there is a pretty well-known pool of majority firms who operate in this area, I'd like to know what qualifications they need to meet. Is it size of the firm, is it the number of bond issues they do, both publicly or privately? What are the qualifications that are set by rating agencies or by any other standard board standards that would indicate that this majority firm is, in fact, qualified and recognized as an expert in this field. I mean, do we run them through some process, the majority firms?

MS. OLANIPEKUN: There's such a limited number of firms in the City that do specialize in bond financing, it's sort of a known quantity and known given that, for example, if we want to do airport bonds, we know what firms specialize in that subsection of bond practice.

COUNCILMAN KENNEY: I think in both

areas, both majority selection and minority selection -- and I've been here, now in my tenth year and have been both on the Rules Committee with lots of bond issues for the Hospital Authority and other -- Water, Gas, Airport. I mean, I've been through the gamut of it. And what I see over a ten-year period, at least in my anecdotal experience, is that I see the same names coming up on every issue.

Now, it may be that there's no one else available in the City to do it, but I would like to know what efforts we've made to take a look at other firms, both majority and minority and women and disabled, to expand this. I mean, if we're going to make good-faith efforts, which I think are important, in expanding vending opportunities and expanding construction opportunities and expanding anything that the City does in the way of business with the community, I think that this is an area that also should be explored, and would like to know what the plans are -- not today of course, but what the plans are in the future to really reach out to the community and expand the base of professionals that we're dealing with in the City.

MS. OLANIPEKUN: Councilman Kenney, can I go back and sort of modify my response with respect to how firms are selected.

COUNCILMAN KENNEY: Fine.

MS. OLANIPEKUN: There's a publication in the financial industry, which I actually didn't think about, called "The Red Book," and a firm, a bond firm makes it to the -- a firm that specializes in bond law makes it into Red Book after fulfilling certain requirements. And once you make it into the Red Book, the City uses that as a guideline for selecting bond lawyers.

COUNCILMAN KENNEY: And that's on majority firms?

MS. OLANIPEKUN: And minority firms as well.

COUNCILMAN KENNEY: How do we help the minority, women-owned firms, and disabled firms, if they exist, get into the Red Book.

MS. OLANIPEKUN: By giving them opportunities, as we're doing, by --

COUNCILMAN KENNEY: By mentoring them with --

MS. OLANIPEKUN: Exactly.

COUNCILMAN KENNEY: All right. So I would be anticipating some type of forward-looking policy relative to how we are, in fact, going to do that, whether we conduct outreach, whether we conduct a fair over at the Convention Center, whether we deal with the Barristers, with the Bar Association, whatever, to attempt to identify and to match and mentor such firms in an effort to expand this base of people that can participate and benefit from this kind of City work.

Let me move for a moment to the issue of the bond issue before us. When is this issue anticipated to go to market?

MS. OLANIPEKUN: Mid-June, sir.

COUNCILMAN KENNEY: Mid-June. We had yesterday on the Airport and we've had prior testimony on Water Bonds and we have not yet to see the blight bond schedule work that needs to be done. Councilman Nutter asked yesterday, and I'd like for the record in this particular record, relative to the issue of the amount of paper that will be in the market as a result of all of these activities in a very short compressed period of time, and what effect does that have on the City's paper, considering the amount of it in the market?

MS. OLANIPEKUN: Each of these issues -- the Gas Works, the Aviation, and the Stadium Bonds -- are different credits. And while the perception is that there's going to be a lot of Philadelphia paper out in the market over the next six to eight weeks, there are different credits that attract different buyers. There should not be a challenge with respect to us selling the transaction, and I think we'll be able to do it. I mean --

COUNCILMAN KENNEY: But it all has Philadelphia's name on it.

MS. OLANIPEKUN: It all has Philadelphia's name on it but, again, the key is the different credits. The Airport being secured by Airport Revenues, Gas Works by Gas Works, and Stadium sort of --

COUNCILMAN KENNEY: Gas Works by Gas Works what?

MS. OLANIPEKUN: Revenue.

(Laughter.)

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COUNCILMAN KENNEY: Okay. And stadium by stadium what?

MS. OLANIPEKUN: No, the Stadiums is being secured by a service agreement between the City and PAID.

COUNCILMAN KENNEY: And that's relative to attendance and other things.

MS. OLANIPEKUN: Say that again?

COUNCILMAN KENNEY: I said that's relative to -- the testimony during that period of time was, it's relative to attendance and additional revenue that's generated by more people coming to the new facility.

MS. OLANIPEKUN: No, the portion of the Stadium project that is being funded by the City, the City's obligation is being -- is not being funded by attendance, it's -- the debt service is being paid pursuant to an agreement between PAID and the City.

COUNCILMAN KENNEY: Right, but driven by increased attendance.

MS. OLANIPEKUN: Yes.

COUNCILMAN KENNEY: And just as an aside, I happened to read an article about

Pittsburgh's PNC Park, and the attendance levels there are extremely disappointing, and I happened to be watching the end of the Phillies versus Astros game last night, and there was a bit of an echo in the building. And the Enron Field is only about a year old, so I'm a little bit concerned.

I was at a businessperson's special last week, where the Phillies are in first place, as you may know, and they had 17,000 people there, when they used to put 35 or 40 in there for a businessperson's special. So I guess we'll deal with that as time goes on.

What do our experts expect the rating of these bonds to be as they go to market? Is there -- do we anticipate through our advisors and through our professional experts what we anticipate the bond rating on these bonds to be?

MS. OLANIPEKUN: Well, these bond are going to be insured, Councilman Kenney.

COUNCILMAN KENNEY: Okay.

MS. OLANIPEKUN: So with the insurance, they will be at a AAA.

COUNCILMAN KENNEY: So the condition of the economy is not at issue?

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MS. OLANIPEKUN: Oh, the condition of any utility or any revenue-generating entity is always an issue.

COUNCILMAN KENNEY: So --

MS. OLANIPEKUN: But the insurance is going to provide -- the insurance will assist us in marketing these bonds a little better.

COUNCILMAN KENNEY: And how is the -- explain to me how the insurance insures that and what the cost of that insurance is.

MS. OLANIPEKUN: I don't know what the cost is since we have yet to price that out. But basically what the insurance does is, it stands in the shoes of the issuer in the event that the issuer is unable to pay debt service. So if for some unlikely reason PGW's is unable to make debt service, the insurance kicks in and pays that.

COUNCILMAN KENNEY: But the insurance rate is based on the condition of the company's potential to pay. I mean, for example, if you're insuring a company -- if you're getting bond insurance for an entity that is fiscally solid, I would assume that's a much lower premium than a company that has financial concerns and issues.

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MS. OLANIPEKUN: That's a fair assumption.

COUNCILMAN KENNEY: And could we ultimately find out what the cost of that insurance would be?

MS. OLANIPEKUN: We can provide that to you as we begin negotiations with the insurers, yes.

COUNCILMAN KENNEY: I think you had indicated in your testimony -- and maybe you can explain it more fully -- that the condition of -- the ability of this company to repay the debt on this particular bond issue is not in any way tied to the taxpayers of the City. Could you explain how that is?

MS. OLANIPEKUN: Because these are revenue bonds, the ability to pay on the debt service -- or the security that is going to be used to pay the debt service is pledged soley from the revenues of the utility. These are revenue bonds, so we are precluded, under the First Class Revenue Bond Act, from using any other source to pay debt service.

COUNCILMAN KENNEY: Hypothetically,

hypothetically, the company fails, there's some form of receivership, the company can't pay its bills, can't get into the gas market, can't collect its bills to the degree we had expected during this process to have it collected, what happens to those bonds, how are they paid?

MS. OLANIPEKUN: The insurance kicks in.

COUNCILMAN KENNEY: Okay. And the insurance is predicated on any other factors? I mean, do the insurance people have an escape clause? I mean, if you take life insurance out and you happen to pass away, sometimes the insurance companies don't necessarily want to pay it, and they find reasons not to. So I'm wondering whether or not there is any escape clause on the insurance's part of the payment of the bond.

MS. STERN: Councilman, my name is Joan Stern. I'm with Blank, Rome, Comisky & McCauley, and we are special counsel to the City. If you have no objection, could I answer that question?

COUNCILMAN KENNEY: Madam Chair?

COUNCILWOMAN BLACKWELL: Certainly.

MS. STERN: Thank you, Madam Chairwoman.

The nature of municipal bond insurance policies are that they are noncancellable. So what the City pays when it buys bond insurance for its various bond issues, as you well know from your years of experience on Council, the City has been using bonds insurance for many, many years. The premium is a onetime up-front payment for a policy, which, when issued is noncancellable and it's good for the life of the bonds.

So the insurance company does not have a way to disclaim coverage.

COUNCILMAN KENNEY: Do you have an estimate on what the insurance premium on a issue of this sort with the condition of this company would be? I mean, is there a range that you're familiar with from experience?

MS. STERN: That's a financial-advisor, investment-banker question.

COUNCILMAN KENNEY: I'm sure we have one in the room; I'm sure we have more than one in the room, as a matter of fact.

(Witness comes forward.)

COUNCILMAN KENNEY: Thank you.

MS. BISGAIER: Good afternoon, Councilman.

COUNCILMAN KENNEY: Good afternoon.

MS. BISGAIER: I'm Barbara Bisgaier. I'm the Managing Director of Public Financial Management. I'm serving as the co-financial adviser for this transaction.

Councilman, you're certainly right that we expect to pay above-average premium for the bond insurance for this transaction if, indeed, we do get bond insurance.

COUNCILMAN KENNEY: There's a qualifier there? There's an "if"?

MS. BISGAIER: Yeah, 'cause we don't have it yet, and until we have it, there's always a chance that we won't get it.

COUNCILMAN KENNEY: Will we have it prior to the approval of this issue? And is this issue predicated on -- is the approval of this issue predicated on the acquisition of insurance?

MS. BISGAIER: No. The Gas Works right now enjoys still an investment grade bond rating. And in the event that we do not obtain bond insurance or that the premium that's quoted is so high that it's not cost-effective, the Gas Works would be in a position to sell the bonds on an uninsured basis.

Whenever you get bond insurance, whether it's for a strong credit or a not so strong credit, you evaluate the effect of that premium on the pricing of the bonds, and you determine whether it's worth having the insurance or not.

COUNCILMAN KENNEY: But it's always worth having the capital money to replace the pipe.

MS. BISGAIER: Yes, it is.

COUNCILMAN KENNEY: Before something explodes, God forbid.

MS. BISGAIER: Yes, it is. And that's why we want to --

COUNCILMAN KENNEY: Which may be a bigger liability than the premium for the insurance.

MS. BISGAIER: That's right. But in the event that we could not get insurance, which I don't have any reason to think is going to happen --

(Unintelligible, parties talking over each other.)

COUNCILMAN KENNEY: But what would you estimate that percentage of possibility to be, just from your experience? I mean, is it --

MS. BISGAIER: 25 percent.

COUNCILMAN KENNEY: 25 percent, okay. Go ahead.

MS. BISGAIER: You know, we'd need to proceed with the bond issue in order to continue the capital program and --

COUNCILMAN KENNEY: Now, theoretically, if we can't get the bond insurance, 25 percent, we're very unlucky this period, and we proceed ahead with the bond issuance, and the company fails. . .

MS. BISGAIER: That is the risk of the bondholders, just as it is of any lender.

COUNCILMAN KENNEY: It is no risk to the taxpayer of Philadelphia? I mean, if there's no insurance in the way to cushion us and the revenues that were supposed to be collected to pay the bondholders -- it's not collected to the degree -- and we've seen in the past that we do have trouble collecting our bills from time to time, what -- who gets -- how do the people who lend us the money get paid?

MS. BISGAIER: If there was no bond insurance --

COUNCILMAN KENNEY: No, if there was.

MS. BISGAIER: If there was bond insurance --

COUNCILMAN KENNEY: Oh, bond insurance. I'm sorry go ahead.

MS. BISGAIER: Well, let me do it both ways. If there is bond issue insurance and there is a payment default by PGW and it's unable to cure, unable to make the debt service payment, the bond insurance company makes the payment to the bondholders.

But unlike life insurance, where you get the money and you have no obligation to the bond -- to the insurance company, with bond insurance, the company would still owe the bond insurance company the amount that had been paid on behalf of the company to the bondholders.

COUNCILMAN KENNEY: So they're just

fronting the money.

MS. BISGAIER: They're fronting the money to protect the bondholders. So in that situation, the company would owe money to the bond insurance company. In the event that --

COUNCILMAN KENNEY: How would they proceed to collect that money?

MS. BISGAIER: They would go into, like a bank, a work-out situation, and they would come in and work with the company to figure out the best way to keep the enterprise of the gas company going so that they could eventually get repaid.

It's very important for an entity like a bond insurance company that the viability of the company be retained. So they might come in with a work-out plan, you know, where you take five years to pay it back, or something like that.

In the event that there was no bond insurance and there was a payment default by the company that wasn't cured, the bondholders would be the ones that were short, and they would form a bondholder committee. They would use the bond trustee to represent them in an action against PGW, and they would in effect become a creditor's committee of PGW. So, in effect, they would be -- the trustee acting on their behalf would be representing their interests, just as the bond insurance company would be to get the money back.

COUNCILMAN KENNEY: Why is the City -- and maybe I've misunderstood the relationship between the City and the Gas Works, but it was always my understanding that ultimately, this is an asset of the City and that it is owned by the City and that the City would be on the hook for whatever debt that the bond committee -- or the bondholders committee and the trustee would be pursuing.

If there were no identifiable liquifiable assets of the company, it would seem likely to me that the next deep pocket they would turn to would be the City of Philadelphia.

MS. STERN: Okay. As a legal matter, Councilman, these bonds -- when a bondholder buys a bond that's issued under the First Class City Revenue Bond Act, which is issued by the City of Philadelphia, for the Water Department, for the Airport, for the Gas Works -- those are the three utility that we finance this way -- the holders are getting a bond from the City, but the contract with the bondholder is, the City of Philadelphia will pay you, but only out of the revenues of this enterprise and from no other funds of the City. So you, bondholder, are making an agreement that your recourse to the City's assets is limited to the revenues of those utilities.

So if I have a water bond, I know I can't have any other resources of the City to get paid. If have a Gas Works revenue bond, I know when I buy it -- and we put it in big, bold letter on the cover of the offering document: Payable soley out of the gas works revenues. The general credit and taxing power of the City of Philadelphia is not pledged or available to pay this bond.

COUNCILMAN KENNEY: Two issues.

MS. STERN: And the bond insurer is subrogated, steps into the shoes of the bondholder and has the same limited recourse.

So in either creditor scenario, there is no contractual liability on the part of the City of Philadelphia to pay this obligation from anything other than Gas Works revenues.

COUNCILMAN KENNEY: Now, let me ask you a question from -- just to take it one step further in the hypothetical absurd. Does the Philadelphia's Gas Works' $18 million payment to the City establish a line of revenue from the Gas Works to the City on an annual basis, which would give some creditor claim that, in fact, the money in the pool of reserves that the City may hold, or some City dollars, were in fact originally Gas Works dollars and, therefore, we have claim for recovery from the City itself?

MS. STERN: After it's already been paid?

COUNCILMAN KENNEY: Every year, we get an $18 million payment of revenue from the Gas Works revenue to the City.

MS. STERN: Yeah. I want to understand the hypothetical because, you know, this supplemental ordinance that's before you is supplemental to the General Gas Works Revenue Bond Ordinance.

COUNCILMAN KENNEY: Right.

MS. STERN: And there's a priority-of-payment schedule in that general ordinance that controls the bonds.

COUNCILMAN KENNEY: But if the company fails, everybody in that line --

MS. STERN: If the company fails, you know, the City payment is at the bottom of that bucket. The bondholders would be --

COUNCILMAN KENNEY: No, that wasn't my question.

MS. STERN: But you're saying that the past history of the payments to the City would entitle a bondholder to claim that because the City received the base payments for prior years, the City now has to just (indiscernible) all those past payments?

COUNCILMAN KENNEY: Or add up what the past payments have been over how many years times the number, and these were monies that were moved -- again, I'm not a finance exert and I'm not a lawyer. These monies were taken on an annual basis by right of the City and agreement with the Gas Works; therefore, you have a share of our revenue that should be coming to us to pay the bonds.

MS. STERN: And, you know, I would say

that --

COUNCILMAN KENNEY: It's almost like Act 46 with the School District. I mean, you've been giving us this money now for all these years; now if the School District fails, God forbid, we want you to continue paying that because that was our money in the first place.

MS. STERN: I think that, you know, it's a very creative theory, and I would ask if somebody's been practicing public finance law for a long time that you please not represent any bondholders because it's very creative.

But the bondholders' contract with the City is, you are payable from Gas Works revenues and Gas Works revenues only. Once the revenues have been spent for a proper purpose, whether it's to pay the City of Philadelphia its base payment or to pay the vendor of the gas utility for gas, you can't convert it and say now, you know, it's under some tracing theory, "Texas-something Pipeline Company" has to give back the gas revenues or the City does.

COUNCILMAN KENNEY: What's the likelihood of anyone purchasing any of these bonds if there's no insurance?

MS. STERN: Well, with an investment grade rating, which we still have --

COUNCILMAN KENNEY: It would remain an investment grade rating despite the lack of insurance?

MS. STERN: They have an investment grade rating right now, without insurance.

COUNCILMAN KENNEY: And, again, I don't want to belabor this 'cause I know it's getting long, but explain to me how the City of Philadelphia, in a similar financial condition in 1991, had no investment grade rating, but this company, which seems to be maybe not as bad as the City but pretty close to it in '91, has an investment grade rating. I don't understand how the rating agencies determine that. I mean, it can't be because of past performance.

MS. BISGAIER: One thing that's important to understand is that the rating doesn't change from bond issue to bond issue. It's a --

COUNCILMAN KENNEY: It's a supplement of the --

MS. BISGAIER: Right. It's an existing

rating, which they look at periodically. In the case of the Gas Works to say periodically, is to say weekly.

Over the course of the past year, we have spent an enormous amount of time with each of the three rating agencies, providing them with endless information, endless meetings, and we have sustained the -- you know, the investment grade. As a result of that, there would be access to the market.

COUNCILMAN KENNEY: Okay, all right. Thank you.

COUNCILWOMAN BLACKWELL: Thank you very much.

Councilwoman Tasco.

COUNCILWOMAN TASCO: Thank you, Councilman Kenney. You should ago over to Joan Stern's office and let her give you a whole lesson like she did me back in 1991.

(Laughter.)

COUNCILMAN KENNEY: It's always nice to learn something.

COUNCILWOMAN TASCO: Okay. I want to go back to the procurement discussion. According to the agreement between the City and PGW -- and the agreement is an ordinance of City Council -- the Gas Commission does have the power to establish procurement rules and regulations for PGW. And at one point, there was some effort to try to begin a dialogue on addressing some of the issues that have been raised here today, but somehow it got (indiscernible) by somebody at PGW.

Since we are here now before the Council and not before the Gas Works, which singly did not have the teeth to do it, but this body does, we will ask Kumar, Mr. Kischinchand, to assign your staff to work with the Gas Commission staff to review the procurement policies and practices of PGW and establish a participation program for this Finance Committee and for this Council.

COUNCILMAN KENNEY: Madam Chair, do you mind if I ask, is that in the form of an amendment?

COUNCILWOMAN TASCO: This is not an amendment because it's already a law. I mean, it was already a part of the agreement under the agreement between the City and PFMC that the Commission does have the power to do that. I'm just stating it for the record, that this is what we want done.

COUNCILMAN KENNEY: Okay.

MR. KISCHINCHAND: Okay, you want PGW staff to work with the PGC staff as well as MBEC to work out some agreements on procurement.

COUNCILWOMAN TASCO: Right.

COUNCILMAN KENNEY: And if I may, if it could be considered a friendly suggestion, I would like to add the issue of professional services to that investigation.

COUNCILWOMAN TASCO: Sure, okay.

MR. KISCHINCHAND: PGW only or --

COUNCILMAN KENNEY: My request to the Treasurer was for the entire city. My addendum to Councilmember Tasco's request is for Gas Works.

MR. KISCHINCHAND: Okay.

COUNCILWOMAN TASCO: Just one point of information. Under the prior administration, when Wilson Goode was the mayor, he had a rotating policy of participants for professional service that really was very inclusive and gave a lot of different professional-service providers an opportunity to do work with the City of Philadelphia. So you might want to -- I know that is a political decision that has to be considered by the second floor, but I put that on the table.

COUNCILMAN KENNEY: It doesn't have to be.

COUNCILWOMAN TASCO: Thank you very much.

COUNCILWOMAN BLACKWELL: I understand, per the US Department of Energy's May 2001 report, that the price of natural gas was $2.12 per MCF in January 2000 and $8.06 per MCF in January 2000, a fourfold increase, while consumption was up just 7.2 percent month over month. So this gives us -- how do you respond to that and how will that affect us?

MR. KISCHINCHAND: I brought all of the technical experts here to help me answer.

COUNCILWOMAN BLACKWELL: Thank you.

MR. KISCHINCHAND: If you don't mind, Madam Chair, I'd like to have Craig White, who is our Senior Vice President for Gas Supply and Marketing, to answer that, please.

COUNCILWOMAN BLACKWELL: Thank you.

(Witness comes forward.)

MR. WHITE: My name's Craig White. I'm Senior Vice President of Marketing and Supply Services for Philadelphia Gas Works.

And I must apologize, I couldn't quite hear all of the question. Could you please repeat it.

COUNCILWOMAN BLACKWELL: We were talking about a fourfold increase from January 2000 to January 2001. Consumption was up just 7.2 percent in month over month gain, but the price went up fourfold percent, from $2.12 per MCF to $8.06 per MCF.

How will that affect us and our gas rates and the bills to you are customers?

MR. WHITE: Well, this past January, it is correct that the all-time highs for natural gas costs were incurred. One of the things that the company has done to mitigate that cost was to enter into some flexible contracts that will allow us to avoid some of this higher-priced gas and also to use the LNG facility that Mr. Kischinchand spoke of earlier. The projections for next year are in the neighborhood of $5.70 in the January time frame.

As far as how things go to affect the customers, what has occurred over the last year has been incorporated in subsequent modifications to our gas cost recovery filing; our most recent being a month or so ago, when we increased the gas cost rate to $6.69.59. We have just filed our gas cost rate for the 2001-2002 fiscal year beginning September 1, and the rate is in the $5.70 range.

So we expect a drop in the GCR factor from the current level to the level that will be in effect on September 1.

COUNCILWOMAN BLACKWELL: We certainly need a drop someplace because these customers whose bills have doubled and tripled, who can't pay their bills as they have gone up, thank God the gas cost rate went down, because certainly, I wouldn't be the one to stand in front of them and say, We want to give you a 35 percent increase, or whatever the figure turns out to be.

Thank you very much.

Are there any other questions from members of the committee?

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(No further questions.)

COUNCILWOMAN BLACKWELL: All right. Then we will conclude our stated hearing. And before we do that, Madam Treasurer?

MS. OLANIPEKUN: If it pleases the committee, we are respectfully requesting a suspension of the rules.

COUNCILWOMAN BLACKWELL: All right, that will be fine. This will conclude our public hearing.

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5/8/01 FINANCE - PUBLIC MEETING

COUNCILWOMAN BLACKWELL: We will now enter into our public meeting.

Councilman Kenney, we will ask you for a motion to amend Bill 010209, per the amendments that were circulated and read into the record.

COUNCILMAN KENNEY: I move the adoption of the amendment.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: It has been moved and properly seconded that the amendments to Bill No. 010209 be approved.

All in favor?

Opposed?

Bill 010209 has been amended.

We will now ask Councilman Kenney for a motion to approve to report out of committee Bill 010209, as amended.

COUNCILMAN KENNEY: Thank you, Madam Chair. I move that Bill 010209, as amended, be reported out of this committee with a favorable recommendation and with a request for a suspension of the rules to allow for first reading at our next Council session.

(Duly seconded.)

5/8/01 FINANCE - PUBLIC MEETING

COUNCILWOMAN BLACKWELL: Thank you. It has been move and seconded that Bill 010209, as amended, be reported out of committee with a favorable recommendation and also a recommendation for the suspension of the rules so as to permit first reading at our next session of Council.

We also note for the record that Councilman O'Neill is here. Thank you.

Councilwoman Tasco, we will now ask you for a motion to approve the amendments to Bill No. 010210.

COUNCILWOMAN TASCO: Madam Chair, I move that the proposed amendment to Bill 010210 be approved as presented to the committee.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: Thank you.

All in favor?

Opposed?

The amendments to Bill No. 010210, as circulated and read into the record, are approved.

I will now ask Councilwoman Tasco for a motion to approve to report out of committee Bill 010210, as amended, with a suspension of the rules.

COUNCILWOMAN TASCO: Madam Chair, I move that Bill No. 010210, as amended, be reported out of committee with a favorable recommendation and with a request for a suspension of the rules so as to have this bill read at the next City Council session.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: All in favor?

Opposed?

The ayes have it and Bill No. 010210, as amended, is reported out of committee with a favorable recommendation and also a recommendation for a suspension of the rules so as to permit first reading at our next session of Council.

This ends our Finance hearing. Let me thank all members of the committee and thank all of you who have come, and our business at hand is done.

Thank you.

(Adjourned 2:51 p.m.)

C E R T I F I C A T E

I HEREBY CERTIFY that the foregoing proceedings of the Council of the City of Philadelphia of Tuesday, May 8, 2001, were reported fully and accurately by me, and that this is a correct transcript of same.

RE: COUNCIL COMMITTEE ON FINANCE
BILL NO.'S 010209, 010210

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JOSEPHINE CARDILLO,
Registered Professional Reporter