COUNCIL OF THE CITY OF PHILADELPHIA

COMMITTEE ON FINANCE

Room 400, City Hall
Philadelphia, Pennsylvania
Thursday, December 8, 2011
9:20 a.m.

PRESENT:

COUNCILWOMAN MARIAN B. TASCO, CHAIR
COUNCILWOMAN JANNIE BLACKWELL
COUNCILMAN FRANK DiCICCO
COUNCILMAN W. WILSON GOODE, JR.
COUNCILMAN WILLIAM K. GREENLEE
COUNCILMAN JAMES KENNEY

BILL 110876 - An ordinance authorizing the Director of Commerce and the Director of Finance to enter into a multi-year agreement or agreements with the Philadelphia Authority for Industrial Development ("PAID"), the Redevelopment Authority of the City of Philadelphia ("RDA"), and other parties as necessary concerning the parking garage project constructed as part of the overall Market Street East - Gallery II Redevelopment Project...

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COUNCILWOMAN TASCO: Good morning. The Committee on Finance will come to order.

I'd like to recognize that we do have a quorum in the presence of Councilman Greenlee, Councilman Goode, Councilman DiCicco and myself and Councilman Kenney.

The Clerk will please read the bill.

THE CLERK: Bill No. 110876, an ordinance authorizing the Director of Commerce and the Director of Finance to enter into a multi-year agreement or agreements with the Philadelphia Authority for Industrial Development ("PAID"), the Redevelopment Authority of the City of Philadelphia ("RDA"), and other parties as necessary concerning the parking garage project constructed as part of the overall Market Street East - Gallery II Redevelopment Project, including an amendment to the agreement between the City and PAID, as amended, originally authorized by Bill No. 546 (approved June 15, 1993), and further authorizing the Director of Commerce and the Director of Finance, where necessary or prudent, to enter into ancillary agreements with any or all of PAID, the RDA, Parametric Garage Associates ("Parametric"), a new lender to Parametric, and other parties under certain terms and conditions.

COUNCILWOMAN TASCO: Thank you.

Is there anyone here to testify on this bill?

(Witness approached witness table.)

COUNCILWOMAN TASCO: Good morning.

MS. RHYNHART: Good morning, Councilwoman Tasco and members of the Committee on Finance. I'm Rebecca Rhynhart, Budget Director for the City of Philadelphia, and I'm here to testify on behalf of Bill No. 110876.

Bill 110876 will authorize the

Director of Commerce and the Director of Finance to enter into a multi-year agreement or agreements as well as amendments to certain agreements with the Philadelphia Authority for Industrial Development, the RDA, and other parties as necessary concerning the parking garage project.

In 1982, the City guaranteed debt on behalf of the Parametric Garage located at 11th and Arch Streets as part of the economic development deal to get JCPenney to locate at the Gallery. Parametric did not generate sufficient revenues to pay principal and interest on those bonds, so the City had to pay debt service on the bonds totalling just over 17 million from the 1980's until 1997. The amounts accrued interest at 5 percent annually, and now the outstanding balance owed to the City is approximately $52 million. The RDA is also owed about 6 million for unpaid ground lease payments, as the RDA owns the land under the garage. The total amount owed to the City would come due in 2013, but Parametric is not expected to have the funds to pay this amount and it is far greater than the value of the garage, which is about $26 million.

Parametric's operations are now profitable and it has offered to obtain private financing in order to pay off the remaining bonds and pay the City and the RDA on an annual basis from excess cash flow. This is in the best interest of the City, as it results in about 15 million to be paid to the City and the RDA and financial controls being put in place to maximize annual cash flow from the garage to the City's General Fund on an ongoing basis through 2051 or until the balance is repaid. The four parties involved with this proposed deal are the City, PAID, the RDA and Parametric. The deal is expected to close in January 2012.

Certain documents will be

executed as part of this transaction, including an installment sale agreement between PAID and Parametric, which requires the garage to make payments to PAID, who will then make the payments to the City. There is a parking garage agreement between PAID and the City, which details how PAID makes payments to the City and to the RDA. And then there's a participation agreement, which details the payment split between the City and the RDA, City getting 90.2 percent of amounts received and the RDA getting 9.8 percent of amounts received.

I respectfully request that you report Bill No. 110876 out of Committee with a favorable recommendation, and I further request that the rules of Council be suspended so as to permit first reading at the next session of Council.

This concludes my testimony, and I'm happy to answer any questions you may have at this time.

COUNCILWOMAN TASCO: Thank you

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very much.

Are there any questions regarding -- Councilman Greenlee.

COUNCILMAN GREENLEE: Good morning, Ms. Rhynhart.

MS. RHYNHART: Good morning.

COUNCILMAN GREENLEE: I'm just trying to figure out exactly what happened here. Did Parametric pay anything in this time?

MS. RHYNHART: Parametric has paid a little bit. And I would say a little bit because in some years we've gotten like $30,000 or so, but nothing --

COUNCILMAN GREENLEE: That's a little bit.

MS. RHYNHART: Nothing related to the material amount owed, and they really for -- I mean, we paid the debt service through '97, and then they've managed to get by, but were not profitable from year to year until the last two or three years they've been making some money.

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COUNCILMAN GREENLEE: Now, was that the agreement, that if they make a profit, or was the thinking if they don't have the money, they don't have the money?

MS. RHYNHART: When this deal was originally done in the '80s?

COUNCILMAN GREENLEE: Yes.

MS. RHYNHART: From talking to people that were originally involved in the deal from the '80s, at that time, there was not --

COUNCILWOMAN TASCO: I'm sorry. Excuse me a minute.

MS. RHYNHART: Sure.

In the 1980's, there wasn't the expectation that the garage would be profitable. It was done to try to get JCPenney to locate as a condition, to get them to locate there, but now that the garage is profitable, it's in a pretty good location, across from the Convention Center, we're trying to maximize the amount of cash coming to the City.

COUNCILMAN GREENLEE: And the total amount that will come back to the City is how much, just so I'm clear?

MS. RHYNHART: Well, we will get -- there's $15 million that will be split between the City and the RDA that will come in in January, next month. The City will get -- it's about 13 and a half million of that, free and clear. We'll get that money. Then on an ongoing basis, we have negotiated controls so that the City has the right to approve the garage's annual operating budget, and the City gets all excess cash flow from the operations of the garage. So we should expect to see funds coming in on an ongoing basis. In the first year it's expected to be about 600,000 or so. They're projecting that to ramp up. But we are expecting to get that money. So that is why it's a good transaction for the City.

COUNCILMAN GREENLEE: And I know you say in your testimony it will be on an ongoing basis through 2051 or until the balance is repaid?

MS. RHYNHART: That's right, because after they pay us about the 13 and a half million or so, they'll still owe us about $38 million. So each year -- I mean, we are getting all of the excess cash flow between the City and the RDA, so it will take a while to get that amount repaid.

COUNCILMAN GREENLEE: You might still be around. I won't be.

MS. RHYNHART: But it's maximizing any excess cash flow so that it comes to the City and the RDA and that we benefit from that.

COUNCILMAN GREENLEE: Thank you.

MS. RHYNHART: Sure.

COUNCILWOMAN TASCO: Looking back at this transaction in '82, is this something that you would have supported?

MS. RHYNHART: It's hard for me to answer that not being here and knowing the economic development situation. I mean, I would say in general there's danger to guaranteeing bonds issued for private development because of something like this where we end up being on the hook for it, but, again, I don't know -- since I wasn't there, it's really hard to say how imperative it was to bring that development in.

COUNCILWOMAN TASCO: So are we still -- we're not guaranteeing the bonds.

MS. RHYNHART: No.

COUNCILWOMAN TASCO: But we're paying off the bonds.

MS. RHYNHART: Right. There's a few million dollars of these bonds outstanding, about 2 million or so. So that will be paid off with this transaction. We are no longer on the hook in any way for that.

COUNCILWOMAN TASCO: So our transaction is to get some of our money back.

MS. RHYNHART: I'm sorry?

COUNCILWOMAN TASCO: This transaction is to get some of our money back.

MS. RHYNHART: Right. This transaction is to get the up-front money as well as getting operational control going forward so that we squeeze the cash flow out of this garage for our benefit.

COUNCILWOMAN TASCO: How will you know what the cash flow is? What process --

MS. RHYNHART: Sure. Well, each year we've negotiated controls where they have to send us the draft operating budget 90 days before their fiscal year. The Director of Finance of the City must approve that budget or that budget does not go into place, and then the trustee -- the cash flow goes to a trustee, and then the trustee can only release money for operating expenses if it fits with the operating budget that was approved by the Director of Finance.

So we'll have pretty tight controls on it.

COUNCILWOMAN TASCO: Okay. Thank you.

Any other questions?

(No response.)

COUNCILWOMAN TASCO: Thank you very much for your testimony.

The amendment, do you want to explain what the amendments are?

MS. RHYNHART: Oh, sure. The amendments to the attachments?

COUNCILWOMAN TASCO: Yes.

MS. RHYNHART: We updated the attached parking garage agreement and the participation agreement just to reflect some additional changes and strengthening of our position in those documents. So, yeah, it's just to provide more up-to-date documents for you.

COUNCILWOMAN TASCO: Okay. Thank you very much.

MS. RHYNHART: Thank you.

COUNCILWOMAN TASCO: This will

conclude our public hearing. We'll go into our public meeting.

The Chair recognizes Councilman Goode for the amendment to Bill 110876.

COUNCILMAN GOODE: Thank you, Madam Chair. I move that the amendments to Bill No. 110876 be approved.

(Duly seconded.)

COUNCILWOMAN TASCO: It has been moved and seconded that we adopt the amendments to Bill 110876.

All in favor?

(Aye.)

COUNCILWOMAN TASCO: Is there any opposition?

(No response.)

COUNCILWOMAN TASCO: There being none, the motion is carried.

The Chair recognizes Councilman Greenlee to report Bill 110876 out of Committee with a favorable recommendation, as amended.

COUNCILMAN GREENLEE: Thank you, Madam Chair. I move that Bill No.

110876, as amended, be reported out of this Committee with a favorable recommendation and that the rules of Council be suspended to allow for first reading at our next session of Council.

(Duly seconded.)

COUNCILWOMAN TASCO: It has been moved that Bill 110876, as amended, be reported out of Committee with a favorable recommendation and a request for the Council rules to be suspended so this bill can be heard at Council's next session.

All in favor will say aye.

(Aye.)

COUNCILWOMAN TASCO: Is there any opposition?

(No response.)

COUNCILWOMAN TASCO: There being none, the motion is carried.

There's no other business before this Committee, the Committee is adjourned.

Thank you.

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(Committee on Finance concluded at 9:30 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 December 8, 2011, and that this is a true and correct transcript of same.

MICHELE L. MURPHY

RPR-Notary Public

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