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

- - -

Room 400, City Hall
Philadelphia, Pennsylvania
Tuesday, November 10, 1998
1:40 p.m.

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Bill No. 980680 - Authorizing the President of the Fairmount Park Commission and the Executive Director of the Fairmount Park to execute a lease covering that portion of Fairmount Park known as "River Field Premises" with the PAID for a term of 25 years, with one 5-year renewal option, under which PAID shall execute a sublease with the Friends of River Field, Inc., a nonprofit corporation organized under the laws of the Commonwealth of Pennsylvania.
(Full text attached.)

Res. No. 980767 - Finding that a negotiated private sale of General Obligation Bonds is in the best financial interests of the city

Bill No. 980679 - Amending Section 19-201 of The Philadelphia Code relating to City depositories by clarifying and updating the list of institutions in which the City is authorized to deposit funds, and by amending certain conditions.

PRESENT: COUNCILWOMAN ANNA CIBOTTA VERNA, Chair
COUNCILWOMAN JANNIE BLACKWELL
COUNCILMAN JAMES F. KENNEY
COUNCILWOMAN MARIAN B. TASCO

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11/10/98 FINANCE COMMITTEE MEETING

I N D E X

11/10/98 FINANCE COMMITTEE - Bill No. 980680

P R O C E E D I N G S

COUNCILWOMAN VERNA: This is the public hearing on the Committee of Finance. I would please ask the clerk to read Bill No. 980679.

THE CLERK: Bill No. 980680, an ordinance authorizing the President of the Fairmount Park Commission and the Executive Director of the Fairmount Park to execute a lease covering that portion of Fairmount Park known as "River Field Premises" --

COUNCILWOMAN VERNA: That's not the right number. But continue reading that one. That is Bill No. 980680.

THE CLERK: Bill No. 980680, authorizing the President of the Fairmount Park Commission and the Executive Director of Fairmount Park to execute a lease covering the portion of Fairmount Park known as "River Field Premises" with the Philadelphia Authority for Industrial Development ("PAID") for a term of 25 years, with one 5-year renewal option, under which PAID shall execute a sublease with the Friends of River Field, Inc., ("FRF") a nonprofit corporation organized under the laws of the Commonwealth of

Pennsylvania.

COUNCILWOMAN VERNA: Good afternoon.

MR. WALLER: Good afternoon.

COUNCILWOMAN VERNA: I'm sorry for the delay but would you please identify yourself for the record, and proceed with your testimony.

MR. WALLER: Yes. Good afternoon, Councilwoman. My name is Dennis Waller, Deputy Director of Fairmount Park Commission. And good afternoon.

I'm here to testify on behalf of the Fairmount Park Commission in favor of the Friends of River Field and their proposal to enter into a lease with the Commission to raise funds to undertake capital improvements required to restore the park and make it usable by the Friends and other park users.

The field is located at (unintelligible) and 24th Street, west of Park Town, the Park Town apartment complex.

The proposal does not require any City of Philadelphia funding and will not require any maintenance responsibilities of the Fairmount Park Commission staff.

The proposed improvements will include new fields, a new building for storage of athletic equipment, and public-access bathroom facilities. The Commission wishes to stress that proposed construction will not interfere with the other groups currently using the field, and the Friends will have the responsibility of maintaining the building.

The full Commission voted to grant conceptual approval of the building and site plans to enable the Friends to raise the necessary funds to move forward with their proposal.

I will be happy to answer any questions you may have regarding the proposals submitted by the Friends of River Field and the Fairmount Park Commission's action. Thank you.

COUNCILWOMAN VERNA: I thank you. When you say that Fairmount Park will be leasing, can you tell me how much they will be paying, a dollar a year?

MR. WALLER: The lease is for a dollar a year, yes, Councilwoman.

COUNCILWOMAN VERNA: Thank you. And I know that you said that they're going to improve or they will be -- this will improve the new fields?

MR. WALLER: Yes.

COUNCILWOMAN VERNA: How much will all of the improvements cost; does anybody have any indication?

MR. WALLER: I can bring some of the gentlemen, with your permission. We do have the Friends of River Field with here with us today.

COUNCILWOMAN VERNA: I think we ought to place that on the record.

MR. WALLER: Yes. We're with the Friends of River Field. We have Mr. Jim Lloyd, Mr. Dick Trotter, and Mr. Ed Graham, the Executive Secretary of the Friends of River Field. Those gentlemen are here.

COUNCILWOMAN VERNA: Okay.

MR. WALLER: I believe Mr. Ed Graham would probably be the best person to answer some of those questions with regard to finances.

COUNCILWOMAN VERNA: Thank you.

(Ed Graham comes forward.)

COUNCILWOMAN VERNA: You can just pull up another chair.

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MR. GRAHAM: Good afternoon. Thank you for the opportunity.

Our budget is predicated --

COUNCILWOMAN VERNA: I'm sorry, please identify yourself for the record.

MR. GRAHAM: Yeah, I'm Mr. Edward Graham, the Secretary for Friends of River Field.

And our budget is preliminary at this stage because it seems we are in the process of discovery as we try to help this field, it's in pretty bad shape.

The building we envision putting on the field would cost about $650,000, of which we've already raised about $200,000 in a quiet campaign. We have not been able to go public with the campaign to raise additional funds until we had the surety of the lease; for obvious reasons, people wouldn't invest in something unless there is that sort of surety.

The field itself will take several growing cycles to rehab, probably a minimum of three growing cycles before it's in prime condition, but that will probably cost in the neighborhoods $45,000 to re-grade, reseed and

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landscape the way it needs to be done.

Combined with the construction costs, about 700,000 would be a good planning figure. We've already invested approximately $70,000 in architectural fees. The demolition of the existing -- well, the nonexisting building now and the removal of the secondary tree growth that was such a problem for the neighborhood, all of that work has already been undertaken and budgeted for and paid for to the benefit of the park.

COUNCILWOMAN VERNA: Mr. Graham, do you feel very confident that you will be able to raise the type of funds that you're talking about?

MR. GRAHAM: I am. Yes, ma'am, I am.

COUNCILWOMAN VERNA: Thank you.

Are there questions from members of the committee?

The Chair recognizes Councilwoman Tasco.

COUNCILWOMAN TASCO: Good afternoon.

MR. GRAHAM: Good afternoon, Councilwoman.

COUNCILWOMAN TASCO: Could you tell me the size of the building you plan to construct.

MR. GRAHAM: It's approximately 3800 square feet. It's been submitted to the Art Commission and approved.

COUNCILWOMAN TASCO: How high?

MR. GRAHAM: I beg your pardon?

COUNCILWOMAN TASCO: The height.

MR. GRAHAM: It's one story. It has a gabled roof, so probably at the pitch of the highest gable, it's about 14 feet.

COUNCILWOMAN TASCO: Does it block any of the view from any of the apartments buildings?

MR. GRAHAM: None, no. In fact, it's tucked back into the cul-de-sac of the park, under a berm of natural earth. So it's not even visible from Eakins Oval.

COUNCILWOMAN TASCO: In the bill, it says that you -- well, this ordinance will permit you to sublease the premises to a high school located in the city. Is it a specific high school or --

MR. GRAHAM: Yes, it is. It's Roman Catholic High School, at Broad and Vine.

COUNCILWOMAN TASCO: Thank you.

MR. GRAHAM: You're welcome.

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COUNCILWOMAN VERNA: Any other questions from members of the committee?

(No response.)

COUNCILWOMAN VERNA: Do we have anyone else to testify on this bill?

COUNCILWOMAN TASCO: Could I follow up on that question?

COUNCILWOMAN VERNA: Yes. The Chair recognizes Councilwoman Tasco.

COUNCILWOMAN TASCO: Will the school pay a fee, or will they use the site for no cost?

MR. GRAHAM: No, it will be of the same time nature of our lease with PAID and Fairmount Park. It's a nominal dollar-a-year lease, if we choose to go that way.

They may continue to use -- they use the field, now you have to understand, and they may just continue to use the field on a permit basis instead of a lease hold.

COUNCILWOMAN TASCO: Mm-hmm. Thank you.

MR. GRAHAM: It might be easier.

MR. WALLER: If I may, Councilwoman. Currently, the field is permitted at little, minimal or no cost to all users of River Field.

COUNCILWOMAN VERNA: And all will be able to use the facility?

MR. WALLER: Yes. One of the specific requirements of the Fairmount Park Commission is that all current users and future users, in addition to Roman, will be able to continue to use the field.

Fairmount Park Commission will continue to be the primary organization that permits that field; we are not giving up the responsibility of permitting the site.

COUNCILWOMAN VERNA: Very good. Thank you.

Any other questions?

(No response.)

COUNCILWOMAN VERNA: Is there anyone else to testify on this bill? I'm sorry, did you want to add something to the testimony?

MS. GRENICH: My name is Tracy Grenich (ph.), and I'm with the Law Department, as Assistant City Solicitor, and I'm here to answer any questions that you may have specifically regarding the actual deal between the parties.

COUNCILWOMAN VERNA: Any questions?

(No questions.)

COUNCILWOMAN VERNA: Thank you. Thank you, gentlemen.

MR. GRAHAM: Thank you.

MR. WALLER: Thank you, Councilwoman.

COUNCILWOMAN VERNA: Is there anyone else here to testify on this bill?

(No response.)

COUNCILWOMAN VERNA: Seeing none, we will consider our next bill, which is Bill No. -- Oh, I'm sorry, it's Resolution No. 980767.

THE CLERK: Resolution No. 980767, a resolution finding that a negotiated private sale of General Obligation Bonds is in the best financial interests of the City.

(Thomas Queenan comes forward.)

COUNCILWOMAN VERNA: Good afternoon. Please identify yourself for the record, and proceed with your testimony.

MR. QUEENAN: Yes, good afternoon. My name is Thomas Queenan, and I'm Treasurer for the City of Philadelphia. It's nice to be here.

I've provided you with copies of my

testimony. I apologize for getting them to you early this morning, but it's been a bit crazy, as you can imagine.

COUNCILWOMAN VERNA: We know that feeling.

MR. QUEENAN: Yeah. I'm here to testify in support of Bill No. 980767, which is a resolution finding that a negotiated private sale of general obligation bonds is in the best financial interests of the City of Philadelphia.

The City has been authorized, pursuant to four previously-approved ordinances by City Council -- those of which are Bill No. 970193, approved on April 25, 1997; Bill No. 960358, which was approved July 8, 1996; Bill No. 1367, which was approved March 30, 1995; and Bill No. 1367, which was approved April 26, 1991 -- to issue general obligation bonds for the purpose of financing capital projects in the following five categories: (1) Transit; (2) Streets and Sanitation; (3) Municipal Buildings; (4) Parks and Recreation and Museums; (5) Economic and Community Development projects.

These ordinances that were approved by

the electorate during public elections provide that in order to sell any bonds under such ordinance by way of a private negotiated sale, City Council must resolve that a private negotiated sale is in the best financial interests of the City of Philadelphia.

The advantages of the private negotiated sale for the City of Philadelphia include enhancement of the City's ability to come to market at the most favorable time. As you know, the financial markets have been volatile for the last several months and are expected to continue to be volatile for the near future.

While bond yields continue to be at their historic lows, volatility has resulted in a wide swing in U.S. treasury markets. Therefore controlling the timing of a bond issuance is a critical aspect of managing the cost of borrowing for issuers of long-term fixed-rate bonds.

A private negotiated sale will provide the necessary time and flexibility to price the bonds at the most optimal period the marketplace. A private negotiated sale will allow the City and its underwriters to educate investors about the

City's credit in order to get the lowest interest rates available in the market.

For the most of this decade, the long-term credit rating for the City of Philadelphia was below investment rate. Such credits are generally sold through a private negotiated sale process because it is customary for investors to purchase sub-investment grade bonds via the competitive -- I'm sorry, I think I need to repeat that.

For most of the decade, the long-term credit rating for the City of Philadelphia has been below investment grade. Such credits are generally sold through a private negotiated sale process because it is not customary for investors to purchase sub-investment grade bonds via the competitive process.

This is the case because investors require sufficient credit and other information about a proposed issuance of bonds before they bid. A less-than-investment-grade rating engenders too much uncertainty for the competitive process, due to the corresponding risk of the rating.

The City currently enjoys an investment-grade rating from each of the three main rating agencies. However, because of the City's previous ratings and the fact that our current credit rating is not among the highest available in the investment-grade category, a competitive sale will not assure the lowest cost of borrowing for the City.

Moreover, it should be noted that a private negotiated sale of bonds should not suggest that such a process is not competitive. The City utilizes a competitive request for a qualification process to select perspective companies for investment banking services. Once qualified, each firm must submit proposals that are evaluated on a competitive basis for optimal cost, highest savings, and most accommodating structure for the City.

During the day of the sale investors submit offers for the bonds via a competitive bidding process that is managed by the senior investment bank. Based on market demand, the interest costs of the bonds will be reduced to a level commensurate to the competitive demand for bonds by investors, hence assuring the lowest cost of borrowing for the City for the life of the bonds.

The private negotiated sale of the City of Philadelphia Series 1998 bonds will provide the most flexibility for pricing the bonds in a volatile market, permit the City and its underwriters the occasion to educate investors, and help achieve the lowest cost of borrowing available in the market. During the past decades, statistics show that up to 74 percent of tax-exempt debt have been transacted by a negotiated sale. To this end, I request that City Council approve Bill No. 980767.

The Series '98 bonds will be issued as fixed-rate denominations of $5,000, interests will be paid semiannually, all the debt will be issued as general obligation bond debt of the City. The full faith credit and taxing power of the City is pledged for the payment of principal and interest and premium, if any, on the Series 1998 bonds, and all other general obligation debts of the City. We expect to pursue the provision of bonds issuance for all the Series 1998 bonds.

The sale of the bonds is tentatively scheduled for late November, and they're not to exceed $250 million. Settlement of the bonds is scheduled for mid-December.

Attached is a listing of the financing team for your review.

That concludes my testimony. If you have any questions, I'm available to answer them at this time. Thank you.

COUNCILWOMAN VERNA: For the record and for clarity's sake, the bonds we are discussing are for new $250 million for capital programs, and this has already been authorized by the electorate; is that correct?

MR. QUEENAN: Yeah. The $250 million is going to be used to fund the capital program of the City, which has been approved by City Council.

The ordinances that allow us to incur the debt was approved by Council and by the citizens of Philadelphia by way of electorate--

COUNCILWOMAN VERNA: Ballots.

MR. QUEENAN: Ballot questioning, thank you, that were placed on ballots over the last couple of years and approved by the citizens of

Philadelphia.

COUNCILWOMAN VERNA: What is the potential that these bonds will be rated at a better investment grade than our most recent bond issues?

MR. QUEENAN: Well, we have bids into the insurers, which is the bond insurance companies. We expect to receive those bids over the next several days. Once these bonds are insured by the bond insurers, then it's very likely that the credit-rating agencies will ensure the bonds at the highest level, AAA, which we were able to negotiate through the private negotiated process.

COUNCILWOMAN VERNA: Can you tell us, what is our current debt service capacity? And how close are we to being maxed out?

MR. QUEENAN: The City's general obligation debt capacity is based on a ten-year average of assessed real estate value in the City of Philadelphia, and it is actually 13.5 percent of that assessed valuation, so it's a rolling evaluation.

I believe the amount right now is about

$1.1 billion is our total capacity, which represents 13.5 percent of this rolling number. I believe right now that the City has approximately $500 million to $600 million of bonds outstanding, so our capacity is somewhere $400 million and $500 million; understanding that the $1.1 billion capacity will vary every year. So we have about 4 to $500 million of capacity.

COUNCILWOMAN VERNA: All right. Are there any questions from members of the committee?

COUNCILWOMAN TASCO: I have a couple.

COUNCILWOMAN VERNA: The Chair recognizes Councilwoman Tasco.

COUNCILWOMAN TASCO: What's the debt service on this? Would it be -- do we pay for it out of the General Fund?

MR. QUEENAN: Yes, the debt service would be paid from the General Fund and -- just a moment.

(Mr. Queenan briefly confers with Dean Kaplan and others.)

MR. QUEENAN: There are estimates that the debt service will be approximately $19 million a year, which is average debt service, for the life of the bonds.

COUNCILWOMAN TASCO: Have we accounted for that in our General Fund budget?

MR. QUEENAN: Yes, we have.

COUNCILWOMAN TASCO: What is the present credit rating of the City bonds? I thought we were doing real good. I mean, I thought we were supposed to be doing real good and moving forward.

MR. QUEENAN: Well, I'd like to provide you with a copy of the City's historic credit ratings, if I can do that.

But, currently -- thank you.

Currently, the City's rating is a Baa-2 and a BBB, BBB. And this is considered investment grade, and this page is taken out of the current five-year plan of the City of Philadelphia.

And if you look at the boxes (referring to attached schedules), one box is Standard & Poor's, one box is Fitch Investors, and I see that my assistant actually copied the same page on the back.

Well, in the back, there should be a

chart for Moody's investment, but let's just talk about Standard and Fitch. Standard & Poor's rates the City right now as a BBB. And as you can see here, it says "medium quality." So while we're in the investment-grade category, we're not at the top of the category, which is AAA, but we've come a long way.

You could see that in September of 1990, the City was rated a CCC rating, which is well into the speculative grade or sub-investment grade category. And in a short period of time, which is actually quite remarkable, from 1990 through to March of 1995, the City returned to investment grade. This is really unprecedented for a city of our size to be rated so low, to get back to a BBB rating in less than five years.

So we have a good rating; it's not the best it could be, but it's a good rating.

And I have the chart for Moody's, which actually has the Baa rating, which is considered a medium grade here as well. And on Fitch, the BBB is considered to be a satisfactory quality.

COUNCILWOMAN TASCO: So you're saying the private sale right now would be to our advantage as opposed to an open market.

MR. QUEENAN: Right. It's to our advantage because people will still have a lot of questions about the City of Philadelphia. Investors who will buy our bonds will ask, Well, wasn't the City in trouble in 1990? Or, you know, what's the budget of the City?

So we really have to take the occasion to explain to people how well the City is doing, to demonstrate the fact that the City has been doing well, and provide them with the opportunities to ask the questions so that they can submit -- so they can, you know, buy our bonds.

And the competitive process is not the best way for the City to do that. For my opinion, I believe that the private negotiated sale really allows us more flexibility and opportunity to educate buyers of our debt.

COUNCILWOMAN TASCO: Thank you.

COUNCILWOMAN VERNA: Thank you. Are there any other questions from members of the committee?

(No questions.)

COUNCILWOMAN VERNA: Mr. Kaplan, are you going to testify?

MR. KAPLAN: (Shakes head.)

COUNCILWOMAN VERNA: We do have your commitment that if this passes, we will see some improvements with our recreation facilities? Not just in some areas, but all areas.

MR. KAPLAN: (Nods head.)

COUNCILWOMAN VERNA: I would like the record to reflect the nodding of the head yes, positively.

Thank you. Is there anyone else to testify on this bill?

MR. QUEENAN: I'm not really sure, but I believe as a resolution, there is--

COUNCILWOMAN VERNA: You don't need a suspension.

MR. QUEENAN: Okay, great.

COUNCILWOMAN VERNA: Thank you.

MR. QUEENAN: Thank you.

COUNCILWOMAN VERNA: Is there anyone else to testify on this resolution?

(No response.)

COUNCILWOMAN VERNA: Seeing none, I

11/10/98 FINANCE COMMITTEE - Bill No. 980679 would ask the clerk to please read the title of Bill No. 980679.

THE CLERK: Bill No. 980679, amending Section 19-201 of The Philadelphia Code relating to City depositories by clarifying and updating the list of institutions in which the City is authorized to deposit funds, and by amending certain conditions.

COUNCILWOMAN VERNA: At the request of the sponsor, this bill is being continued till further notice.

This concludes public hearing of the Finance Committee. We will now go into our public meeting.

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11/10/98 FINANCE COMMITTEE - Public Meeting

COUNCILWOMAN VERNA: We are now in our public meeting of the Finance Committee.

The Chair recognizes Councilwoman Tasco regarding Bill No. 980680.

COUNCILWOMAN TASCO: Madame Chair, I move that Bill No. 980680 be reported out of committee with a favorable recommendation, and a request for a suspension of the rules so that this bill can be read at the next session of the Council.

(Duly seconded.)

COUNCILWOMAN VERNA: It's been properly moved and seconded that Bill No. 980680 be reported out of committee with a favorable recommendation, and also a recommendation that the rules of Council be suspended so as to permit first reading at the next session of Council.

All in favor will signify by saying aye.

Those opposed?

The ayes have it. The motion is carried.

The Chair recognizes Councilwoman Blackwell regarding Resolution No. 980767.

COUNCILWOMAN BLACKWELL: Madame Chair, I move Resolution No. 980767 be reported out of committee with a favorable recommendation.

COUNCILWOMAN VERNA: Do I hear a second?

(Duly seconded.)

COUNCILWOMAN VERNA: It has been properly moved and seconded that Resolution No. 980767 be reported out of committee with a favorable recommendation.

All in favor, signify by saying aye.

Those opposed?

The ayes have it. The resolution will be reported out of committee with a favorable recommendation.

Thank you all very much.

(Adjourned at 2:10 p.m.)

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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, November 10, 1998, were reported and accurately by me, and that this is a correct transcript of same.

RE: COUNCIL COMMITTEE ON FINANCE
BILL NO.'S 980679, 980680
RESOLUTION NO. 980767

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JOSEPHINE CARDILLO,
Registered Professional Reporter