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

- - -

Room 400, City Hall
Philadelphia, Pennsylvania
Tuesday, 4/17/01
9:30 a.m.

- - -

BILL 010061 - Constituting the Seventh Supplemental Ordinance to the Restated General Water and Wastewater Revenue Bond Ordinance of 1989; authorizing the Bond Committee to issue and sell either Water and Wastewater Revenue Bonds of the City of Philadelphia; authorizing approval of the form of bonds, providing that the bonds shall bear interest at a prescribed fixed rate, which may be payable in different modes; authorizing agreements to provide credit enhancement or payment of liquidity sources or swap payments for the bonds and certain other actions

(Full text of ordinance attached hereto.)

PRESENT: COUNCILWOMAN JANNIE L. BLACKWELL, Chair
COUNCILWOMAN MARIAN B. TASCO, Vice Chair
COUNCILMAN DAVID COHEN
COUNCILMAN FRANK DICICCO
COUNCILMAN JAMES F. KENNEY
COUNCILMAN MICHAEL A. NUTTER

- - -

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I N D E X

	Page
Folasade Olanipekun, City Treasurer	5
Richard Roy, Acting Commissioner, Water Dept.	8
B. Brunwasser, Dep. Commissioner, Water Dept.	13

4/17/00 FINANCE - BILL 010061

P R O C E E D I N G S

COUNCILWOMAN BLACKWELL: Good morning. Good morning. We are here for the purpose of having a Finance hearing with regard to Bill No. 010061. We have a quorum. To my left is Councilwoman Tasco, Vice Chair; Councilman Dave Cohen; to my right, Councilman James Kenney and Councilman Mike Nutter.

We will ask the clerk to read the title of the bill.

THE CLERK: Bill No. 010061, an ordinance constituting the Seventh Supplemental Ordinance to the Restated General Water and Wastewater Revenue Bond Ordinance of 1989, as amended and supplemented; authorizing the Bond Committee, or a majority of them, to issue and sell either at public or private sale, in one or more series or subseries, Water and Wastewater Revenue Bonds of the City of Philadelphia; authorizing approval of the form, or forms, of bonds, providing that the bonds shall bear interest at a prescribed fixed rate, or rates, at variable rates, which may be payable in different modes; and authorizing agreements to provide credit enhancement or payment of liquidity sources or swap payments for the bonds and certain other actions.

COUNCILWOMAN BLACKWELL: All right. Is that the complete title of the bill?

THE CLERK: Authorizing the Director of Finance of the City to take certain actions with regard to the sale of such Water and Wastewater Revenue Bonds, the investment of proceeds thereof, and the City's continuing disclosure obligation; setting forth the use of proceeds and providing for the application of interest and income earned on such proceeds; determining the sufficiency of the Project Revenues; covenanting the payment of interest and principal; and supplementing the Restated General Water and Wastewater Revenue Bond ordinance of 1989.

COUNCILWOMAN BLACKWELL: Thank you very much.

We would ask our treasurer and those other people who she determines should be here to testify to come forward.

(Witnesses come forward.)

COUNCILWOMAN BLACKWELL: Thank you very

much. And let me thank everyone for their patience. And would you please identify yourself for the record.

MS. OLANIPEKUN: Sure.

COUNCILWOMAN BLACKWELL: And begin your testimony. Thank you.

MS. OLANIPEKUN: Good morning. My name is Folasade Olanipekun, and I'm the Treasurer for the City of Philadelphia. With me this morning is Janice Davis, Director of Finance; Richard Roy, Acting Water Commissioner, and other senior Water Department personnel, and we're here today to testify in support of Bill No. 61.

The purpose of Bill No. 61 is to authorize an ordinance creating the Seventh Supplemental Ordinance to the General Water and Wastewater Revenue Bond Ordinance of 1989. This ordinance further authorizes the Bond Committee, on behalf of the City, to issue and sell Water and Wastewater Revenue Bonds.

In the original ordinance introduced on February 1, 2001, the maximum aggregate principal amount requested was $250 million net of original issue discount. Since introduction of this

4/17/00 FINANCE - BILL 010061

ordinance, market rates have fallen so significantly that refunding opportunities have become available to create certain outstanding water -- excuse me. Since introduction of this ordinance, market rates have fallen so significantly that refunding opportunities have become available to certain outstanding Water and Wastewater Revenue Bonds.

As a result, we are respectfully requesting that the Finance Committee accept an amendment to Bill No. 61 that will permit the Water Department to take advantage of these refinancing opportunities. This amendment will now authorize the Bond Committee, on behalf of the City, to issue and sell Water and Wastewater Revenue Bonds in an aggregate principal amount not to exceed $500 million net of original issue discount. Should Council accept and approve this proposed amendment, the components of the 500 million include the following:

250 million, which will be used to fund a portion of the Water Department's ongoing capital improvement program for the six-year period of fiscal years 2001 through 2006 (a more

detailed description of the program will be provided in the Water Commissioner's testimony);

And the remaining 250 million will be used to refund certain outstanding Water and Wastewater Revenue Bonds.

Our refunding of these bonds in today's interest rate environment will cause the Water Department to realize present value savings of about $6.4 million. All revenues pledged to secure the payment of the bonds will be derived from rents, rates, and fees charged or imposed by the water and wastewater system. None of the bonds that will be issued under this ordinance will have any recourse to the revenues of the City's General Fund. This is evidenced by opinion of the Solicitor, attesting to the fact that these are non-recourse bonds.

Finally, as required by the First-Class Revenue Bond Act and Restated General Water and Wastewater Revenue Bond Act of 1989, the Finance Director of the City of Philadelphia is transmitting her financial report regarding the financial viability of the water and wastewater system.

This concludes my testimony. I will be introducing -- I'm sorry -- providing to Council the Director of Finance's letter, which --

COUNCILWOMAN BLACKWELL: Will the Sergeant-at-Arms please -- thank you.

MS. OLANIPEKUN: And additionally, I want to introduce the amended ordinance with the new language, which is blacklined to reflect the new language that we're requesting for the Finance Committee to consider to allow the Water Department to execute refundings on certain bonds.

Thank you.

COUNCILWOMAN BLACKWELL: Thank you very much.

We believe Commissioner Roy is ready to testify. Please identify yourself for the record. You want to wait until we finish all the testimony, and then we can do all the questions. Thank you.

Commissioner?

COMMISSIONER ROY: Good morning, Chairwoman Blackwell and members of the Committee on Finance. I am Richard Roy, Commissioner of the Philadelphia Water Department, appearing before you here this morning to testify regarding Bill No. 010061, to authorize a new issuance of Water and Wastewater Revenue Bonds. With me today to help address any questions you may have is Bernard Brunwasser, Deputy Water Commissioner, who oversees finance and administrative affairs.

This proposed ordinance is required simply to replenish the Water Department's construction funds, action that has become necessary now that four years have passed since our last issue of Water and Wastewater Revenue Bonds for new capital funding. As you know, we use the proceeds within our construction fund to continue our capital improvement program, as reviewed and approved each year by City Council through our capital budget process.

Since our last issuance for new capital funding in November of 1997, we have continued to make annual operating budget contributions to our capital account, as required under our general waste water -- excuse me, our Water and Wastewater Revenue Bond Ordinance of 1989. As a result, we have been able to moderate our annual debt service requirements, and we have not increased rates since July of 1995.

After more than four years of ongoing capital infrastructure renewal and replacement, however, we have now nearly exhausted our construction fund balances. Therefore, in order to continue our capital program, as authorized by City Council, this new bond issue is required.

For your reference, I have appended the Water Department's section of the Philadelphia City Planning Commission's Investing in Philadelphia: The 2002-2006 Capital Program outlining our current approved program for infrastructure renewal and replacement. In addition, I understand that the City Treasurer has provided Councilmembers with copies of the Bond Engineering Report prepared by the firm of Black & Veatch detailing our projected infrastructure needs and capital plans. Based on our financial projections, we estimate that this planned upcoming issuance will finance our capital program for approximately the next two years.

If I may summarize these documents in brief, I would simply note that our anticipated capital improvement program will emphasize basic infrastructure renewal and replacement.

Approximately $51 million per year will be spent to repair and replace water mains and sewers that are approaching the end of their useful life in order to prevent leaks and minimize unanticipated breaks.

Approximately $6 million per year will be invested in storm flood release projects to mitigate flooding in sections of the City that experience difficulties during major storm events.

Nearly 22 million per year will fund our routine vehicle replacement, large meter rotation, and the engineering and administrative staff who work on capital projects.

Approximately 42 million annually will be invested in the maintenance of our six water and wastewater plants, our biosolids plant to ensure that drinking water continues to be safe and that the Delaware and Schuylkill Rivers continue to become cleaner with each passing year, and also to achieve further operating efficiencies where new technology may be implemented.

Finally, our capital improvement program includes funding for certain one-time investments authorized by City Council, such as the Water Department's participation in the Citywide deployment of the 800 megahertz radio system.

In conclusion, I hope that I've been able to adequately outline the necessity of continuing to make funding available for our capital improvement program. Leading up to and during our annual capital budget process each year, City Council will, of course, have the further opportunity to review and address any specific Water Department capital projects in full detail.

Thank you for your consideration and this opportunity to testify. I would be happy at this time to answer any questions that you may have.

COUNCILWOMAN BLACKWELL: Thank you very much.

Let me note for the record that Councilman DiCicco is here. He had a previous meeting this morning, but he certainly is here and we're glad to have him.

Recently, Council was notified that the

Water Department is in the process of filing for a rate increase. Does the rate increase affect the issuance of these bonds. If so, can you explain how?

COMMISSIONER ROY: I will have my Deputy for Finance explain that.

COUNCILWOMAN BLACKWELL: Thank you.

Identify yourself for the record, please.

MR. BRUNWASSER: Yes, I'm Bernard Brunwasser, Deputy Commissioner, Water Department.

COUNCILWOMAN BLACKWELL: Thank you.

MR. BRUNWASSER: The rate increase -- the issuance of bonds has an impact on the rate increase. In the Bond Engineering Report from Black & Veatch, you will notice that as part of their financial feasibility study, they have a table in there that projects out to the year 2006, fiscal 2006. And in that table, they project increases in expense and also increases in revenue.

What that table basically shows is that under current rates, the Water Department's revenue will be predominantly flat over that period of time; whereas expenses will rise. So, therefore, they indicate the need for additional revenue each of those outlying years.

COUNCILWOMAN BLACKWELL: Thank you very much.

Can you explain where the Water Department is in the whole rate increase process?

MR. BRUNWASSER: Yes. At the present time, back on March 19th, the Water Department officially notified City Council, by way of a letter to Council President Verna, indicating that we would be seeking new rates beginning July 1, that it was our intent to do so at that point. Thirty days thereafter, on April 18th, we should be filing the new rates with the Department of Records. At that point in time, the rates are subject to review by the public, and anyone can register with the Department of Records as a party to the rate case.

Also at the present time, the Council President, the Mayor, and the City Controller are jointly choosing a independent hearing officer to conduct hearings on our rate change, and they're also in the process of choosing a public advocate for the residential ratepayer in the upcoming rate case.

COUNCILWOMAN BLACKWELL: Is this bond request consistent with the Five-Year Plan?

MR. BRUNWASSER: If you look at the Five-Year Plan, that also contains a projected revenue requirement table very similar to the one in the Black & Veatch report, and the numbers are virtually identical.

So it is consistent -- that table is consistent with the Five-Year Plan, and it's also consistent with the table that's a part of the rate case that has been presented already.

COUNCILWOMAN BLACKWELL: The Water Department estimates that it will cost approximately $740 million to fund its multi-year capital plan for FY '01 through '06. Are all the capital projects identified? If not, is it safe to assume you will be coming back for another bond issuance in order to obtain authorization for these specific projects as they are identified?

MR. BRUNWASSER: I think we've summarized in broad general terms where the Department intends to spend this $740 million over the next six years. The vast majority of the dollars are earmarked for renewals and replacements of the Department's enormous but aging infrastructure.

For example, we have 6300 miles of water main and sewer main in the streets, and its average age is about 70 years. So we have all we can handle with just keeping up with that.

We also have three water plants, three wastewater plants. The three wastewater plants built, which were built approximately 20 years ago, are beginning to deteriorate under the conditions of that environment of wastewater, and so we're stepping up our program to renew and replace components of that system.

Also, we have large Biosolids Recycle Center, which is also approaching 20 years of age.

And that's by and large where this money will be going.

COUNCILWOMAN BLACKWELL: Based upon the engineering report, the Water Department is in good financial condition and is looking to use this new bond issuance to accomplish its goals under the Five-Year Plan and to refund outstanding debt from prior issuances. Why are you asking City Council to consider this request for FY '02 obligations in refunding now?

MR. BRUNWASSER: The reason we need the authorization now is because we are virtually out of funding authorization. We still have a significant amount of cash in our construction fund, which will probably allow us to continue to spend money throughout the remainder of this calendar year. However, our authorization is almost gone. The cash that we have has already been earmarked for our projects, which are in various stage of completion.

COUNCILWOMAN BLACKWELL: Thank you.

Councilman Kenney.

COUNCILMAN KENNEY: Thank you, Madam Chair.

In the past, we've had information provided to us by the Finance Department or the Treasurer relative to the professional team that would be assembled for this bond issuance and other bond issues. I don't seem to have it here. I don't know whether or not that was something that we had requested in the prior administration and received regularly a list of who was going to be hired to do what.

MS. OLANIPEKUN: I can provide that list to you, Councilman. I didn't realize that you wanted that.

COUNCILMAN KENNEY: Yeah.

MS. OLANIPEKUN: But I can tell you here today is the lead banker on this transaction, which is Seabrook, Branford & Shank (ph.), and one of the principals, Suzanne Shank, is here today.

COUNCILMAN KENNEY: I don't necessarily need to question them; I just need to know who's doing what and --

MS. OLANIPEKUN: I will make sure you get that this afternoon, Councilman.

COUNCILMAN KENNEY: I appreciate it. And could we -- Madam Chair, could we make that a standing request for all Finance Committee activity that we have?

COUNCILWOMAN BLACKWELL: Absolutely.

COUNCILMAN KENNEY: Thank you.

MS. OLANIPEKUN: I'll provide the same to you.

4/17/00 FINANCE - BILL 010061

COUNCILMAN KENNEY: Also, one question relative to the original legislation and the black-lined copy. February 1, 2001, the request was for 250 million. What happened between February 1st and now to jack it up another $250 million?

MS. OLANIPEKUN: On January 3rd, Alan Greenspan initiated a series of rate reductions, interest rate reductions, totaling 150 basis points of 1.5 percent. As a result of the interest rate drops, it has brought to light a number of refinancing opportunities on outstanding bonds. It is -- my analogy I use is no different than refinancing your mortgage. When rates drop, you tend to look and see -- people tend to actively look at their outstanding debt and see whether or not they can refinance it for a lower borrowing cost.

And the same is true here with the outstanding water bonds. Rates have dropped. We project that rates will drop again between now and the time we enter the market, and we think that it is just very physically responsible for us to go and take a look at outstanding bonds that may be candidates for refunding and refinancing opportunities.

COUNCILMAN KENNEY: That may be candidates for refunding?

MS. OLANIPEKUN: Yes. We've identified a number of them and we think there will be more present if and when we assume rates are going to drop again based on the market quantity.

COUNCILMAN KENNEY: So the amount that we're borrowing is exactly the amount we need for our capital and refunding.

MS. OLANIPEKUN: The 250 is new money for the capital program. The additional 250 is the range at which we think that they are available, outstanding bonds that are candidates for refinancing.

I do not believe that we're going to use the full 250, but we just felt that because rates have been dropping significantly since January that by the time we enter the market in early fall, there may be additional amounts of refunding opportunities available to the Water Department to take advantage of.

COUNCILMAN KENNEY: What do we do with

the money that we don't use?

MS. OLANIPEKUN: Let's say, for example, that we issue -- that we identify $200 million worth of outstanding bonds for refinancing, we do that, the $250 million goes away.

COUNCILMAN KENNEY: We don't borrow it.

MS. OLANIPEKUN: We don't borrow it.

COUNCILMAN KENNEY: We're just authorizing the ability to borrow.

MS. OLANIPEKUN: Exactly, sir.

COUNCILMAN KENNEY: Why have we not borrowed money for our capital program in the last four years? Why have we let it get to this point of having basically -- having the need to borrow this large amount of money? Why don't we borrow in small amounts over every year as opposed to a large amount over for years? Wouldn't it make more budgeting and planning sense to do it that way?

MS. OLANIPEKUN: It's an economy of scale, Councilman. When the Water Department borrows or any entity borrows money, they try to do that on a periodic basis, not necessarily an annual basis, because it costs money to borrow money. There are certain fees that are incurred every time we go into the market to borrow money, including counsel fees, bankers' fees, and other professional fees. And historically, the majority of enterprise funds have gone into the market on average every 24 months two years to maybe three years.

It also pertains to the spend-down requirement. Under tax-exempt laws, you're required to spend bond proceeds down within three years to offset any tax exposures.

So if you look, we probably borrow money every three years. Once we've spent it down, we go back into the market and issue more debt. Most of the enterprise funds, and in this instance, the Water Department, doesn't spend its proceeds any sooner than three years.

COUNCILMAN KENNEY: Okay.

Thank you, Madam Chair.

COUNCILWOMAN BLACKWELL: Thank you, Councilman.

Councilwoman Tasco and then Councilman Cohen.

4/17/00 FINANCE - BILL 010061

COUNCILWOMAN TASCO: Thank you very much.

Mr. Roy, in your testimony, you said that you haven't had a rate increase since 1995. And sometimes that sounds good, but we know with our experience with PGW, PGW hasn't had a rate increase since 1992, but then when we got the rate increase, it was just unbearable. So it's sometimes better to give smaller increases than the larger increases. So depending on the cost of what you're buying. I mean, gas is certainly higher now than water.

But I see in this chart the increase each year to 2006. What impact will that have on the ratepayer? Do you have any idea of what that means in terms of dollars to the ratepayer?

MR. BRUNWASSER: Councilwoman, I'm going to take the rate increase questions because the Commissioner, as you know, under the City Charter, is the one that sets rates.

COUNCILWOMAN TASCO: Mm-hmm.

MR. BRUNWASSER: And what we have done is kind of split. Within our department, we have sort of a rate proposal team --

4/17/00 FINANCE - BILL 010061

COUNCILWOMAN TASCO: Mm-hmm.

MR. BRUNWASSER: That I'm the head of.

COUNCILWOMAN TASCO: All right, I'm sorry.

MR. BRUNWASSER: The rate decision team is actually the Commissioner. And so I'll try to answer your question as best I can.

COUNCILWOMAN TASCO: Okay.

MR. BRUNWASSER: We have gone six years without a rate increase. Throughout the '90s, we've seen water has gone up on average throughout the country 5.4 percent each year. Wastewater costs have gone up on average throughout the '90s about 4.8 percent each year. We've been 0, 0 for each of the last six years. The reason we haven't come any sooner is we honestly didn't need any additional revenue.

What we have proposed in the letter to Council President Verna is a three-year rate increase. And for residential customers, the average percentage increase they will see is approximately 3.1 percent each of those three years. For senior citizens, who use less water, they are likely to see increases averaging about

1.9 percent.

COUNCILWOMAN BLACKWELL: Would you break that down into monthly bill payments?

MR. BRUNWASSER: Yes. The 3.1 percent for a residential customer means approximately $1.23 per month.

For a senior citizen -- I have the number for a senior citizen who has a 25 percent discount because of their income. For seniors who have a 25 percent discount, their average monthly increase will be approximately 46 cents under the proposed three-year rate period.

So that's what we're asking for, and we are very conscious -- the Commissioner, I know, is very conscious of hitting the public with a very large rate increase. The Water Department had done that in the past. In some cases, it was relatively unavoidable because of the massive wastewater treatment plant expansion program we were undergoing.

But we've done a excellent job. The department's done an excellent job of reducing its cost at its three waterwaste treatment plants and particularly at its Biosolids Recycle Center. And we've also done these refinancings in the past that have yielded us about $61 million in net present-value savings.

So it's the combination of all of these things that have allowed us to go for a number of years with no rate increase. It's not that we're avoiding a rate increase and are going to be coming with a large one in the future.

The projections you see in that table is overall revenue requirements. And one of the reasons it's less for residential customers is that based on a study that we were involved in over the past few years, we are moving some of the storm water charge, which is a part of the service charge, removing some of that over to the large-meter customers because we found that the small-meter customers were overpaying a bit, as compared to their contribution to storm water within the City.

COUNCILWOMAN TASCO: Do we provide water to suburbs?

MR. BRUNWASSER: Yes. We now have two contracts. We provide approximately 15 to 16 million gallons a day to Bucks County Water and

Sewer Authority. And we signed in June a contract with Philadelphia Suburban Water for them to take up to about 6 and a half million gallons per day, and that water initially is to be used for a power plants that's being built in Eddiestone, Pennsylvania. And Philly Suburban is purchasing water from us, so they are moving that west.

COUNCILWOMAN TASCO: What's the contract years?

MR. BRUNWASSER: These are all long-term contracts. The Bucks County water contract is a 45-year contract that ends in the year 2011, and I think the Philly Suburban contract is at least 20 or 25 years.

COUNCILWOMAN TASCO: Do we have the responsibility of approving those contracts, Council?

MR. BRUNWASSER: Well, not really. You have pre-approved -- under a 1987 ordinance, Council has -- as long as we are in keeping with Council standards for going out and contracting for water and wastewater service, then we are allowed to go ahead and commit to these deals.

COUNCILWOMAN TASCO: Go ahead, I yield.

4/17/00 FINANCE - BILL 010061

COUNCILWOMAN BLACKWELL: All right, Councilwoman Tasco yields to Councilman Nutter.

COUNCILMAN NUTTER: Just on that point. I was desperately trying to get here in 1987 but fell a couple votes short.

(Laughter.)

COUNCILMAN NUTTER: So I may have missed that one in the campaign year. Bob Archer remembers that.

So the point of which is, I have no idea what those standards were or are today. And I mean, I appreciate your honesty, which probably gets you in trouble back at the shop. But, I mean, the notion that we have pre-approved something of which probably half of the body knows nothing of because at least half of the people here were not here in 1987, you know, is a little -- I mean, it's kind of skating on the line there a little bit. I mean, I know I can go back and get the '87 ordinance, but to have pre-approved something before I got there for, what, 45 years?

MR. BRUNWASSER: Well, that particular contact goes back to the '60s.

COUNCILMAN NUTTER: Okay. I mean,

Councilman Cohen would be the only person around for the renewal of that particular ordinance. I mean, we know that he's going to be here.

I'm a little concerned about that. I mean, we have this notion of anything more than a year has to be approved. And I understand -- I mean, I assume that you would want to do and the other side would want to do a long-term contract for something as essential as water. On the other hand, you know, we might want to have some more periodic review period, even if it is a long-term contract.

I think we need to explore that a little further. I'm sure you negotiated a good deal, but it gives us a little pause. Or at least me.

MR. BRUNWASSER: Yes. Yes. These contracts, just to give you a thumbnail sketch of them, the '87 ordinance basically allows us to go out and sell water or wastewater services and recover our full cost of service plus a management fee of 10 percent -- or a management fee of at least so percent.

COUNCILMAN NUTTER: Does it allow for

an increase if you increase the rates in Philadelphia?

MR. BRUNWASSER: Absolutely, yes, mm-hmm. And these contracts are always reviewed in the rate cases, the periodic rate cases that we have.

COUNCILMAN NUTTER: Okay, all right.

Thank you, Councilwoman Tasco.

COUNCILWOMAN BLACKWELL: Thank you very much.

Councilman Cohen.

COUNCILMAN COHEN: Thank you.

Further along that line, it's nice in the testimony to say that something is authorized by City Council, but the real fact is that the recommendations are made by the Administration, and in these more technical matters, the approval of City Council is approval of a recommendation by the Administration; it is not a original research by City Council. So that, Councilman Nutter, even those who are here now don't know what it was 12 years ago that we approved because what we approved was a recommendation by the then-administration. And I'm not sure of the whole concept of pre-approval, whether or not that would be contemplated by the City Charter, which requires that all contracts of more than one year ought to be -- have to be approved by City Council. And I don't know why there would be any problem in reviewing from time to time these provisions so all of us would be well-informed.

So I'd like to add my voice to those previously. It really doesn't help us just to know that at sometime, a previous body of City Council approved standards. We don't know what those standards were and, in fact, the standards were created by the administration.

In reply to one question by the Chair of the committee, she asked, is it likely or possible that you will be coming back for additional funding to do what we're told this bond issue will finance? And I did not get a reply to this particular question.

Do you anticipate that this will be sufficient funding to complete the whole of the project outlined? Or is there a possibility or a probability that we'll be coming back for future bond issues?

4/17/00 FINANCE - BILL 010061

MR. BRUNWASSER: Councilman Cohen, you're absolutely right. We are -- this $740 million program cannot be covered by the single bond issue. We do anticipate coming back in perhaps the year fiscal 2005 for additional review bonds. We anticipate coming back periodically every few years back to City Council to continue our capital program. There is no getting away from adding, you know, bonds in the future because we do have an old system and we have to keep after it and we have to keep replacing the pipe.

COUNCILMAN COHEN: How much of the present bond issue is contemplated for the replacement and how much for refinancing existing bonds?

MS. OLANIPEKUN: The $250 million is for -- is to fund part of the five-year capital improvement program and $250 -- up to $250 million will be used to finance certain outstanding water and wastewater bonds.

So this $250 million out of the 500 is new money that will fund -- is it two years, Bernie?

4/17/00 FINANCE - BILL 010061

MR. BRUNWASSER: Approximately two and a half years.

MS. OLANIPEKUN: About two and a half years.

COUNCILMAN COHEN: Well, is this 740 million of new money?

MS. OLANIPEKUN: The entire Five-Year Plan is $740 million. We are going to fund 250 of that, if Council authorizes that.

COUNCILMAN COHEN: On another point, do we have agreements with hospitals and other institutions for a pilot program? And does that pilot program include water that's payment in lieu of taxes? Or is there a water charge?

I'll tell you the basis for my question is that as part of our duties in City Council, we're often in different institutions, and it seems to me I see a lot of water dripping from faucets, and I know when that happens at home, there's a costly increase the following month in the bill, and if nothing else, it reminds us it's time to get a plumber to take care of it. But the faucets seem to -- if I go back again two or three months later in these institutions, those faucets, if anything, seem to be dripping even more water.

And so I'm wondering, is it that they don't pay at all by amount that they use and, therefore, you know, it is no concern to them to see that the faucets are working?

COMMISSIONER ROY: Councilman, I know of no special arrangements with any hospitals. There is -- hospitals that are not for profit are eligible for the 25 percent discount, but the rest of them are paying full.

COUNCILMAN COHEN: The rest pay full water rates.

All right, thank you very much.

COUNCILWOMAN BLACKWELL: You're welcome.

Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam Chair.

Good evening -- good morning. Wow, I'm sorry. I've already checked out.

(Laughter.)

COUNCILMAN NUTTER: Madam Treasurer, just two kind of housekeeping items. I know I get backed up a little in my mail, and one of my

4/17/00 FINANCE - BILL 010061

colleagues knows that I have trouble sometimes keeping track of memos, but I don't recall getting any of the testimony for today's hearing prior to this morning when we came in. Do you know if it was sent over?

MS. OLANIPEKUN: We made a point to send the entire package a week prior to this.

COUNCILMAN NUTTER: Okay, all right. We'll try to track it down through our own system.

And did you happen to send over the -- you make reference to City Solicitor opinion?

MS. OLANIPEKUN: That was provided this morning in conjunction with the Finance Director's report.

COUNCILMAN NUTTER: Okay. I saw something from. . .

MS. OLANIPEKUN: You should have gotten a draft of the Finance Director's report and the signed one was provided this morning.

COUNCILMAN NUTTER: Okay, I'll try to -- it has appeared magically.

In response to a question earlier, you talked about the fed Chairman Greenspan and, you know, the words kind of fall from his mouth, and various things happen. At what point after introduction of this bill -- I think this was February 1st?

MS. OLANIPEKUN: That is correct.

COUNCILMAN NUTTER: At what point did you decide to increase the borrowing capacity from the 250 to the 500?

MS. OLANIPEKUN: I think it was in late March that we realized that when Greenspan had initiated his third cut, the senior banker came to us and said, you know, with the reduction interest rates, there's certain outstanding water bonds that could benefit from being refinanced to lower rates, and we started the research and the analysis, and we identified certain bonds.

And the numbers were run and it was determined that based on today's interest rate environment, if we refund this amount of outstanding bonds, we could save the Water Department $6.4 million.

COUNCILMAN NUTTER: Okay, and that's a variety of outstanding bonds?

MS. OLANIPEKUN: Yes.

COUNCILMAN NUTTER: Do you know -- for

the total $250 million, do you know what series and how long they're outstanding? Or I guess in the reverse, how much life do they still have or --

MS. OLANIPEKUN: Sure. Is a portion of the series of 1995 bonds. The principal amount is $90 million, 220,000. A portion of the 1997-A's, the principal amount is $77,975,000.

COUNCILMAN NUTTER: What was the last one?

MS. OLANIPEKUN: The series of 1997-A.

COUNCILMAN NUTTER: $77 million --

MS. OLANIPEKUN: -- 975,000 principal amount.

The series of 1993, the principal amount is $32,995,000.

COUNCILMAN NUTTER: Right.

MS. OLANIPEKUN: So it's those three series.

COUNCILMAN NUTTER: Okay, I'm sorry. I took down four. Maybe I took down the tail-end of one of your -- the '95 series for $90 million.

MS. OLANIPEKUN: Right.

COUNCILMAN NUTTER: The '97 series for

4/17/00 FINANCE - BILL 010061

$77 million.

MS. OLANIPEKUN: Mm-hmm. And the '93 series for --

(Unintelligible, parties talking over each other.)

COUNCILMAN NUTTER: All right. And so, these were for, I'm assuming, 30-year issues?

MS. OLANIPEKUN: Yeah, mm-hmm.

COUNCILMAN NUTTER: Okay. I mean, they all have --

MS. OLANIPEKUN: They have like 20-something years. Well, the '93 -- yeah, about 20-something years on average.

COUNCILMAN NUTTER: Okay, right. So the average outstanding is going to be maybe about 25 years?

MS. OLANIPEKUN: The fourteen and a half years is sort of the average outstanding life.

COUNCILMAN NUTTER: I thought you said they were 30-year bonds.

MS. OLANIPEKUN: I'm sorry?

COUNCILMAN NUTTER: I thought you said they were 30-year bonds.

4/17/00 FINANCE - BILL 010061

MS. OLANIPEKUN: Right. But if you recall, your average life, meaning that when you size the bond certain, you have certain serials.

COUNCILMAN NUTTER: Right.

MS. OLANIPEKUN: And you have certain term bonds that are 30 years.

COUNCILMAN NUTTER: Okay.

MS. OLANIPEKUN: So we're picking (inaudible). You do the average.

COUNCILMAN NUTTER: Right, okay. And so the $6.4 million, is that over that same period of time? And what -- are the savings in debt service?

MS. OLANIPEKUN: Oh, yeah. It's over -- the $6.4 million is the savings that the Water Department realizes it would not have to spend if it refunds these bonds over the life of the bond. So, yes, it's over the --

COUNCILMAN NUTTER: Its over about 14 or 15 years.

MS. OLANIPEKUN: Right, the average life on --

COUNCILMAN NUTTER: All right, okay. So it's somewhere in the neighborhood of about

$2 million a year.

MS. OLANIPEKUN: Yeah, I think it's. . .

COUNCILMAN NUTTER: No, 500,000.

MS. OLANIPEKUN: (Inaudible.)

COUNCILMAN NUTTER: All right. On the request earlier about the kind of -- I'm sorry?

MS. OLANIPEKUN: Your present value is 6.4, so you take it up. Today, it's 6.4, but the future value will be -- actually, it's more.

COUNCILMAN NUTTER: Right, okay, 'cause because you're bringing it back.

MS. OLANIPEKUN: Right, exactly.

COUNCILMAN NUTTER: Right, I understand.

With regard to the earlier request about the information on the team's composition, who's doing what, and who all the players are, can you provide us with analysis after you go into the market of what the results of the transaction as it relates to not only who did what, but the distribution of the bonds.

MS. OLANIPEKUN: Sure.

COUNCILMAN NUTTER: Who got what and --

MS. OLANIPEKUN: Like a bond allocation analysis.

COUNCILMAN NUTTER: Yes.

MS. OLANIPEKUN: Sure.

COUNCILMAN NUTTER: 'Cause, as we all know, there's a laundry list of people who participate, but some people participate at a better level than others.

MS. OLANIPEKUN: Sure. I will make sure that becomes available to you when we enter the market.

COUNCILMAN NUTTER: Okay, all right. Thank you. Membership does have its privileges.

And we talked about debt service, increase. . . okay. And when do you anticipate going into the market?

MS. OLANIPEKUN: I'm sorry?

COUNCILMAN NUTTER: When do you anticipate going into the market?

MS. OLANIPEKUN: Fall, early fall of this year.

COUNCILMAN NUTTER: Okay. And so you'd be able to provide that report somewhere in a 30- to 45-day time period?

4/17/00 FINANCE - BILL 010061

MS. OLANIPEKUN: As soon as we go into the market, we could provide it a few days after we sell the bonds.

COUNCILMAN NUTTER: Okay.

Last question. With regard to the refunding opportunities, you're asking for authorization for up to $250 million. You're not necessarily anticipating at the moment that you'll use all of it, but anything can happen between now and then.

MS. OLANIPEKUN: That is correct.

COUNCILMAN NUTTER: If you decide not to use all of the 250 to refund Water Department bonds, is there any ability to use what at that point, for our terminology at the moment, the excess refunding capacity. Could you refund other outstanding bond series?

MS. OLANIPEKUN: No, no. This is --

COUNCILMAN NUTTER: Only for the Water Department.

MS. OLANIPEKUN: It's particular to the water.

COUNCILMAN NUTTER: Okay.

MS. OLANIPEKUN: An if we don't use it,

4/17/00 FINANCE - BILL 010061

it goes away; we have no ability to use it for any other purpose.

COUNCILMAN NUTTER: Could you hold it and use it for -- I mean, you don't have to use it all at one time, do you?

MS. OLANIPEKUN: True. It wouldn't be efficient to --

COUNCILMAN NUTTER: You could use 200 this year and save the 50 for whatever reason, like if the market starts to move away from you at that time and then it starts to come back. Or do you use the other 50 at a later point in time for the Water Department?

MS. OLANIPEKUN: Yes, you could, but we're probably not because there wouldn't be an efficiency to doing that.

COUNCILMAN NUTTER: Okay, all right. I just wanted to understand all of the options. All right.

Thank you, Madam Chair.

COUNCILWOMAN BLACKWELL: Thank you, Councilman.

Are there any other questions from members of the committee? Any other questions?

4/17/00 FINANCE - PUBLIC MEETING

(No further questions.)

COUNCILWOMAN BLACKWELL: Seeing none, that will end the hearing part of this meeting, and we will now enter into the stated meeting section.

We will ask the clerk if he will read the section of the bill, Bill No. 010061, that we are submitting for amendment. That would be Section 4, the amended part that is black-lined.

THE CLERK: The following will be amended: Section 1 of the bill, Page 2, strike out "$250 million" and replace it with "$500 million."

In Section 4, strike out "proceeds from the bonds shall" and add the following:

"A portion of the proceeds from the sale of the bonds may be used to refund and redeem certain outstanding bonds of the system. As such, prior bonds are more fully set forth in the determination. In connection with such refunding and redemption, the Bond Committee, or a majority of them, are authorized to approve the redemption of the prior bonds and to enter into an escrow agreement, providing for the deposit and investment of the bonds proceeds in amounts sufficient to defease the prior bonds and providing for payment of the prior bonds at maturity or redemption as applicable, including all interest payable on such prior bonds to such maturity or redemption dates as applicable. Proceeds from the sale of the bonds shall also. . ."

Section 5 shall be amended to include the following:

"And bond proceeds required for the defeasance of obligations to be refunded or otherwise defeased, as discussed in Section 4 hereof, shall be deposited in an escrow fund or account to be established pursuant to the escrow agreement."

That concludes the amendments.

COUNCILWOMAN BLACKWELL: Thank you. Thank you for my correction. I had only mentioned Section 4.

The Chair recognizes Councilwoman Tasco for a motion to approve the amendments to Bill No. 010061 as you just read into the record.

COUNCILWOMAN TASCO: Madam Chair, I

move that we accept the amendments to Bill 010061, as read.

COUNCILWOMAN BLACKWELL: May have a second?

(Duly seconded.)

COUNCILWOMAN BLACKWELL: All in agreement, say aye.

Opposed?

The ayes have it, and so the amendments to Bill No. 010061 are approved.

I will now accept a motion, Councilwoman Tasco, that Bill No. 010061, as amended -- do we need a suspension? That Bill No. 010061, as amended, be reported out of committee with a favorable recommendation.

(Duly seconded.)

COUNCILWOMAN TASCO: So moved.

COUNCILWOMAN BLACKWELL: Thank you.

All right all in favor say aye.

Opposed?

All right. The bill, as read and approved, is now passed.

And we thank everyone for coming and we'll see you at the next battle. Thank you.

4/17/00 FINANCE - PUBLIC MEETING

(Adjourned 10:18 a.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, April 17, 2001, were reported fully and accurately by me, and that this is a correct transcript of same.

RE: COUNCIL COMMITTEE ON FINANCE
BILL NO. 010061

____________________________________,

JOSEPHINE CARDILLO,
Registered Professional Reporter