COUNCIL OF THE CITY OF PHILADELPHIA

PUBLIC HEARING

COMMITTEE ON FINANCE

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Room 696, City Hall
Philadelphia, Pennsylvania
Wednesday, December 10, 2003
3:20 p.m.

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BILL 030825 - An Ordinance authorizing the Philadelphia Authority for Industrial Development ("PAID") to file an application with the Office of the Budget...

BILL 030826 - An Ordinance authorizing the City of Philadelphia (the "City") in cooperation with the Philadelphia Authority for Industrial Development (the "Authority"), to undertake a Project to promote the health, safety and welfare of the residents of the City of Philadelphia...

PRESENT:

COUNCILWOMAN JANNIE BLACKWELL, Chair
COUNCILMAN DAVID COHEN
COUNCILMAN FRANK DICICCO
COUNCILMAN MICHAEL NUTTER

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I N D E X

12/10/03 - FINANCE - BILL 030825

COUNCILWOMAN BLACKWELL: This Committee on Finance will hear Bill No. 030825, and we will ask the Clerk to read the title of the bill.

THE CLERK: Bill No. 030825, an ordinance authorizing the Philadelphia Authority for Industrial Development to file an application with the Office of Budget, Commonwealth of Pennsylvania, under the Redevelopment Assistance Capital Program, in an aggregate amount not to exceed $15,350,000 to assist in the development of the Franklin Institute, Holy Family University, Irish Memorial, Incorporated, the Kimmel Center and WHYY II.

COUNCILWOMAN BLACKWELL: Thank you.

The Chair notes that we have a quorum. To my right is Councilman DiCicco. To his right, Councilman Nutter. And also Councilman Cohen is here someplace. He's in the back. So Councilman Cohen is likewise here. So we do have a quorum. So we're happy to have this Administration bill.

And we now see Bob Fina, Senior Vice

President for PIDC here, and we'll call on him to identify yourself and proceed.

MR. FINA: Good afternoon, Chairwoman Blackwell and Members of the Finance Committee. My name is Robert Fina. I'm the Senior Vice President with Philadelphia Industrial Development Incorporation, PIDC. I'm appearing on behalf of Philadelphia Authority for Industrial Development, PAID. With me is my colleagues, Emily Pender, and also in attendance is Paul Deegan.

I am here today to testify in support of Bill No. 030825, authorizing PAID to apply for Redevelopment Assistance Grants from the Commonwealth of Pennsylvania in an aggregate amount of $15,350,000 for five Redevelopment Assistance projects. The funds will be used to assist the developments of the Franklin Institute, Holy Family, the Irish Memorial, the Kimmel Center and WHYY.

Bill No. 030825 authorizes PAID to enter into agreements with grant recipients to apply for state funding; enter into agreements with the Commonwealth's Office of the Budget to carry out the specific purposes of this bill; designate the City and/or the grant recipient to fulfill the program requirements of providing the full match for the project; designate the City and/or the grant recipient to reimburse the Commonwealth for its share of any expenditures found to be ineligible by the Office of the Budget; and obligate the City and/or the grant recipients to complete the projects per the Office of the Budget's approvals and within a time frame mutually agreed upon between the Office of the Budget and PAID, including requested reasonable extensions.

Exhibit A provides project descriptions for each of the five projects seeking funding from the Commonwealth. Therefore, I will not include these descriptions in my testimony. However, I will briefly identify each project, its location, and the amount of grant funding sought. Then I will explain how PAID engages in the application process with the Commonwealth.

The Franklin Institute's project of $7 million will begin January 2004 and will include the construction of three new exhibits and a host of infrastructure, life-safety and HVA system renovations to the 1934 building.

Holy Family University, for a grant of $2,500,000, is constructing a new education and technology building in Northeast Philadelphia on its campus at Frankford Avenue. The approximate 45,000 square foot building will be equipped with all the necessary technological advances and equipment used in higher education day.

The Irish Memorial, $350,000, was constructed in the form of a bronze sculpture at Front and Chestnut Streets to commemorate the "Great Hunger." Glenna Goodacre, the artist who sculpted the Vietnamese Women's Memorial in Washington, D.C., has created this monument.

The Regional Performing Arts Center, for a grant of $4,500,000, will use the funds for construction costs for the completing enhancements of the Kimmel Center.

WHYY was a grant of $1 million, and will use these funds to develop a 10,000 square foot learning lab. This facility will be located on the Seventh Street block behind the station's existing Philadelphia headquarters. The purpose of this state-of-the-art facility is to share the power of digital technology and fostering a more connected and informed community in their broadcast.

To apply for Redevelopment Assistance Grants, three principal actions must occur. First, the Commonwealth's legislature must name the project and the amount of funding in the approved state capital budget.

Second, the Commonwealth's Office of the Budget or the Governor's Office must authorize PAID to submit an application to the Office of the Budget on behalf of the approved project.

Third, City Council must approve an ordinance, such as Bill No. 030825, presently under consideration.

In addition to these three primary requirements, the grant recipient must provide documentation that the state funds are matched dollar for dollar with non-Commonwealth funding. When PAID submits a project's Redevelopment Grant Assistance application to the Commonwealth, the grant recipient must demonstrate that at least 50 percent of the matching funds, again of non-Commonwealth funding, is secured and available for the project at that time.

The Office of the Budget reviews the application materials extensively with its teams of consultants and with PIDC. Based upon this review, the Office of the Budget drafts and executes the project's grant agreement and includes specific conditions that the grant recipient must satisfy before receiving any funding. The Commonwealth only funds those projects with approved applications, executed grant agreements with conditions met and those project in compliance with all program requirements.

The Redevelopment Assistance Capital

Program operates on a reimbursement basis for eligible project expenses, such as construction and acquisition costs. Throughout the process, PAID acts as the applicant/grantee, and the grant recipient is referred to as the sub-applicant/sub-grantee. Similar to PIDC's other financing programs, PAID/PIDC acts as a conduit lender; that is, when the Commonwealth releases the grant funds, it is by a check made out to PAID that we in turn disburse to the designated grant recipients. The disbursement process is closely monitored by project auditors in the Commonwealth's Budget Office and by my colleagues at PIDC. No funds are disbursed unless the projects have documented their compliance with requirements.

I again request the Finance Committee's favorable consideration of Bill No. 030825, and that the Rules of Council be suspended to permit the first reading at the next regularly scheduled Session of City Council. I thank you for your consideration. Should you have any questions, I would be pleased to answer them to the best of my ability.

COUNCILWOMAN BLACKWELL: Thank you very much.

Are these projects under time constraints, Mr. Fina?

MR. FINA: Yes. All the projects have, from the time they appear in the Capital Budget, have a four-year window to have the grant agreements executed. So you can't execute the grant agreement until we submit the application. So all five of these projects have some varying degree of time constraints.

COUNCILWOMAN BLACKWELL: Thank you very much.

We also have the testimony from the Finance Director, Janice Davis.

That's it for me.

Further questions?

(No response.)

COUNCILWOMAN BLACKWELL: Thank you very much.

MR. FINA: Thank you very much,

Madam Chairwoman.

COUNCILWOMAN BLACKWELL: We will now ask the Clerk to read the title of the next bill under consideration today, Bill No. 030826.

THE CLERK: Bill No. 030826, an ordinance authorizing the City of Philadelphia, in cooperation with the Philadelphia Authority for Industrial Development, to undertake a project to promote the health, safety and welfare of the residents of the City of Philadelphia; supplementing the ordinance, Bill No. 980789, which established an Alternative Funding Mechanism to achieve savings in the schedule of payments required to amortize the unfounded actuarial accrued liability of the City Retirement System; authorizing and approving, one, the project; two, the entering into, execution and delivery by the Director of Finance of a First Supplemental Service Agreement between the City of Philadelphia and the Authority; three, the issuance by the Authority of variable rate bonds in one or more series in an aggregate amount of amount of net proceeds not to exceed $275 million, to pay the costs the project; four, the use of prior certain proceeds to pay the costs of the project; five, the assignment of the First Supplemental Service Agreement by the Authority to a trustee; and six, the obligation of the City of Philadelphia to pay the payment requirements under the First Supplemental Service Agreement when due; and authorizing the Director of Finance, on behalf of the City of Philadelphia, to enter into the First Supplemental Service Agreement with the Authority; authorizing the Director of Finance, on behalf of the City of Philadelphia, to approve a Repurchase Agreement and a Swap Agreement; authorizing the Director of Finance and other officers of the City of Philadelphia to take such other actions as may be necessary to appropriate or accomplish the intent and purpose of this ordinance; and covenanting that the City of Philadelphia will make necessary appropriations in each of the City's fiscal years to provide for payment requirements due under the First Supplemental Service Agreement; and covenanting that the City of Philadelphia will satisfy payment requirements due under the First Supplemental Service Agreement, all under certain terms and conditions.

COUNCILWOMAN BLACKWELL: Thank you very much.

Mr. Vince Ginnetti.

MR. GINNETTI: Good afternoon, Councilwoman Blackwell and Members of the Committee on Finance. My name is Vince Ginnetti. I'm Deputy Director of Finance. I'm here to represent Janice Davis and present testimony on Bill No. 030826.

By way of background, in January of 1999, the Philadelphia Authority for Industrial Development, on behalf of the City, issued approximately $1.3 billion of taxable pension funding bonds in 3 Series 1999 A, 1999 B and 1999 C. Proceeds from the bonds sale were deposited in the City's retirement fund to fund approximately 50 percent of the then unfunded liability.

The Series 1999 C Bonds were structured with special provisions permitting the optional redemption or mandatory tender for purchase prior to maturity at any time on or after January 15, 2004, at a redemption of purchase price or par plus interest. The Series C Bonds were also structured with a special provision permitting the City to detach and sell its right to cause the mandatory tender and purchase of the Series C Bonds. This provision is contained in the 1999 bonds trust indenture and was contemplated at the time City Council enacted the ordinance approving the service agreement.

In June of 2002 the City sold these option rights in the form of right certificates. The purchaser of the right certificates, Society General, made an up-front payment of $9.2 million in exchange for the right to direct a mandatory tender for purchase of the Series C Bonds at any time during the period covering its rights as owners of the option rights.

The current interest rate environment offers a favorable opportunity to refund the outstanding Series C Bonds with variable rate bonds to achieve significant savings. However, to take advantage of the current market refunding opportunity, the City must repurchase the option rights from the purchaser. It is proposed that the funds required to repurchase the option rights would be funded through PAID's issuance of variable rate refunding bonds to refund the Series C Bonds. The balance of the purchase price may be funded by using the amounts remaining on deposit in the City from the original sale of the option rights.

The benefits of this transaction are as follows: The City regains the option rights for the Series C Bonds. The City refunds some of its coupon debt currently outstanding in the City's portfolio and realizes an expected $17 million in net present value savings through the end of Fiscal 2009.

In 2009, a determination of the

swap, the City will have an additional $257 million in variable rate exposure, which would further the goal of diversifying the City's debt portfolio. Currently, our variable rate bonds total approximately 6 percent of our portfolio. With the expiration of the swap in Fiscal 2009, we estimate the variable rate exposure will increase to 12.5 percent.

The short term nature of the swap agreements limits the City's exposure to termination and counter party risk to five years.

I recommend that the Committee report this bill out of Committee with a favorable recommendation and respectfully request a suspension of the Rules to allow for first reading to occur at Council's next meeting.

This concludes my testimony. Thank you for the opportunity to appear before you. I'll be glad to answer any questions the Committee may have at this time.

COUNCILWOMAN BLACKWELL: Thank you

very much.

What percentage of the City's debt will be at the variable rate, including this issue?

MR. GINNETTI: When these are issued, Councilwoman, we'll swap these, so the variable rate amount would be 6 percent. When the swap is finished in 2009, they'll move to 12-and-a-half percent.

COUNCILWOMAN BLACKWELL: What happens if we did not buy back the option?

MR. GINNETTI: If we don't buy back the option, Society General can exercise its right under the previous agreement and exercise the option and we would have to pay through maturity in October of 2028, 6.65 percent on the $225 million worth of bonds.

COUNCILWOMAN BLACKWELL: What will the savings be used for, or for what will the savings be used?

MR. GINNETTI: The savings will reduce fringe costs to the City over the life of the issue, but for the most part over the next five years.

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COUNCILWOMAN BLACKWELL: And who is involved in working on this deal?

MR. GINNETTI: Right now the team that's working on it is, the underwriter is RBCD and Rauscher (ph). The counsel retained is Ballard, Spahr. And we have two financial advisors; P.G. Corbin & Company and Fairmount Capital Advisors.

COUNCILWOMAN BLACKWELL: Thank you.

Are there questions from Members of the Committee?

Councilman Cohen.

COUNCILMAN COHEN: When did we sell these?

MR. GINNETTI: June of 2002, Councilman.

COUNCILMAN COHEN: That's not very long ago. Did you make a bad decision then, that we're going to now be penalized and have to come up with $17 million to cover?

MR. GINNETTI: I didn't make the decision, Councilman. I don't know if it was a bad decision or not. It was a good decision, a right decision, at the time.

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COUNCILMAN COHEN: You say it was a good decision?

MR. GINNETTI: Well, we netted some money from it, Councilman, yes.

COUNCILMAN COHEN: Well, if we had not sold those rights, would we be in a better position now? We wouldn't have to buy them and we wouldn't have to pay $17 million. What are we going to be paying to purchase back these rights?

MR. GINNETTI: We don't have all the costs yet, Councilman. But somewhere between 25 and $30 million.

COUNCILMAN COHEN: We're going to pay that. What did we get when we sold it?

MR. GINNETTI: Nine million dollars.

COUNCILMAN COHEN: I guess people that deal with Wall Street and finance directors and finance people know better than I, but one and one certainly doesn't equal two. Because it seems to me that we've lost about $20 million on that deal. If we had not sold it, wouldn't we have all the advantages of ownership?

MR. GINNETTI: Well, we would have the advantage of paying 6-and-a-half percent, 6.55 percent through October of 2028.

COUNCILMAN COHEN: Go slower.

MR. GINNETTI: If we don't do this --

COUNCILMAN COHEN: I'm not saying if we don't do this. I said if we didn't do it last June 2002 and we didn't have to buy back, if we still owned these bonds, wouldn't we have all the advantages that we're going to have by buying them back?

MR. GINNETTI: Yes, sir.

COUNCILMAN COHEN: Without paying that extra 20 to $30 million?

MR. GINNETTI: Yes, sir.

COUNCILMAN COHEN: Sounds to me like it was a bad deal. Why don't we admit that? Or is it against the law in the finance world to admit your first decision wasn't wise and, therefore, you're paying a penalty to get back in the ball game with the second decision.

MR. GINNETTI: I think $8 million in the bank at that time based on the market at that time was probably a good decision.

COUNCILMAN COHEN: Probably what?

MR. GINNETTI: To have $8 million more in the bank based on what was done then was probably not a bad decision.

COUNCILMAN COHEN: Was the problem not a fair decision? I don't follow what you're saying.

MR. CORSEY (ph): Councilman, Julius Corsey from Fairmount Capital Advisors, one of the City's financial advisors.

To answer your question, I think that at a point in time the City made a decision based on interest rates at the time. And it would be difficult for anyone, including the finance people here at the City, to predict that interest rates would have fallen further than they had by the time of June when they sold the option initially.

COUNCILMAN COHEN: Could you tell us what the interest rates were at that time? Do you have any documentation? Because my memory is that it's been very low for a long time. It's been at what they call, or you call, historic for a long time. It's not a new phenomenon.

MR. CORSEY: Rates had declined significantly by June of '02. However, they have continued to decline --

COUNCILMAN COHEN: Could you give records on that or some documentation?

MR. CORSEY: We can provide that. We haven't brought that with us.

COUNCILMAN COHEN: Could you provide that now?

MR. CORSEY: We haven't brought that with us, but we can provide that for you.

COUNCILMAN COHEN: When can you provide that, before we make a decision?

MR. CORSEY: Sure.

COUNCILMAN COHEN: We'll have to hold this until you provide that and we can digest the material.

MR. CORSEY: We can do that today, sir. I think we could access Bloomberg.

COUNCILMAN COHEN: I'd like to be able to know because I think honestly it's very important in this area. If we made a mistake, let's admit it. Mistakes when you play the market are significant mistakes. You may make money. You may lose money. I think the record ought to be clear if the City of Philadelphia is going to act like any investor does playing the market, we ought to know what it finally costs, say, in the course of a year to play the market. Sometimes we win. Sometimes we lose, I guess. This seems to be clearly a time we lost.

Isn't the person who purchased it going to be richer by -- how many million, if they agree to buy to our offer?

I assume we made the offer based on some knowledge we had that that offer would interest them. Is that the case?

MR. CORSEY: The option was sold based on the differential between current interest rates in June of '02 and the 6.55 coupon on the bonds. And the same way of determining value would be true today. And as a result, since interest rates have fallen further from June of '02 to today, there's an additional differential between the 6.55

coupon on the outstanding bonds.

COUNCILMAN COHEN: Suppose we wanted to buy them back the day after we sold them? What would the differential then have been? I just can't believe that it's disintegrated to that point, because it's been a historic low for a long time.

MR. CORSEY: Rates have been at historic lows, but they have actually declined further from 18 months ago.

COUNCILMAN COHEN: Well, that may happen. I'm trying to make some sense out of this. I'd like to know how much further it's declined? Why is this the time in which we're going to be buying back? Maybe if we wait another month, maybe we'll buy it back, and instead of spending $30 million, maybe we'll be spending $5 million.

MR. CORSEY: We don't have the option to wait another month. Unfortunately, the call options on the bond is exercisable in January. And so as a holder of the call options on the bond, the current owner will want to exercise that option, absent the City wanted to purchase the option back.

COUNCILMAN COHEN: That option existed when we sold the bond, right?

MR. CORSEY: But the option wasn't effective until January of 2004.

COUNCILMAN COHEN: But it existed as of January 4th, 2004?

MR. CORSEY: That's correct.

COUNCILMAN COHEN: Now, I'd like to know precisely what the amount was at the time we sold the option. I think we made a bad deal. I'm asking you to disprove the fact.

MR. CORSEY: We have some indications of interest rates between June of '02 and December of '03, if I might offer those for the Committee's benefit. The general obligation bond index, which is an indication of municipal bonds issued by cities like the City of Philadelphia, is currently at 473, and in June of '02 it was at a 507.

COUNCILMAN COHEN: That doesn't sound to me like a very significant change.

MR. CORSEY: It is in fact a fairly significant change.

COUNCILMAN NUTTER: I'm sorry. What were those numbers again?

MR. CORSEY: 507 in June of 2002, versus 473 in December of 2003.

COUNCILMAN NUTTER: What is that, 25 basis points or more? 34?

MR. CORSEY: Yes.

COUNCILWOMAN BLACKWELL: Excuse me, Councilman Nutter.

COUNCILMAN NUTTER: Yes.

COUNCILWOMAN BLACKWELL: Councilman Cohen asked you a question? Would you like to respond to his question? The Chair will recognize that, if that is okay.

COUNCILMAN NUTTER: I'm always pleased to respond to Councilman Cohen.

COUNCILWOMAN BLACKWELL: Thank you.

Councilman Cohen, would you ask your question again?

COUNCILMAN COHEN: Yes. Could you tell me what your interpretation of the significance of that difference between the two rates is, the rate that existed in June of 2002 and the one that exists currently?

COUNCILMAN NUTTER: Councilman, that is a significant differential. 34 basis points is real money, and so I would Say --

COUNCILMAN COHEN: As much money as we're going to pay for these?

COUNCILMAN NUTTER: Well, we'll get into that. Many of my questions are along the same lines as yours. Unfortunately, I missed the briefing yesterday, but I'll at least say that 34 basis points is a lot of money.

COUNCILMAN COHEN: You're going to pursue this further?

COUNCILMAN NUTTER: Yes.

COUNCILMAN COHEN: I will hold my further questions.

COUNCILWOMAN BLACKWELL: Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam Chair. I do apologize for missing the briefing yesterday.

To try to get to where Councilman Cohen, I know, was or would like to better understand, why don't we take it maybe from this perspective.

What was the term on these bonds?

MR. CORSEY: These bonds mature in 2028, October of 2028.

COUNCILMAN NUTTER: These were out of '99?

MR. CORSEY: Yes.

COUNCILMAN NUTTER: They were 30-year?

MR. CORSEY: And it's a bullet. It's all due at the end of the maturity.

COUNCILMAN NUTTER: Do you have any estimate on what you estimated at the time to be the total cost to the City of this particular series? Or what the cost was going to be?

MR. GINNETTI: Councilman, a total debt service for this series will be $589,753,000.

COUNCILMAN NUTTER: And have you run a schedule --

MR. GINNETTI: Councilman, I'm sorry. That's what's remaining on the Series C Bonds. We don't have a calculation for the full thing since '99.

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COUNCILMAN NUTTER: I guess what I was trying to get to was, when you net out all of the activity of this particular transaction, your testimony seems to revolve around the whole issue of there is a savings here if we do this?

MR. GINNETTI: Yes, sir.

COUNCILMAN NUTTER: Why don't you lay out to us the plus, the minus, the net, what is the savings, and why should we do this?

MR. GINNETTI: Okay. If we do the transaction, it's simple numbers based on current rates. The refunding bonds will cost out to maturity $563,256,000.

COUNCILMAN NUTTER: Is this in your column, estimated refunding, $563,256,000?

MR. GINNETTI: Yes. The estimated savings is $26.5 million.

COUNCILMAN NUTTER: The next column, $26.4?

MR. CORSEY: Yes.

COUNCILMAN NUTTER: That's the estimated savings as a result of?

MR. GINNETTI: Doing this transaction.

COUNCILMAN NUTTER: Doing this transaction?

MR. GINNETTI: Yes.

COUNCILMAN NUTTER: And tell us the advantages or disadvantages from switching from fixed to variable? What does that mean in the whole scheme of things? Why should we do that?

MR. CORSEY: Well, one of the disadvantages is obviously that interest rates could go up. Presently, these variable rates of interest are extremely low. The rate that the refunding bonds would be pegged to is somewhere around 117 currently, but obviously the risk is that those rates could go up much higher than that.

One of the mitigants to that is the idea of swapping to fixed rate for the first five years of the refunding to sort of avoid that risk of rates rising.

COUNCILMAN NUTTER: And what is the advantage in our portfolio of having additional variable rate debt as compared to fixed?

MR. CORSEY: One of the advantages is that as rates fluctuate in times like today when rates are really low, you benefit in the form of lower interest costs.

One of the other things that you may consider an advantage is that, as the City maintains balances in cash on its assets side, those assets are generally invested in short-term investments that earn a similar rate to the rate that you would be paying on this debt. So as the rate on the debt increases, theoretically, the earnings on the City's cash portfolio would also increase in lock step.

COUNCILMAN NUTTER: So we have $26-and-a-half million in savings. You've got a 34 basis point differential. You're going to increase the amount or the percentage of our portfolio in variable rate as compared to fixed rate. So there's three very significant issues.

Let's go back to Councilman Cohen's

earlier question with regard to how much it will cost to buy the option back. And I think his concern was -- did I hear a number of $30 million?

MR. CORSEY: Yes.

COUNCILMAN NUTTER: Can you explain that again in the context of all the other discussion that we had?

MR. CORSEY: Sure. One of the issues is the option value. Like most options, again, it's that differential between -- it's really the value of earning that 655 coupon over time out to 2028 with no amortization and principal that makes the option so valuable.

The only way this transaction works is if we can buy the option at a value that's low enough that, after buying the option and bonding for the purchase of the option and the refunding of these bonds and doing a five-year swap, after all those things, can we still save $17 million in net present value savings. That's the only way.

COUNCILMAN NUTTER: You're taking

the 17. Are you also then adding the 9.2 that you received up front? Is that the total savings?

MR. CORSEY: No. That excludes the money that we sold -- that we got from selling the option. And the 17 is really the savings in debt service by having lower debt service over the first five years of the transaction. What we've assumed for the remainder of the transaction is a long, long-term average -- I think it goes back to 1989 -- which is roughly 4.82 percent.

COUNCILMAN NUTTER: But how does the 17 relate to the 26 on the chart here or that's on the schedule?

MR. CORSEY: If you look in that column called Estimated Gross Savings -- I'm sorry, the one next to it called Estimated Present Value Savings, and if you only go to 4/15/2009 on that column, those are the projected savings for the first five years of the transaction, assuming that the first five years are fixed via a swap.

COUNCILMAN NUTTER: But over time

the total savings is $26-and-a-half million?

MR. CORSEY: Yes.

COUNCILMAN NUTTER: That really becomes the bottom line of the whole transaction?

MR. CORSEY: That really becomes the bottom line of the whole transaction.

COUNCILMAN NUTTER: And then do I understand that we're trying to lock in the $17 million? Is there a proposed amendment or discussion about an amendment that will ensure that there is in fact $17 million --

MR. CORSEY: Francois can speak to that.

MR. DUTCHIE: Good morning, Councilman. My name is Francois Dutchie. I'm with the City Law Department. We have prepared and drafted an amendment to the ordinance, which I have actually given copies for the Councilmembers.

COUNCILMAN NUTTER: This is your amendment?

MR. DUTCHIE: This is the City's amendment.

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COUNCILMAN NUTTER: Let me just ask a question about the amendment. I know we haven't fully discussed it, but it has been circulated. The last part of this reads, "The Director of Finance shall determine and certify before the closing for the 2004 bonds," and it goes on. Certified to whom?

MR. DUTCHIE: Well, essentially to the world, I guess.

COUNCILMAN NUTTER: To yourself?

MR. DUTCHIE: No. She will prepare a certification which will be included in the bond closing binder and will also be filed with the Chief Clerk of Council.

COUNCILMAN NUTTER: When will that be filed with the Clerk?

MR. DUTCHIE: Prior to closing.

COUNCILMAN NUTTER: All right. I just want to get those facts on the record. I don't have any further questions. I do appreciate the further explanation, but I think some of these -- I mean, when all is said and done, they really do revolve around what is the bottom line to the transaction, what is the impact to the City, what are the pluses and minuses. We can have wonderful interest rate discussions. It's very illuminating. Quite exciting. Tantalizing. Just tell us how much money you're going to save when you come over and why it's a benefit to the City. Thank you.

Thank you, Madam Chair.

COUNCILWOMAN BLACKWELL: You're welcome.

Are there further questions?

(No response.)

COUNCILMAN COHEN: I think it's a comment more than anything. This is a form of arithmetic that is probably taught somewhere, but was not in the public school system at the time I went there. It seems to me the City is engaged in a very dangerous practice playing the stock market. In doing so, it makes money sometimes and it loses money. I don't think the City has any business doing that. I think they ought to run the City for the benefit of the citizens and not try to gamble to increase profits on the stock market. It ought to let the professional investors do that.

COUNCILWOMAN BLACKWELL: Thank you, Councilman.

If there are no further questions, then we will convene this part of our hearing and enter into our stated meeting.

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COUNCIL OF THE CITY OF PHILADELPHIA

PUBLIC MEETING

COMMITTEE ON FINANCE

- - - -

Wednesday, December 10, 2003

- - - -

Public meeting conducted by the Committee on Finance, held in Room 696, City Hall, Philadelphia, Pennsylvania, on the above date, to consider action on the following:

BILLS 030825, 030826.

PRESENT:

COUNCILWOMAN JANNIE BLACKWELL, Chair
COUNCILMAN DAVID COHEN
COUNCILMAN FRANK DICICCO
COUNCILMAN MICHAEL NUTTER

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COUNCILWOMAN BLACKWELL: The Chair would like to recognize Councilman DiCicco for a motion with regard to Bill No. 030825.

COUNCILMAN DICICCO: Thank you for the honor.

I make a motion that Bill No. 030825 be reported out of Committee with a favorable recommendation and a further recommendation that the Rules of Council be suspended.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: Thank you.

It is moved and seconded that Bill No. 030825 be reported out of Committee with a favorable recommendation and a recommendation for a suspension of the Rules so as to permit our first hearing at our next Session of Council.

All in favor?

(Aye.)

COUNCILWOMAN BLACKWELL: Opposed?

COUNCILMAN COHEN: We're in a public meeting for the first bill and then we're going back to the hearing on the second bill?

COUNCILWOMAN BLACKWELL: We are

finished the hearing. We are going to a meeting on the second one.

COUNCILMAN COHEN: I have one more general question on the first bill.

As I understand it, does that mean that the proposal is going forward or is that merely an authorization?

COUNCILMAN NUTTER: Councilman, the first bill was the bill on the Redevelopment Capital Assistance Grant from Harrisburg. That's the bill we just voted on. The bond bill is next.

COUNCILMAN COHEN: What does the Redevelopment Grant Assistance have to do with having sold something in June of 2002?

COUNCILMAN DICICCO: It's two separate bills.

COUNCILMAN NUTTER: It's two different bills.

COUNCILMAN COHEN: Have we heard two different bills?

COUNCILMAN NUTTER: Yes. I think that bill was going on as you were coming in.

COUNCILMAN COHEN: So we're doing

the first bill?

COUNCILMAN NUTTER: Yes.

COUNCILMAN COHEN: My question would be appropriate for the second bill.

COUNCILWOMAN BLACKWELL: We're in the middle of the vote on the first bill. We were saying aye. Are you okay with that?

COUNCILMAN COHEN: Aye.

COUNCILWOMAN BLACKWELL: Therefore, Bill No. 030825 is approved.

Now, Councilman Nutter, would you make a motion for the amendment to Bill No. 030826?

COUNCILMAN NUTTER: Yes, Madam Chair.

I don't know that the amendment was actually read into the record. I know it was circulated. Do you want it read?

COUNCILWOMAN BLACKWELL: That would be fine.

COUNCILMAN NUTTER: This is amendment to Section 6 of Bill No. 030826. At the end of the sentence, add two new sentences. "The Director of Finance shall determine and certify before the closing for the 2004 bonds that the net present value savings is at least $17 million for the first five (5) years of 2004 bonds. A copy of such written certification shall be filed with the Chief Clerk of Council prior to closing."

That is the amendment, Madam Chair.

COUNCILWOMAN BLACKWELL: Thank you very much.

COUNCILMAN NUTTER: I would move the adoption of the amendment, as read.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: Thank you.

The amendment to Bill No. 030826 has been approved.

Now, Councilman Nutter, we will ask you for a motion with regard to the bill.

Let the Chair note that this section was added to ease Councilman Cohen's mind that the City is losing money. So this will be filed in the Chief Clerk's office. So it is written here.

This amendment states that a savings of at least $17 million will be included for the first five years of these bonds, and also direct that a copy be placed in the Chief Clerk's office.

This should allay your fears that we're losing money and this is a real, real bad bill. Okay?

COUNCILMAN COHEN: Well, we're going to get $17 million, this amendment says? Wouldn't we have, in addition to that $17 million, the money that we're paying out? Aren't we also paying out 30 million?

COUNCILWOMAN BLACKWELL: But this says we are getting at least this much in savings, so we don't lose.

COUNCILMAN COHEN: Wouldn't we get a savings of $47 million, 30 plus 17, if the sale had not be made originally?

COUNCILWOMAN BLACKWELL: Gentlemen, ladies, although we're in stated meeting, the Chair will permit this, even though technically we're not supposed to, but we want to allay Mr. Cohen's fears.

MR. GINNETTI: Councilman, the $17 million is net after expenses are paid, after we pay the $30 million.

COUNCILMAN COHEN: How does that relate to the question I'm asking? Wouldn't it have been a fact that the City would be $47 million better off if it had not engaged in that first transaction of selling the option rights? Because we have all the rights that we're going to get by paying $30 million for.

MR. CORSEY: Potentially, yes. But we also have the benefit of the $9 million that we received from the sale of the option a year ago.

COUNCILMAN COHEN: I'll give you credit for that. You would still be $21 million ahead of the game. Instead of 30 extra million, you have 21 extra million. Does anybody keep tabs? How have we done in the market? Are we going to suggest that the City might --

MR. GINNETTI: Councilman, if I may. These bonds are issued -- they were issued to fund a portion of the pension fund, but they're kind of detached, if I could use that word, from the pension fund. The money went to the pension fund. It was invested by the folks at the Board of Pensions and their money managers. It's not really that money.

COUNCILMAN COHEN: Doesn't the City put in a lot of money to the pension fund?

COUNCILMAN NUTTER: Councilman, I think an important -- we have to go back, unfortunately, to where we were, I believe, in the '98, '99 time period.

The City pension fund had, I believe, an unfunded liability of somewhere in the 50 to 60 percent range. This took us up to about 71 or 72 percent funded, is my recollection.

Councilman, I don't remember what your vote was. I mean, we sought to bolster our pension system -- which you are absolutely correct, the City's General Fund makes up the shortfalls in the pension system to ensure that all of us and the current pensioners have something left, whenever we decide to leave here.

I think all in all, it was probably

a good transaction to do at the time, but this is not about the City playing in the financial markets. We floated $1.3 billion in bonds to help ensure the sanctity of the pension fund in the first place. So this was a separate bond deal that we did, the proceeds of which were then dumped into the pension fund.

You know that now we are facing tremendous pressure, notwithstanding having done this pension deal, because of the vagaries of the stock market. And you know that in the last fiscal year, and certainly Mayor Street is going to be challenged in this fiscal year, the upcoming budget, that the City's General Fund is going to face more pressure from increased General Fund payments to our pension system because of the down turn of the stock market. There is no way certainly to predict when we did the $1.3 billion bond transaction for our pension fund as to what was going to happen. And so our financial people are subject to the whipsaw of the market, just like everybody else.

I think we made the right decision

back at the time because Philadelphia may have had one of the largest unfunded liabilities of any pension system for a municipality in the United States of America. We did what we did, I think, for the right reasons. After that, we can't control the marketplace. I think our folks are paying attention, which is why they now come back to us with this transaction to at least save the City a minimum of $17 million. I mean, there will always be opportunities to go in and try to save money, and at least for my part, I'm glad that they're paying attention to what's going. Hopefully, we'll catch as much of those opportunities as possible.

For where you are, we would have to literally unravel why we did the pension bond bill in the first place in '99. Once we did it, we're stuck.

COUNCILMAN COHEN: I think the real reason may be found in some reports that have been issued recently about the huge lawyers' fees that are paid. I don't know what kind of fees are paid to the finance people, but I assume they're not working for free. I suggested that the City ought to be asking that the law firms begin contributing their services on a pro bono basis.

And a second thought I had was, I don't understand why the City has to have the most expensive lawyers. It seems to me that the City ought to use lawyers that are far less expensive than the most expensive lawyers. There are lots of competent lawyers that would be very happy and could use this work. And instead of cheering every once in a while when some minority firm happens to get some bond work, I'd like to see that kind of work widely distributed, if it's needed.

I'm also concerned that a lot of these times these complicated deals are arranged is to justify the billings. When you can confound this City Council -- and that seems easy to do, because I admit, even with your explanation, Councilman Nutter, I'm confounded by this business about options to purchase or repurchase, and I still can't do the arithmetic on why we're not at least

$21 million in the hole worse off than we would have been if we did not fool around in the beginning. Now, it seems to me that maybe lawyers need work or maybe the finance people need work. I don't know what it is.

COUNCILMAN NUTTER: Councilman, it is a tribute to you, Councilman Cohen, that the City is forced to hire such high-priced attorneys, because you know that no average or regular attorney could ever possibly confuse you. And so, you're actually driving up the cost of doing business, Councilman Cohen, in the City. We have to have the best.

COUNCILMAN COHEN: It won't work.

COUNCILWOMAN BLACKWELL: The only thing I can say is I'm glad I'm a school teacher by profession. I feel sorry for every lawyer in the room.

COUNCILMAN COHEN: Most of us don't understand -- maybe Councilman Nutter does, but I don't think anybody else does in City Council. And then a year later we're told, City Council did this. I know City Council didn't do it. We were talked into doing it because we felt somebody had to do the thing that was being asked of us and we were elected to do it, so we do it. Later on we're told, well, we make the decision. We're not making this decision. We're acting on the recommendation. Because of the 16 current members, Councilman Nutter, maybe you and Councilman DiCicco understand it.

COUNCILWOMAN BLACKWELL: They're the smart guys.

COUNCILMAN COHEN: Maybe Councilwoman Blackwell does, but I would doubt it. Because I know I tried to discuss it with Councilwoman Blackwell, and I think we just succeeded in confusing each other further trying to understand it.

COUNCILWOMAN BLACKWELL: I absolutely understand what you're saying, Councilman Cohen, and we thank you for those insights.

I know we really digressed technically from our rules because we had an amendment to the bill.

COUNCILMAN COHEN: Do we know when

the next bond issue or playing around with the bond issue, once issued -- because this is a second thing. We're not issuing a new bond, are we? We're just buying back something that --

MR. GINNETTI: Councilman, in order to raise the money to buy back the option, yes, we are going to issue new bonds.

COUNCILMAN COHEN: You're going to issue new bonds?

MR. GINNETTI: I'm sorry. Refunding bonds, Councilman.

COUNCILMAN COHEN: Well, at the briefing I asked before anything proceeds, that we get a clear estimate of all the costs. We're told we're going to make $17 million. Now, if the total deal involves $19 million and we're getting 17 out of 19, maybe it's a good deal. Maybe 17 out of 18 would be better. But if this is $17 million out of a transaction that's going to run about $30 million, then it's not a good deal.

What's the total cost going to be in lawyers' fees? What are the lawyers going to make out of all of this, the new bond and the buying back, what do they make?

COUNCILWOMAN BLACKWELL: Councilman, I'm sure they don't have those costs at this point. All of this has not happened and I don't believe that these -- am I not correct? I don't believe they have these costs yet because it hasn't happened yet.

COUNCILMAN NUTTER: Madam Chair, could we ask if the representatives at the table would get a full cost analysis for us of this particular transaction immediately after the transaction closes?

MR. GINNETTI: Absolutely.

COUNCILMAN COHEN: That would be too late, isn't it?

COUNCILWOMAN BLACKWELL: We would appreciate that, if you'd get that to us.

I don't believe they have all those costs up front, Councilman.

And then once we have that information, we will make it available to Members of the Committee.

I don't believe they have all of

that yet because it hasn't happened. They don't have the costs associated all the way down the line yet. They don't have all that in advance.

COUNCILMAN COHEN: I think the transaction, I have to tell you, is a fake transaction. I think it's being done not for the betterment of the City or the pension fund, but for the benefit of the players. The players being both the lawyers and the finance people. And if you want to disprove it, I think it's your duty to come up with figures to show that that's not the case.

MR. GINNETTI: We will do that, Councilman. We will provide the figures.

COUNCILMAN COHEN: Before it's transacted?

MR. GINNETTI: We won't have them before the transaction, Councilman.

COUNCILMAN COHEN: Because you don't even know whether this offer is going to be accepted, do you? Or do you have enough feeling from the sellers now that they will accept this offer?

MR. CORSEY: Yes, we do.

COUNCILMAN COHEN: You do have that feeling. Well, then it seems to me you ought to be able to come up with a pretty close estimate. You ought to be able to tell us what the $17 million runs. What are the costs associated with the City of Philadelphia making what you estimate to be $17 million? What's the transaction, how much is going to be involved, what are lawyers going to make out of it, the finance advisors? Are there others that are going to be paid? Let's find out what that is. Then we have a whole picture and I think we're in a much better position.

COUNCILMAN NUTTER: Without the definitive information and without locking yourselves into anything, if you could possibly work on some estimates of the kind of information that Councilman Cohen is asking for and get it to us before the bill comes up for a vote through the Chair, that might help us, okay?

MR. GINNETTI: Okay.

COUNCILWOMAN BLACKWELL: Thank you very much.

Councilman Nutter, would you then make a motion for the amended bill?

COUNCILMAN NUTTER: Madam Chair, I move that Bill 030826, as amended, be reported out of this Committee with a favorable recommendation and a further recommendation that the Rules of Council be suspended so as to permit first reading at our next Session.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: It has been moved and seconded that Bill 030826 as amended be reported out of Committee with a favorable recommendation, and further that the Rules be suspended so as permit first reading at our next Session of Council.

All in favor?

(Aye.)

COUNCILWOMAN BLACKWELL: Opposed?

COUNCILMAN COHEN: Abstention.

COUNCILWOMAN BLACKWELL: We have Councilman Cohen with an abstention vote that we ask the stenographer to record.

12/10/03 - FINANCE - PUBLIC MEETING

Thank you very much. We thank you all for your patience. That will end our hearing.

(Council adjourned at 4:16 p.m.)

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C E R T I F I C A T I O N

I HEREBY CERTIFY that the foregoing proceedings of the Council of the City of Philadelphia of December 10, 2003, were reported fully and accurately by me, and that this is a correct transcript of the same.

RE: COMMITTEE ON FINANCE

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Lisa C. Bradley, RPR