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COUNCIL OF THE CITY OF PHILADELPHIA

3

PUBLIC HEARING AND PUBLIC MEETING

4

BEFORE THE COUNCIL COMMITTEE ON FINANCE

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Room 400, City Hall
Philadelphia, Pennsylvania
Tuesday, May 11, 1999
10:05 a.m.

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BILL 990285 - An ordinance constituting the 16th
Supplemental Ordinance to the General Gas Works
Revenue Bond Ordinance of 1975. . .

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BILL 990286 - An ordinance constituting the Second
Supplemental Ordinance to the General Gas Works
Revenue Bond, Ordinance of 1998. . .

13

14

BILL 990219 - An ordinance amending Chapter
19-1500 of The Philadelphia Code, entitled "Wage
and Net Profits Tax". . .

15

16

BILL 990220 - Amending Chapter 19-1700 of The
Philadelphia Code entitled "Review, Refunds and
Compromises". . .

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18

PRESENT: COUNCILWOMAN JANNIE BLACKWELL, Chair
COUNCIL PRESIDENT ANNA C. VERNA
COUNCILMAN JAMES F. KENNEY
COUNCILMAN MICHAEL A. NUTTER
COUNCILWOMAN MARIAN B. TASCO
COUNCILMAN THACHER LONGSTRETH

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1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86

2 P R O C E E D I N G S

3 COUNCILWOMAN BLACKWELL: Good morning.

4 We would like to begin our finance hearing. A
5 quorum being present, we will begin our finance
6 hearing.

7 To my left is the cosponsor of this
8 legislation and head of the Gas Commission,
9 Councilwoman Marian Tasco; Councilman Thacher
10 Longstreth. To my right is Jim Kenny and, of
11 course, I'm Jannie Blackwell.

12 The clerk will please read the title of
13 the first bill.

14 THE CLERK: Bill No. 990285, an
15 ordinance constituting the 16th Supplemental
16 Ordinance to the General Gas Works Revenue Bond
17 Ordinance of 1975, as amended (The "1975 general
18 ordinance"); authorizing the Mayor, the City
19 Controller, and the City Solicitor, or a majority
20 of them, to sell, either at public or private
21 sale, Gas Works Revenue Bonds (1975 General
22 Ordinance), 16th Series, of the City of
23 Philadelphia, in one or more subseries, in the
24 maximum aggregate principal amount of
25 \$80 million (The "Sixteenth Series Bonds");

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2 provided, however, that, if the Sixteenth Series
3 Bonds are sold at a discount, the aggregate
4 principal amount may be increased to reflect such
5 discount as long as the aggregate gross proceeds
6 to the City from the sale of the Sixteenth Series
7 Bonds do not exceed \$80 million, plus accrued
8 interest, if any; designating that the Sixteenth
9 Series Bonds are being issued to redeem or refund
10 all or a portion of certain outstanding series of
11 revenue bonds of the Philadelphia Gas Works (The
12 "Gas Works") and the application of proceeds of
13 the Sixteenth Series Bonds for such purpose;
14 authorizing the City to obtain credit enhancement
15 for the Sixteenth Series bonds; determining the
16 sufficiency of Gas Works Revenues; covenanting the
17 separation of Gas Works Revenue Accounts and
18 proceeds of the Sixteenth Series Bonds from
19 general accounts of the City; covenanting the
20 payment of interest and principal on the Sixteenth
21 Series Bonds; authorizing covenants and action in
22 order that the Sixteenth Series bonds shall not be
23 arbitrage bonds; authorizing the Sixteenth Series
24 bonds to be issued in the book-entry form and
25 providing book-entry provisions to apply in such

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2 case; and providing that this ordinance is
3 supplemental to the 1975 General Ordinance and
4 that the provisions of the 1975 General Ordinance,
5 to the extent not modified, amended, or superseded
6 by this ordinance, are applicable.

7 COUNCILWOMAN BLACKWELL: Thank you.

8 Do any members of the committee have
9 any remarks or questions they would like to ask
10 before we begin?

11 (No questions.)

12 COUNCILWOMAN BLACKWELL: Thank you.

13 Then we will certainly ask Ben Hayllar,
14 CEO of PGW, to come forward. I understand that
15 with him will be Whitney Reid, our City Treasurer;
16 Barbara Bisgaier, Public Financial Management;
17 Joseph Bogdonavage, PGW; and Joseph Golden, PGW.

18 The question is, if the bills are
19 related, would you like to testify on them at one
20 time in a unified manner?

21 MR. HAYLLAR: The testimony is written
22 to deal with Bills 285 and 286, and I notice
23 you've only read the first bill.

24 COUNCILWOMAN BLACKWELL: All right.

25 Then we will have the clerk then read the title of

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 the second bill so that your testimony will be
3 appropriate.

4 MR. HAYLLAR: Thank you.

5 THE CLERK: Bill No. 990286, an
6 ordinance constituting the Second Supplemental
7 Ordinance to the General Gas Works Revenue Bond,
8 Ordinance of 1998 (The "1998 General Ordinance");
9 authorizing the Mayor, the City Controller, and
10 the City Solicitor, or a majority of them, to
11 sell, either at public or private sale, Gas Works
12 revenue bonds (1998 General Ordinance), Second
13 Series, of the City of Philadelphia, in one or
14 more subseries, in the maximum aggregate principal
15 amount of \$115 million (The "Second Series
16 bonds"); provided, however, that if the Second
17 Series Bonds are sold at a discount, the aggregate
18 principal amount may be increased to reflect such
19 discount, as long as the aggregate gross proceeds
20 to the City from the sale of the Second Series
21 Bonds do not exceed \$115 million, plus accrued
22 interest, if any; designating that the Second
23 Series Bonds are being issued to pay the costs of
24 certain projects of the Philadelphia Gas Works
25 (The "Gas Works") and the application of proceeds

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 of the Second Series Bonds for such purpose;
3 authorizing the City to obtain credit enhancement
4 for the Second Series Bonds; determining the
5 sufficiency of Gas Works Revenues; covenanting the
6 separation of Gas Works Revenue accounts and
7 proceeds of the Second Series Bonds from general
8 accounts of the City; covenanting the payment of
9 interest and principal on the Second Series Bonds;
10 authorizing covenants and action in order that
11 the Second Series Bonds shall not be arbitrage
12 bonds; authorizing the Second Series Bonds to be
13 issued in book-entry form and providing book-entry
14 provisions to apply in such case; and providing
15 that this Ordinance is supplemental to the 1998
16 General Ordinance and that the provisions of the
17 1998 General Ordinance, to the extent not
18 modified, amended, or superseded by this
19 Ordinance, are applicable..

20 COUNCILWOMAN BLACKWELL: Thank you.

21 Thank you very much. Please identify
22 yourself for the record and begin.

23 MR. HAYLLAR: Good morning.

24 COUNCILWOMAN BLACKWELL: Good morning.

25 MR. HAYLLAR: I am Ben Hayllar,

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 Director of Finance for the City, and the interim
3 president of the Gas Works.

4 With me is Whitney Reid, who is the
5 City Treasurer, and numerous people from PGW and
6 others involved in this deal.

7 My understanding is my testimony is to
8 try to render into comprehensible English the
9 legal language that the clerk just read.

10 COUNCILWOMAN BLACKWELL: Absolutely.

11 MR. HAYLLAR: The first Bill, 990285,
12 would authorize the City to refinance some
13 existing debt of the Gas Works up to \$80 million.
14 In fact, we intend to refinance approximately
15 \$59 million of some older debt to achieve savings
16 of approximately \$10.2 million. This is a 14.6
17 present value savings. As you may know, the norm
18 -- for standard for refinancing is 3 percent. So
19 there are considerable savings to take advantage
20 of the lower interest rates on behalf of the Gas
21 Works. We intend to take a little over
22 \$2 million in this fiscal year and take the rest
23 over ensuing years.

24 We also would receive, with Council's
25 approval, the ability to refund up to \$4 million

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 of some other existing debt. We would only take
3 these savings if it was absolutely required in
4 order for the Gas Works to meet its 1.5 debt
5 covenant.

6 The second bill authorizes the City to
7 sell, on behalf of the Gas Works, new debt for
8 capital projects going forward. We intend to sell
9 \$109 million for new financing. As you know, the
10 Gas Works is a capital-intensive operation that
11 requires consistent maintenance, particularly for
12 our liquification plant in Port Richmond.

13 This is a standard financing for new
14 money. We do not expect to be back before Council
15 for additional funds until 2003 or thereafter.

16 This is, as I told Council in a
17 briefing a couple weeks ago, a fairly standard set
18 of refinancing and new financing legislation. We
19 would have to point out to you, as we did then,
20 that even with Council's approval, this
21 refinancing and new financing is being sold in a
22 climate that we have not experienced before.
23 Specifically, we are led to believe that the
24 Senate will pass a gas deregulation bill as early
25 as tomorrow. It will go to the State House. The

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 State House will amend it to include PGW. This
3 puts the issue in an unusual climate that we have
4 not recognized before.

5 Our intention is to make certain that
6 the covenants that our bondholders have are
7 protected, even though we do not support in the
8 slightest the bill. If we are able to achieve
9 that, we believe the refinancing and financing can
10 go forward.

11 We have numerous attorneys working on
12 this to make sure that we are protected both in
13 terms of existing debt and future debt, but this
14 is an unusual circumstance that we will find
15 ourselves in.

16 Mr. Reid and myself would be more than
17 happy to answer any questions that you might have.

18 COUNCILWOMAN BLACKWELL: Mr. Hayllar,
19 what's the substance of this Senate bill, and how
20 does deregulation fit into all of this?

21 MR. HAYLLAR: The State is interested
22 in deregulating the natural gas utilities as they
23 have deregulated the electric utility. The
24 industries are quite different, but there is a
25 certain political cachet right now in doing this.

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2 And the majority parties in the Senate and in the
3 House are apparently intent on going forward with
4 it.

5 Philadelphia, as you know, represents
6 more than half of the natural gas sold in the
7 state of Pennsylvania. The marketers who are
8 particularly interested in this bill are very
9 interested in having the Philadelphia Gas Works
10 included in it. We are a market that is
11 relatively in many ways easy for them to penetrate
12 if they were allowed. Deregulation would allow
13 them to do that, it would separate the supply of
14 gas from the delivery of gas function.

15 Secondly, as I understand it, in the
16 House, there is a strong movement that would have
17 the Gas Works regulated not by the local Gas
18 Commission but by the Public Utility Commission.
19 This, as we've said before, presents an extremely
20 serious problem regarding the debt that we have
21 sold. It's approximately \$800 million of
22 outstanding bonds. It is protected by a very high
23 revenue-to-debt covenant of one and a half times
24 debt service. Traditionally, you see 1.1, 1.2,
25 but 1.5 is a very strong covenants. That in turn

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 is protected by City law that requires the Gas
3 Commission to provide revenue to meet that
4 covenant.

5 This is different from the way PUC has
6 regulated its utilities. And if this were to go
7 forward, the PUC would have to provide the same
8 protection for our debt holders as the Gas
9 Commission has. And this is one of the great
10 questions.

11 If they fail to do this properly, we
12 foresee a very serious set of legal issues that
13 would involve both the company, the City, and the
14 State. We hope very much that we can avoid that.
15 But that is the cloud that confronts us in what
16 would otherwise be a fairly routine financing.

17 COUNCILWOMAN BLACKWELL: What capital
18 projects other than rehabilitation of Port
19 Richmond does PGW expect to fund with the proceeds
20 of Bill 980285?

21 MR. HAYLLAR: Joe Bogdonavage of the
22 Gas Works is here and can answer that in more
23 detail.

24 But these are routine matters. We have
25 an older system that has a great deal of cast-iron

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2 pipe under the ground; we seek to replace that.
3 We continue to have information technology systems
4 that have been ignored historically that we are
5 now replacing in its entirety. There's a large
6 panoply of projects that this would help fund.

7 Joe, can you help a little more. Mr.
8 Bogdonavage.

9 MR. BOGDONAVAGE: Good morning.

10 COUNCILWOMAN BLACKWELL: Good morning.

11 COUNCIL PRESIDENT Verna: Good
12 morning.

13 MR. BOGDONAVAGE: Some of the major
14 projects in the year 2000 Capital Budget that we
15 have, as Mr. Hayllar pointed out, was the
16 refurbishment of the LNG plant.

17 We also expect to spend about \$21.5
18 million on infrastructure replacements, cast-iron
19 mains, and services in the year 2000. We also
20 have about \$6 million worth of expenditures
21 budgeted primarily for the installation of the
22 automatic meter-reading devices. In addition, we
23 have about \$3.4 million in transportation
24 replacement vehicle equipment.

25 COUNCILWOMAN BLACKWELL: How much was

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 a great deal of myth. One of it is that we are
3 extremely expensive. As the Gas Commission
4 chairwoman would tell you, we have not had a rate
5 increase since 1992, and that compared to
6 surrounding Pennsylvania-regulated gas utilities,
7 we are not only competitive; but on the
8 residential side, we are very competitive, in fact
9 lower than many of the companies that surround
10 us. This is principally due to the way that we
11 purchase gas, not necessarily our operating
12 costs.

13 But PGW has been, although it has
14 allowed itself to be portrayed as expensive, we
15 are not an expensive utility when compared to
16 other utilities.

17 In addition, recently the Baltimore Gas
18 Company presented a filing to its regulatory
19 commission and compared the rates for residential
20 customers up and down the eastern seaboard --
21 Baltimore, New York, Brooklyn, Philadelphia,
22 Washington, Richmond. Again, we fared very
23 favorably in our rates.

24 So we have been -- the Gas Commission
25 has been extremely diligent in preventing rate

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 hikes that were unnecessary. We have achieved
3 this by achieving savings within the operations of
4 the company and through gas purchasing.

5 Passage of this legislation would not
6 affect rates one way or the other. However, it
7 would add, of course, additional debt burden, but
8 there is a financing that would assist us. But
9 also, I couldn't resist the opportunity to point
10 out that PGW is really a competitive provider of
11 residential gas.

12 COUNCILWOMAN BLACKWELL: I know for a
13 while there, we were getting rate increases, and
14 then former Councilman Lucien Blackwell came
15 aboard and not only didn't allow for rate
16 increase, but had management take a 5 percent
17 decrease. And it just proved that we can do it if
18 we really want to.

19 MR. HAYLLAR: That is correct.

20 COUNCILWOMAN BLACKWELL: Yes.

21 Now we'll certainly open the floor to
22 questions. Madam President?

23 COUNCIL PRESIDENT VERNA: I have a
24 couple but you've been sitting here before me.

25 COUNCILWOMAN TASCO: I wanted to follow

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86

2 up on that question.

3 COUNCILWOMAN BLACKWELL: Councilwoman
4 Tasco?

5 COUNCILWOMAN TASC0: Thank you very
6 much.

7 I want to go back to the issue of
8 whether or not it would be a rate increase.
9 According to the Stone and Webster report, you
10 have been talking to us, the Gas Commission, about
11 gradually having a base-rate reduction starting
12 soon, but the start date keeps getting pushed
13 back.

14 MR. HAYLLAR: Yes.

15 COUNCILWOMAN TASC0: According to the
16 Stone and Webster report, this is no longer the
17 plan?

18 MR. HAYLLAR: That is correct.

19 COUNCILWOMAN TASC0: Instead, there
20 will be a \$20 million rate increase or possibly
21 expense reduction in that amount or a combination
22 of the two starting in the fiscal year 2002?

23 MR. HAYLLAR: In the budget that we
24 will submit on time at the end of this month to
25 the Gas Commission, you will see five-year

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 projections that show that we will require either
3 \$20 million of additional sales, a \$20 million
4 further reduction -- and we are reducing costs
5 annually; our budget that you will see will be 6
6 percent less than last year's budget -- or \$20
7 million in revenue enhancements.

8 Clearly, our goal is to fill that gap
9 which will take place somewhere around the year
10 2002, 2003. We're going to try to fill that with
11 cost reductions. We are not interested, as is
12 anybody else, in a rate increase if we can
13 possibly avoid it.

14 COUNCILWOMAN TASC0: What would those
15 cost reductions include? How would you reach a
16 \$20 million cost reduction?

17 MR. HAYLLAR: We have, as you will see
18 in the budget, a conservative plan for reducing
19 FTEs, full-time equivalents.

20 COUNCILWOMAN TASC0: What does that
21 mean?

22 MR. HAYLLAR: Full people, personnel.

23 COUNCILWOMAN TASC0: Okay.

24 MR. HAYLLAR: We have a no-layoff
25 clause in our contract but we do have the normal

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 attrition. We started this year with
3 approximately 1900 employees -- excuse me -- with
4 approximately 2,000 employees. We are now at
5 about 1900 employees. We've reduced in 1 year by
6 100.

7 COUNCILWOMAN BLACKWELL: Through
8 attrition, you said?

9 MR. HAYLLAR: Through attrition.
10 Now, there have been layoffs of
11 non-union personnel because previous management
12 beefed up the marketing function far beyond what
13 we believed was appropriate. We just didn't have
14 additional product for these people to sell. So
15 we did have layoffs in this nonunion area.

16 But through attrition, we believe we
17 will be down on average next year of 1836. By the
18 end of the fiscal year, we'll be close to 1800
19 employees. That probably can be escalated.

20 We also see opportunity in health care.
21 We have an overfunded pension that we are looking
22 at to see if that can be of assistance to both the
23 pensioners and the company. I mentioned health
24 care. We believe that a number of contracts can
25 be reduced to achieve these savings.

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2 It's a task, but when you look at our
3 non-gas commodity rate now, which is now \$2.43 --
4 excuse me, it's \$3.43, we are considerably higher
5 than our surrounding competitors. And that's
6 where we know we can squeeze savings.

7 COUNCILWOMAN TASCO: If you have a
8 staff reduction through attrition, how would it --
9 what would the total number be? You gave me what
10 we have now and what would be, but I can't
11 calculate that figure.

12 And then how would that decrease impact
13 on the quality of service to the ratepayer? And
14 where would those cost reductions take place?

15 MR. HAYLLAR: Throughout the system,
16 through normal retirement and attrition. We would
17 have some additional flexibility so that we can
18 move people in an area that has more person power
19 than is necessary -- gas meter-reading comes to
20 mind because we have automatic meter-readers and
21 we do not need the meter-reader force that we once
22 had, and they're being moved into our areas.

23 We believe that the number for the end
24 of the next fiscal year ending in August of 2000
25 should be much closer to 1800 than 1900, where it

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2 is now. We can probably escalate that.

3 The big question is, you don't want to
4 reach a level where your service declines. Right
5 now. Our service is respectable; it's not where we
6 want it to be. We are today answering
7 approximately -- and it's a big swing on this.
8 But yesterday and the day before, we were
9 answering approximately 85 percent of the customer
10 service phone calls within 3 minutes. We are
11 making and keeping appointments for morning and
12 afternoon appointments for repairs -- you don't
13 want to lose that.

14 We believe that we can welcome continue
15 to do this with increased person power through,
16 you know, improved technology, the investment
17 we've made in information technology, gas
18 management assignment tools, customer service
19 tools, that that will assist us. We also
20 recognize that we need to improve the training of
21 our people, particular people that are being moved
22 in, and that should certainly help productivity.

23 COUNCILWOMAN TASC0: I was going to ask
24 you a question about productivity. What plans
25 does your human service department have in place

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2 to work with your employees to increase
3 productivity? And do you have an adequate staff
4 in human resources to do that?

5 MR. HAYLLAR: In human resources, we've
6 added a good number of people. I think that we
7 can probably get some -- need some additional help
8 as time goes on. We are examining the training
9 area throughout.

10 The field services, the people that
11 work in the street and work with the live gas, I
12 don't think there's been any question that the
13 training they receive exceeds the industry
14 standard.

15 In terms of training for the new
16 customer service phone systems, the billing
17 systems, training for use of manpower dispatching
18 materials, that has to be ongoing. The human
19 services area is looking at other ways to improve.

20 One of the thing the Gas Commission has
21 asked for this year is a five-year plan, very
22 similar to the five-year plan that the City
23 receives. In there, you will see an outline of
24 the areas where they believe they need to
25 prioritize their training. And that five-year

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2 plan will be submitted to you at the same time the
3 budget is presented.

4 COUNCILWOMAN TASC0: I'd just like to
5 point out that the five-year plan was my
6 recommendation for PGW so that they would have an
7 idea of where they are going. While the
8 Commission would like to have the plan, it was my
9 recommendation that you have a working plan such
10 as we have in the City so we know where we're
11 going for the next five years.

12 MR. HAYLLAR: Absolutely agree.

13 COUNCILWOMAN TASC0: We requested it
14 because we thought it would be helpful to you to
15 do.

16 MR. HAYLLAR: And I think we
17 immediately agreed that it was an appropriate way
18 to unify PGW.

19 One of the problems PGW has had is each
20 of its units has been run as a subsidiary and has
21 not been run as a collective team. The five-year
22 plan allows people to build that support structure
23 between departments of the company so that there's
24 less of set of fiefdoms, if you will, and there's
25 more of a sense of one company working together.

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2 COUNCILWOMAN TASC0: I have some more
3 questions, but I will yield to the President.

4 COUNCIL PRESIDENT VERNA: Thank you.

5 I believe I heard that \$6 million is
6 earmarked for the automatic meter-readers. Is
7 this the last year for the installation of the
8 meters?

9 It took the Water Department
10 practically no time at all to install their
11 meter-readers. Why is it taking so long for the
12 Gas Company to do it? And will this be the last
13 phase of it?

14 MR. HAYLLAR: Yes. I believe we're due
15 to finish the summer of next year.

16 The reason there is a difference
17 between the Water Department and the Gas Works is
18 that the Water Department used outside firms to
19 make the installation; they contracted for it.
20 The Gas Works is not permitted by contract and
21 legal arbitration rulings to use outside
22 contractors. The company tried some years ago and
23 was told that it had to desist.

24 So all our meters are installed by our
25 own personnel, which is restrictive because our

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2 personnel have their own other work to do.

3 Whenever we enter a building, we put the automatic
4 meter-reader in, there is a systematic way of
5 doing it. But by not going to the outside, we had
6 a much slower process than the Water Department
7 had.

8 And I think the Water Department's
9 system -- I don't think anyone believed that they
10 were going to be able to install that many
11 automatic meter-readers in the time they've done
12 it, it is very impressive.

13 COUNCIL PRESIDENT VERNA: I agree. How
14 many more does the Gas Company have to install
15 this year?

16 MR. HAYLLAR: About 60,000 more.

17 COUNCIL PRESIDENT VERNA: And do you
18 think it can be accomplished?

19 MR. HAYLLAR: Yes. The last group of
20 those will be the hard-to-enter homes where water
21 and gas will jointly try to get into those
22 buildings to try to get them in. That's probably
23 going to be the real challenge.

24 COUNCIL PRESIDENT VERNA: You know, I
25 don't know why the Water Department and the Gas

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 Company could have not worked on this together and
3 probably have saved a great deal of money, a great
4 deal of time, and a great deal of effort on
5 everybody's part.

6 MR. HAYLLAR: There are many areas
7 where that question can rightfully be asked. One
8 of them is the area of meter-reading. They use a
9 nitron automatic meter, we use a nitron automatic
10 reader. We have our trucks going around, they
11 have their trucks going around reading them. This
12 does not make a whole lot of sense.

13 COUNCIL PRESIDENT VERNA: But I'm
14 talking about the installation of the meters.

15 MR. HAYLLAR: Yes. But it is not
16 untypical of the lack of coordination that
17 historically has happened.

18 COUNCIL PRESIDENT VERNA: Bill No.
19 990285 authorizes the issuance of up to
20 \$80 million in Gas Works Revenue Bonds. What is
21 the breakdown of the requested \$80 million
22 authorization between the Eleventh Series C and
23 Fourteenth Series C Gas Works Revenue Bonds?

24 MR. HAYLLAR: Recognizing that I may be
25 corrected on this, it's \$59 million from the

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 Eleventh Series and \$4 million, if absolutely
3 required, from the Fourteenth Series.

4 COUNCIL PRESIDENT Verna: When will you
5 know if PGW needs the issuance of the additional
6 Fourteenth Series in order to make your debt
7 service coverage requirement?

8 MR. Hayllar: We will make an estimate
9 of debt service requirement just as we go to
10 market, and that's when we will make that
11 determination.

12 I do not believe we will need it. It
13 is in there solely as a precaution in case
14 something bad happens. Something bad always seems
15 to happen, so it's there as a precaution. Right
16 now, we do not believe that we will need it.

17 COUNCIL PRESIDENT Verna: Okay. And
18 when do you expect to sell these bonds?

19 MR. Hayllar: End of June, June 10th,
20 which is the beginning of June.

21 COUNCIL PRESIDENT Verna: What will be
22 the total of PGW outstanding debt after the
23 issuance of these bonds?

24 MR. Hayllar: About 830 million.

25 COUNCIL PRESIDENT Verna: I beg your

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 pardon?

3 MR. HAYLLAR: About 830 million.

4 COUNCIL PRESIDENT Verna: What are the
5 operational and financial impacts to PGW if, as a
6 result of gas deregulation, you are not able to
7 sell these bonds?

8 MR. HAYLLAR: I would hope it would
9 only be a deferral because ultimately, we don't
10 need capital money immediately. But ultimately
11 within the year, we will need capital money for
12 the ongoing maintenance of a very sophisticated
13 and capital-intensive plan.

14 We would vastly prefer to be able to
15 achieve the refinancing because that will give us
16 additional comfort on making the 1.5 debt service
17 coverage. We may be able to slip through without
18 it, but I don't want to take that risk.

19 So without the refinancing, you have
20 the possible technical default on the ratio. I
21 don't think it's going to happen, but our fiscal
22 year ends in August, so there's a lot that can
23 happen. We'd like to have it there to be sure.

24 Secondly, we will ultimately need new
25 capital to keep our system going.

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2 COUNCIL PRESIDENT Verna: Mr. Hayllar,
3 why are you requesting approval of Bill No. 990285
4 prior to PGW receiving the various approvals of
5 the proposed capital expenditures? And will you
6 receive all of the required capital budget
7 approvals before you attempt to go out to sell the
8 bonds?

9 MR. HAYLLAR: I don't believe so. I
10 believe that we will present a capital budget to
11 the Gas Commission on the -- at the end of this
12 month.

13 This financing is not coupled with any
14 particular budget; it is just to provide funds for
15 whatever capital program the Commission and
16 Council approves. This is the financing. The
17 approval of the capital program, the
18 authorizations, can come later. We're just
19 putting the money -- making the money available.

20 We're doing them together because
21 there's companies of scale. We want to do the
22 refinancing because that will help us this year
23 and the market is extremely advantageous for us.
24 If we have a bond team and the expense of
25 refinancing taking place, you save money by doing

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2 the new financing at the same time.

3 COUNCIL PRESIDENT Verna: Well, what
4 happens if you submit your capital program to the
5 Commission and they don't approve it? You say
6 you're submitting it at the end of May?

7 MR. Hayllar: Yeah, that -- the
8 deadline is June 1st.

9 If they don't approve it, this money
10 can be spent on current approvals that have not
11 been exhausted where this money would sit. We are
12 asking for the new money because we are going out
13 for a refinancing in the economies of doing -- it
14 is more expensive to do two transactions than one.
15 We would not venture with a year 2000 capital
16 program without Commission and Council approval.
17 We can't.

18 COUNCIL PRESIDENT Verna: And if the
19 numbers change and we're going out and selling the
20 bonds without -- I don't know, how long does it
21 take the Commission to submit approval?

22 MR. Hayllar: This is not dissimilar
23 from what the City does. The financing of the
24 program is independent of the program itself. You
25 approve a capital program of things that you agree

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 we can spend money on. Sometimes we have money
3 available to begin those projects immediately,
4 sometimes we finance at a different period of
5 time. They do not go hand in hand.

6 This money is not for the year 2000
7 capital program exclusively. It's for capital
8 program projects that the Commission and the
9 Council approve. The two are independent.

10 COUNCILWOMAN BLACKWELL: Thank you.
11 Councilman Kenney?

12 COUNCILMAN KENNEY: Yeah, thank you,
13 Madam Chair.

14 MR. HAYLLAR: Mr. Bogdonavage reminds
15 me that this is exactly the sequence that took
16 place last year, that the new money was sold
17 without a '99 capital program. It was just that
18 the money was needed for capital improvements.
19 You can't spend it without the authority of a
20 Commission and Council, but they are independent.

21 COUNCIL PRESIDENT VERNA: What happens
22 when you exceed in very large amounts of money
23 what has been placed in the capital program?

24 MR. HAYLLAR: If we spend -- and as you
25 probably know, 'cause I've discussed this with

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2 Mr. McPherson, if we exceed an authorization, I
3 believe we have to come back to Council to correct
4 that with an increased authorization afterwards.
5 You should not --

6 COUNCIL PRESIDENT VERNA: How
7 frequently has that happened, in your memory?

8 MR. HAYLLAR: I believe it has happened
9 in two years, and it is projected to happen for
10 '99. We are still working on trying to ascertain
11 those numbers.

12 There was -- the accounting profession
13 uses a nice term called "management override."
14 Members of management were not watching the
15 authority -- the authorizations that have been
16 provided to Council and the Gas Commission, and
17 have exceeded, or are projected to exceed, those
18 authorizations. We are working on that now and
19 we're trying to work on a program to correct those
20 excesses.

21 We have to come back to you ultimately
22 is, I believe, the answer.

23 COUNCIL PRESIDENT VERNA: Thank you,
24 Madam Chair.

25 COUNCILWOMAN BLACKWELL: Thank you.

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2 Councilman Kenney?

3 COUNCILMAN KENNEY: Thank you, Madam
4 Chair.

5 Is there a percentage of projects that
6 had previously been authorized that a portion of
7 these new dollars are going to fund? For example,
8 have we started projects, had projects authorized,
9 started projects, and now will take a portion or a
10 percentage of the new dollars either through the
11 refunding, the refinance, or the new borrowing to
12 pay for projects that are already in the pipeline?
13 And if that's true, what percentage of them are
14 there and how often does that happen?

15 MR. BOGDONAVAGE: None of the proceeds
16 from the refunding will be used for any capital
17 projects; that's strictly a debt service
18 refunding.

19 Of the \$100 million in new money, we
20 probably have somewhere around 15 to \$20 million
21 of prior-year spending that may be a part of this
22 new \$100 million issue. So I would say somewhat
23 under 20 percent of the capital projects that
24 we're going forward with were approved prior to
25 1999.

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2 COUNCILMAN KENNEY: What's the general
3 reason for the 20 percent lag in prior-approved
4 capital projects and their funding?

5 MR. BOGDONAVAGE: The biggest area of
6 capital spending is in the distribution department
7 and currently on the information technology side.
8 Historically, some of the distribution projects,
9 we would spend probably about 80 percent of the
10 money in the current year's program in that
11 current fiscal year. The remainder of that would
12 probably stretch over because of some long-term
13 duration projects one or would years.

14 In the information technology area,
15 some of those programs with the information
16 technology initiatives we have stated have
17 exceeded the one-year horizon and have taken over
18 two years to accomplish some of those technology
19 issues. That's where we get about the 20 percent
20 lag time we have in the project.

21 COUNCILMAN KENNEY: So the issue not
22 only of lag time but of costs associated with the
23 lag time, does that require you to come back and
24 get post-approval for overruns in projects that
25 were pre-approved at a certain level of funding?

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2 MR. HAYLLAR: I believe it will.

3 COUNCILMAN KENNEY: You believe it will
4 or believe it has?

5 MR. HAYLLAR: I believe we will have to
6 come back for what you referred to as
7 "post-approval."

8 COUNCILMAN KENNEY: I guess 'cause it's
9 like, what comes first, the chicken or the egg?

10 MR. HAYLLAR: Yeah.

11 COUNCILMAN KENNEY: And 20 percent of
12 what we're approving in the \$115 million new
13 borrowing is going to be earmarked, or has been
14 earmarked, for projects prior approved that have
15 not only overrun in time, but obviously the time
16 cost money as overrun in dollars.

17 Why have we not had an approval process
18 for the projects that have run longer and more
19 expensive than was prior approved?

20 MR. HAYLLAR: Two reasons. One, the
21 capital budgets tend to be passed after the fiscal
22 year has started, and there's just not a good
23 control mechanism when you do that.

24 Secondly, I was not aware of the
25 exceeding of the authorizations until about a

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2 month ago, and we are now trying to determine
3 exactly how much of the -- how much we will have
4 exceeded that authorization so we will know what
5 to come back to Council and the Gas Commission
6 for. We don't know yet.

7 COUNCILMAN KENNEY: Because of the
8 climate, the favorable borrowing climate that now
9 exists and because we're being asked to approve
10 \$115 million of new money prior to the approval of
11 the Gas Commission on the actual expenditure of
12 those dollars, would it not in some way be better
13 to borrow all that we need to cover what has been
14 a shortfall and then to move forward with the
15 projects that we expect to be done or need to be
16 done, maintained or expanded in the course of the
17 next year or two?

18 Do you understand what I'm saying?

19 MR. HAYLLAR: Do two borrowings?

20 COUNCILMAN KENNEY: No, increase the
21 borrowing so that we get the number, the 20
22 percent number that we need to cover what has been
23 -- either has gone longer than we wanted to, more
24 expensive than we wanted to, or in the pipeline
25 now. And then move forward with a real number --

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2 anticipate seeking additional capital funds until
3 the year 2003 or beyond."

4 MR. HAYLLAR: That's correct.

5 COUNCILMAN KENNEY: That includes this
6 request for \$150 million in new money.

7 MR. HAYLLAR: No, it assumes that the
8 question is already in -- has been done.

9 COUNCILMAN KENNEY: It assumes that
10 we're going to approve the 115 million.

11 MR. HAYLLAR: Yes, sir.

12 COUNCILMAN KENNEY: Okay. If we have a
13 20 percent lag, say, on average of prior-approved
14 capital projects in the pipeline, why can't we end
15 that lag in this favorable borrowing climate now
16 and then move forward?

17 MR. HAYLLAR: Okay. It's not a problem
18 of financing; it's a problem of authorization. We
19 believe that previous management, in some areas,
20 has exceeded the authorization. It's not a matter
21 of not having the money. The two are really quite
22 separate. It's a matter of exceeding the
23 permission that the Commission and Council have
24 given us.

25 COUNCILMAN KENNEY: But in some ways,

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2 we don't have the money because if we're going to
3 take potentially 20 percent of this new
4 \$115 million to pay for prior-approved projects,
5 we don't have the money. For example,
6 hypothetically, if we don't move forward with this
7 115, you're going to be 20 percent short --

8 MR. HAYLLAR: At some point.

9 COUNCILMAN KENNEY: -- on prior
10 projects.

11 MR. HAYLLAR: At some point.

12 COUNCILMAN KENNEY: So why don't we end
13 it now or try to figure out what we need to borrow
14 in excess to stop that continual -- when you come
15 again in 2003, will there potentially be another
16 20 percent lag in the current projects that are in
17 the pipeline?

18 MR. HAYLLAR: It's possible, but, one,
19 I don't conceive of my being here in 2003; and
20 secondly, I would not want that to happen. We
21 would curtail other projects rather than to exceed
22 authority.

23 COUNCILMAN KENNEY: Not to beat this
24 dead horse deader than it, is not the climate now
25 the most favorable it's been?

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2 MR. HAYLLAR: Yes.

3 COUNCILMAN KENNEY: To do this kind of
4 additional borrowing?

5 MR. HAYLLAR: The more you borrow --

6 COUNCILMAN KENNEY: We're going to be
7 \$830 million in debit anyway, all right? And if
8 the State does what it's supposed to do and covers
9 the covenants and our borrowers are secure and the
10 climate is favorable, isn't it better to eliminate
11 this?

12 MR. HAYLLAR: By borrowing more?

13 COUNCILMAN KENNEY: Yeah.

14 MR. HAYLLAR: The problem with
15 borrowing more is that our debt service will go
16 up, and there is a point where our revenue can't
17 sustain that. So you have to keep your borrowing
18 at least into a manageable rate.

19 COUNCILMAN KENNEY: All right. Can we
20 better manage our capital program?

21 MR. HAYLLAR: Yep.

22 COUNCILMAN KENNEY: Okay, next
23 question. How do we -- do we do that internally,
24 do we do it with an outside --

25 MR. HAYLLAR: There is -- there is

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2 nothing wrong with the people who are following
3 the capital program. The problem was that senior
4 management in the past ignored, or was not aware
5 of, the authorizations and apparently blew past
6 them. And that's that wonderful accounting term
7 called "management override," and you have to have
8 a system where management doesn't over ride it.

9 COUNCILMAN KENNEY: But, well, you
10 didn't make me feel better about the answer to
11 that last question in that you tell me that the
12 people who are watching, monitoring the capital
13 program are capable of doing so, then how-- did
14 the management ignore the middle level --

15 MR. HAYLLAR: I believe -- I believe
16 so.

17 COUNCILMAN KENNEY: So John -- so "Mr.
18 Smith," who's in charge of a specific capital
19 project, was telling prior management that, you
20 know, We're late. Behind schedule, and we're over
21 budget, and they just said, Never mind?

22 MR. HAYLLAR: It's complicated, but in
23 essence -- and his name is Mr. Gallagher and he
24 does his job very well. He filed the reports;
25 they just were not understood or not followed.

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2 COUNCILMAN KENNEY: Okay. So that's
3 being corrected.

4 MR. HAYLLAR: Yes, sir.

5 COUNCILMAN KENNEY: Okay. You
6 testified on another issue, your five-year plan.
7 You expect to be approximately \$20 million revenue
8 shortfall at some point around 2003?

9 MR. HAYLLAR: 2.

10 COUNCILMAN KENNEY: 2002? What's the
11 genesis of that revenue shortfall?

12 MR. HAYLLAR: You recognize there's
13 going to be an inflation. I think we're
14 projecting inflation about 2.2. We have a
15 contract that has raises in it until the end of
16 the contract, 2001. We make an assumption that
17 for the rest of the five-year term, there's going
18 to be some kind of mandatory contractual wage
19 increases. And we also recognize this is a city
20 where the residential numbers are flat. People
21 are using more and more energy-efficient
22 appliances and so that sales are flat. Our growth
23 will come from commercial sales if we're
24 successful at the Navy Yard downtown and a few
25 other areas.

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2 So simply the line's crossed at some
3 point. Your projected revenue growth is not
4 keeping pace with your corrected expenses.

5 The way out of that is either -- and
6 what many utilities do in a three-year cycle, just
7 go in for a rate increase. Our goal and our
8 challenge is to try to solve that hole with
9 continued cost savings in the company. And if
10 we're lucky, better growth in the volume of sales
11 that we have.

12 COUNCILMAN KENNEY: What role do our
13 uncollectible bills play in the projected revenue
14 shortfall?

15 MR. HAYLLAR: It is significant, but
16 our AR has dropped from --

17 COUNCILMAN KENNEY: What's AR? I'm
18 sorry.

19 MR. HAYLLAR: Accounts receivable. Has
20 dropped from 170 million to 88 million last year.
21 Part of that is a warm winter.

22 COUNCILMAN KENNEY: Is that annual?

23 MR. HAYLLAR: Yeah. That's the amount
24 at one point in time. That's the total accounts
25 receivable.

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2 COUNCILMAN KENNEY: An accumulative --
3 cumulative.

4 MR. HAYLLAR: That's the pile that's
5 owed us.

6 COUNCILMAN KENNEY: Okay. And how old
7 is that pile?

8 MR. HAYLLAR: It goes back a number of
9 years. After about six months, it really becomes
10 very, very hard to collect.

11 Gas is a commodity, one of few that you
12 pay for it after you use it. That's not found in
13 many other -- home heating oil, for example, when
14 you get it, you pay for it. We pay for our gas
15 after it's consumed.

16 So accounts receivable becomes a big
17 issue. The company has done a lot better with
18 collections in the last three years, and that's
19 shown in those numbers.

20 COUNCILMAN KENNEY: Do we get to a
21 certain point in time where we actually write
22 those debts off?

23 MR. HAYLLAR: Yes.

24 COUNCILMAN KENNEY: Or do we carry them
25 for forever?

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2 MR. HAYLLAR: No, we write them off.

3 COUNCILMAN KENNEY: How old does a debt
4 before it gets written off?

5 MR. HAYLLAR: A year, two years.

6 COUNCILMAN KENNEY: And what percentage
7 of that is commercial?

8 MR. HAYLLAR: Very -- it's really
9 relatively small 'cause commercial has a vested
10 interest in paying.

11 COUNCILMAN KENNEY: You'll shut them
12 off.

13 MR. HAYLLAR: Yeah. We can do that all
14 year. The real issue is residential. A lot of it
15 is rental properties, and we are a city with a
16 very large low-income base and you're going to
17 have that problem.

18 COUNCILMAN KENNEY: But you're also
19 sitting with a very large and, well, I guess
20 increasingly shrinking working-class base that's
21 paying for that large low-income base.

22 And I think part of the problem, from
23 my perspective, in the issue of equity and in the
24 issue of making it a more liveable and
25 reasonably-priced city to live in, that working

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2 class and middle class component can no longer
3 afford to carry the poverty part of it. And I
4 think in the end, that's what happens. Somebody's
5 going to pay it. And if the AR stays at where
6 it's at, we're paying at some point in time
7 through our rate structure and through other
8 structures to carry the company.

9 You know, it's like running any
10 company, that if a large portion of your customers
11 don't pay for the products that they purchase,
12 you're not going to be in business very long. And
13 I would be interested in hearing, as we go forward
14 into this year and into next, what you guys are
15 going to do to really whip this uncollectible AR
16 issue in shape.

17 Because I just think it's patently
18 unfair for people who pay all their bills and do
19 so by scrimping and saving on others things to
20 have to pay for everybody else. Now, some portion
21 of that poverty group can't pay, I understand
22 that. But I think we've got to better identify
23 those who are truly in that situation and those
24 who are beating us, and that's something that I'm
25 going to pursue in the next end of this year

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2 through next. And I really would like your
3 cooperation and help in trying to identify that.

4 MR. HAYLLAR: Certainly.

5 COUNCILWOMAN BLACKWELL: The Chair
6 recognize Michael Nutter who is a member of this
7 committee.

8 We had a follow-up question from
9 Councilwoman Tasco.

10 COUNCILWOMAN TASCO: Thank you very
11 much. I'd just like to say to my colleague on
12 Council that we have been working very hard to
13 work with PGW to implement controls to prevent
14 those people who can pay in which we have found
15 the number of people who can't pay don't pay,
16 including allowing them to shut down those folks
17 during the winter moratorium.

18 MR. HAYLLAR: That is correct.

19 COUNCILWOMAN TASCO: Customers in the
20 past have used the winter moratorium where they
21 did not pay their bills, went into agreements,
22 paid a couple of dollars in the summer, went back
23 into the agreement; it became a cycle as. And as
24 we identify those people who know how to
25 manipulate the system, they have the authority to

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2 shut them down.

3 We also want to note too that a lot of
4 low-income people do pay their bills. That we
5 have a large number of apartment owners who don't
6 pay their bills, so we can't generalize about it
7 being just people who are in poverty. We have
8 some people who are not poverty-stricken who find
9 a way to manipulate the system that don't pay
10 their bills, and they have large accounts which
11 account for that high accounts receivable.

12 COUNCILMAN KENNEY: No, I just want to
13 make sure that there's no misunderstanding on the
14 record or for anyone here. There's no
15 generalization about who doesn't pay. If you're
16 not paying, for whatever reason, I am and you are
17 and we are paying to make up for that loss in
18 revenue.

19 So, you know, I mean, if someone has a
20 legitimate reason for not become able to pay, I'm
21 as sympathetic and as charitable as the next
22 person. I just hear anecdotal information that
23 may or may not be true about a portion of our
24 customer bases that, you know, likes the heat on
25 80 and likes the cable TV at the same time while

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2 not paying the gas bill.

3 And, again, I will harp on that cable
4 TV issue 'cause, I'm telling you, we authorize
5 those franchises and we can work with them, I
6 think, in a very effective way to identify people
7 who are making life-style choices for cable
8 television as opposed to paying their utilities.
9 And that's one of the areas I'd like to go into.

10 But I don't think there's a general --
11 I'm in any way generalizing that people who are
12 poor don't pay their bills. I know a lot of
13 working poor who scrimp and save to pay their
14 bills and do without certain things in order to
15 pay what they owe.

16 And I appreciate the Gas Commission and
17 the Gas Company's effort to improve the situation
18 but I think we can go a little further.

19 COUNCILWOMAN TASC0: Mr. Hayllar, the
20 Gas Commission approved about \$46 million in new
21 funds for 1999 and also which included 22 million
22 -- plus 22 million prior-approved in prior years,
23 which comes to about \$68 million.

24 So how much did you overspend the 1999
25 capital budget?

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2 MR. HAYLLAR: I don't believe at this
3 point we have. But if the end of this fiscal
4 year, I believe we are on a course to do so, and
5 at the end of the year 2000, I believe -- if we
6 continue spending at the current rate -- I just
7 didn't bring the chart with me so it's from
8 memory.

9 Let me answer your question this way
10 'cause this is a number I do now know. From '96,
11 '97, '98, and '99, if we continue to spend on the
12 course that we are without any change or without
13 going back and getting amended authorization, we
14 will overspend for those -- what's it, five years?
15 -- by about \$11 million or about 3 percent of the
16 total authorization for those years.

17 As you know, and we know in the City,
18 that's not permissible. But that's a projection.
19 I mean, that money hasn't gone out the door yet;
20 that money is projected to go out. That's why I
21 can't be certain about where we'll end up because
22 some of this, we can curtail.

23 COUNCILWOMAN TASC0: Well what measures
24 have you put in, what controls have you put in
25 place to control your spending?

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2 MR. HAYLLAR: Well, the most obvious
3 one is, senior management is now very aware of
4 what the authority is and what the issue is, and
5 they can't exceed the permission that's been
6 provided by Council and the Commission. That
7 eliminates really what happened.

8 We have to go back and fix what
9 happened. The question is, do you want to stop
10 projects that must be done for safety or for the
11 maintenance of the company? Y2K issues? Do we
12 stop and wait? Because the end of the year is
13 coming, it's not going to wait for us.

14 Some things we may be able to defer.
15 We may have unspent allocations that we can move
16 in. It's a bookkeeping issue. Once we get the
17 final number of where we think we're going to be
18 back, we'll be before the Commission and Council,
19 asking for an amendment to those authorizations.

20 COUNCILWOMAN TASCO: Beyond the senior
21 management having a commitment to stick to the
22 budget, what internal mechanisms are in place to
23 make sure that they keep that commitment? And how
24 do you know whether you're overspending and that
25 the budget's being overspent?

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2 MR. HAYLLAR: The reports were
3 generated; they just were ignored. And my
4 responsibility, as long as I am there, Mr.
5 Martin's responsibility, since he's -- the
6 operation contains most of the capital
7 expenditures, is to make certain that those
8 authorizations are not exceeded.

9 One of the things that happened that
10 wasn't projected when the original budgets were
11 produced is, we capitalized an awful lot of the
12 labor, quite legitimately. It was not in
13 violation of any accounting policy. But those
14 capitalizations of labor, which we had initially
15 assumed would be paid for by operating funds,
16 drove up the capital costs. And it was done
17 because we were trying to conserve operating money
18 to make sure make certain we made the debt
19 covenants.

20 You're in that very famous box. No
21 matter what you do, it's going to be wrong. The
22 error that was made was that nobody came back to
23 the Commission, nobody came back to Council and
24 said, Here's what's happening, we need to amend
25 this authorization.

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2 COUNCILWOMAN TASC0: When the issue of
3 deregulation came up before and the company was
4 moving to go into other products, you geared up
5 your marketing staff. And then, of course,
6 deregulation was put on the back burner, and the
7 marketing staff was -- you let those people go.

8 Now, moving back towards deregulation
9 again, what is the company's position relative to
10 deregulation? If PGW is included in deregulation,
11 what do you do to be competitive?

12 MR. HAYLLAR: Okay.

13 COUNCILWOMAN TASC0: Do you again look
14 at future products, do we go back into that mode
15 again? What do you do?

16 MR. HAYLLAR: I believe that the
17 Philadelphia Gas Works will do very well in a
18 deregulated environment simply by revising its
19 tariffs and becoming a transportation company,
20 that we don't need to have people buy our gas;
21 they will use our pipes, our billing system, our
22 liquification plants, our storage facilities. We
23 can do quite well simply doing that and let other
24 -- let the competition come into the market.

25 And there are things we must be wary of

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2 being the provider of last resort and getting
3 stuck with the most difficult customers to get
4 payment from. But I think there are things we can
5 do to mitigate against that.

6 I'm not afraid of that component, and I
7 think we have the capability of doing that.

8 COUNCILWOMAN TASC0: Well, since we do
9 have a large -- we have the senior citizens'
10 discount, we have the CPR customer, and as has
11 been talked about, a number of people who fall in
12 the category of low-income, how do you handle
13 those people when the marketers will cream off the
14 -- take the cream of the crop? How does PGW
15 manage that?

16 MR. HAYLLAR: Well, if it's just
17 deregulation, we do have to manage down those
18 costs, and that's something that the Gas
19 Commission is going to be asked to assist us
20 with.

21 If it is going before the Public
22 Utility Commission -- the other thing that the
23 majority party wants to do in the House and the
24 Senate -- those programs may be eliminated because
25 they may eliminated because they may well be ruled

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2 to your budget?

3 MR. HAYLLAR: It probably is
4 financially helpful because these are discounts
5 that we don't have to provide. It's not what the
6 owners of the company had wanted for a good number
7 of years.

8 COUNCILWOMAN TASC0: So then you get
9 into only -- I mean, how do you provide gas to
10 those low-income people who are now on a budget or
11 in some program to help them? What happens?

12 MR. HAYLLAR: It will increase -- it
13 will put pressure on increasing our rate. The
14 specific answer, how much, we don't know because
15 we haven't had the opportunity to look at it. But
16 you are defining one of the great concerns about
17 it.

18 COUNCILWOMAN TASC0: For the fiscal
19 year 1999 you have about 6.8 BCF in lost sales.
20 This translates to a revenue margin loss of about
21 \$27 million. PGW projects 18.5 million in
22 savings, plus 4 million in new revenue from the
23 changes in the customer charge and rates recently
24 approved by the Gas Commission.

25 So you have 27 million in margin loss,

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2 you have less 22.5 million in savings or new
3 revenues, leaving you 4.5 million uncovered. What
4 will be done to make up this 4.5 million shortfall
5 before August 31,1999?

6 MR. HAYLLAR: I'm sorry. It might be
7 helpful if you let me read the question that you
8 just read because I didn't catch it all. And
9 after I've read it, it's probably likely that I'll
10 have to get back to you with the answer on that
11 'cause you've raised a number of issues, some of
12 which I'm not familiar with.

13 COUNCILWOMAN TASC0: Do you want me to
14 read it again?

15 MR. HAYLLAR: Let me read it, if you
16 have it written out.

17 COUNCILWOMAN TASC0: Okay.

18 MR. HAYLLAR: I just couldn't
19 understand the question.

20 COUNCILWOMAN TASC0: Okay.

21 (Mr. Hayllar reads written question.)

22 COUNCILWOMAN TASC0: Bill Bogdonavage,
23 you understood the question?

24 MR. HAYLLAR: Councilwoman?

25 COUNCILWOMAN TASC0: Yes.

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2 MR. HAYLLAR: Okay, the larger answer
3 to your question is that we will get through this
4 year by meeting all of our covenants. The
5 specifics on your question, I will have to get
6 back to you in writing on. It's more complicated
7 than I can deal with at the table.

8 COUNCILWOMAN TASC0: You'll get back to
9 the Chair?

10 MR. HAYLLAR: Certainly.

11 COUNCILWOMAN TASC0: And she will share
12 it with us. Thank you.

13 MR. HAYLLAR: Okay.

14 COUNCILWOMAN TASC0: I think I have one
15 more question here. Let's get back to the
16 possible \$20 million rate increase, possible.

17 MR. HAYLLAR: Worst-case scenario.

18 COUNCILWOMAN TASC0: Worse-case
19 scenario. Is the PFMC Board aware of this
20 worse-case scenario?

21 MR. HAYLLAR: Yes.

22 COUNCILWOMAN TASC0: And have they
23 approved it?

24 MR. HAYLLAR: No. We have presented
25 the budget to the board, the board has a Finance

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2 Committee meeting on Thursday of this week to
3 review it. And it is, you know, highlighted, has
4 been highlighted for them.

5 The 2002, it not uncommon in the City's
6 five-year plan for us to say there is a plugged
7 number that we must fill with additional cuts and,
8 the City has been able to do this. I believe that
9 presenting a realistic five-year revenue plan, a
10 five-year budget plan without hoking it up with
11 unrealistic expectations of future sales, as has
12 been done in the past, is the way to go.

13 And we know that in 2002, we've got to
14 find a structural way to fill the hole. We may be
15 able to do it through increased sales. We may be
16 able to do it -- I believe we can do it through
17 cuts. The board --

18 COUNCILWOMAN TASCO: Increased sales if
19 we have a cold winter?

20 MR. HAYLLAR: That's not structural.
21 Obviously, we need more customers. I mean, more
22 customers is the answer and we do, fortunately,
23 have a lot of development going on that can assist
24 us in that.

25 It's a challenge. But rather than

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2 having unrealistic point-of-sale estimates that
3 fill are hole that aren't realistic, I think it's
4 much better to say, in 2002, we've got to be able
5 to fill this. And we will do it.

6 COUNCILWOMAN TASCO: Thank you.

7 COUNCILWOMAN BLACKWELL: Thank you.

8 MR. HAYLLAR: By the way, Councilwoman,
9 I don't believe -- and I don't want to have to
10 come before the Commission and ask for a rate hike
11 in 2002; the challenge is to avoid it. But if we
12 have a rate hike once every ten years, that's
13 pretty good. Certainly, the utilities around us
14 would not be able to brag of that kind of an
15 accomplishment. We want to do better, however.

16 COUNCILWOMAN BLACKWELL: I think that
17 pushes it over. Many of us do not support a rate
18 increase, and it doesn't help us to say that it's
19 better that once every ten years -- and that ten
20 years will come in 2002, and we're for it, that
21 pushes us someplace else.

22 We still have people on -- my colleague
23 talked about us paying the freight for people who
24 don't pay. I have found that in everything, we
25 have great citizens in this city. And in

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2 anything, you're going to get a minority of people
3 who try to abuse the system. But for the most
4 part, those who don't pay can't.

5 I mean, I have a woman whose bill we
6 pay who gets \$95 every other week, and she's at
7 the end of her pregnancy term. What do you do,
8 what do you do? I mean, she gets \$95 every week
9 and has a family, and they have to eat too. So we
10 do have some real hardship cases in this city.
11 And given unemployment, and we're doing a lot in
12 West Philadelphia to give you more customers.

13 But I think that I always want to give
14 a balanced perspective that most Philadelphians
15 who don't pay are not deadbeats and not trying to
16 use the system but certainly are people who are
17 unemployed or underemployed and who just can't.
18 And we work very, very hard with PGW and that
19 clientele.

20 I always want to make it straight so
21 that the record reflects a balanced perspective
22 'cause we do not buy in one moment that we have a
23 lot of deadbeats who just want to cheat the whole
24 universe and don't want to pay their way.

25 The other thing is, the Chair would

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2 like to request, in addition to the information
3 that Councilwoman Tasco asked for, the Chair would
4 like to request that you conduct a study along
5 with the other utilities to see what you can do to
6 unify this AMR stuff, the issues you mentioned
7 vans, etc., to save money. And that is one way
8 that you can attribute that and those savings to
9 this 204 hole that might exist.

10 MR. HAYLLAR: That's correct.

11 COUNCILWOMAN BLACKWELL: That might be
12 one way that you can do that, and we would
13 certainly ask that you do that and make that part
14 of that possible hole.

15 And with that, let me defer to
16 Councilman Nutter who has a question.

17 COUNCILMAN NUTTER: Thank you, Madam
18 Chair.

19 COUNCILWOMAN BLACKWELL: Thank you.

20 COUNCILMAN NUTTER: Good morning, Mr.
21 Hayllar.

22 MR. HAYLLAR: Good morning.

23 COUNCILMAN NUTTER: The discussion with
24 Councilwoman Tasco that I understand you were
25 talking about a potential \$20 million rate hike?

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2 Is that the discussion that I was just hearing?

3 MR. HAYLLAR: Yeah. In the five-year
4 projections in the year 2002, there is a
5 \$20 million hole, which we believe will be filled,
6 as we project in City five-year projections in the
7 out-years, that we will be able to fill that with
8 increased cuts in cost, increased sales in terms
9 of new customers; or as the absolute last resort,
10 which at least one member of Council has just told
11 me she doesn't want to hear about and is probably
12 correct, a rate increase.

13 But I think it is much better to say
14 we've got a hole in 2002, we've got -- our
15 challenge is to fill it.

16 COUNCILMAN NUTTER: I understand. Now,
17 would I find anything about that in any of the
18 documents that we were given yesterday or anything
19 handed out today?

20 MR. HAYLLAR: Do you have the Stone and
21 Webster independent engineering report?

22 COUNCILMAN NUTTER: Yeah. I got it
23 yesterday.

24 MR. HAYLLAR: Pardon?

25 COUNCILMAN NUTTER: Yes. I got it

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2 yesterday.

3 MR. HAYLLAR: Yes.

4 COUNCILMAN NUTTER: It's in that
5 report?

6 MR. HAYLLAR: I believe it is, yes.
7 It's in the executive summary.

8 When we submit the year 2000 budget and
9 future projections to the Gas Commission at the
10 end of this month, I think it will be more
11 detailed.

12 COUNCILMAN NUTTER: Okay. Let me go
13 back to a couple of your responses to Councilwoman
14 Tasco. And in the course of a couple of your
15 answers, you used some terms that I wrote down.

16 First you talked about capitalizing
17 labor costs, and I didn't particularly understand
18 that, I've never heard of that, and I didn't know
19 that you could capitalize labor costs.

20 MR. HAYLLAR: Yes. If an individual's
21 job assignment is on a capital project --

22 COUNCILMAN NUTTER: Working on a
23 capital project?

24 MR. HAYLLAR: Yeah. Then their salary
25 can be paid out of the capital account as opposed

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2 to operating.

3 Personally, I'm not wildly happy about
4 doing that because you're consuming expensive
5 dollars to do it, but I understand why it was done
6 in very warm winters.

7 COUNCILMAN NUTTER: Why was it done?

8 MR. HAYLLAR: Why was it done?

9 COUNCILMAN NUTTER: Mm-hmm.

10 MR. HAYLLAR: To relieve pressure on
11 the operating budget of the Gas Works so that the
12 covenants required could be met.

13 COUNCILMAN NUTTER: When was this
14 activity going on?

15 MR. HAYLLAR: I believe it had started
16 in --

17 COUNCILMAN NUTTER: I'm sorry?

18 MR. HAYLLAR: The individuals are not
19 there now. My belief is, it started several years
20 ago.

21 There is nothing in terms of accounting
22 that suggests that this was improper. I tend to
23 be on this issue to be more conservative. There's
24 nothing improper about it. The problem was --

25 COUNCILMAN NUTTER: Well, you know,

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2 today and as yesterday, I haven't accused you of
3 doing anything improper; I'm just asking the
4 question.

5 When was this done, how many people
6 were there and what did it cost?

7 MR. HAYLLAR: I don't have the
8 specifics. I know it is part of the projected
9 number, that people were moved into capital --

10 COUNCILMAN NUTTER: Part of what
11 projected number?

12 MR. HAYLLAR: Prior to you getting
13 here, we're trying to determine where at the end
14 of this fiscal year, if we have exceeded the
15 authorization, which we will have, for a number of
16 capital year programs, how much we will have done
17 it for. Some of this we can curtail; some of this
18 we cannot. But we know we have to come back to
19 the commissioned and Council to amend those
20 authorizations.

21 COUNCILMAN NUTTER: And you said you
22 don't know what the numbers are now?

23 MR. HAYLLAR: No. Because some of it
24 -- it's right now, a lot of it is projection.
25 And those projections can be changed.

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2 COUNCILMAN NUTTER: Okay. And in
3 response to another question, either from
4 Councilwoman Tasco other maybe from the Chair, you
5 -- with regard to, I think, some of the social
6 programs, you said that these were not what the
7 owners of the company want.

8 MR. HAYLLAR: Yep.

9 COUNCILMAN NUTTER: What does that
10 mean? Who owns the company?

11 MR. HAYLLAR: The people of the City of
12 Philadelphia, and they are represented very much
13 by this Councilman.

14 COUNCILMAN NUTTER: Okay.

15 MR. HAYLLAR: And there is a sizeable
16 group on this Council that very much support those
17 social programs. They are the owners. And that's
18 what we do.

19 COUNCILMAN NUTTER: But your statement
20 was that this is not what the owners of company
21 want. I think you were saying that they didn't
22 want these social programs.

23 MR. HAYLLAR: Oh, no, exactly the
24 opposite.

25 I believe that a majority of the

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2 owners, as reflected by elected representatives in
3 City Council, support those social programs. I
4 have no reason to believe otherwise.

5 COUNCILMAN NUTTER: Okay, all right.
6 Let me just go through a bit of housekeeping
7 items. You're wearing a number of different hats
8 these days. And you are still presently the
9 Finance Director for the City of Philadelphia?

10 MR. HAYLLAR: I am.

11 COUNCILMAN NUTTER: And you are also
12 the interim president and CEO of PGW?

13 MR. HAYLLAR: I am.

14 COUNCILMAN NUTTER: And due to the
15 nature of your position as finance director,
16 you're automatically the Chair of the Pension
17 Board; is that right?

18 MR. HAYLLAR: I am.

19 COUNCILMAN NUTTER: And are you still a
20 board member of PPMC?

21 MR. HAYLLAR: I am.

22 COUNCILMAN NUTTER: And are you still
23 the head of the search committee for a permanent
24 CEO and president of PGW?

25 MR. HAYLLAR: I am. I'm also the

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2 acting chief financial officer for the Gas Works,
3 in effect.

4 COUNCILMAN NUTTER: What do you mean
5 "in effect"?

6 MR. HAYLLAR: That is part of the work
7 I am doing over there. There is no chief
8 financial officer, and I've assumed those duties.

9 COUNCILMAN NUTTER: Was that Mr.
10 Sharbutt's position?

11 MR. HAYLLAR: It was.

12 COUNCILMAN NUTTER: Okay. Now, before
13 you took on your PGW responsibilities, if PGW was
14 doing a financing, what was the role of the
15 finance director in that financing?

16 MR. HAYLLAR: To be honest with you, it
17 was probably minimal. Financings are handled by
18 the City treasurer. The finance director, by law,
19 must sign off on certain documents, but I don't
20 think I ever appeared before Council concerning
21 any PGW financing matter. I could be wrong but I
22 don't believe I did.

23 COUNCILMAN NUTTER: The City
24 treasurer's under the finance director on the flow
25 chart?

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2 MR. HAYLLAR: That is correct.

3 COUNCILMAN NUTTER: Okay. And so,
4 again, I'm sorry, what do you do? You would sign
5 off on --

6 MR. HAYLLAR: I sign certain documents
7 as required by law in any financing. Now, to tell
8 you the truth, I couldn't tell you which ones the
9 director of finance signs on behalf of revenue
10 bonds for the Gas Works.

11 COUNCILMAN NUTTER: Well, the reason I
12 raise this, and I know you to be certainly a
13 competent person, so that's certainly not the
14 issue.

15 I guess I'm increasingly becoming
16 concerned about the ever-tightening circle and the
17 loop and the chain in the flow of documents and
18 who looks at what and who signs off on with. And
19 under any normal circumstance and anyone -- any
20 rational person trying to construct an operation,
21 normally some of these jobs are held by different
22 people, I assume, for a variety of reasons. One,
23 not even the most talented person can only do so
24 much. Two, as we've seen in the previous PGW
25 experience, where only a couple of people were

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2 looking at a couple of things, there was a fairly
3 serious implosion of accountability or lack
4 thereof over there.

5 I guess I'm now trying to figure out if
6 -- and this is not a new issue. I raised this
7 with you once before.

8 MR. HAYLLAR: Sure.

9 COUNCILMAN NUTTER: You are the finance
10 director, the treasurer works for you, who
11 technically signs the documents, but then that
12 person reports to you. You're the interim
13 president and CEO of PGW, the acting chief
14 financial officer of PGW. You are also on the
15 board that technically manages the person who
16 would be in the president's position.

17 MR. HAYLLAR: Mm-hmm.

18 COUNCILMAN NUTTER: And you're the head
19 of the search committee for, I assume, your
20 successor, although we can't believe everything we
21 read in the newspaper, but I thought I read a
22 story that indicated that there might be some
23 permanency to your present temporary position.

24 I mean, there's just a lot of boxes
25 being filled by one individual. And I guess I'm a

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2 little perplexed at this point in time as to how
3 we just ensure that things are handled in the
4 right fashion, more than one person is seeing what
5 needs to be seen and, I mean, kind of the back and
6 forth of being on the board that manages the
7 person that's -- I mean, you're literally almost
8 managing yourself at some level.

9 MR. HAYLLAR: Having a CEO, acting or
10 permanent, on the board of a company is not at all
11 unusual.

12 COUNCILMAN NUTTER: I understand that.
13 We've been through that testimony before, all
14 right.

15 MR. HAYLLAR: Yeah. And there are --
16 is a fully -- the board is filled, and there is an
17 active board. So I am not supervising myself.

18 I am concerned about the number of
19 roles I am playing and my ability to fulfill those
20 obligations as well as I would want to and can do
21 with so many roles to play. It is of concern.

22 COUNCILMAN NUTTER: Right.

23 MR. HAYLLAR: In terms of documents
24 that pertain to the director of finance and PGW,
25 they are reviewed by the budget director who signs

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2 those documents. I don't sign the same -- two
3 sides of a contract.

4 COUNCILMAN NUTTER: Who's the budget
5 director?

6 MR. HAYLLAR: That's Dean Kaplan.

7 COUNCILMAN NUTTER: The City budget
8 director.

9 MR. HAYLLAR: Yes. There are certain
10 statutory things that the City director of finance
11 does.

12 COUNCILMAN NUTTER: Right.

13 MR. HAYLLAR: And those are reviewed
14 and signed by the deputy director, Dean Kaplan,
15 just so that there won't be the same signature on
16 two sides of the page, in effect.

17 COUNCILMAN NUTTER: You know, look,
18 when you add it all up and take a look at it, and
19 as I was sitting here listening to the other
20 testimony and I'm thinking about the different
21 roles that you're playing, two things occur: one,
22 it's a lot of work for one person.

23 MR. HAYLLAR: Mm-hmm.

24 COUNCILMAN NUTTER: And, two, you begin
25 to create an environment in which, even for

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2 yourself, the potential conflicts may start to
3 arise, depending on what position you're in on
4 that particular day versus what else is going on
5 in the other roles that you are filling in
6 different parts of the government.

7 And I'm just wondering if at some point
8 in time, maybe it hasn't happened yet, but if at
9 some point in time, if you are functioning solely
10 in one role, you would have a particular view on
11 something that would be different based on you
12 also being on the other side of that table or that
13 transaction. I'm just asking the question.

14 MR. HAYLLAR: Hypothetically, that's
15 quite possible.

16 One way to resolve the problem is to do
17 what we have done, and that is to include a large
18 number of people so that there is no chance that I
19 make a decision that is adverse to the other
20 interests that I serve.

21 Mr. McPherson is very committed to and
22 involved in the Gas Works management, sits at the
23 board meeting. He is an active participant. The
24 Gas Commission is an active participant -- not
25 intrusive but an active participant in what goes

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2 on. I've used Mr. Kaplan and others, including
3 both PGW's corporate counsel and the City's law
4 department to try to avoid those problems.

5 But I recognize the problem. I would
6 like, and I make no bones about it now, I would
7 like to move over to PGW on a more permanent
8 basis. It certainly resolves that problem, but
9 that may not happen. And until that issue is
10 resolved, this is the world we live in.

11 COUNCILMAN NUTTER: Well, okay. Well,
12 what is the status of the search committee effort
13 I guess? And a number of months ago, you
14 indicated that you were not a candidate for that
15 particular position.

16 MR. HAYLLAR: Mm-hmm.

17 COUNCILMAN NUTTER: What changed and
18 what --

19 MR. HAYLLAR: First question first is
20 the search committee. The search committee is
21 composed of the board and other members appointed
22 by the Mayor had three questions to answer.

23 The first recognition was that you
24 would not get a pool of candidates for the chief
25 executive officer that you would want to have as

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2 long as there are uncertainties as to whether the
3 company was going to be sold, whether the company
4 could have outside management --

5 COUNCILMAN NUTTER: Are there
6 uncertainties about the potential sale of the
7 company?

8 MR. HAYLLAR: There was at the time.

9 And the second issue was whether
10 outside management, in the UGI fashion, could not
11 come and take over senior management.

12 There was a third rather potent issue
13 in any candidates mind: who's the next mayor
14 going to be?

15 The search committee resolved the first
16 issue with a study that they reviewed on the value
17 of PGW and what they could expect out of it. And
18 we determined that you could not sell the Gas
19 Works, maintain the \$18 million a year payment to
20 the City at the level of employment that the Gas
21 Works has and the social programs and sell the
22 company.

23 The prospective sale would probably
24 result in savings being obtained by reducing the
25 workforce at the Gas Works and using employees

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2 that the buyer already had. They had their own
3 customer service unit, they don't need all of
4 ours. So there's a concern about the level of
5 employment.

6 The second issue of outside management
7 was examined most intensely, and there is an RFP
8 that is going out -- it will be circulated to the
9 people involved this week -- seeking outside
10 management, an RFP for firms to manage the assets
11 and gas supply of the company. We believe there
12 may be advantage to the company in doing that.

13 Until these issues are resolved, it was
14 the feeling of the majority of the people on the
15 committee -- and incidently, at the initial
16 meeting, I wasn't one of them -- that you were not
17 going to get a pool of CEO candidates that you
18 would have if all these other issues were
19 resolved.

20 What changed between the time I said I
21 wasn't interested to today? A lot of things.
22 There are a lot of issues that are outstanding
23 that just need management. I have a District
24 Attorney's investigation that is ongoing and is
25 serious. There is a State Ethics Commission

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2 investigation. We have Y2K remediation issues
3 that we are either going to have right or have
4 wrong, and we'll find out on January 1. There's a
5 host of management issues internally.

6 And most importantly, once you've done
7 something for six months, you get an emotional
8 commitment to what you're doing. I didn't
9 particularly want to be there. But once you're
10 there, once you're working with it, once you can
11 see the opportunity, you make an emotional
12 commitment.

13 I would prefer to stay there. It may
14 not happen, but that is a big change.

15 COUNCILMAN NUTTER: Well, I mean, you
16 consider yourself a qualified candidate, right?

17 MR. HAYLLAR: Certainly.

18 COUNCILMAN NUTTER: Why wouldn't anyone
19 else consider themselves to be a qualified
20 candidate and want to come here under these
21 uncertain times? I mean, we're not going to know
22 who the mayor's going to be.

23 MR. HAYLLAR: We'll have a good idea in
24 about one week.

25 COUNCILMAN NUTTER: Well, I mean, you

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2 know, you might want to stick to finance, I'll
3 stick to politics. I think we're not going to
4 know who the mayor's going to be till around
5 about, you know, probably 9, 10 o'clock, on
6 November 2nd.

7 But, you know, people come and take
8 opportunities for a variety of reasons.
9 Obviously, you have an interest. There may be
10 other people who have an interest. And I mean,
11 your indication back at that time was, the search
12 committee was going to get up and running, expect
13 it to have some recommendations. I think your
14 testimony was, by the end of the first quarter of
15 this year, and I guess it's -- I'm just interested
16 to know what happened.

17 I have to say, I didn't realize -- you
18 know, maybe I missed that briefing. I didn't know
19 that there was still this wild-eyed interest
20 regarding a potential sale of the Gas Company. I
21 think it's something that people talk about, kind
22 of like the weather and don't do anything about.

23 I mean, no one's seriously thinking
24 about selling PGW in its current condition. I
25 thought we had resolved that one a couple years

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2 ago. I think it just comes up because people like
3 to talk about it. But, I mean. . .

4 MR. HAYLLAR: Well, I think we now have
5 -- I think, to everyone's satisfaction, we have
6 empirically examined the issue and we don't
7 believe that it's in the interest of City to do
8 that.

9 COUNCILMAN NUTTER: So we don't have to
10 study that one again until maybe another three
11 years or so.

12 MR. HAYLLAR: Till somebody else brings
13 it up, you're right.

14 The issue of management of gas supply
15 and assets is a very real one, and that's large in
16 the industry. And that is an RFP that goes out.
17 And, hopefully, we'd have a recommendation to the
18 City by the fall.

19 COUNCILMAN NUTTER: Well, I guess
20 lastly on this topic, I will say that -- I mean,
21 this continues to amaze and some what baffle me
22 that this entity is handled and dealt with unlike
23 any other entity that's a part of or associated
24 with the City of Philadelphia. I think the recent
25 past history for the last enormous search was that

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86

2 the company went without a CEO or president --

3 what was that, six years?

4 MR. HAYLLAR: About five.

5 COUNCILWOMAN TASCO: Six.

6 COUNCILMAN NUTTER: Okay, five, six.

7 COUNCILWOMAN TASCO: A long time, too
8 long.

9 COUNCILMAN NUTTER: Yeah, more than a
10 few years.

11 Then we go on a national search and
12 bring in a bunch of people. You know, they seem
13 wonderful at the start; things didn't work out too
14 well at the end. Then we go back into another
15 search mode, then we try to figure out whether to
16 sell the company again 'cause that's the currents
17 discussion. And now we're thinking about either
18 going the management route, which we've kind of
19 gone out of flavor. I guess it's kind of "been
20 there, done that." And we're going to sit on this
21 mayoral watch to try to then figure out who might
22 want to come here, depending on who the mayor is.

23 I mean, I just can't imagine any other
24 part of this government being treated in this
25 particular fashion and being left to virtually

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 kind of flounder around with no clear leadership
3 running the place, given its importance in the
4 City. It wouldn't happen with the police
5 department, fire department, recreation, you know,
6 I'm almost kind of surprised that it's taken so
7 long at least for the announcement -- and I know
8 she hasn't left yet -- to fill the soon-to
9 be-created vacancy at Licenses and Inspections.
10 And I just don't know why this seems to happen at
11 PGW unlike any other place.

12 I mean, I think if Kumar Kischand (ph.)
13 came in and announced his resignation, I don't
14 think anybody would be sitting around thinking
15 about, you know, getting a water commissioner in
16 six years or, you know, having some management
17 team go over there and try to run the Water
18 Department. I mean, it just would not happen. So
19 I don't know why it happens at PGW.

20 MR. HAYLLAR: I don't either. And I
21 think historically, it's a crime.

22 COUNCILMAN NUTTER: I mean, we pay a
23 fairly decent salary. You know, we still do like
24 the credit card thing and the car thing and all
25 that other stuff, right?

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2 MR. HAYLLAR: No, we don't. I'm not
3 saying they're all gone, but --

4 COUNCILMAN NUTTER: Maybe that's why
5 people don't want to come here.

6 Okay do you have a response to that?

7 MR. HAYLLAR: Yeah. I mean, I think
8 since you are not speaking about this moment in
9 time but have gone back over six years, yeah, it's
10 a crime the way this organization has been
11 treated.

12 COUNCILMAN NUTTER: It sounds like --

13 MR. HAYLLAR: I can't explain why it
14 happened. I can tell you that whether I'm
15 interim, acting, or indentured president of PGW,
16 that the direction it receives now is firm, clear,
17 and effective. I don't mind patting myself on the
18 back because there's not a whole lot of other
19 people to do it for me. But right now, it is
20 running as well --

21 COUNCILMAN NUTTER: If people are
22 patting you on the back, you might want to find
23 out what's in their hand but, you know. . .

24 MR. HAYLLAR: Yeah. It is an eminently
25 manageable operation. It has got good people who

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 are not only career employees, they are the sons
3 and daughters, nephews and nieces of PGW
4 employees. It is a very unique operation.

5 All the problem that PGW has had, it
6 has not been with the delivery of gas. It's done
7 its job. It's been with customer service,
8 financial management direction issues. It's not
9 been the delivery of gas. It's a good operation.

10 COUNCILMAN NUTTER: Well, Mr. Hayllar,
11 I'm glad they're delivering gas well, but customer
12 service is kind of important.

13 MR. HAYLLAR: Yep.

14 COUNCILMAN NUTTER: And I tend to kind
15 of want to pay attention to the financials as
16 well.

17 MR. HAYLLAR: I agree with you.

18 COUNCILMAN NUTTER: So, I mean, it is
19 at a minimum a serious three-legged stool. If
20 you're not doing good customer service, you're
21 probably not going to keep your customers happy.
22 And if your financials are screwed up, we know
23 what that leads to.

24 So I mean, I'm pleased as punch that
25 they're delivering the gas well, but that's not

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 the sum total of what goes on there.

3 MR. HAYLLAR: It's true, and there's
4 also a fourth leg, and that's knowing right from
5 wrong.

6 COUNCILMAN NUTTER: Yeah, that's true.
7 Thank you, Madam Chair.

8 COUNCILWOMAN BLACKWELL: Thank you.
9 Councilwoman Tasco?

10 COUNCILWOMAN TASCO: Since Councilman
11 Nutter brought this issue up and since I was a
12 member of the search committee, I'd just like to
13 have for the record a list of some questions
14 answered about the process.

15 We answered the first two questions
16 about the sale of the company, decided not to
17 sell. The other issue around management was
18 answered. No, no management of the company but
19 management of maybe the gas, but we never really
20 came to a conclusion on what we would do about the
21 search. I don't think that question was ever
22 answered.

23 And I'm also puzzled by the fact that
24 that meeting of the gas -- of the search committee
25 happened on April 19th, but on April 14th, the

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 PFMC board passed a resolution making you the
3 CEO. So I'd like to know just what happened. And
4 it was not revealed to the search committee on the
5 19th that that happened.

6 MR. HAYLLAR: Well, I think this is
7 probably better answered by the chairman of the
8 board.

9 COUNCILWOMAN TASC0: Well, I just --

10 MR. HAYLLAR: And I think he is
11 prepared to do that.

12 COUNCILWOMAN TASC0: But you were
13 chairman of the search committee. And did you
14 know that at the time of the meeting on the 19th
15 that the board -- since you're also a member of
16 the board, that the board had made that move?

17 MR. HAYLLAR: Yes.

18 COUNCILWOMAN TASC0: And you did not --

19 MR. HAYLLAR: And the board is also a
20 member of the search committee.

21 COUNCILWOMAN TASC0: But did you reveal
22 it at the time of the search committee meeting?

23 MR. HAYLLAR: I frankly don't remember
24 'cause I don't remember the sequence as well as
25 you do. I mean, I think everybody knew what was

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 happening. I was asked by the mayor and I was
3 asked by the board.

4 COUNCILWOMAN TASC0: I didn't know.
5 I'm on the search committee, and I didn't know,
6 sir. And I don't believe it was discussed --

7 MR. HAYLLAR: I believe I told you in a
8 meeting in your office with Mr. Nutter. I believe
9 I told you personally.

10 COUNCILWOMAN TASC0: It was not
11 revealed to the search committee.

12 MR. HAYLLAR: I believe everybody every
13 member of the search committee knew that, and I
14 had a meeting with your office with Mr. Miller,
15 and I did tell you this. And I apologize for the
16 fact that the person who should have called you
17 didn't.

18 COUNCILWOMAN TASC0: It was not
19 revealed to the search committee.

20 MR. HAYLLAR: Every member of the
21 search committee knew it.

22 COUNCILWOMAN TASC0: Now, what is the
23 problem with moving along with a search
24 simultaneously with the course of the mayor's
25 election? It takes approximately a couple of

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 months to hire a search firm.

3 MR. HAYLLAR: We have --

4 COUNCILWOMAN TASCO: And then two
5 candidates for mayor can participate in the
6 process, and we could have a CEO by January.

7 We presume and make assumptions that
8 people don't want to come here. We haven't asked
9 that question. We haven't gone out to see who
10 would come with the credentials and the
11 qualifications that I laid out to the search
12 committee. I believe, having been chair of the
13 commission since 1992 and having gone through this
14 process before, that we should get someone with
15 those credentials.

16 MR. HAYLLAR: At a meeting of the
17 search committee that was held at Public Financial
18 Management's conference room, which I don't
19 believe you attended, 'cause I believe you
20 attended two of those meetings and there were
21 probably 15 of them, it was at least an hour and
22 90 minute discussion of where we were with this.

23 And it was the consensus of the people
24 in the room, and a consensus I did not lead, that
25 there was not going to be much hope of getting a

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 well-qualified pool of applicants until these
3 other issues were resolved. And I can refer you
4 to those members of the search committee who were
5 not on the board who were there, who can --

6 COUNCILWOMAN TASC0: But you resolved
7 that issue on April 19th that you're not going to
8 sell, that you're not going to have a management
9 coming in. What is wrong with moving along with
10 the search process?

11 Do we wait until the year 2000,
12 November 2000, to begin a search? At what point
13 do we begin to bring in management for PGW? Do
14 you plan to stay beyond November of 2000?

15 MR. HAYLLAR: That would not be my
16 decision.

17 COUNCILWOMAN TASC0: But would you want
18 to stay beyond the year -- November 2000?

19 MR. HAYLLAR: I have no way of
20 answering that. This could be a disaster. It's
21 not starting off all that well. It could be a
22 disaster.

23 Right now, the board and the mayor have
24 asked me to do this. I have made an emotional
25 commitment to this company -- that's not what I

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 intended to have happen, but that's what's
3 happened. It happens. If it doesn't happen, the
4 future will at the.

5 COUNCILWOMAN TASCO: Thank you very
6 much, Madam Chair.

7 COUNCILWOMAN BLACKWELL: Thank you.

8 Are there any other questions with
9 regards to Bills 990285 and 286?

10 (No further questions at this time.)

11 COUNCILWOMAN BLACKWELL: Okay
12 gentlemen, thank you.

13 MR. REID: Excuse me, Madam Chair?

14 COUNCILWOMAN BLACKWELL: Certainly.

15 MR. REID: Before we conclude our
16 remarks, I'd like to make a motion for a
17 suspension of the rules so that we -- I'm sorry
18 I'd like to request a suspension of the rules so
19 we may meet our financing schedule.

20 COUNCILWOMAN BLACKWELL: Councilwoman
21 Tasco?

22 COUNCILWOMAN TASCO: I'd like to say
23 that we will probably have some more questions.
24 We just got this material yesterday. We got a
25 very thick Stone and Webster report. We only got

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 the documentation yesterday afternoon at 3
3 o'clock. We'd like to have further review of that
4 so it gives us time if there are other questions
5 to be asked that they could clarify for us.

6 So I would request that we don't have a
7 suspension of the rules.

8 MR. HAYLLAR: It won't get done. I
9 think we were at the end of the calendar in order
10 to not have to make the January 1st payment. The
11 refinancing will not have an effect if we don't
12 work on this calendar.

13 I would point it that throughout this
14 process, that Council has been represented on the
15 working group from day one. These documents that
16 were available were made available to Council's
17 technical staff consistently. If we don't adhere
18 to the schedule, it won't happen.

19 COUNCILWOMAN BLACKWELL: It's very
20 difficult when Council doesn't have the material
21 in a timely fashion, and especially given
22 everybody's schedules and everybody's running for
23 election etc. etc.

24 Councilwoman Tasco?

25 COUNCILWOMAN TASCO: Well, I'd just

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 like to know why we didn't get the materials
3 earlier. While the technical staff may have been
4 informed, we are Councilmembers and we have staff
5 and we are entitled to receive material and
6 documentation in a timely fashion in order to make
7 a decision in a timely fashion. The same thing's
8 happened with us at the Commission.

9 MR. HAYLLAR: Excuse me just a second.

10 COUNCILWOMAN BLACKWELL: Yes.

11 It's a very complicated issue. When
12 President Verna first mentioned this issue to me,
13 she said it was a very complicated issue and you
14 really need to keep in mind that given everybody's
15 schedule, that it's important that we get our
16 information as quickly as possible.

17 MR. HAYLLAR: This is -- the process we
18 used this year was no different than the process
19 that has been used in the past.

20 COUNCILWOMAN TASC0: But it doesn't
21 make it right, Madam Chair. I mean, precedent is
22 not an issue here because. Because we didn't get
23 it in the past earlier didn't make it right. We'd
24 like to get the material in a timely fashion so we
25 can review it.

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2 COUNCILWOMAN BLACKWELL: I certainly
3 agree and certainly, I wasn't Chair of the
4 committee in the past. The President's out of the
5 room, and she was Chair of this committee, and so,
6 obviously, she can't reply to that now, but I
7 don't think that's a good answer, Mr. Hayllar,
8 that helps you get where you need to know.

9 MR. HAYLLAR: Perhaps you can help me.
10 We include Council staff at all fo the working
11 groups. They have all of the materials when they
12 are available to the working group. The Stone and
13 Webster report was finalized just a few days ago,
14 though drafts of it were circulated, including to
15 Council's technical staff.

16 What would you have us do in terms of
17 keeping you better informed so that we don't have
18 this problem? We thought, and we were instructed,
19 that those individuals would be able to make the
20 evaluations and consult Council on that.
21 Apparently, that's not happened.

22 I can't get the Stone and Webster
23 report to you any quicker than it's done. I
24 believe that is the one element you that you have
25 not had. We introduced the legislation, I

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86

2 believe, in late April so it's been there.

3 COUNCILWOMAN BLACKWELL: Legislation

4 has been introduced, but no information was made

5 available. I specifically called even last week

6 about more information, and it was not available.

7 My office called, I called PGW last week. So the

8 Councilwoman's correct in saying we didn't get it

9 until yesterday. Now we were told we would get

10 information and it was being prepared, that sort

11 of thing. But certainly, the rule in the past has

12 been 48 hours. And even in this instance it was

13 not adhered to.

14 Now if the question is that the report

15 wasn't ready, that's one thing. When information

16 is available and where you have so many you issues

17 involved, you really should get it to us as soon

18 as possible. If I had had it, I would have

19 submitted it to my colleagues on this committee.

20 MR. HAYLLAR: We believed, perhaps

21 incorrectly, that Mr. McPherson was the technical

22 staff to Council and that providing this

23 information to him and Mr. Erickson allowed this

24 information to get to Council. I don't know what

25 more we can do when we've done that.

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2 COUNCILWOMAN BLACKWELL: We will take
3 this issue up with the President. We'll reach her
4 and then maybe we will let you know before -- we
5 have two other resolutions on the calendar today.

6 MR. HAYLLAR: Thank you.

7 COUNCILWOMAN BLACKWELL: And we will
8 deal with this issue before the committee hearing
9 is ended.

10 COUNCILWOMAN TASCO: Certainly, Madam
11 Chair, as it relates to the Philadelphia Gas
12 Commission, 'cause we're an integral part of this
13 whole process, the Gas Commission should certainly
14 have the material in plenty of time to analyze it
15 because in the end, we are held responsible and
16 accountable for all the financial stuff related to
17 PGW. And we would like to have the material.

18 COUNCILWOMAN BLACKWELL: We certainly
19 agree, and the Gas Commission, the representatives
20 on Council certainly speak for us. I mean, we go
21 to them and certainly, we expect them to represent
22 us on the Commission. That is why they are in
23 fact appointed. And if they don't have
24 information, then they can't represent us. And we
25 always assume that they are -- I assume that the

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 president of the Gas Commission would have had
3 this stuff for months and months ago by virtue of
4 her title.

5 It's very, very important that we have
6 -- we have a commission and that we have a
7 committee that does work to represent the people.
8 We take it very, very seriously. When you say
9 that in 2002, you may need a gas increase, you
10 know, that puts up a red flag with many of us.
11 And you can't talk about something so extreme and
12 then not make sure that we understand how our
13 actions today affect that term and make sure that
14 we don't have information we need.

15 Asking for information is not -- is not
16 an issue that we should even have a debate about.
17 You know, we need the information as quickly as
18 possible. And more especially, when you have an
19 issue that is as complicated as this and where it
20 has so many important ramifications, even given
21 the State issue, and certainly I'm disappointed to
22 hear that the president of the Gas Commission says
23 she can't get information. I think that's
24 absolutely unconscionable.

25 MR. HAYLLAR: I don't believe that's

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86
2 true. I have always made information available to
3 her whenever she had asked. That is just not
4 true, nor is it fair.

5 COUNCILWOMAN TASC0: Let me just
6 clarify. The problem exists with the Gas
7 Commission as it exists with this committee --
8 getting information in a timely fashion, where we
9 can review the material and study it and make
10 informed decisions. That has been an ongoing --
11 not just with you, but with prior administrations
12 in trying to get material to the Commission in
13 time. We are asked to make decisions, we are
14 asked to approve initiatives. And when we don't
15 approve them, then we're called obstructionists.
16 And if we don't do it because we don't have the
17 time to get to do it.

18 MR. HAYLLAR: I have never called you
19 an obstructionist.

20 COUNCILWOMAN BLACKWELL: So let us note
21 for the record, as we said, we will take this
22 under advisement while we hear the testimony of
23 the other two resolutions.

24 COUNCILWOMAN TASC0: I'd like to ask
25 one question. If you don't get to the market June

1 5/11/99 FINANCE COMMITTEE - Bill 990285, 86

2 1st, what's wrong with July 1st?

3 MR. HAYLLAR: We will not get the debt
4 service savings and will have trouble making the
5 covenant at the end of the year. This is a
6 budgeted item, we need the \$2 million. That's
7 \$2 million that we have to find somewhere else. I
8 can't tell you that we can do it between now and
9 August.

10 COUNCILWOMAN TASCO: Thank you.

11 COUNCILWOMAN BLACKWELL: Thank you very
12 much.

13 We will ask the clerk to come forward
14 to read the title of the next resolution. I will
15 assume that the testimony is separate for the two
16 resolutions.

17 UNIDENTIFIED WOMAN: It's separately
18 stated in one document.

19 COUNCILWOMAN BLACKWELL: Thank you.
20 The clerk will read the title of the bill and the
21 bill number.

22 THE CLERK: Bill No. 990219, an
23 ordinance amending Chapter 19-1500 of The
24 Philadelphia Code, entitled "Wage and Net Profits
25 Tax," by changing the filing and payment date of

1 5/11/99 FINANCE COMMITTEE - Bill 990219

2 the fourth-quarter employee earnings tax return.

3 COUNCILWOMAN BLACKWELL: Thank you very
4 much.

5 Would you identify yourself for the
6 record and then proceed with your testimony.

7 MS. MARX: Good morning. It's still
8 morning.

9 COUNCILWOMAN BLACKWELL: Good morning.

10 MS. MARX: My name is Nikki Marx, and I
11 am Deputy Revenue Commissioner for the City of
12 Philadelphia. I am here today to testify in
13 support of Bill No. 990219, which will amend
14 Chapter 19-1500 of The Philadelphia Code entitled
15 "Wage and Net Profits Tax."

16 This change will make the filing and
17 payment of the fourth-quarter return consistent
18 with the filings of the return for the other three
19 quarters of the tax year. This requirement is the
20 filing of the return and payment of tax at the end
21 of the first month following the end of each
22 quarter. So all four quarters will be consistent.

23 COUNCILWOMAN BLACKWELL: Thank you very
24 much.

25 Are there any questions from members of

1 5/11/99 FINANCE COMMITTEE - Bill 990220

2 this committee?

3 (No questions.)

4 COUNCILWOMAN BLACKWELL: The clerk will
5 read the number and title of the next bill.

6 THE CLERK: Bill No. 990220, an
7 ordinance amending Chapter 19-1700 of The
8 Philadelphia Code entitled "Review, Refunds and
9 Compromises," by changing the time limit for
10 filing a petition for refund of monies collected
11 by the Department of Revenue, including but not
12 limited to taxes, water and sewer rents, license
13 fees, and interest and penalties thereon.

14 COUNCILWOMAN BLACKWELL: Thank you very
15 much.

16 Please proceed with your testimony.

17 MS. MARX: This bill will change the
18 time limit for filing a petition for refund of tax
19 from three years from the date of payment to three
20 years from the date of payment or the due date,
21 whichever is later. This change is consistent
22 with the federal statute and will benefit
23 taxpayers who file before the due date.

24 Neither of these bills will have any
25 fiscal impact, and both will simplify the law.

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2 COUNCILWOMAN BLACKWELL: Are there any
3 questions from members of the committee on either
4 of the bills?

5 (No questions.)

6 COUNCILWOMAN BLACKWELL: Thank you very
7 much.

8 We are going to pause a moment so that
9 we can clarify the issue with regard to the
10 suspension of the rules of the first two bills.

11 Is there anyone else here to testify on
12 any of the bills that were read today or any of
13 the bills that were discussed?

14 (No response.)

15 COUNCILWOMAN BLACKWELL: Thank you very
16 much. So we will ask everyone just to stand by
17 for a minute or two. We are trying to converse
18 with the President and to certainly decide what we
19 need to do on these issues. Thank you. The
20 public hearing will be in recess for ten minutes.

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2 COUNCILWOMAN BLACKWELL: If there are
3 those who are in the chambers or who can hear me,
4 we resolved the matter in less than the ten
5 minutes that we called for suspension and
6 certainly, if those folks can hear me, would you
7 please come back into the chambers, and we can
8 resume our public hearing. Thank you.

9 All right, we will resume our public
10 hearing since there are no questions are there any
11 questions I'll ask one more time? Motorcycles no
12 questions.

13 COUNCILWOMAN BLACKWELL: Since there
14 are no other questions end, then we will end the
15 public hearing and go into our public meeting.

16 The Chair will request from Councilman
17 Nutter a motion with suspension of the rules on
18 Bill No.'s 990285 and 990286.

19 COUNCILMAN NUTTER: Madam Chair, I move
20 that Bill No. 90285 be reported out of committee
21 with favorable recommendation and a further
22 recommendation that the rules of Council be
23 suspended so as to permit first reading at our
24 next session of Council.

25 (Duly seconded.)

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2 COUNCILWOMAN BLACKWELL: All in favor?

3 Opposed?

4 The ayes have it and so it is carried.

5 I will now entertain a motion. We did
6 not hear a request for a suspension on the other
7 bill so I assume they're not required for the
8 Revenue Department.

9 COUNCILMAN NUTTER: You want both?

10 COUNCILWOMAN BLACKWELL: You're also
11 requesting a suspension for the bills dealing with
12 the Revenue Department 990219 -- we just passed
13 the other bills with the suspension.

14 COUNCILMAN NUTTER: Madam Chair, I only
15 did one Gas Works bill. You want the second one?

16 COUNCILWOMAN BLACKWELL: Then I'll ask
17 for a motion on Bill 990286.

18 COUNCILMAN NUTTER: Madam Chair, I move
19 that Bill No. 990286 be reported out of this
20 committee with a favorable recommendation and a
21 further recommendation that the rules of Council
22 be suspended so as to permit first reading at our
23 next session.

24 (Duly seconded.)

25 COUNCILWOMAN BLACKWELL: All in favor?

1 5/11/99 FINANCE COMM. - Pub. Meeting

2 Opposed?

3 Thank you. The bill is passed.

4 The Chair recognizes Councilwoman Tasco
5 for a motion on Bill 990219, that it be reported
6 out of committee. I've heard no request for a
7 suspension, so I assume that we don't need one.

8 COUNCILWOMAN TASCO: Madam Chair, I
9 move that Bill No. 990219 be reported out of
10 committee with a favorable recommendation.

11 (Duly seconded.)

12 COUNCILWOMAN BLACKWELL: All in favor?

13 Those opposed?

14 The bill passes.

15 Councilwoman Tasco, would you give us a
16 motion that Bill No. 990220 be reported out of
17 committee with a favorable recommendation.

18 COUNCILWOMAN TASCO: Madam Chair, I
19 move that Bill 990220 be reported out of committee
20 with a favorable recommendation?

21 (Duly seconded.)

22 COUNCILWOMAN BLACKWELL: All in favor
23 will say aye?

24 Those opposed?

25 The bill passes.

1 5/11/99 FINANCE COMM. - Pub. Meeting

2 All right, this ends our meeting. And
3 let me certainly thank all the committee members
4 and all those who have come to testify. We thank
5 you for your patience. We know it took a little
6 while, but I think we got there.

7 Thank you very much, everybody. And
8 for those involved, good luck next week.

9 COUNCILWOMAN TASC0: Thank you very
10 much.

11 (Adjourned at 12:10 p.m.)

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RE: COUNCIL COMMITTEE ON FINANCE

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BILL NO.'S 990285, 990286, 990219, 990220

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JOSEPHINE CARDILLO,

Registered Professional Reporter