

Legislation Text

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Urging the State Senate of Pennsylvania to enact SB 293, a measure that will repeal the legal ability of all municipalities to enter into financially risky qualified interest rate management agreements, commonly known as “swaps.”

WHEREAS, Pennsylvania State Senator Mike Folmer, a Republican who represents Lebanon County and parts of neighboring counties, introduced SB 293 on February 1, 2013 with five co-sponsors. SB 293 is an Act amending Title 53 of the Pennsylvania Consolidated Statutes that rescinds the legal ability of municipalities to enter into qualified interest rate agreements, also known as interest rate “swaps.” Swaps are complex financial transactions used to hedge against the risk posed by fluctuating interest rates. The use of swap agreements in public financial management was encouraged by the federal Commodity Futures Modernization Act of 2000, and authorized by the Pennsylvania Legislature in Act 23 for use by local governments in 2003; and

WHEREAS, Between October 2003 and June 2009, the Auditor General of Pennsylvania published an investigation that revealed that 107 school districts and 86 local governments had entered into 626 swaps with various investment banks, involving \$14.9 billion in public debt. In 2008, the worst financial crisis since the Great Depression triggered the Federal Reserve Bank to continually lower interest rates to near zero. As a result, what started out as approximately equal swap payments between municipalities or school districts and participating banks became completely imbalanced. Many municipalities were forced to continue making significant payments to their partner banks or pay swap termination fees; and

WHEREAS, Many municipalities that have entered into such agreements have suffered sizable financial setbacks, including Harrisburg, the Bethlehem Area School District, and the Pennsylvania Turnpike Commission. In Philadelphia, the City and the Pennsylvania Intergovernmental Cooperation Authority have entered into 20 separate swap agreements from 1990 to 2007 for a total amount of \$3.5 billion. The City's last swap contract expires in 2031. The School District of Philadelphia has since cancelled nine of the swap agreements, and has paid its financial lenders millions of dollars in the form of commissions, fixed interest yields from the swaps, and termination fees. It still has \$500 million notional amount of basis swaps outstanding; and

WHEREAS, There are many financial instruments and tools besides interest rate swaps that can reduce the cost of Philadelphia's long- and short-term borrowing, provide upfront capital in times of crisis, and hedge against interest rate fluctuations. The use of swaps has proved disastrous throughout the Commonwealth, and their use should be discontinued, as mandated by law; now, therefore, be it

RESOLVED, BY THE COUNCIL OF THE CITY OF PHILADELPHIA, That it hereby urges the Pennsylvania State Senate to enact SB 293, a measure that will repeal the legal ability of all municipalities to enter into financially risky qualified interest rate management agreements, commonly known as “swaps.”

BE IT FURTHER RESOLVED, That a copy of this resolution shall be delivered to the members of the Pennsylvania General Assembly.