

BUDGET AND FINANCE COMMITTEE REPORT relative to wastewater system interest rate swap deals.

Recommendations for Council action, as initiated by Motion (Koretz - Cedillo):

1. CALL on NY Mellon Bank as well as Dexia to renegotiate or terminate the interest rate swap deals associated with the Wastewater System Bonds with no additional fees to save taxpayers millions of dollars every year and call on NY Mellon Bank and Dexia to return the unfair profits and termination payments since 2008, estimated to have cost the City up to \$65 million.
2. INSTRUCT the Office of Finance, along with the City Administrative Officer (CAO), Chief Legislative Analyst (CLA) and any other appropriate departments, to report to the Budget and Finance Committee in 30 days on the progress of negotiations.
3. REFER all related reports to the City Attorney, including the CAO reports dated May 30 and June 27, 2014 and the Fix LA Coalition report entitled No Small Fees dated March 25, 2014 (attached to the Council file); and, REQUEST the City Attorney to evaluate potential legal remedies that the City may have against the two parties.
4. INSTRUCT the CAO to work with the Office of Finance on a continual basis to renegotiate and identify lower bank fees with all financial institutions.
5. INSTRUCT the CAO, if NY Mellon and Dexia are unwilling to renegotiate or terminate this swap deal at no cost to the City, to report to the Budget and Finance Committee on the merits and risks of terminating any current business with these banks and excluding NY Mellon and Dexia from all future business with the City.

Fiscal Impact Statement: Neither the CAO nor the CLA has completed a financial analysis of this report.

Community Impact Statement: None submitted.

SUMMARY

At its meeting of June 30, 2014, the Budget and Finance Committee considered a Motion and CAO reports relative to wastewater system interest rate swap deals and related matters. The Motion (Koretz - Cedillo) was introduced on May 2, 2014 and discusses various concerns contained in the Fix LA Coalition report released on March 25, 2014 entitled No Small Fees: LA Spends More on Wall Street than Our Streets. The CAO report dated May 30, 2014 notes that the above referenced Fix LA Coalition report reviews the amount of money spent on bond issuance costs, remarketing fees, letters of credit, bank service fees, investment fees and other financial transaction fees for the City's General Fund and Wastewater System bond programs, the City's three proprietary departments (Departments of Airports, Harbor, and Water and Power), and the City's three employee pensions systems (the Los Angeles City Employees' Retirement System, the Fire and Police Pension System and the Department of Water and Power Pension System). The CAO reports that it is important that his Office provide some clarifications and additional context to the important issues raised in the Fix LA Coalition's report

given the CAO's role with respect to the management of the City's debt. This information is provided in the CAO report dated May 30, 2014.

Additionally, the CAO report dated June 27, 2014 provides the status of CAO efforts to renegotiate or terminate the swaps associated with the Wastewater System bonds, as directed in the Motion, and includes additional information regarding the City's existing swaps. The CAO reports and Fix LA Coalition report are all attached to the Council file.

During Committee discussion, a CAO representative provided an overview of the CAO reports and responded to questions by Committee members. A representative of the Public Resources Advisory Group, which works with the CAO in the management of the City's Wastewater System Debt Program, provided additional clarification.

Representatives of the Fix LA Coalition presented information and provided testimony to the Committee relative to the No Small Fees report and issues discussed in the Motion. The Fix LA Coalition presenters responded to related questions from Committee members and a period for public comment was subsequently provided. After further consideration, the Budget and Finance Committee recommended approval of the Motion's recommendations as amended and detailed in the recommendations above. This matter is now forwarded to the Council for its consideration.

Respectfully Submitted,

BUDGET AND FINANCE COMMITTEE

<u>MEMBER</u>	<u>VOTE</u>
KREKORIAN:	YES
ENGLANDER:	ABSENT
KORETZ:	YES
BLUMENFIELD:	YES
BONIN:	ABSENT

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-NOT OFFICIAL UNTIL COUNCIL ACTS-