

Banks Do Your Part

SEIU 721 Members Plan to Renegotiate LA's Toxic Debt

THE SHEETS FACTS

Banks that do business with the City of Los Angeles need to do more to help communities hurt by the fiscal crisis they helped cause. On March 5, the LA City Council unanimously voted for a package of proposals to hold banks accountable for fixing the mess in our city.

At the center of this plan is something that can help L.A.'s budget crisis immediately: Renegotiate or cancel toxic swap deals to save the city approximately \$19 million annually.

- Taxpayers are being forced to pay \$19 million a year to Wall Street Banks on interest rate swap agreements entered into before the crisis. Renegotiating these deals to match current interest rates or cancel with no penalty would save millions of dollars and critical services from being cut.
- The swaps were sold to reduce cost on municipal debt when they were first introduced but they don't make sense now.
- The City Attorney even filed lawsuit last fall against the banks who may have rigged these deals in the first place to illegally profit at the City's expense.

What's the problem with 'swaps'?

Banks sold "interest rate swaps" to governments across the country as a way to protect taxpayers from the risk of rising interest rates by turning variable rate municipal debt into a fixed rate.

But when credit markets crashed in 2007, taxpayer action to bail out banks drove interest rates to historic lows. Rates have fallen below what could have ever been expected when cities agreed to swaps. Now governments are stuck with expensive debt and faced huge fees to cancel.

Municipal debt issuers are "essentially paying twice for flawed deals that bestowed great riches on the bankers and advisers who sold them. Taxpayers should be outraged," wrote *New York Times* business columnist Gretchen Morgenson. ("The Swaps That Swallowed Your Town," March 7, 2010).

Banks have taken billions of dollars in fees and excessive interest from taxpayers across the country.

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FACT SHEET

NEXT STEPS: Recommendations for Ending Swaps and Funding City Services

LA's swap covers wastewater revenue bonds that are paid out of the Sewer Enterprise Fund, not the City's general fund.

While enterprise funds stand apart from the general fund, millions of dollars flow between the various accounting structures.

Utility bonds, such as the ones in question, tend to have many restrictions in how the money in them can be used. SEIU understands that despite such restrictions, transfers from funds that generally support utility services to the general fund are permissible.

The City should take these steps:

- CAO should renegotiate swaps with banks that hold them as a condition of doing business with the city.
- In this extraordinary budget environment, the City Council must take whatever steps are necessary to make sure that funds recovered from excessive bank interest reduce the general fund budget shortfall.

Los Angeles has joined the state of Pennsylvania as the largest governments taking on the swap deals. "SEIU has made the city of Los Angeles a test case in the battle to undo these swaps," wrote *Los Angeles Times* columnist Tom Petruno (March 13, 2010).

City Council Votes to End Costly Swaps

On March 6 the LA City Council unanimously acted to end interest rate swaps as part of a motion introduced by Councilman Alarcon. The ordinance would:

"INSTRUCT the CAO and City Treasurer to attempt to renegotiate current swap deals with relevant financial institutions and if they are unwilling to renegotiate, then those financial institutions should be excluded from any future business with the City of Los Angeles and further INSTRUCT the CAO and City Treasurer to review all swap deals and report back to Council in regard to the legal and financial implications prior to any exclusionary action being taken within 30 days."



* Swap bond title is Sewer Enterprise Fund Subordinate Variable Revenue Bonds (p. 23 LA CAFR) aka Wastewater System Re-funding Series 2008 A through H Subordinate Variable Rate Bonds (p. 133 LA CAFR). the debt service is paid out of the Sewer Enterprise Fund (p. 126), which is the accounting home for activities relating to the construction, operation and maintenance of the City's wastewater collection and treatment system.