



Commonwealth of Pennsylvania
House of Representatives

M E M O R A N D U M

TO: All House Members
FROM: Representative Mario Scavello
SUBJECT: Swaps/Repeal Act 23 of 2006 (Former HB 1905)

With repeated news releases of complex derivative bond deals swiping millions of dollars from the pockets of Pennsylvania taxpayers, I am introducing legislation to repealing the 2003 broad authorization of school districts to enter into derivative deals known as swaps. Unknowingly, the law opened the doors for the wolves to pull the wool over the eyes of local government officials across the Commonwealth. Even according to Governor Rendell—"The school districts are getting fleeced...." The law passed only after lobbying by financial advisory firms who knew they would handsomely profit.

Swaps are meant to save taxpayer dollars by allowing variable interest rate bonds. These are very sophisticated transactions that became a hot tool pushed by financial advisors in order to keep a portion of school district's portfolio linked to the interest rate market. Essentially, school districts are placing bets on interest rate swings. Not only are these arrangements a costly gamble with administrator costs, annual management fees and termination payments, but the interest savings evaporated in our economic recession. Our school districts cannot afford to take severed losses.

Over two dozen school districts in Pennsylvania have entered into swap agreements and many had to pay banks or face hefty termination fees. Swap agreements have cost Bethlehem Area School District \$57 million, Erie School District paid \$2.9 million, and the list continues. Because these agreements are private and not regulated by either the SEC (U.S. Securities and Exchange Commission) or MSRB (Municipal Securities Rulemaking Board), school districts have no way of comparing their deal with those of other school districts to determine if they are getting a fair market value. Only the advisors and firms know who are paid between 5 and 10 times higher than typical rates, they were the ones who initially hired lobbyist to get the law passed. Ultimately, this is a costly issue paid for by Pennsylvania taxpayers. My legislation will put an end to this practice.

Please contact Kendra Snuffer at 787-7732 or via email at ksnuffer@pahousegop.com or through GroupWise if you wish to cosponsor this legislation.

Prior Co-sponsors: LEVDANSKY , DENLINGER , FREEMAN , GODSHALL , KORTZ , SIPTROTH , RAPP , PICKETT , BEAR , HENNESSEY , MOUL , HARPER , BEYER , HORNAMAN , SWANGER, SAMUELSON and BRENNAN.