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City Council Votes Wednesday to Adopt Committee Recommendations to Renegotiate Toxic Wall Street Deals, Save Los Angeles up to \$138 Million in Fees

Motion sponsored by Councilmembers Paul Koretz and Gil Cedillo and backed by the Fix LA coalition makes Los Angeles the biggest municipality in the nation to take action to renegotiate bad interest rate swap deals.

Los Angeles: The Los Angeles City Council voted Wednesday to adopt recommendations by the Budget and Finance committee to renegotiate or terminate without penalty a toxic swap deal the City entered into with two Wall Street banks. The measure, sponsored by Councilmembers Paul Koretz and Gil Cedillo and backed by Fix LA, a clergy-community-labor coalition, could save the city as much as \$138 million. Los Angeles is now the largest municipality in the nation to move to renegotiate or terminate a toxic swap deal without penalty.

The City Council also voted to request that City Attorney Mike Feuer evaluate potential legal remedies that the City may have against the financial institutions involved in the Wastewater swaps deal. Attorneys for the City have already begun exploring legal options.

Quick action is urgently needed because the eligibility period is rapidly closing for pursuing an arbitration filing through the Financial Industry Regulatory Authority, one of many agencies that regulate financial transactions. It is believed that an arbitration filing, which must be pursued by the City Attorney, must take place no later than September or October 2014. While renegotiating fees is not contingent on an arbitration filing, the filing is an important tool for bringing pressure to bear on the banks.

In 2006, Los Angeles entered into a complex financial transaction, known as an interest rate swap, with Bank of New York Mellon and Dexia, a European bank, to fund its Wastewater System Bonds. The deal locked the City into an interest rate for 22 years—an unprecedented length of time (a typical interest rate swap has a length of 3 to 5 years). As a result, when interest rates dropped to historic lows in the wake of the financial crash of 2008, the City was unable to refinance the debt—costing taxpayers tens of millions of dollars.

"We applaud the City Council for taking bold action to prevent the fleecing of taxpayers going forward and to recoup losses which have occurred as a result of the deceptive marketing of derivatives such as interest rate swaps by Wall Street firms," said Lisa Cody, a research policy analyst for SEIU Local 721, which is part of the Fix LA coalition.

The City of Los Angeles pays out nearly \$300 million in fees each year, including the deal with Mellon and Dexia, as described in a groundbreaking report, No Small Fees, issued by the Fix LA coalition. The payments are being made as the City has slashed budgets for essential services such as street cleaning, tree trimming, sidewalk repair, and assignment of crossing guards at dangerous intersections.

The City Council is calling on City Administrative Officer Miguel Santana to report to the council's budget and finance committee on the merits and risks of renegotiating or terminating the interest rate swap deals with Mellon and Dexia with no additional fees. It is also calling on the banks to return unfair profits and fees paid since 2008, estimated at more than \$65 million to date.

Los Angeles is just one of thousands of public entities in the U.S. that entered into risky interest rate swap agreements, which were sold by Wall Street as a means to save money on borrowing costs. But the opposite happened—banks are making millions in profits from these toxic deals, even as local governments are slashing services. There are a growing number of cases across the U.S. where public entities have successfully renegotiated swap agreements without penalties, including the cities of San Francisco and Richmond, CA, and the Baldwin County Sewer Service in Alabama.

"I'm very happy that the City Council took this important step to stand up to big banks and take back taxpayer money for our communities," said Rashad Rucker-Trapp, organizer with the group Community Coalition and member of the Fix LA coalition. "Now it's time for the CAO to do the same so we can invest in our streets, not Wall Street."

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