DAUPHIN COUNTY BOARD OF COMMISSIONERS

LEGISLATIVE MEETING

JANUARY 21, 2009
10:00 A.M.

MEMBERS PRESENT

Jeff Haste, Chairman
Dominic D. DiFrancesco, II, Vice Chairman

George P. Hartwick, III, Secretary (ABSENT)

STAFF PRESENT

Chad Saylor, Chief Clerk; Marie E. Rebuck, Controller; J. Scott Burford, Deputy Chief Clerk; Bruce Foreman, Esq., Solicitor's Office; Diane McNaughton, Commissioners' Office; Amy Richards, Commissioners' Office; Randy Baratucci, Director of Purchasing; Mike Yohe, Director of Budget & Finance; Dave Schreiber, Personnel; Kay Lengle, Personnel; Melissa Wion, Personnel; Leila Brown, Solicitor's Office; George Connor, Community & Economic Development; Greg Schneider, Budget & Finance; Brenda Hoffer, Commissioners' Office; Jena Wolgemuth, Commissioners' Office and Richie-Ann Martz, Assistant Chief Clerk

GUESTS PRESENT

Dan Miller, Matt Rohman, Chas Blalack, Daniel Malpezzi, Esq., Jay Wenger, Lou Verdelli, Judith A. Kennerdell, Charissa Williams and Tim Berard

MINUTES

CALL TO ORDER

Mr. Haste, Chairman of the Board, called the meeting to order at 10:05 a.m.

MOMENT OF SILENCE

Everyone observed a moment of silence.

PLEDGE OF ALLEGIANCE

Everyone stood for the Pledge of Allegiance.

APPROVAL OF MINUTES

> **It was moved by Mr. DiFrancesco and seconded by Mr. Haste that the Board approve the December 10, 2008 Workshop Meeting Minutes, the December 17, 2008 Workshop/Legislative Meeting Minutes, the December 31, 2008 Workshop/Legislative Meeting Minutes and the January 7, 2009 Workshop/Legislative Meeting Minutes; motion carried.**

> **It was moved by Ms. Rebuck and seconded by Mr. DiFrancesco that the Board approve the December 31, 2008 Salary Board Minutes and the January 7, 2009 Salary Board Minutes; motion carried.**

EXECUTIVE SESSIONS HELD BETWEEN MEETINGS

Mr. Saylor: As you know there were no executive sessions held between meetings.

PUBLIC PARTICIPATION

Mr. Haste: We are at the point in time in the meeting for public participation. Is there anyone in the audience that would like to address the Board at this time? (There was none.)

DEPARTMENT DIRECTORS/GUESTS

A. Matt Rohman, Administrator and Chas Blalack, CEO

1. Spring Creek Annual Report

Mr. Rohman: We are here today to provide you with the Spring Creek annual reports. We have a few items that I would like to share with you.

Spring Creek is currently operating at an average census of 330 residents. The overall census has continued to climb since January 2007. As we continue to refine our service offerings and build our reputation as a quality healthcare provider in Dauphin County. The Medicaid census is currently 271, which is up from 240 in 2007. We had no referrals from the Prison in 2008.

Some of the operations achievements/goals that we have going on at Spring Creek: In 2008 we began and finished the process of capital improvement refurbishment on McBride 2. There were two floors that were not being utilized at the time. One of those floors is now open to residents and is being utilized. Another area that we focused on is our dementia unit. We made some changes with the program director. We have made substantial improvements to the types and quality of activities and programs that are being provided. We've also invested in the aesthetics on the floor; new equipment, new entertainment options for residents. We've done some paintings/murals on that floor.

Also, as the acuity has increased at the facility we added a respiratory therapist. She is there to identify a plan and implement new service offerings to further strengthen our ability to provide services to our existing residents.

The Director of Nursing has implemented a new infection control program in accordance with new State and Federal Reporting Regulations that will take affect in April 2009. It involved a considerable amount of staff training, as well as the creation of new policies and procedures.

We have also begun renovating the last unopened remaining floor in McBride that is McBride 1. It currently has been completely repainted, received all new heating and air conditioning units, furniture, equipment, new nursing station, as well as various other capital improvements on the floor.

We also continued our support in 2008 to various community organizations and programs to include the Central PA Food Bank, various senior centers here in the Harrisburg area, Big Brothers/Big Sisters, United Way, Arthritis Foundation and the Alzheimer's Foundation as well.

With regard to staffing, we continue to make significant progress on decreasing the use of outside agency staffing. The number of full-time employees has continued to grow since the date of transfer. We believe this is primarily due to the manner in which we treat our employees. One such example of that is we continued in 2008 our incentive program which allowed all levels of employees to participate in the performance of the building.

Just a second on the new five star rating system that was put out by CMS. We certainly support any attempts to make information simpler and more readily available to consumers. We do agree with the American Association of Homes and Services for the Aging and that the new five star rating system is based on flawed and inadequate information that does not adequately reflect the care and services that are currently being provided in facilities. We are aware of the rating system, but as always we will continue to focus our time and energy on providing the best employees, services and technology available to the residents of Dauphin County.

Just a final statement on our overall condition, we continue to grow and remain a strong and profitable business here in Dauphin County.

Mr. DiFrancesco: I really don't have a lot of questions. You covered all of the issues. I know that one of the concerns that we had was when the rating was reported in the paper certainly your individual rating was a concern to us, but taken for what it is worth, I looked at that list and there were a couple of other local homes that have stellar reputations that received ratings that were I think the same. Again, realizing that the media can only give you so much in the space it has available to it, I don't think there is enough information out there about how those ratings come to pass and what they actually mean. The time that we spent in the whole transition phase of trying to figure out what we were going to do when we controlled the nursing home to the point that we sold it, I mean that was challenging. I learned a lot more about nursing homes than I ever thought I would, but certainly looking at all the issues in a nursing home it is a very complicated beast. You have a situation where you are running a business where a portion of your business people is coming there at the very end of their life and there are a lot of complications that go along with that. I appreciate the fact that you addressed it this morning. Obviously the numbers that you relay to us, the plan that we assumed would happen in terms of increased census numbers, which obviously when we were controlling the place it drove us nuts. We could not keep the census up. It is great having 404 beds, but if you can't put people in those beds obviously you can't really run the home. We knew that in the private hands you could do things and put things in place that would turn the place around. You have done that. The numbers are up. The medical assistance numbers are up, which is great. That was a concern of ours that in some way that would diminish. In reality everything that I hear from the employees that continue to work out there that worked for the County also have been very positive. Realistically they will come and say it is different, but it is good. That is another thing that we knew we could accomplish by privatizing the facility was to overcome some human resource issues that we had that were making the place not exactly the best place to work. I think you have turned the tide on that through the incentive programs and some other things. What I'm hearing back from the community is positive. Certainly we hear stories of things that happen, but that is the nature of the business that things are going to happen. Thank you for coming out today. I really don't have any questions.

Mr. Haste: A few things that I hear and maybe it is good news, because I heard less and less as time went on. There are a couple employees that I still talk to and once they got over the shock and understand the new system they are thankful that they stuck it out and stayed there. They see the benefit of working for a good facility. I've heard your radio ads. You have gotten aggressive with that.

You touched on one of the items. In the transition we talked about Alzheimer's. That was an area that you were going to look at for the community and expand on it. You mentioned that you worked with the Alzheimer's Foundation, but what are you doing for Alzheimer's there? Do we have a segment set aside for them?

Mr. Rohman: We do. They are currently on the 4th Floor of McBride. We hired a new program manager with experience dealing with Alzheimer's residents. We are basically from, top to bottom, redoing the entire program.

Mr. Haste: We deal with this over at the jail quite a bit and that is MRSA. Have you experienced that? How are you dealing with it?

Mr. Rohman: We get residents from the hospitals or the community; it certainly is an infection that is out in the community. Every healthcare facility has to deal with that. That is part of the reason that they came up with the new infection control regulations in the State. We track that and follow the infection control policy, but every healthcare facility has to deal with that. It is the nature of the beast.

Mr. Haste: That's not a real issue for you?

Mr. Rohman: No, it is not. It is part of the business.

Mr. Haste: I'm not so sure; we were talking about this at the jail, if our area isn't, when it comes to this a little healthier than the rest of the State. When we talk to other criminal justice facilities their numbers seem to be higher than our numbers. It seems like when we get it is when someone goes to the hospital and comes back. That seems to be where it becomes an issue. If your numbers are down as well maybe just this area we are doing a good job as a whole. The numbers don't seem to be what they are elsewhere.

Scott, do you have anything to ask? Scott's usually our go to guy when we have an issue.

Mr. Burford: Just want to mention one thing. We have one more transitional issue that we are working through and that is the steam as it relates to the AAA kitchen. We have a plan in place and hopefully we will be able to close out that shared service by the end of this year.

Mr. Saylor: Could I just ask for the benefit of Commissioner Hartwick who is not here with us, do you have in written form something you could let behind that I could share with him?

Mr. Rohman: Yes, I do.

B. Dan Malpezzi, Esq., McNees, Wallace & Nurick
Jay Wenger, Susquehanna Group Advisors
Lou Verdelli, RBC

1. Ordinance #1-2009 – Swap for various series of the County's Outstanding General Obligation Bonds

Mr. Verdelli: Thank you for the opportunity for all of us to be here. The transaction that we have for your consideration is very similar to a transaction that you currently have on your books that was completed in 2005. There is a tremendous opportunity in the market right now to lock in pricing that is substantially better than what was available back in 2005. We wanted to bring it to your attention and I just have a short handout that I will touch on a couple pages just to point out what has created the opportunity and then show you how we have this structured. Mr. Wenger is going to review the Interest Rate Management Plan and Mr. Malpezzi has the Ordinance for your consideration. Page 2 – it really seems to be two things. Basically the big drop in U.S. Treasury yields. We've heard about the flight to quality that has pushed interest rates on short term Treasuries close to zero, 30-year Treasuries right around 3%. These are historic lows. That is the one factor. The second seems to be the unwinding of thousands and thousands of Lehman Brothers transactions as part of their bankruptcy has really created almost like supply and demand issues in terms of the Swap pricing that is out there. When we talk to our trading desk they really look at those two events that have caused a significant change in the relationship and pricing that is available for these transactions.

Page 3 – is what we would have shown you back in 2005. This is two simple lines. It is what this transaction is all about. It is the exchange of paying the SIFMA index versus the LIBOR index. Historically you have seen this chart where the LIBOR line, which is red, because it is taxable, that line should be higher than the green line, which is the Index of Tax Exempt Variable Rate Bonds. Historically there is a very significant spread between those two and when you look out in time for transactions 15 years and out, they are right on top of each other, basically saying that a tax exempt and a taxable are offering the same yield. We all know that is not normal.

Page 4 – shows you in a picture when we compare that relationship between these two indexes how odd it is and how far off of the average is going all the way back to 1995. The three solid lines are the averages for a 10, 15 or 20 year transaction. On the right you can see how the line is almost off the top of the chart based on the current pricing in these relationships between these two indices. That is what has created the opportunity for you.

Page 5 – reviews the basis Swap that you have. We talked about really the third bullet point is you are being compensated for acquiring tax risk. Back in 2005, we talked about what is the risk of the transaction and that is you enter this and there is some significant change to federal income taxes where they are either completely eliminated or we go to some flat tax so that there is no longer any value of owning tax exempt bonds and getting tax exempt income. I think all of us are very confident that we don't think taxes are going to zero anytime soon and if in fact you do this transaction and taxes are increased there should be a wider spread between the LIBOR and the SIFMA index.

The next couple pages just have some more of the highlights on tax risk. The focus on your portfolio of Swap transactions it is important on Page 8 that we look at what does the County have now and what is the plan if you decide to move forward on this. Page 8 is a summary of the Swap transactions that you currently have outstanding. The amounts that are shown I have there are the original amounts. So, they have some down in some cases a little bit as the bonds have been paying down. The type of Swap is listed. The first one, the Basis Swap, it was attached to the 2004 D Bonds originally in the amount of $14.8 million. It is with our firm, RBC. The County pays SIFMA and we are paying you currently 67% of the 1 month LIBOR plus 39 basis points. The difference today is had you done that transaction today, set up in that formula, instead of a plus 39 that number would be closer to a plus 70 or 75. That is how significant the difference is and I will show you in the next page how well that performed. It is important to note that the counterparty ratings, that's another thing your advisor, as well as Mr. Yohe, keeps an eye on. This is important especially in this environment that we are in where every day there is more bad news in the banking industry that we keep an eye on these counterparty credit ratings, because at some point there is trigger mechanisms on these transactions of when they can be terminated if counterparties fall below a certain threshold. You want to monitor that because these are long term contracts. That is very critically and is something that we want to keep an eye on. This transaction we are only recommending in conjunction with the termination of the last two that show up as the 2008, they were the Range Accrual Swaps that you did in 2008. Basically because of the risk that they carry we wouldn't want you to double up with risk by doing this new transaction. Mr. Wenger is going to talk about the plan in his part for terminating those transactions if you decide to move forward. I think you will see that they will have been terminated with some success from the time you put them on.

Page 9 is a quick review of how you have done with the current Basis Swap that you have. It is very similar to what you are currently considering. This is the cash flow since the transaction was implemented back in 2005. On the column of numbers on the far right that says net payment to the issuer, you will see six different payments. They are semi-annual payments. Every six months for the past three years you have received a payment and those payments to date have totaled $145,000 of profit from this transaction. We went back and Mr. Yohe asked us to run this when we first presented this back in December had the current pricing been available on this transaction when you did it the benefit today would have been over $300,000. It more than doubled based on current pricing.

Page 10 shows what we are targeting for the new transaction. There are three issues of bonds, your 2002A, 2005C and your 2006. This transaction works best on longer term bonds. The ones that are shaded beginning in 2014 and out those are the maturities and the total of those three issues and the maturities that we would attach totals the $45,040,000 that is shown in the amortization column. That is how the Swap would amortize beginning in 2014 paying off in 2024. What is the potential benefit that we see based on current pricing and when we use what the averages have been of SIFMA and LIBOR, page 11 shows the potential cash flow to the County based on these averages. The column labeled "historical spread potential cash flow" that is showing the annual potential cash flow. The column just to the right that is shaded we present value that since you are taking these payments over time. There you see the projected benefits in the PV column $404,000 in 2009, $474,000 and so on. The benefit obviously gets smaller as your transaction gets smaller and you have less money to exchange on projected PV benefit the $4.5 million over the life the transaction that equates to a 10% potential return. Typically in the past we have always recommended these types of transactions if the returns are in excess of 5% or 6%. We are well in excess of that target. The one thing that I would reiterate if you decide to move forward with this and you have success that we hope and predict here is that Mr. Yohe continue to manage these transactions the way he has done in the past, which he has done a very good job of conservatively putting money aside as they have produced cash flow to the County. I think you set that aside and you have reserve funds just in case there is ever a year where the actual market conditions don't follow what the averages have been you have money reserved for these types of situations. We don't present these types of transactions to issuers who don't have the capability to handle a bad year or two. You certainly are very financially sound. Your credit rating speaks highly of the management practices. We think it is an appropriate transaction for you.

Page 12 just shows based on this current pricing the averages since 1985 of the difference between these two indices and the spread. You will notice in the third column over the spread is positive in every single year. That is different than some of the transactions we have shown you in the past where there may have been two or three or four years where it had been negative. That is where this pricing is very convincingly in your favor right now to hopefully set you up in a situation where we experience positive cash flows.

The final page, 13, is really the summary. It talks in considerations. On the right the consideration is tax risk and you need to be comfortable with that. The second bullet point talks about that we experienced dislocation in these two rates back in October. We saw the SIFMA index go significantly higher than where LIBOR was. It happened for a couple of weeks and everything went back to normal. It illustrates that there is a chance that they can move apart, but we think certainly that was some of the worst financial conditions many of us have seen in our lifetimes and the index wasn't out of your favor too long and came back into where it should be more recently. At the bottom of Page 13 shows the continuation of your ongoing management and monitoring of these transactions. That is very important that you monitor them. Again with your advisors and the Budget Office does a good job of that, but we just want to reiterate it. I would be happy to answer any questions on the proposed transaction.

Mr. Haste: For it to really have a negative impact the dislocation between SIFMA and LIBOR would have to be for a longer period of time than a few weeks. We balance this out over what a quarter?

Mr. Verdelli: Semi-annually the payments are made.

Mr. Haste: So it really would have to be six months or so for it to have a real impact.

Mr. Verdelli: Of maintaining the rate yes.

Mr. Haste: Has that ever happened in history?

Mr. Verdelli: I know in our chart that goes back 20 years or so we don't have any periods that are more than a few weeks.

Mr. Haste: I didn't want to assume that, but that is the information that I have. I see here that it is 89% of LIBOR, is that where we are going to lock in or we don't know yet?

Mr. Verdelli: That is if you decide to move forward that is where we would hope to be. We did a pre-pricing call yesterday to be checking on that with your advisor where we saw the market. It was in that ballpark and that is where we hope to be. We are using 89% of 3-month LIBOR.

Mr. DiFrancesco: The risk factors associated with this transaction, are they identical to the risk factors of the previous Basis Swap?

Mr. Verdelli: Yes.

Mr. DiFrancesco: So, the risk factors are identical, not the dollar figure. This is basically the same transaction is what I'm asking?

Mr. Verdelli: You have the same counterparties and risks are the same. The tax risk is exactly the same in this case. However, you have to measure it in terms of that you are getting stronger pricing now so the threat that taxes go down you kind of offset that whereas you don't have as much room on the other transaction that if there is a slight reduction in taxes that one gets more close to the two lines lining up. Whereas now if you lock in current pricing and there is a tax reduction you are still pretty far apart. So, you mitigated just because of the pricing that is available you are mitigating some of your tax risk.

Mr. DiFrancesco: The bond ratings of the partners, you mentioned that it is important to monitor that. What is the risk involved there? Many municipal governments learn a big lesson about the mandated insurance that we had to carry when our insurance carriers went under we got taken too by the insurance carriers. What do we need to be aware of in terms of the risks associated if one of these guys would happen to drop in their rating?

Mr. Verdelli: I'll speak first for us and then I let Mr. Wenger speak more globally to the rest of the portfolio. One thing that we always recommend is that we like to see counterparty or issuers like yourself doing these transactions that have a credit rating equal to or better than your own rating. We think that is a good rule of thumb to have. You are an AA and you ought to only be dealing with AA entities for these types of long term contracts. That is the first. On our credit ratings currently Moody's has us as AAA. That is as high as it can be. Obviously there were bond insurers two years ago that had AAA ratings. From everything that we are told we don't seem to have the exposure to some of the problems that many of the other banks around the world have had. That is currently where we are. I certainly hope that there are no downgrades in our future. I know Moody's had just reiterated our AAA rating.

Mr. DiFrancesco: What is the risk to us if that would happen, not assuming that it would happen, but if it did happen what is the risk to us?

Mr. Wenger: There are triggers in these interest rate swap agreements that if the counterparties are downgraded below a threshold rating and in this case I think it is A that if needed they would post collateral to kind of make the County whole on the valuation of the Swap. If they get downgraded too far and there is a real event of default then the contract basically goes away and you may or may not have a positive termination value at that point in time. As Lou said RBC is currently rated AAA. There is a long way from AAA to where even they would have to post collateral. I think what we have learned over the past 18 months is a lot of people have kind of gone that way so there are certainly no guarantees. The kind of mitigation strategy on the County's part as Lou suggested is to enter into these agreements with as high of rate institution that you can and then from there monitor those transactions to insure. We present that to you annually to ensure that those original ratings and agreements kind of continue to stand as originally proposed.

Mr. DiFrancesco: So in reality what you are telling me is that this is sort of like a worst case scenario, if something would happen to a partner, we would have to unwind it and we would lose potential revenues. It would never unwind in a position where we would be forced to pay anything.

Mr. Wenger: The rating works both ways. If the County were downgraded below A there are some termination rights on the part of RBC. So, this rating profile works on both sides of the transaction.

Mr. DiFrancesco: What I have learned and what I'm sensitive to is not so much what we can control for ourselves, it is what other people thrust upon us. Obviously the insurance issue was a major one where policy dictated insurance, because they thought they would be protecting us and in fact it was what caused the demise. Again, we talked about the tax risk on this transaction as being the only major significant risk again that we don't have to worry about. Interest rates, inflation all those different factors it is basically just a tax risk that we are worried about.

Mr. Wenger: Historically we would have said tax risk was the primary risk. We have through late September early October experienced periods where the SIFMA, the tax-exempt rate, was considerably higher than LIBOR. We do have some amount of market yield curve risk, which to get back to that would take another really financial crisis and certainly in this market who knows if that is going to happen today, tomorrow or next year. It was a relatively short term period where that occurred. It was about three or four weeks. As was discussed moments ago over time the experience has been that this is a positive cash flow transaction, but there may be periods if we have continued financial crises that we might experience that same kind of market dislocation again where tax-exempt rates on a short end of a yield curve are trading considerably higher than taxable rates.

Mr. Haste: And that would have to happen over a sustained period of time?

Mr. Wenger: That is correct.

Mr. Verdelli: The issue that seems to push SIFMA higher was again a supply and demand issue. Nobody was willing to buy any of those tax-exempt weekly bonds that had tainted insurance there when everything was just melting down in September. So, there were literally no buyers and that caused the rate to be set higher and higher. Eventually when everything settled down and buyers returned those rates came back. The only other point would be that historically we have seen the relationship of these two rates get wider in a higher interest rate environment. Right now they are compressed because we are at all-time lows. Typically when we go back to normal higher rates, when you look at the relationship of these two they are wider. We also have always said that typically should lead to larger cash flows if we are in an inflation period where interest rates are higher.

Mr. DiFrancesco: The challenge before us is that as these have been laid out to us in the past they really almost presented themselves as an intelligent transaction right from the get go just because of the nature of them and everything else. The challenge here is that we are in unchartered waters right now with the economy. I'm asking you for input that you really technically can't give me because we are in unchartered waters and for the life of me I can't begin to interpret because of where we are and what is coming. I do know also traditionally that when we are in a position where the government is carrying great debt where obviously we have never been where interest rates are as low as they are right now, but where basically the Federal government thinks the answer to every problem is to print more money. There are certain risks that go along with that. It is going to take the economy with it. It is just a complete matter of uncertainty of knowing what is going to happen tomorrow.

Mr. Haste: Signs show and again history pretty much repeats itself makes this an even better transaction. If the economy goes the way people think it is going to it goes in our favor.

Mr. Wenger: If we model this based on historical interest rates this is a very positive cash flow transaction for the County. One of the differences in this transaction as compared to the Basis Swap that is currently on the County's books is the existing Swap you receive a percentage of 1-month LIBOR plus a fixed number of basis points. This transaction we are contemplating just a full percentage of 3-month LIBOR. The reason we changed from 1-month LIBOR to 3-month LIBOR is right now 1-month LIBOR is about .2% and the 3-month LIBOR is about 1%. So, the economic value of going the 3-month LIBOR is in the County's favor. That is not to say that the 3-month LIBOR won't go to the same levels as 1-month LIBOR, but what we have experienced over the last several months in the marketplace is short-term money is essentially at 0% and 1-month LIBOR falls in that category of short-term money. 3-month LIBOR seems to be where out on the time horizon for people dealing with this financial crisis. Our expectation is that 1-month LIBOR will continue to trade at a very low level and that the value really is greater going to a 3-month LIBOR formula.

Mr. Verdelli: The last factor that all of us factored in bringing this transaction size this way is these types of opportunities in moderation and the fact that you are eliminating one risk that you have right now in the Swap portfolio with the Range Accrual that is about $41.5 million right now that is being replaced with this $45. So again, while there is some risk it's in moderation in comparison to the County's budget and overall debt. We are not here proposing a transaction that's substantially larger and substantially layered on top of other transactions like it.

Mr. Haste: If you believe in using a Basis Swap as one of your financial tools, the market is right for this one to happen. If you are going to do one this seems to be the best time to do it.

Mr. Verdelli: The pricing is better than anything in 20 years.

Mr. DiFrancesco: One of the benefits and obviously we have been able to do over the past few years is not just have a reserve, but put that reserve to work. It is smart money management, which has resulted into benefits to the taxpayers of this community. I wish that we could be looking at historic data that has some merit in the market that we are in, but right now historic data doesn't mean a whole lot when you just don't know where tomorrow is going to take you.

Mr. Wenger: We have for your consideration today an Ordinance that was drafted by Mr. Malpezzi and his firm that includes a copy of the Interest Rate Management Plan, which is, you know from prior transactions, required under the Debt Act. This is similar in its form to what you have seen in the past. This Ordinance has two parts to it. One is the termination of the Range Accrual Swaps that were entered into in September. Just to summarize briefly what was done, why it was done and why we are terminating. The Range Accrual Swap was entered into with a guaranteed $800,000 of cash flow from September 1, 2008 through September 1, 2009. At the end of the first year Deutsche Bank, as the counterparty on the Range Accrual Swaps, has the right to terminate it at par. Meaning that the County would not receive any economic benefit or cost if they terminate on September 1. In our discussions with Deutsche Bank, going back starting in the holiday season to as recently as yesterday, assuming rates stay where they are for the next several months, leading up to that September 1 anniversary date, there is a very high probability that Deutsche Bank would terminate the Range Accrual Swaps. So, your net benefit would have been the $800,000. If you recall that was our expectation in September of last year that we thought that's exactly what would happen. We received on December 1 the first installment payment on for the first quarter, which was $200,000. You are half way through the second period so you have accrued about $100,000 in that second quarter. The opportunity to terminate the Accrual Swaps right now would be at a positive value to the County. We are estimating something like about $650,000 of net value, including the quarterly payments for essentially what will be a 5-month transaction as contrasted to waiting until September for $800,000 of cash flow. Given the high probability that they will terminate and the amount of cash that you can extract today by terminating and the favorable pricing on the Basis Swap we think this is a good opportunity to terminate the Range Accrual Swap at a profit, book a Basis Swap at a historically high ratio with at least modeled or projected positive cash flow and if those ratios return to more historical levels there ought to be a termination positive event for the County at some point in the future as well. The Ordinance contemplates both of those. We are not recommending that the County enter into the Basis Swap if the Range Accrual Swaps are not terminated. So, we have scheduled a pricing call with Deutsche Bank at 12:30 p.m. to terminate, a 1:00 p.m. call with RBC to enter into the Basis Swap, so we will know in a very short period of time that the two have been positively and properly executed and linked.

Mr. DiFrancesco: We retain the right…

Mr. Wenger: You retain full rights to terminate the Basis Swap. RBC does not have the right except in the event of default. There are termination events where they would have those rights.

Mr. Haste: Does it make any sense or maybe Dan can tell me it's not appropriate to have the Ordinance worded with that we could willingly make the Swap with the intent to terminate the Accrual at a later date and base that upon better pricing?

Mr. Wenger: We would not recommend you entering into the Basis Swap without the Range Accrual Swap already terminated. While they are not technically different they are very similar in their construction in dealing with short-term rates and the Basis Swap is being entered into on essentially the same day almost to the maturity that the Range Accrual Swaps are. We see that as a doubling of risk and exposure that is not necessary. We don't see the pricing changing that drastically in a half hour timeframe that we will have lost one or other opportunities. Both should be going away from us at the same time. We will know at 12:30 p.m. if we are moving in that direction. The last week to two weeks it has been fairly steady at the same number, the same positive number for the County on both those Swaps.

Mr. Haste: So, you don't feel you need flexibility?

Mr. Wenger: I wouldn't want the flexibility to enter into the Basis Swap without the Range Accrual Swap already having been terminated.

Mr. Malpezzi: As currently drafted, the Ordinance requires as a condition of entering into the Basis Swap the termination of the Range Accrual Swaps.

Mr. Haste: I needed to ask the question if it make sense to word it differently and have flexibility and the answer is you are comfortable with it the way it is.

Mr. Wenger: Absolutely. We would prefer it this way.

It was moved by Mr. DiFrancesco and seconded by Mr. Haste that the Board adopt Ordinance #1-2009, captioned as follows:

Ordinance No. 1-2009 of the Board of Commissioners of County of Dauphin, Commonwealth of Pennsylvania, amending Ordinance No. 6-2002 enacted September 10, 2002 (authorizing General Obligation Bonds, Series A of 2002) to establish and authorize a maximum rate on net payments (excluding principal) due on said Bonds maturing November 15, 2014 through and including November 15, 2024, plus periodic scheduled payments (which exclude termination payments) that may become due under the qualified Interest Management Agreement approved herein at the maximum rate specified in such qualified Interest Rate Management Agreement; amending Ordinance No. 2-2005 enacted June 29, 2005 (authorizing General Obligation Bonds, Series A of 2005, General Obligation Bonds, Series B of 2005 and General Obligation Bonds, Series C of 2005) to establish and authorize a maximum rate on net payments (excluding principal) due on the Series C of 2005 Bonds maturing November 15, 2014 through and including November 15, 2024, plus periodic scheduled payments (which exclude termination payments) that may become due under the Qualified Interest Management Agreement approved herein at the maximum rate specified in such Qualified Interest Rate Management Agreement; amending Ordinance No. 2-2006 enacted June 7, 2006 (authorizing General Obligation Bonds, Series of 2006 (tax-exempt fixed rate) and General Obligation Bonds, Series of 2007 (tax-exempt variable rate)) to establish and authorize a maximum rate on net payments (excluding principal) due on the Series 2006 Bonds maturing November 15, 2014 through and including November 15, 2023, plus periodic scheduled payments (which exclude termination payments) that may become due under the Qualified Interest Management Agreement approved herein at the maximum rate specified in such Qualified Interest Rate Management Agreement; authorizing and approving a Qualified Interest Rate Management Agreement (Interest Rate Swap Agreement) with respect to the aforesaid maturities of the aforesaid General Obligation Bonds; setting forth the substantial form of the Qualified Interest Rate Management Agreement; setting forth and adopting an Interest Rate Management Plan; declaring the manner in which the Qualified Interest Rate Management Agreement is to be awarded; making certain covenants of this County which are intended to secure the Qualified Interest Rate Management Agreement; authorizing appropriate officers of this County to take certain actions and to sign certain documents; and containing related provisions.

Question: Mr. Haste – Aye and Mr. DiFrancesco – Aye; motion carried.

Mr. Haste: I just wanted this on the record. Dan, was this Ordinance properly advertised?

Mr. Malpezzi: Yes, it was. It was advertised beginning Sunday in the Patriot-News in accordance with the Debt Act. We will have the notice of final enactment published per the Debt Act requirements and follow-up with the necessary filings with the DCED once the Swap is executed.

SALARY BOARD

A complete set of Salary Board Meeting Minutes is on file in the Commissioners' Office.

PERSONNEL

Ms. Lengle: I have a new Addendum. Do you have any questions on that or anything that I presented last week? (There was none.)

> **It was moved by Mr. DiFrancesco and seconded by Mr. Haste that the Board approve the Personnel Packet, as amended; motion carried.**

PURCHASE ORDERS

Mr. Baratucci: You should have received an updated Packet yesterday. Included in it is the item that I mentioned last week. It is spread throughout the Packet. It is the armored car service for five different departments. In addition to that one that I gave you last week, there was one other one that came up during the week. It is on the last page. It is for some repairs to the Garage that Edgar asked to be added. It was pre-approved by Commissioner Haste. That was added as well. All of the budget issues were resolved so the Packet is there for your approval unless you have any questions.

> **It was moved by Mr. DiFrancesco and seconded by Mr. Haste that the Board approve the Purchase Order Packet as amended; motion carried.**

REPORT FROM BUDGET & FINANCE – MIKE YOHE, BUDGET DIRECTOR

Mr. Yohe presented the following Report:

Report from the Office of Budget & Finance
January 21, 2009

- **January 9, 2009** transferred **$626,021.34** to the **Payables** account from the County's Concentration account for checks issued that week.

- **January 16, 2009** transferred **$4,477,616.38** to the **Payables** account and **$1,855,690.43** to the **Payroll** account from the County's Concentration account for checks issued that week.

- **Total Term Investments**
    - None

- **Balance today in INVEST account $195,708.35** rate **1.141%**

- **Balance today in Susquehanna Bank investment account $108,508.96** rate **0.750%** (This rate is fixed for the month)

- **Balance today in Sovereign Bank investment account $42,499,752.23** rate **1.900%** (This rate is fixed for the month)

- **Balance today in Citizens Bank investment account** **<u>$10,112,648.16</u>** rate **<u>2.750%</u>** (This rate is fixed for the month)

- **Balance today in Citizens Bank Flex CD Program** **<u>$32,529,193.45</u>** rate **<u>2.320%</u>** (This rate is fixed for the month)

- **Balance today in PNC Bank investment account** **<u>$1,000.00</u>** rate **<u>0.200%</u>** (This equals today's Fed Funds rate of 0.250% <u>minus</u> 5 basis points)

- **Balance today in Graystone Bank investment account** **<u>$1,000.00</u>** rate **<u>0.050%</u>** (This equals today's Fed Funds rate of 0.250% <u>minus</u> 20 basis points)

- **Balance today in Commerce Bank investment account** **<u>$100.00</u>** rate **<u>0.000%</u>** (This equals today's 90-day T-Bill rate of 0.130% <u>minus</u> 25 basis points)

<u>No T.R.A.N. Line of Credit required for 2009.</u>

Mr. Haste: Any questions of Mike?

Mr. DiFrancesco: Mike, I think I know the answer to this, but I'm going to ask it anyway. When we send out our RFP do we retain the flexibility to move our money into Invest completely?

Mr. Yohe: Yes.

Mr. DiFrancesco: For instance, if all the banks come back at like point whatever we have the right to move it over to Invest without any problems?

Mr. Yohe: Correct. Right before we would do that we would lock into some fixed investments. They would probably pay a little more than Invest, which we have done.

Mr. DiFrancesco: I just wanted to make sure and I thought we did.

Mr. Yohe: As you know February 6 they are due.

Mr. DiFrancesco: It amazes me in this economy again that there is such a major push for people to invest in basically zero rate Treasuries just to protect money. That says a tremendous amount about where the economy is right now. People are just rushing to put it some place so it is safe. That doesn't mean I like seeing zero percent interest rates in Dauphin County.

Mr. Yohe: Citizens Bank, the 2.75% is good through June 30, 2009. On the original documentation and we are kind of going back and forth whether we hold them to that. The Flex CD is actually through September 30 if need be. We have probably a protection of about $42 million at those rates. Whether they would want any more I don't know. That is the good news going into this.

Mr. Haste: Good job Mike.

REPORT FROM CHIEF CLERK/CHIEF OF STAFF – CHAD SAYLOR

Mr. Saylor: Just reviewing the Agenda, I would only bring to your attention Item S. As you know the County has adopted an Affirmative Action Plan. Kay tells me that we must update that on a regular basis. So, what you see there is the regular updating of our Affirmative Action Plan. Other than that I have nothing to report unless there are any questions of me. (There was none.)

SOLICITOR'S REPORT – BRUCE FOREMAN, ESQ.

Mr. Foreman: I have nothing to add to the report which has been circulated and would be happy to try to answer any questions you have. (There was none.)

MATTERS REQUIRING BOARD ACTION

A. Training Packet.

B. Refund for Overpayment – Chase Home Financial – Parcel #35-044-082 - $83.96.

C. Promulgation of the Radiological Emergency Response Procedures Annex to the Dauphin County Emergency Operations Plan.

D. Authorization to draft a new Dauphin County Subdivision & Land Development Ordinance using Tri-County Planning Commission model ordinance.

E. Purchase of Service Per Diem Rates between Children and Youth and:

   1. Boy's and Girl's Club of Central Pennsylvania, Inc.
   2. Contact Helpline
   3. Ebenezer United Methodist Church

F. Satisfaction Piece for Brenda Wilson-Parker on the property located at 580 N. 66th Street, Harrisburg, PA 17111 ($3,416.00).

G. Easement Agreement between Dauphin County and Schiavoni, Ltd. for drainage on a portion of land at Wildwood Lake Sanctuary.

H. Administrative Services Only Contract between Dauphin County and Highmark, Inc.

I. Services and Maintenance Agreement between Dauphin County (Juvenile Probation) and BI, Inc. for electronic monitoring for the period 1/1/2009 – 12/31/2009.

J. Contract for Services between Dauphin County (Juvenile Probation) and Mid Atlantic Monitoring Services, LLC for secure continuous remote alcohol monitoring bracelets for the period 1/1/2009 – 12/31/2009.

K. Externship Affiliation Agreement between Dauphin County (Sheriff's Office) and Kaplan Career Institute for the Sheriff's Department to provide 156 hours of practical experience to students enrolled in the Criminal Justice education.

L. Service Agreements between Dauphin County (EMA) and Controls, Service & Engineering Co., Inc. for the annual maintenance of:

1. Thirty (30) Marvair units to be serviced, two (2) at each of the following tower sites for the period 1/1/2009 – 12/31/2009: Ellendale, Berry, ECC, Blue Mtn., Conewago, Chambers Hill, Lower Swatara, Fairview, Lykens, Mahantango, Peter's Mountain, Londonderry, Pillow, Reservoir Park and Derry Township.

1. EMA HVAC at 911 Gibson Blvd. for the period 1/1/2009 – 12/31/2009.

M. Maintenance Agreements between Dauphin County (EMA) and G. R. Sponaugle for Facility Electrical Distribution Systems:

1. Agreement #E6163 for ECC UPS for the period 1/1/2009 – 12/31/2009.

2. Agreement #E6221 for Tower Site Generators for: Berry, Blue, Ellendale, Chambers Hill, Conewago, New and Old Fairview, Lower Swatara and Lykens and add Londonderry, New Lykens, Mahantango, Peter's Mountain, Pillow and Reservoir Park for the period 1/1/2009 – 12/31/2009.

2. Agreement #E6172 for EMA/ECC Electrical Panels for the period 1/1/2009 – 12/31/2009.

3. Agreement #C6282 for Tower Sites UPS: Berry, Blue, Ellendale, Chambers Hill, Conewago, New Fairview and Lower Swatara and add Derry, Londonderry, New Lykens, Mahantango, Peter's Mountain, Pillow and Reservoir Park for the period 1/1/2009 – 12/31/2009.

4. Agreement #E6283 for HazMat Generator for the period 1/1/2009 – 12/31/2009.

N. Agreement between Dauphin County (Risk Management) and Conrad Siegel Actuaries for the performance of the Worker's Compensation Self-Insurance Loss Reserve valuation as of December 31, 2008.

O. Purchase of Service Agreement between Area Agency on Aging and Care 4 U Unlimited, LLC.

P. Purchase of Service Agreements between Children and Youth and:

1. Community Specialist Corporation, Inc.
2. Commonwealth Clinical Group, Inc.

Q. Amendment #1 to Purchase of Service Agreement between Children and Youth and Ponessa, T.W. and Associates Counseling Services, Inc.

R. Adoption Assistance Agreements #2008-101, #2008-102, #2008-103 and #2008-104.

S. Approval of Dauphin County's Affirmative Action Plan dated July 1, 2008 to June 30, 2009.

T. Exoneration of current and outstanding taxes – 188 Cedar Manor (Michael Lebo) – Parcel #34-026-005-188-0221 - $317.13.

U. Letter of Intent to support WinnDevelopment's proposed redevelopment and adaptive reuse of the historical Steelton Elementary School (Felton Building Apartments) to PA Housing Finance Agency.

Mr. Haste: We have Items A through U. Are there any items that need to be pulled out separately or discussed? (There was none.)

It was moved by Mr. DiFrancesco and seconded by Mr. Haste that the Board approve Matters Requiring Board Action Items A through U, listed above; motion carried.

FORMER BUSINESS

Mr. Haste: I would just like to report for the record. Most folks have been following this. Under the action that we took against the Harrisburg Authority there needed to be a series of negotiations before we went to Arbitration. We had our first negotiation session last Thursday, January 15, 2009. Chuck Zwally, Jay Wenger and myself met with James Ellison, Michelle Torres and their counsel.

Also, I would like to recognize a distinguished guest in our audience today we have Swatara Township's new President of the Board, Tim Berard. Would you like to come up and say anything?

Mr. Berard: No.

NEW BUSINESS

(There was none.)

CORRESPONDENCE

Mr. Haste: We have the correspondence listed on the Agenda, Items A through G, which will be handled by the staff accordingly.

A. Received from the PA Department of Auditor General the Examination Report of the Liquid Fuels Tax Fund of Dauphin County for the year ended December 31, 2007.

B. Notification from the Hershey Country Club advising that they have filed an application for approval with the Susquehanna River Basin Commission for an increase in water consumption for irrigation in order to maintain the golf course.

C. Notification from Glace Associates, Inc. advising that Gratz Borough Municipal Authority is applying to DEP for a NPDES Part II Water Quality Management Permit for the reconstruction of the Authority's wastewater treatment plant.

D. Notification from CET Engineering Services advising that the Middletown Borough Authority is applying to DEP for a General NPDES Permit for stormwater discharges associated with construction activities relative to modifications they plan to make to their existing wastewater treatment plant located at Lawrence Street and Mud Pike.

E. Notification from R. J. Fisher & Associates, Inc. advising that the Middletown Borough Authority is applying to DEP, through the Dauphin County Conservation District, for a General NPDES Permit for stormwater discharges associated with construction activities of a proposed addition to an existing wastewater treatment facility.

F. Receipt of a copy of a letter from DEP to Rausch Creek Land, LP advising that the annual bond review for Surface Mining Permit No. 22851601 has been determined, by both the Compliance and Technical Services Sections of the Pottsville District Mining Office, to adequately represent current/planned site operating conditions and is acceptable to the Department.

G. Notification from HRG advising that they are preparing an H20 PA Application for the Township of Derry with regard to the Derry Township Stormwater Improvement Project.

PUBLIC PARTICIPATION

Mr. Haste: We are again at the point in time in the Meeting for public participation. Is there anyone in the audience that would like to address the Board? (There was none.)

ADJOURNMENT

There being no further business, it was moved by Mr. DiFrancesco and seconded by Mr. Haste that the Board adjourn.

Respectfully submitted,

Chad Saylor, Chief Clerk

Transcribed by: Richie-Ann Martz