DAUPHIN COUNTY BOARD OF COMMISSIONERS

WORKSHOP MEETING

WEDNESDAY, JULY 11, 2007
10:00 A.M.

MEMBERS PRESENT

Jeff Haste, Chairman
Dominic D. DiFrancesco, II, Vice Chairman
George P. Hartwick, III, Secretary

STAFF PRESENT

Chad Saylor, Chief Clerk; Marie E. Rebuck, Controller; Robert F. Dick, Treasurer; Scott Burford, Deputy Chief Clerk; Randy Baratucci, Director of Purchasing; Tom Guenther, Director of IT; Mike Pries, Director of Security; Edgar Cohen, Director of Facilities Maintenance; Ed Marsico, District Attorney; Steve Chiavetta, Director of Registration & Elections; August "Skip" Memmi, Economic Development; Carolyn Thompson, Court Administrator; Dave Schreiber, Personnel; Mike Yohe, Director of Budget & Finance; Pam Hammaker, Personnel; Kay Lengle, Personnel; Brooke Beard, Personnel; Elke Moyer, Human Services Director's Office; Kelly Wolf, Solid Waste; William Tully, Esq., Solicitor's Office; Guy P. Beneventano, Esq., Solicitor's Office; Graham Hetrick, Coroner; Leila McAdoo, Solicitor's Office; Mitch Baylarian, Solicitor's Office; William Struemke, Solicitor's Office; Robert Hawley, Courts; Diane McNaughton, Press Secretary; Brenda Hoffer, Commissioners' Office; Lena Martinez-Fure, Commissioners' Office and Richie-Ann Martz, Assistant Chief Clerk

GUESTS PRESENT

Garry Lenton, C. E. Henery, Stephen Hetrick, Glenda Keller, C. Peter Carlucci, Esq., Linda Thompson, Nicole Derr, John Durbin, Dan Lispi, Beth Ann Gambler, Reginald A. Guy, Jr., Russell McIntosh, Bob Ambrose, Anna Dale, Steve Letavic, Daniel J. Caraccio, Paul Stauder, John Moffitt, Richard Michael, Bruce Barnes, Charles B. Zwally, Esq., Jay Wenger, Thomas F. Smida, Esq., Jim Pianka, Amy Kehm, and Justin Thompson

MINUTES

CALL TO ORDER

Mr. Haste, Chairman of the Board, called the meeting to order at 10:00 a.m.

MOMENT OF SILENCE

Everyone observed a moment of silence.

PLEDGE OF ALLEGIANCE

Everyone stood for the Pledge of Allegiance.

APPROVAL OF MINUTES

Mr. Haste: We have a number of meeting minutes that we will take up at next week's meeting.

ELECTION BOARD

Mr. Haste: At this time, we will turn over the microphone to the Election Board.

(Minutes of the Election Board Meeting are on file in the Commissioners' Office.)

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

Stephen G. Hetrick, CIMC

Changes to the Deferred Compensation Plan

Mr. Hetrick: I had presented you with a binder with several changes that the Voluntary Employee Benefits Committee had recommended for approval on the Deferred Compensation Plan. Outlined in the Executive Summary were five changes. Two are enhancements and three are changes to the investment line-up. The enhancements are adding the model portfolios as an individual investment option, instead of having them on paper. The way we have it right now and the way it has been working is that the model portfolios are listed on the enrollment sheets. Someone can select those, but with more people using the online enrollment and making changes online, there are issues where they can't view that online. So, if we have those as an individual investment option, we avoid that problem. It also provides the additional benefit of automating the rebalancing. Currently, when an individual has the different investment options, they need to go in and manually select to rebalance the portfolio. That can be important over time, because if you don't rebalance over time a diversified portfolio the individual investment options will either be more or less aggressive then they started out to be. That is the nature of having a diversified portfolio. What rebalancing does is it brings that portfolio back into the initial line-up. That is something with having this new design with the models that we can automate and then communicate effectively to the participants. If there are changes to the model in the future, we can also effectively communicate that. That would be the first change. There is information on the model portfolios and these are custom designed model portfolios. As you'll notice in the performance reports they perform very well versus the benchmark and their peers. I included in the peer group report VanGuards model portfolios, Fidelity Freedom Funds and the Russell Group. You can see especially over a five-year period, the performance is much better. What you will find in the performance reports is that the more aggressive portfolios have a larger variance or out performance than the more conservative ones. That would be typical in what you would normally find, because bond funds vary less than you would find in conservative portfolios than what equity investment funds would vary in.

The second change is to change the normal retirement age and allow participants the flexibility of moving that from selecting their normal retirement age from when the pension fund allows normal retirement age to age 70 ½. This will have a slight affect on the participants who select the 457 special catch-up provision and its enhancement. This is just a minor change in allowing the participants greater flexibility so that they can have greater access of using that special catch-up contribution. As far as the fund replacements there is one that we are recommending for removal. That fund is American Balance Fund. There are also two other moderate allocation options available within the plan. The first one is the T Rowe Price Capital Appreciation Fund, the second one will be the Moderate Growth Model. Currently we have the Moderate Growth Allocation. The American Balance Fund has not been performing. We have been monitoring that and I think the participants would be better served by having their money in either one of those two other options. This was presented to the Voluntary Employee Benefits Committee and approved by them. We are seeking your approval to have the change. The participants would be given about a month to look at the T Rowe Price Capital Appreciation and the Moderate Growth Model and decide which one of those funds would be a better option for them. If they do not select a change, there will need to be a forced change and what we would do is move that into the Moderate Growth Model. The reason we would select that one over the T Rowe Price Capital Appreciation is not really because of return, because over a five year period as you will notice in the performance report they are fairly even. The reason was is how that money got into the American Balance Fund. It originally came over from the Russell LifePoints Moderate allocation, which was in the Principal Plan. So, that is where that money was mapped over to. I think having it going over into that Moderate Growth Model that we have would be the best transition for how that money originally got into the American Balance Fund when it changed from Principal to Alliance Benefit Group.

Again, I think it would be wise to allow more time with that, because there are two other options within the plan that are, I think, equally good options that participants could choose from.

Mr. Haste: Why would we have a need to force them? Why couldn't we just give them the other options? If you recall, the headaches we walked into.

Mr. Hetrick: We debated that within the Voluntary Employee Benefits Committee, but I think if you see in the performance report that there is a mark difference. We have given the American Balance Fund some additional time, because they did perform very well in the down market period that we had in 2000 and 2002.

Mr. Haste: Could we just not offer it going forward? If the individual wants to be foolish with their investment isn't that still their right?

Mr. Hetrick: We could do that, but the way we are designing the plan we are going through due diligence that is set up and written down in the investment policy statement. So, that is really what we are using as criteria on which we are basing our decisions and that is the process that we are trying to follow. We could leave it in there. We could not make any changes at all.

Mr. Haste: How many folks would be affected?

Mr. Hetrick: I think it is about 90 participants out of 700 some.

Mr. Haste: Why don't we explain to them that we are removing this, that this is a better recommendation, give them the 30-days and before you do the force let us know how many are left and who they are to see if we can't make one more pitch to them. I just remember how irritated employees were before when the Board of Commissioners chose the fund for them.

Mr. Hetrick: With looking at that, I would give them more than a month then, especially because the time we are at right now. You are looking at a lot of people on vacation. There is not a lot of things provoking people to really think about investments at this time so maybe give them two months and then take a look at it at that time. I can look at maybe even following up with telephone calls to those participants.

Mr. Hartwick: Just take one step back, what is the notification process going to be?

Ms. Hammaker: First of all we have to notify everybody. I believe the sheet you enroll on or make your changes on will now have that choice on there and no longer the other fund choice. Then we would have to notify all the participants that it was no longer in as a choice that this would be the new.

Mr. Haste: If that is what the Committee is talking about that is a good thing moving forward. My concern isn't about moving forward yet. My concern is if we have five people who just say for whatever reason this is where I choose to put my money…

Ms. Hammaker: With this change we really did evaluate it over a period of time. It is a very long process deciding when something is not performing or a manager is not performing of a fund. It is a long review period. This isn't something where two quarters it did poorly or…

Mr. Haste: I'm aware of that. It is just about an individual's right to invest as they see fit.

Ms. Hammaker: Absolutely.

Mr. Hartwick: If I could just go back to my question the notification process means?

Ms. Hammaker: It would be formal.

Mr. Hartwick: A formal written and then a follow-up with these individuals.

Ms. Hammaker: I believe Stephen said that he would do that once it is out there. Anybody that doesn't make a change he'll deal with directly like that. We can also put it on the deferred comp area of our Dauphin County Intranet site as well.

Mr. Hartwick: So, you are going to notify them through written correspondence and then anybody who doesn't choose to make a selection based upon the new investment advisors that are selected Steve is going to follow-up with them individually?

Mr. Hetrick: I think that would work well for the American Balance Fund, because there are other options within the plan. With the other two the Calamos Growth Fund, which is a mid-cap growth, and also the PIMCO Total Return Bond Fund, if we take those away there's no other investment option available for them. So, that would be just a force move from one mid-cap growth fund to another mid-cap growth fund. You need to realize that when the enrollment process is going on this is being explained to individuals now. They are aware that this due diligence is being done and that they are expecting to have those better performing funds put in there. The Calamos Growth Fund has had a great long term track record. If you look in the Executive Summary, I point out that the 10-year number is still, with not having a great last five years, at 18% average annual rate of return. We have given that Fund a little bit more latitude, because there was no manager change and it has had excellent long term growth, but it's continued to under perform and I just think it is time to make a change on that. The other one is the PIMCO Total Return Bond Fund. That Fund is on our watch list for the first quarter. It has not been doing terribly poorly and in fact one of the reasons it is on is because its style is not correlating directly with its peer groups. That means it has more money in cash than in bonds. The reason that it is being proposed for removal would be that its expense ratio is twice as high as another fund that we found that has actually a little bit better performance. That means that it will save the plan around $3,000 in expenses at its current investment amount and have performance that is equal, if not better. It has been better in the past and I would expect it to be about the same or a little bit better going forward. So, with those two funds, the way I view the communication going is we have a letter that goes out to all the employees in July letting them know that we are making some enhancements. The model portfolios will be improved and you will have online access to them. That is going to be a real big benefit to the employees. The normal retirement age is going to be a little bit more flexible, which will be a benefit to those employees who are retiring that have a lot of vacation/sick leave pay and have not been participating in the deferred comp and want to make a big lump sum contribution on their last pay check. We are going to be making some changes to the investment line-up to make it better. All those changes would be effective some time in August, except for the American Balance Fund. On the American Balance Fund, we would let them know that there will be time for them to go in and actively make a change before the fund is removed. We talked about that already. I also envisioned on having the deferred compensation website performance reports, so people can see performance reports on the model portfolios, similar to what you have, as well as performance reports that would show the difference between the funds; like the PIMCO, Calamos and American Balance Fund so that they can see and make an educated decision. They would also be able to call me if they had any questions regarding those two. If you wanted to on the American Balance Fund, after the communication goes up and after a certain time period I could give those people a call and follow-up with them in that way.

Mr. Hartwick: So, it would be notification, you will follow-up with anybody who makes the change and you are going to adopt Commissioner Haste's recommendation of those individuals who choose not to make a change they still can continue with the same American Balance Fund choice or is that going to be eradicated from their ability to participate?

Mr. Hetrick: It is one of those things where you want to give participants' choice, but you also want to guide them in their investment options. You face those same type of decisions when you make changes in the pension fund, except that people don't know that the change is occurring, but if you had an un-performing fund in the Pension Fund and you had a better one…

Mr. Haste: That is not voluntary. That is my concern. I really don't like it to be a force when it's my voluntary money.

Mr. Hetrick: If it was an individual account, like an individual retirement account, that would be absolutely right, but as the employer and plan sponsor you have a fiduciary responsibility to do some due diligence and follow the process that we have outlined in the investment policy statement and to communicate those issues to the participants. The American Balance Fund is not terrible. You look at the performance, it is a little bit below its benchmark over the last five years, but it is significantly less (3% to year over the last five years) compared to both the Moderate Growth and the T Rowe Price

Capital Appreciation. That can be some serious money. Are we doing the best for the participants if we don't make that recommendation?

Mr. Haste: It is still an individual right. If that were the logic we would never have gaming in Pennsylvania. Unfortunately, the Commonwealth does well by people making stupid decisions. It is just an individual right. I have a problem. I'm all for making recommendations. I think you have done a great job and I think this is a great program. If an individual doesn't follow your suggestion I think they are foolish. It is their own call.

Mr. Hartwick: Is that going to require a change to the investment policy? Is that what I'm hearing from you?

Mr. Hetrick: I will have to check into that, but there is latitude within the investment policy statement.

Mr. Haste: Maybe it won't become an issue. Hopefully everybody will follow your advice and make a choice and move it forward. Let's revisit it when you get to the end of your timeframe and see what's left, because maybe it's not an issue.

Mr. Hetrick: We would also have to think about how we are going to handle it if only one or two people are in it. Maybe they were people that I wasn't able to contact, because I don't have their information.

Mr. Haste: As long as they are making their decision.

Mr. Hartwick: I trust your ability to be a great educator and salesman.

Mr. Hetrick: As far as what we would need approval on would be to make the change and add the new model portfolios and to amend the normal retirement age. In the inside sleeve of the binder there is a copy of that which would need to be signed and dated. We would need to have the change approval for the change of the Calamos Growth into the Columbia Acorn Select A, the PIMCO Total Return D into the Westcore Plus Bond Fund and then the American Balance Fund will be handled as we have outlined here in the meeting.

Mr. Hartwick: Two more quick questions. What are the total enrollment and the total amount of investments?

Mr. Hetrick: The total amount of investments is just shy of $14 million. I haven't seen the latest figures on the participants, but it is hovering somewhere around 700. It did fall off from the people leaving at Spring Creek and there was quite a few retirees leaving late last year and early this year.

Mr. Haste: We will have this on our agenda next week.

C. PETER CARLUCCI, ESQ.
MDJ Shugars' Office

Mr. Carlucci: I'm here on behalf of your Dauphin County Industrial Development Authority. I'm here today to present a recommendation and a proposal for your consideration and action at your next Legislative Meeting, which is scheduled for next Wednesday. This is a continuation of the cooperative program between your Board and the Dauphin County Judiciary to acquire permanently the District Magistrate Judges' Offices. This particular one is on Paxton Church Road. It is District Justice Shugars' Office. We have an estimated borrowing of about $420,000. The Industrial Development Authority sent out requests for proposals to several banks. A list has been included in the package that I have given you. The responses have been summarized for the 20-year term. On the top page, the recommendation from the Authority Board is that you accept the offer from Commerce Bank, which is a fixed rate of 4.83% amortized over 20 years with no prepayment penalty or prohibition. Right now the County is paying rent on this particular facility. It is going to be shortly going to an annual $49,500 and the debt service is projected on an annual basis on this particular borrowing of about $32,980. The Ordinance that I distributed to you will be on your agenda for next Wednesday's meeting. This Ordinance represents a guarantee of the IDA loan in order to fund the acquisition, coupled with a Lease between the Authority, as the owner of the facility, and the County, as the Lessee.

Mr. DiFrancesco: I'm looking at the list. The recommendation is not for the least expensive…

Mr. Carlucci: It is a fixed rate. It is definitive over a 20-year period. It preserves flexibility for the County and the IDA in the event that there are rates that go down we have the ability to prepay and refinance.

Mr. DiFrancesco: Is the PNC rate a variable rate?

Mr. Carlucci: It is a variable rate, but there is also a lot of prepayment penalties involved.

Mr. DiFrancesco: What would those be?

Mr. Carlucci: It is a year protection clause so that in the event interest rates go down and it would be feasible and desirable to refinance; the net affect of those provisions would be to rob you of all the savings. It is a make whole provision. In other words, if you were to refinance because interest rates go down you would have a prepayment penalty due to PNC, which would in essence take away all the savings that could be achieved by the refunding.

Mr. DiFrancesco: Why is this showing? If these are variable rates, for instance the 4.65% rate as variable, why isn't it showing on here as variable rate?

Mr. Carlucci: I'm sorry, it is a fixed rate. I misspoke. The 4.65% is a fixed rate for 20 years, but it does have the prepayment penalties, which eliminates any flexibility on the part of the IDA or the County to refinance in the future to achieve any savings.

Mr. Haste: The other options that weren't chosen were because of the length of term?

Mr. Carlucci: Length of term, variable rate and higher interest rates.

Mr. Hartwick: So, we are actually thinking about paying something off early.

Mr. Carlucci: I think we might. Keep in mind when we first started this program back in 2004, the interest rates we were able to get was 3.63%, last year it was 4.4% and interest rates are going up, 4.83%. As the interest rate cycles go there is an expectation that they will decrease over time as well. The other possibility is that once we have a sufficient amount of these under our belt that it may be worthwhile to go out with a bond issue. If that is the case you want to be able to prepay without any penalty.

Mr. Haste: We'll add it to next week's agenda.

Mr. DiFrancesco: Can I get the prepayment language?

Mr. Carlucci: Sure, not a problem.

CHARLES B. ZWALLY, ESQ., METTE, EVANS & WOODSIDE
Update on Harrisburg Incinerator
Resolution #16-2007

Mr. Zwally: I'm Chuck Zwally, Special Counsel to Dauphin County on the Harrisburg Authority Retrofit project. With me is my partner, Tom Smida. We have other advisors to the County that are present. I will introduce them when it is our turn.

The County has before it for consideration from the Harrisburg Authority a Recovery Plan for the Resource Recovery Facility. This Recovery Plan includes two contracts with Covanta or its affiliates, first a Management and Professional Services Agreement, which is for long term management of the facility. The second agreement is a Construction Management Agreement, which includes a construction plan for completion of the retrofit project. The Authority has also presented a financial plan for placing the facility on a sound financial basis and for financing the requirements of, in particular the construction plan and working capital. The financial plan of course contemplates the County's participation. Representatives of Covanta and the Harrisburg Authority are here today to make a presentation to you of both the construction plan and the financial plan. Representing the Authority, among others, is Mr. Ambrose, Executive Director and Mr. Paul Stauder of Covanta is also here. We will ask them to proceed with their presentation. Following that presentation, your advisors have certain recommendations that we will present and we will also be available to respond to questions.

Mr. Ambrose: My name is Robert Ambrose, I'm the Executive Director of the Harrisburg Authority. We are here today to present our Recovery Plan for the Resource Recovery Facility. We are also asking the County's participation in guaranteeing a construction loan and a working capital loan. We are also asking the County to implement a rate increase in the tipping fee. Here with me this morning from Covanta is Paul Stauder, who is Vice President; Dan Caraccio, Business Manager; John Moffitt, Plant Manager; Bruce Barnes, who will be presenting the financial plan; and Richard Michael from Eckert, Seamans who will be discussing some of the debt matters that are related and finally, Bruce Foreman from Foreman & Foreman will conclude our presentation. I thank you very much for listening to us and hope for your favorable consideration of our plight.

Mr. Stauder: I appreciate your time today in listening to our plan. We will try not to drag this out too long. We actually have a presentation that we put on the PowerPoint. We have handouts too so that you can make any notes and we can follow-up with any questions you may have.

To begin today, we wanted to run through very quickly the summary of what we put together in the last three months. First, the RFP process that the Authority had for long term operation of the plant, which we were the winners of. We negotiated a ten-year Operating Agreement, which involves an annual fixed O&M payment to Covanta and covers the cost downside to the Authority. In other words, we will take on and handle all the costs associated with the plant for that fee. We will manage the plant, transfer station and the landfill. There are performance guarantees involved in that Agreement for energy guarantee and for ash quantities. There is a requirement for Covanta to provide waste marketing and waste supply into the plant to make sure that it has enough waste and at the highest possible price, as well as to negotiate and manage the power sales for both electricity and steam. In addition to that, we were successful in bringing the scrap metal capabilities or recovery of the plant up to speed in the last three to six months and now we are also selling scrap metal to a local scrap dealer for additional revenues. The focus on the O&M Agreement is clearly on Covanta buying the plant. We thought it was the best structure along with the Authority that we move forward as quickly as possible to finish the construction of the plant and stabilize the situation. It doesn't make sense for Covanta, and if not Covanta, someone else to purchase the plant. In the O&M Agreement there is a Construction Management Agreement where Covanta has agreed to provide a loan of $28 million to the Authority at a very attractive interest rate, 0% for the first three years and it raises up over the next 7 years to an affective interest rate of about 4.4% over the life. Again the first three years are at 0% with the focus that another plan of a purchase and eventual long term solution to this will take place. In the Construction Management Agreement we will step up to manage all of the construction in cooperation with the Authority. We will actually be loaning them the money so we will be establishing specifications and bid requirements for all the work to be done and working with them to let all the contracts out. The focus would be to have boiler 3 in the plan. Boiler 3 which is the boiler that wasn't completed up and running and operational in four months. This is very critical because it has to be done before the winter season sets in and that boiler begins to freeze and we have additional expenses in finishing the plant. Final construction and completion of all phases; that is boiler 3 plus the fix of the inherent problems to the remaining two boilers and overall plant systems will take about 12 to 13 months. In this Construction Management Agreement there are performance requirements or performance tests by Covanta where we will be required to run all three boilers simultaneously for a long duration of time. This obviously wasn't done in the past since all three boilers never ran. All of the major contractors will be bonded. The question has been placed to Covanta many times in the last couple months – will this work? Will the investment work? Covanta has, at its own expense, put a significant amount of sweat equity into this project, including 2500 man hours researching the facility's problems and establishing what it is going to take to finish this project from a construction completion scope of work. We've obtained 70% of the constructions scope quotes for the construction completion. Covanta has a significant amount of experience in this since we have built successfully and in budget 23 other waste energy facilities. Since we have first come in front of you six months ago in January and told you who we were, we have successfully managed the plant during that time. We have fixed a significant amount of problems to actually be able to run the two boilers, as well if not better than they have ever been run. We have experience for the last six months and in fact we have the security to be able to weather through tough times. We are under a current agreement, the Interim Agreement which was originally put in place, there is no profit component for Covanta. As of recently, we haven't been paid in the amount of about $3.5 million we are owed. At this point I would like to just go into some very quick details, but without going into specific items. The breakdown of the construction costs for completion, as we have laid it out. It totals up to $28 million. That does include a $2.3 million contingency. This work is broken into three priority levels, priority 1, 2 and 3 as described in the exhibit of the Construction Agreement, which creates a further contingency layer, because priority 3 is not directly associated with production improvements. They are critical and important to the plan, but they can be used if we run into any kind of problem during the construction phase of the contract or any design that needs to be redesigned. We have a significant amount of confidence that we have enough money here this time. We are talking about the right number and this is going to get the plant up and running at 100% if not better than 100%. The next slide is far too small to look at, but we just wanted to show you that we have done a detailed schedule for completion. The focus today is to talk about not what we have done in the last six months and not even what we have put together in the plan and what we have documented in the Agreement, but to talk about what could ultimately happen if nothing is done to move this Agreement forward and make it fully executed. At this point I would like to turn this over to John Moffitt to discuss operationally what could happen if we don't make these repairs and then to Dan Caraccio, the Business Manager, to touch on the financial impacts.

Mr. Moffitt: This slide is a summary of some of the problems with not doing anything with the plant or maintaining it as it is currently. Our biggest issues right now are operational inefficiencies. The availability will not improve much better than what we are at right now, which is sub-power. You know we have numerous issues with handling ash. We are still having a problem moving ash in the backend of the plant, which is obviously very important. We have plugs and stuff that happens in the backend. Also numerous cost issues, from water and natural gas. We are using more of both of those because of the current status of the retrofit. Not being able to complete the project and get the systems up to speed where we need to be. The air heaters are another major evolution, which is affecting our boiler availability. We currently have a dew point issue where we have a lot of condensation building up in the backend of the plant. With that we have to take the boilers down several times and clean them out and make them operationally ready. This does affect the availability. The last one up there on the screen is ferrous metal handling. Very labor intensive project. It is very difficult. It is probably one of our biggest safety issues. We have already had a couple injuries out there for that. The current setup is not within the industry's standards at all to go ahead and remove the metal. We actually have one extra man 24 hours around the clock doing that job, which typically is not needed in most of the rest of our plants.

Some other major items are staffing. It is pretty difficult to staff a plant in this kind of condition. To walk a new employee through a plant that looks like it does at this point, it is not a real good message to be able to entice somebody in there. We have done a pretty good job, but we still have quite a few other positions to fill. That is taking a toll on the current people there, with respect to morale, etc. As far as the longevity item, we need to get moving forward on that, because it is very taxing to the people that are currently there.

Safety wise, we have numerous issues going on from there. This was never finished. There are no platforms. The lighting that is currently in the plant is all temporary lighting. When we first took this over, myself being a pretty seasoned plant operator, it was very intimidating walking around that plant with flashlights. We are better, but we are not 100%. There are several areas which need improvement. Obviously you have several issues with temporary lighting and stuff like that. They go out numerous times. So, we are continuously battling with that.

Environmentally, the plant appearance, major environmental issues that kind of stuff we do need to improve from that end. We have combustion control issues that we need to hone in on, make automatic. It is a pretty difficult task to run a complex plant like this manually, which is what we are doing at this point. It does pose a lot of operator error type issues or operator enhancement type issues. As far as that, in summary from this slide, it is a very difficult plant to run. We are in reactionary mode every day. We don't have plant stores so everything we do, as far as plant repairs, etc., we are pretty much ordering on the spot. So, the lost time just from basic inefficiencies like that are very difficult.

The next slide is just a little example of three major areas that are costing us more money right now than we should be dealing with. The first one is ash handling and water wash. I talked about the air heater issue that we have out back. We actually have to bring in a high pressure washer a couple times a month to go ahead and remove the ash that is built up in the area. That is costing us on an annual basis of approximately $420,000. Additionally, one of those manpower staffing issues I was talking about, we have additional contract maintenance onsite plus normally employed people and if you look at that we are looking at about $867,000. Also the other item is the overburden removal, which is the metal removal that I talked about earlier, which is called the overburden removal. We are experiencing about a $219,000 loss on that because of the extra manpower needed. In summary about $1.5 million just because of the incomplete retrofit project.

Mr. Caraccio: I'm Dan Caraccio, the Facility Business Manager. I just have one quick slide to show. We have been asked on numerous occasions just how much revenue is this facility losing as a result of not having a fully functional plant and a not fully functional boiler. The misconception all along is that it is just the third boiler. As John has indicated this plant is essentially limping along. It is at its probably maximum availability. Under the current situation, we can't achieve an industry standard which is 85% or typically a Covanta standard of 90% plus availability on the units. They are running at about 70%. The problem is really two-fold. There are the lost revenues on the first boiler, inefficiencies on the second boiler. Essentially our Operations Maintenance Agreement we believe that the facility has the capabilities to process about 248,000 tons annually. At its present capacity it can only process approximately 137,000. There is about 112,000 ton cap on what the plant is doing now versus what it could potentially do. This is just a slide to show you from the four major profit revenue streams what that translates to. Essentially the $51.00 a ton is a blended average price at the facility. Electrical steam sales are contracted rates with NRG and PPL. The ferrous sales current rate is $58.00 a ton. It translates to $10.5 million annually or about $30,000 a day the facility is losing as a result of the condition that it is in at this present time.

Mr. Ambrose: As you can see gentlemen there is a tremendous upside to getting this thing running and functioning efficiently.

Mr. Barnes: We have put together a plan and made several adaptations. When we talked to the Commissioners originally about this endeavor they wanted to see an entire plan. The plan is really what we have is considered three different scenarios and four different steps to that plan. So, we have scenarios 1 – ABCD, 2 – ABCD and 3 – ABCD.

Scenario 1 – Is if we just take the current situation it's clearly and this is not technically feasible, it is not feasible in many different ways to continue as we are right now. This was the do nothing scenario, which we pretty much eliminated as a possibility, because we know we can't do it like this. The result that we have here would be a $15 to $19 million loss per year. A solution, again, it is a possibility it is not set in stone, but since the City does pledge their full faith credit and taxing power on here, the possible solution is a 10 to 12 ½ mil property tax increase. That is if they don't do any fee increases and don't do anything at all.

Scenario 1 B is the point where we are now. Where we are hoping to undertake the $28 million loan from Covanta, secure a $15 million loan for working capital, pay off the current deficits that we have now and the small deficit that we project next year if we do the entire Plan in time. This basically puts the plant back into operation. It provides some stability of revenue. This will result in about a 9 mil property tax increase.

Scenario 1 C is that we go ahead and do these two loans now and as part of the long term plan refinance this loan. The loan that we have right now, under the Agreement with Covanta, is only for 10 years. It basically has a 9-year amortization that starts a year from now. That is a very heavy debt load. The Plan calls for us to continue with that for as long as we can, especially since Covanta is not charging any interest during the first three years. After the first year when we have to start making amortization payments we are proposing to refinance that over a longer period of time, 30 to 40 years. By then we should have a good idea on what the permanent amount is and would be actually reducing the revenues. This should take place sometime around June of 08.

Scenario 1 D, the last one, is one of many possibilities. This is the outstanding CIT obligation that we have right now. It is an extensive obligation. Under Scenario 1 D we would do these two loans that we are doing now, restructure the Covanta Agreement a year from now and as soon as possible take out the CIT obligation. It is a 7% loan and there are late fees up to 12% on the unpaid amounts and we are late on several amounts so we are accruing some 12% penalties. The sooner we take that out the better. I know there are other financings that possibly could be restructured, but from a financial viewpoint that is more efficient.

Scenario 2 A is the possibility that we put before City Council and granted it was not passed yet and in fact it was defeated. I'm not sure how City Council is planning on replacing the revenues that we proposed in the revenue increase. For the City increase alone it is about $4.5 million a year in revenue. Scenario 2 is still in the plan and I think we have to come back to it in some form or method to increase the rates. Again, Scenarios ABC&D, A being doing nothing, which is where we are right now with just an increase. We reduce some of that deficit that we have right now, but really very little of it.

Scenario 2 B is what we are asking for right now. Again it reduces the deficit to about $8.8 million a year. It is still not where we need to be, but it is getting there and we'll get the Plan under operation so that we can do Scenario 2 C. This is where we have taken both of those loans right now and refinanced the Covanta obligation. Again, there is a $4.3 million deficit and would still require a 3.3 mil increase. If the City disposal fees are increased as in Scenario 2 D and we do everything that we have projected in the Plan, all four steps, and get to D where we take out the Covanta Agreement and the CIT loan and restructure them over 30 to 40 years, again we are down to a $1.3 million deficit. It would still result in a 1 mil tax increase.

Scenario 3 is where we want to get to. We want to have revenue enhancements to provide $5.8 million. That includes an increase to the City disposal fee and the fees that the other people pay at the plant. Under the current operation obviously in A we wouldn't even consider that if we get these increases and get them in place. 3B is where we want to be right now. It gets it down to the point where it is manageable, but the existing short term nature of the Covanta loan and the CIT are still strangling us. We still need to restructure those and we would do that under Scenario 3C. Again that is when we bring in the Covanta obligation and reduce it from 10 years to 30 or 40 years.

Scenario 3D is the ultimate goal of where we want to get to. That is a manageable loan package for doing the Covanta loan that gets refinanced permanently, doing the working capital loan that we have right now for $15 million. That amount is growing by about $1 million a month, with the deficits that we are creating. The net result on this is basically pretty much of a break even operation. We think that we can handle the surpluses and deficits will balance out over the years and we will have adequate working capital to absorb them and it won't have any impact on the millage. This is the Plan that we have. The information that's put together I have actually presented it. Covanta has been very helpful with the revenue numbers, as has the Authority. We put this altogether to try to figure out a way to do it. Somewhere in the workout of all this we are going to have the right combination. Again, we are going to need to change it a little bit. It will be flexible. It is not set in stone. We are here today to explain the Plan that we have, subject to change of course as the governing bodies that are involved with this require.

Mr. Ambrose: I again emphasize that we need cooperation and your help. We are not entirely masters of our own fate, but the future for the Resource Recovery Facility depends on the actions by the County and the City.

Mr. Michael: Page 23 is an outline for various issues, Debt Obligations, with respect to the Resource Recovery Facility. What I have been asked to show is a worst case scenario, what would be the effect on the budget of 2007 and 2008. In making these assumptions we are assuming that the facility is not generating net revenues that would be available to pay any of the debt. We are also assuming that the City would be unable to make payments under the guarantee agreements with respect to the balance of 2007. On the next page, I listed the Debt payments that are due for the balance of 2007. Those payments, in the third column under Debt Service amount, represent principle and interest on the 2003 Notes, 2002 Notes and 2003F Bonds. The last item is the 2003 D and E Bonds, because the County has guaranteed the 2003 D & E Bonds, but no other of those issues. Again, because of the worst case scenario assumption, we are assuming under the Debt Service amount that the City will be unable to make those payments with available revenue this Fall. If that were to be the situation Reserve Funds that have been established for these bond issues would be drawn upon. In the 4th column I listed the amount of the Reserve Funds. You can note on the 2002 Notes that the Reserve Fund, even if completely exhausted, there would still be $356,200 that the City would be responsible for. Also, for the D & E Bonds, the very last entry, the $393,222.00 that represents Swap and Cap Agreement fees, as well as marketing fees that are not secured by the Reserve Fund. In the last column under Reserve Fund restoration, with respect to the 2003 Notes and the 2003 D, E & F Bonds, if there is a draw under the Debt Service Reserve Fund to make those payments, those reserve funds have to be replenished and those amounts have to be included in the City's or the County's applicable budget. With respect to the County that would be the Series D & E Debt Service Reserve Fund. That restoration would be the $2.6 million figure. The City would also be obligated to budget to restore that amount, as well as the amounts for the 2003 Notes and the 2003 F Bonds. So, the City's obligation, which they would have to budget for, would be approximately $4.7 million, the County's about $2.6 million.

The next page these are the Debt Service payments that are due in 2008. Again the worst case scenario no available net revenues to pay debt service and the City having to budget to pay these amounts. Under the City guarantee agreements, they are required to budget these amounts. As you can see on the various Note issues, the sum of those Debt Service amounts, which do have to be in the City's 2008 Budget, is just under $12 million. Page 26, again under the worst case scenario there is going to be two separate items that the City would have to budget for in its budget. One would be to restore the Reserve Funds and that would be the $4.7 million figure and the City under its guarantee agreements would also be obligated to budget for Debt Service that is due in 2008 and that is the $11.9 million figure for a total of almost $16.7 million would have to be included in the City's budget. With respect to the County again the County's obligation would be to restore the amounts from the D & E Reserve Fund, which would be the $2.6 million. Finally on Page 27, I won't go through this in detail, but the guarantee agreements represent a pledge of the full faith credit and taxing power of the City, with respect to the issues that I have listed and the County with respect to the D & E Bonds. Under the Debt Act, under which this debt was approved, there are certain remedies if for any reason the City or the County were not to budget these amounts in the budget, the bondholder or the bond insurer, which would control the remedies, could go into Dauphin County Court of Common Pleas and could get a mandamus order that would direct the Treasurer to make available revenues as they come in to be applied toward Debt Service. In addition there could also be a special levy because of the full faith pledge of the credit and taxing power the Court could order a special assessment levy in amounts sufficient to cover the projected deficits on the Debt Service, which Bruce Barnes demonstrated if the situation were that we don't do anything in terms of fee increases or restructuring of debt. Also, the Court could appoint a receiver for the Resource Recovery Facility. The Court would also have the power to require the imposition of rates and charges for use of the Resource Recovery Facility. Under the Debt Act there are a lot of fairly severe remedies possible if there are defaults under the guarantee agreements. That summarizes my analysis on the impact on the budget.

Mr. Ambrose: I believe Paul has a few conclusions to make.

Mr. Stauder: I just want to wrap this up. We talked about a lot of the serious consequences of what the future will bring if the plant isn't finished and revenues aren't brought up to the design level. At the same time we want to put out a feeling that this can work. We've laid out a plan to restore it and what we have in the models are not aggressive numbers and not ultra-conservative numbers, they are good numbers. We have other upside items that we wanted to mention that will help further bring this project out of the ashes. We have energy, which has been a market that we all know continues to rise and increase, especially renewable energy. This is a renewable energy project. We feel as a company, as well as the industry, that it is a better option than landfill. You're taking municipal solid waste and you are turning it into energy. The price that we are selling energy to right now to the utilities is $60 a megawatt hour. That contract ends in 1 ½ to 2 years. If we go into the market we're going to see a jump, just at market rates. Those will continue to rise. Special waste is off spec pharmaceuticals and special wastes that you can bring in, higher tip fees. We'll need to grow this program. We don't have it showing much more than $1.5 million in the proforma. There is good chance that we can grow this higher to $3 and $5 million a year. All of these benefits, including expanding the waste shed market where we bring in waste from surrounding communities, even outside Dauphin County, at a premium or higher price. We see the market for tip fees rising. We are familiar with Lancaster County because we have a facility there and the fees are closing in on $60 a ton in price. Cumberland County is in the high $50's, similar to Lancaster County. The market has been creeping up in the last few years compared to what we saw in the 1990's with the effects of flow control that pushed prices south and even stabilized them flat for many years. That is turning around as less landfills are being built. The upside for increased tip fee prices in a market base is much more significant. Those greater upside potentials aren't in the model. We believe that this will only further help the condition of the plant down the road, maybe five or ten years out, but it will help add to the solution. All those benefits including any reductions in costs that were incurred by the Authority, all those benefits will benefit the Authority under the current agreement because we're just an operator. We are an operator right now. The additional monies that come into the plant funnel back to the Authority for Debt Service payment and other obligations.

Just to wrap up to finalize the conclusions here. I think Bruce Foreman is going to finalize it for the Authority, but from Covanta's perspective we clearly see that the operation can't continue to run under the current conditions. We think we are doing the best job that can be done, but it can't last long especially with a company that's not being paid. We need the guarantee to be able to move forward. Obviously it is a volatile situation. I think any institution would require some kind of backing. It is not an unreasonable request. The $30,000 per day is a significant amount of money, but it is going to be significantly more when the plant shuts down altogether. Obviously I mentioned the critical point of a receivable growing to a sizeable amount for Covanta and the financially disastrous outcome of what that will do to the City and even some ripple effects to the County. Clearly, you know folks know that is a possibility. The problem goes further than even what Bruce pointed out as Debt Service. The City would have to find alternative disposal for their waste, which is millions of dollars. They are also going to lose sewer and water revenues. That will be a large impact. A facility closure in and of itself is going to be millions of dollars to close and now they have a landfill that they are going to have to manage without any revenue stream. At this point, I just want to point out that we need to move forward. We feel we presented a Plan with the Authority and Bruce mentioned the guarantee, the working capital loan and also restructuring of two pieces of debt, we feel the first steps that need to be taken are those first two items. Let's finish the plan, let's move forward with the guarantee and let's get working capital and stabilize the current situation. I appreciate your time today.

Mr. Haste: Before Bruce finalizes, just two quick questions. I think I know the answer, but I don't want to assume anything and I want it for the record. The $28 million that is being requested in capital loan is for plant-wide improvements, not just the third burner.

Mr. Stauder: That is correct.

Mr. Haste: All the concerns that were raised, the safety concerns and the inefficiencies of the plant, like the ash handling, water, etc., those are all identified in that $28 million?

Mr. Stauder: That's correct.

Mr. Haste: If that were to occur somebody wouldn't come back a year from now and say guess what we forgot the whatever?

Mr. Stauder: That's correct. We've gone through this for the past seven months. We met with the County's technical engineer. They have looked at it. They agree with the approach and they have a good feeling and I'll let them speak for themselves, but not only that engineer, but the Authority's engineer, HDR, they all reviewed it and said that we have included the items that need to be done; all of which John Moffitt addressed.

Mr. Haste: Unless my math is off, if I total the operational costs reduction as a result of the retrofit that savings is $1.5 million.

Mr. Stauder: Right.

Mr. Haste: If you add that to the revenue losses of $10.5 million over the year that actually comes to a daily loss of $33,000. One of the key things for us to get that additional revenue and you sort of hinted at it would be to have additional waste.

Mr. Stauder: Correct.

Mr. Haste: To get you up to 90 or 93% capacity on the three. Have those additional waste streams been tentatively identified?

Mr. Stauder: We have met with waste companies in the area and we do have a separate in-house waste marketing organization. They are very confident that they will be able to find the waste and in fact we have identified enough to be able to fill the plant right now. It is not a matter of finding the waste to fill the plant. It is a matter of finding the waste to fill the plant at a better price than what we have today. We are always continuing to get the next dollar per ton higher than what we found today.

Mr. Haste: Okay.

Mr. Ambrose: I will ask Bruce Foreman to make some concluding comments.

Mr. Foreman: I'm appearing today on behalf of the Harrisburg Authority's General Solicitor. The Authority presentation that has been given to you today represents our belief that while we have a broken Resource Recovery Facility that we have the means, if we work together, to fix the facility. We have a great deal of confidence in our business partner, Covanta and in the Plan that they have identified. I know that the County has had experts reviewing the Plan. Without fixing the facility we do not believe that it is possible to move forward and it is not even possible to sustain what we are doing now, which is operating at an unacceptable loss level. We feel that the Plan that we have, the construction plan and the financing plan is a plan that will fix the facility. But the need to act is urgent. As Chairman Haste identified the daily loss is more than can be accepted. In addition to that with the non-payment of our operator, I think we all understand that it is a little problematic as to how long we could continue. Even if we could continue operating the plant at the current loss, we would never be able to handle the debt payment that would have to be funded at the end of August. As was reviewed by Bruce Barnes and Dick Michael, if we don't act and we don't make that payment the consequence to the City of Harrisburg, the region and the County would be disastrous, unacceptable. The amount of money that would have to be budgeted directly because of guarantees would be more than could be handled. What we have done is brought our plan to both the Harrisburg City Council and to the Board of Commissioners with an urgent request for your review, consideration and action to avoid what we believe would be a disastrous consequence. The plan is not set in stone. We are more than willing to accommodate changes in the plan or other alternatives. Any alternative has to come to the same result. We have to finish this plant. We have to fix the plant. We have to give the guarantees that we need to our operator. We have to do it immediately, because we just don't have any time left. I want to thank you, the members of the Board, and all of your experts who have worked with us for the timely attention that you have given to us. All of the people appearing today on behalf of the Harrisburg Authority are more than happy to answer any questions you may have or we will work with your staff hereafter.

Mr. Ambrose: Thank you Bruce and thank you Commissioners. If you have any questions, we would be happy to answer them.

Mr. Haste: We will come back to those after we hear from Mr. Zwally.

Mr. Zwally: Commissioners, with me is Jay Wenger of Susquehanna Advisory Group. He has been acting as the County's Financial Advisor with respect to this matter. We also have in the audience Russ McIntosh from HRG Consulting Engineers and they have been looking at some of the technical and construction details and providing advice to the Commissioners.

For over six months it has been indicated that we have been working with you and with representatives of the Authority in an effort to develop a plan for completion of the retrofit and a restructure of the finances of the facility. Throughout this process, from day one, we have insisted upon two conditions to be satisfied. The first condition is that there is a comprehensive financial plan covering all of the requirements that is approved by both the Authority and by the City. The second condition is that if the County is to provide its guarantee then that guarantee must be secondary to a guarantee by the City. There are a number of reasons for these basic requirements. There have been other conditions we have talked about with representatives of the Authority. I have no doubt that these other conditions can be satisfied in terms of the final details of any financial restructuring that would require County participation. It is critical in the view of your advisors that these two basic conditions must first be satisfied. I have asked Jay to comment, just briefly, on the importance of these from the financial standpoint.

Mr. Wenger: I think it goes without saying that the position that the Authority is in today versus 2003 when you were first asked to guarantee debt is significantly different, particularly as it relates to what they are asking you to do. In reality in 2003 the County was asked to be a second guarantor to make the cost of capital as low as it could be on the retrofit financing. So FSA, with the County as a second guarantor, was convinced that it was a viable project and so there was bond insurance and the cost of capital was as low as you could get. Really, the County was, in very simple terms, almost a credit enhancement provider in 2003. What is being asked today is a significant amount of debt to be guaranteed and restructured. We have taken the position all along that the County would be second to the City. Really to keep you in that same position of providing lower cost of capital in the financing structure. If we reverse it and the County is in the first position you have taken on an entirely different position and risk profile relative to the Resource Recovery Project.

Mr. Zwally: If I could summarize this. It is really a matter, I think, of commitment and confidence. This is a City project. It has been a City project. If the Authority and the City are not willing to back a recovery plan, with every available resource, which they have, then I see no reason to recommend or advise the County to step in as either a primary or secondary guarantor. I think without that confidence or commitment, we hesitate seriously to recommend to this County that it proceed. Basically, we have a recommendation, in the form of a Resolution, which we are happy to present at this point in time. If you have any questions, however, we can address those either now or after we present our recommendation.

Mr. Haste: You say you have something further on the recommendation?

Mr. Zwally: We do have a Resolution, which we have prepared and proposed for your consideration. If you like I will summarize that at this point in time.

It would be Resolution #16-2007. There are a number of historical preambles, which I will only summarize. Basically we indicate that the County has indicated a willingness from the beginning to assist the City and the Authority with respect to this project and with respect to attempt to recover the project from its current state. We indicate however in the history that the action taken by City Council on July 3, 2007, which rejects in part the recovery plan and which amended the plan to provide that the County would be a primary guarantor and the City would be a secondary guarantor clearly does not satisfy the basic conditions which were laid out from day one. Accordingly, the Resolution portion is as follows: "Now therefore be it resolved that the County of Dauphin will participate in a recovery plan for the facility, but only if its conditions are satisfied that is one (1) the approval of a comprehensive recovery plan by both the Authority and the City; two (2) a primary guarantee by the City of any additional or restructured facility debt prior to a secondary guarantee by the County and three (3) such other terms and conditions as shall be acceptable to our advisors. That is our recommendation.

Mr. DiFrancesco: Just for clarity, your third provision, my question was on the first provision actually and that was that the County did not, it didn't say the County also within that, but you are saying that the third provision picks that up?

Mr. Zwally: Yes.

Mr. DiFrancesco: I just wanted to make sure that was explicit and not left to the imagination that we would also have to approve…

Mr. Zwally: Your approval of the plan though isn't as critical, because there may be futures in that plan which don't really relate to the County. You would basically be agreeing to participate in the plan to the extent that is necessary.

Mr. Haste: Is everybody ready for questions?

Jay, a question and we tip-toed around this a little bit, and I think it was laid out fairly clearly what can go wrong if nothing is done. We also know that there are payments coming due soon. Some have already passed. At what point in time would the insurer step in and once they step in what will they do?

Mr. Wenger: I'll start with FSA (Financial Security Assurance). FSA plans to come down on the 26th to meet with all parties including us and you as Commissioners, City Council, the Mayor, the Authority and the Authority's professional representatives. I think they want to understand what everybody intends to do. Part of that meeting will be their representation of what they intend to do if certain things aren't done as they would anticipate them to be done. At the point of which they would step in is when there is a failure to make a debt service payment and the Reserve Fund is drawn on, I think, is the point where they will formally step in to the process. Chuck you can correct me if I'm wrong.

Mr. Zwally: We are aware that they have this project under watch, which is sort of their first step. If not at that point, but we are approaching the point where there are probably some technical defaults under the Indenture if there aren't now there will be. They will take note of that and they will then step up their activities. They will attempt to have the matter resolved by reaching an agreement with the parties. If that can't be done as the insurer under the Indentures they hold the power to enforce the Indentures and they can stand in the stead of the bondholders and they can require the trustees to take appropriate action which they certainly will do.

Mr. Haste: If that were to occur, you have been very polite in beating around the bush. If that were to occur they could go to Court and force the City to raise taxes to the highest level listed in these scenarios. It would be the highest level possible.

Mr. Wenger: The third page of what Mr. Michael presented, I think, is a very to the point representation of what FSA could and probably would do at the point in time where they are involved in the process. Yes, that is exactly what they would probably do.

Mr. Haste: So, anything that is done would pass the burden to the taxpayers of the City. Almost anything that is done would lessen the burden on the taxpayers of the City.

Mr. Wenger: By way of the recovery plan?

Mr. Haste: Right. Because no action…

Mr. Zwally: If the parties act now to abort major default it will be to the benefit of all taxpayers, but as you can see from the numbers which Mr. Michael presented in his outline of remedies, it would be substantially to the benefit of City taxpayers.

Mr. Wenger: And to that question I think that's what Mr. Barnes was suggesting.

Mr. Haste: That's why I said he was being polite.

Mr. Wenger: That is what the recovery plan is intended to do.

Mr. Hartwick: Just a couple questions, first of all a statement and then a couple questions and then I will have some questions for the City.

The two things that I think this Board of Commissioners has prided ourselves on is partnerships and trying to bring forward solutions. It is very easy to be one of those CAVE (citizens against virtually everything) people. They are individuals who tell you what is wrong with every plan that you put forward and try to provide reasons why you shouldn't do anything. While in this case, this facility has been a financial albatross for the City of Harrisburg and this region for a number of years. It has been the single largest financial concern for the City of Harrisburg for a number of years. Trying to continue to engage in partnerships to solve problems is something that this Board is committed to doing, however, partnerships will not be abused nor will 39 other municipalities in Dauphin County be put in a position to have to take care of the financial albatross that has existed for this number of years. I think it is very important that we continue to try to bring solutions and I think there is a whole lot of accountability that must occur with this project. I believe there have been a number of issues and mistakes and some of these and we're not going to go into that today. Today is not the time. I think they have been fully aired. However, I can't in good conscious and I received a number of calls and I'll even reference that for some of the folks in the group that my Dad even came today and said if you don't do the right thing I'm going to dig in your backside. I have heard from a number of residents and I'm not scared of my father nor am I scared about doing the right thing. I just use that as a simple example that it takes partnerships and individuals to be committed to the solution, not individuals trying to play political football with an issue that is not going to go away. I think we all understand the severity of the issue. It has been laid out in a way that I think we should either stop beating around the bush, we need to talk about the real obligations and there has been some talk about and Dan Miller is a respected friend of mine. I know him for a long time and I respect his financial ability, but an idea about an early intervention program and Act 47 as being the panacea for this problem which clearly in my understanding and in my thorough investigation of both the early intervention program. I talked with Fred Reddick, as well as the Act 47 program will probably not go away. It is not going to somehow just resolve itself and it certainly is going to take some real difficult decisions. Whether those difficult decisions be made by a judge, whether those difficult decisions we want to push off to someone else or whether we need to address it in a common way with common solutions is going to be something that we are going to have to do at some point. It is not going to be a political football and not making decisions that's going to allow anything to be resolved in this case. I have heard from a lot of members of my community, all throughout 40 municipalities and I haven't had anybody contact me yet and say support the incinerator. Nobody wants us to put up the additional funds. I don't want to make that decision to do that. Ultimately the debt is what it is. The condition of the facility is in a position where there are options that have been laid forth to us that based upon a significant amount of mismanagement, mistakes, failures and inability to act has put us in the position that we are in now. I just don't want to make sure that we are confused also with the early intervention or Act 47 program, both of which I think especially the early intervention piece is an important step for the City of Harrisburg to undergo. Trying to take a look at all the financial liabilities, trying to come to grips with exactly what are outstanding obligations and have one comprehensive long term plan to try to bring the City into good financial position is not a bad thing. We try to do it in our budget process here and we have done it since we have become Commissioners looking forward. It is not going to provide significant grants or dollars for repayment or some way for somebody to sprinkle magic dust to say this obligation is going to somehow go away. The maximum amount that you can receive even in the Act 47 program or Early Intervention Program to pay off your liabilities would be $1 million. I was informed that is only to be used for direct payment to employees or the people in pensions. It is not about taking care of outstanding obligations or debt. That outstanding obligation of debt is going to exist whether Act 47 is in place or not in the City of Harrisburg. It is just going to change who makes the decision or not, based upon how you need to raise revenue. This is like putting lipstick on a pig. I'm quite frankly tired of looking at a ton of professional service folks while we are not trying to resolve the problem. Because I know that we have great people who are taking a look and doing the due diligence and we have great confidence in them, but we need to start moving towards solutions. $1 million a month is being lost at the Recovery facility. Who makes that decision? It is going to be the result of the action taken by local government. Ultimately we have a responsibility not to always do what is popular, but we need to do what is right for the interest of all the citizens we serve. As one Commissioner speaking, I would have liked to as the Mayor of Steelton go to the County and have them get us out of all the financial issues that we had. Those serious financial conditions still exist in that Borough including Highspire who also went through the early intervention program and left the county alone. Those municipalities figured out a way to have a financial recovery plan, meet the obligations and raise the appropriate revenue in order to meet the obligations that is required of elected officials. While it is not pretty, I think we send a clear message from the Dauphin County Board of Commissioners that we are still willing to be partners in this effort no matter how ugly the pig is. But, we are certainly not going to take on that position and put 39 other municipalities in the forefront about the decision being made without an obligation to do the right thing. We need that right thing to include those obligations to be taken care from the City and the County assisting you as a financial partner, not as a person who is taking over and running the facility. We can't ask the other 39 municipalities to take the ball. We need to put this facility in a position to try to cash flow. The numbers keep getting worse every single day. We need to take some serious action and stop playing hot potato. You have partners in Dauphin County who are willing to take on these tough decisions and I think are going to continue to be here. Under Act 47, I found out one of the things that Act 47 alllows is to raise your tax rates above the allowable amount that is in your code in the City of Harrisburg. That is a real benefit. Ultimately we need to figure out how we resolve these issues, how we make the individuals accountable after we figure out a way to solve the problem. I, as one Commissioner, will not be supporting this without the participation of the City.

Mr. DiFrancesco: At no time will the County step up and take that front line position. It is not ours to take and it would be very irresponsible as George mentioned, not only to the 39 other municipalities, but to our City constituents as well. Every dollar that goes into this project is directly taken away from things that are our responsibility; such as crime prevention programs and things of that nature. We are here to do as we have always done the right thing for all of Dauphin County, this is not a County responsibility. Again, as George mentioned, it is a partnership that we are willing to take, not because we want to by any means, but because the numbers show that we have to. We will not be taking over the responsibility of the front lines. It is not our place to do it. To do so would be extremely irresponsible to the office that we now hold. I really don't think that I need to say anything more than that.

Mr. Haste: It is pretty clear that the County has always said that we would be willing to help. I think our past actions have indicated that we would be willing to help. However, we are not taking over someone else's responsibility. If you look back at history I'm just sitting here thinking it has almost been 18 years ago Mr. Zwally and I were down a very similar road when the Legislature put flow control into the counties. Back then, history can teach you some things, but back then the County chose not to partner with the City. Ironically for some of the very same concerns that are being raised today. When the County was successful in helping to get Dauphin Meadows Landfill closed the previous Board of Commissioners then needed to deal with flow control and at that time determined that the Incinerator was a very good viable option for the residents of the County, because with flow control we are required to have a plan for our waste. So, it went to the Incinerator. Then the Incinerator started to have problems and again the County was willing early on under our tenure to help the City out, to help the Authority out. Basically by being a co-signer as Jay had clearly mentioned to get a lower interest rate. We continue to be willing to do that. But only when the original partners are still partners. If someone chooses not to be a partner we are not in the game. We had made a very clear message of this Administration that we believe in partnerships. We have partnered, not to this extent, but with other municipalities on a lot of different programs. We will continue to do that. We are not going to burden as has been mentioned the other 39 municipalities with another particular municipality's concern if they are not willing to deal with it as well.

It was moved by Mr. Hartwick and seconded by Mr. Haste that the Board adopt Resolution #18-2007, as outlined by Mr. Zwally above; motion carried.

(The entire Resolution is on file in the Commissioners' Office.)

Mr. Haste: This is far from over. This does not, at this point in time, really guarantee anything. It kicks it back over to Council.

Mr. DiFrancesco: For those in the audience this is not a guarantee. This is a message.

Mr. Linn: You say our message.

Mr. Haste: We are going to ask for comments when it's public participation.

Mr. DiFrancesco: Yes.

Mr. Linn: It is a topic now.

Mr. DiFrancesco: No, it is still very appropriate. No legal commitment has been made. A message has been sent.

Mr. Linn: I understand, but…

Mr. Haste: We will get to that Frank at public participation.

Mr. Linn: Why would we have to wait the topic is here now.

Mr. Haste: We are going to proceed with the meeting.

SALARY BOARD

(The Minutes of the July 11, 2007 Salary Board are on file in the Commissioners' Office.)

PERSONNEL

Ms. Lengle: I do have some items here that I'm going to request a vote on because there are transactions that need to be effective the first date of a pay period, which is the 16th, before our next meeting.

Mr. Haste: Those items?

Ms. Lengle: Item #8, Request to Fill a Vacancy; Item #30 Change that is related to the Salary Board request; Change #31 that is related to the request to fill a vacancy; Item #1 and #6 in the Addendum.

Mr. Haste: Can you explain #30?

Mr. DiFrancesco: #30, can you give me a better explanation of what that is?

Ms. Lengle: That is the person who is returning from workers comp. She has been off work for sometime now and she is coming back to work. She is going to be assigned to Adult Probation. I just learned this morning that she is actually going to be doing security officer work. On our payroll system she is still in the position that is listed as the current position. She hasn't been working, but has been kept on the payroll system in that capacity. There are several employees from that department still listed.

Mr. Haste: She was a nurse at Spring Creek.

Ms. Lengle: She was a nurse at Spring Creek on workers comp.

Mr. Haste: How many security positions do we have or are these only until we deal…

Ms. Lengle: This is a modified worker.

Mr. Haste: So, we don't have security positions.

Ms. Lengle: It is not a security position.

Mr. Haste: Do we have these positions that they are moving into?

Ms. Lengle: We are creating this one. When she would leave that position we would abolish it.

Mr. Haste: This is the only security position that is going to be there.

Ms. Thompson: This was the front entrance position that was abolished during the previous administration. Garry Esworthy suggested that part of the studies have been that position should be recreated to enforce some security issues there. We have this person who was not qualified or certified to return back to full work, but could come back to light duty work to have somebody out there performing these duties and getting a paycheck rather than simply collecting workers comp. In terms of the long term, I think that is part of the analysis we are going to be looking at whether that position should be kept or not. At this point my understanding is this is a temporary position subject to further review and analysis. This is not something that was proposed by the President Judge. He has authorized us to go ahead with it. This was actually something that was suggested by Garry Esworthy. It is something that Terry Davis also believes is necessary that somebody should be doing front desk scanning security work rather than letting people just come back through. The Adult Probation Office, the guys are armed, but their weapons are supposed to be secured.

Mr. Haste: Any other questions?

Mr. DiFrancesco: What are the other ones after that?

Ms. Lengle: #8, #30, #31, #1 and #6.

Mr. Hartwick: Kay, just for future clarification so this goes a little smoother why don't you in a separate sheet note the action items that need to be taken.

Ms. Lengle: Sure, since there are so many.

> **It was moved by Mr. DiFrancesco and seconded by Mr. Hartwick that the Board approve Item #8 (Vacancies approved by President Judge); Item #30 (Personnel Changes); Item #31 (Personnel Changes) of the Personnel Packet and Item #1 (Requests to Post/Fill Vacancies) and Item #6 (Personnel Changes) of the Addendum Personnel Packet; motion carried.**

PURCHASE ORDERS

Mr. Baratucci: You should have received your report yesterday. There are a few budget issues as usual. Do you have any questions? (There was none.) The budget items will be fixed and we will be back next week with our final report for your approval.

TRAINING PACKET

Mr. Haste: Chad, are there any items in the Training Packet?

Mr. Saylor: Yes, Items #1, #2 and #11.

It was moved by Mr. Hartwick and seconded by Mr. DiFrancesco that the Board approve Items #1, #2 and #11 of the Training Packet; motion carried.

ITEMS FOR DISCUSSION

A. PPL Right-of-Way for one line adjacent to Paxton Street in Swatara Township. (*A VOTE IS REQUESTED 7/11/07***)**

It was moved by Mr. DiFrancesco and seconded by Mr. Hartwick that the Board approve the PPL Right-of-Way for one line adjacent to Paxton Street in Swatara Township; motion carried.

SOLICITOR'S REPORT – GUY P. BENEVENTANO, ESQ.

Mr. Beneventano: Commissioners, you have our draft report. If you have any questions I would be happy to entertain them. (There was none.)

CHIEF CLERK'S REPORT – CHAD SAYLOR

Mr. Saylor: I have nothing further unless there are questions of me? (There was none.)

COMMISSIONERS' COMMENTS

(There was none.)

PUBLIC PARTICIPATION

Mr. Haste: We are at the point in time for public participation. Is there anyone in the audience that would like to address the Board at this time?

Mr. Letavic: My name is Steve Letavic. I'm Township Manager of Londonderry Township and I wanted to talk to you about the Incinerator. It is my understanding and if my understanding is accurate that the County would guarantee the debt as a second guarantor. If there was a default by the City of Harrisburg then the cost of paying for that debt would be passed along to our taxpayers in a form of increased taxes. That appears to be what I saw on the slides. Is that accurate?

Mr. Haste: We would be the third guarantor. First would be the revenues of the Incinerator and the Authority, then it would be the City and then it would be us. We would not have to pay the entire debt it would be the debt that is not able to be paid by the other entities in that given year.

Mr. DiFrancesco: The reference on those slides that says a homeowner's bill would go up would be City residents.

Mr. Letavic: There would be no increase in taxes for the County taxpayers to fund this project.

Mr. Haste: There could be.

Mr. DiFrancesco: Depending on where our budget stands.

Mr. Haste: The likelihood is small. On the other hand, if it were to default and the City goes into bankruptcy our credit ratings all go down so you wouldn't see a direct increase, but it would adversely affect our bond ratings and our ability in our own capacity to borrow money.

Mr. DiFrancesco: To be clear again. I think I should state this for the record. Oftentimes people get very confused by this. The County backed $110 million in bonds. That doesn't mean that ultimately that responsibility comes to us. We are responsible only for the portion that the City can't pay within a budget year and the City is required by law to budget enough to cover their debt obligations. We may have to fill a gap every now and again, but never would we have to pick up the full burden of that.

Mr. Letavic: If this is truly a partnership and we fill that gap when this is profitable is there a part of this plan, if there is an increase in tax to our taxpayers, my residents, are they getting their money back? If that plant is profitable then does that money get returned to them through reduced taxes in the future or direct reimbursement? At this point we are asking taxpayers on a fixed income (a lot of them are in our municipality) to pick up that burden. They should get the benefit of the profitability of the plant.

Mr. Haste: Mr. Zwally could you come up here and address that?

Mr. Zwally: If the County was required to make payments on its guarantee and subsequently the operations of the plant improve, the plant was operating at a profit, the reimbursement agreement requires both the Authority and the City to reimburse the County for any amounts that it gives out on this guarantee.

Mr. Letavic: In your analysis, what was the time where the plant would possibly break even or make a profit?

Mr. Zwally: I haven't analyzed that, but the financing plan presented by the Authority, which was discussed here, has some proforma projection. It all depends on what happens and which scenario occurs.

Mr. Letavic: I don't have a lot of confidence in the fact that if they don't have those numbers readily available they have some proformas that they have done, they really haven't analyzed it that deeply. We are being asked to take on a lot of debt without a lot of guarantees in the future that we are not going to be back in the same position.

Mr. Haste: I'm not sure that is an adequate statement, Steve.

Mr. Stauder: We have done extensive performance, both with the Authority, the Authority themselves and Covanta. The profitability of the plant would come back around in light of what Bruce presented as the overall plan. Basically when the construction is done, if the other pieces are in place and it is operating at design or better than design then we will have a profitable plant. That timeframe was 13 months.

Mr. Letavic: I want to thank you for your time. My concern is just that if our taxpayers end up footing/paying for this financing that they get that money returned to them. Quite frankly, it is a large burden to our taxpayers in our municipality. I think in most municipalities in Dauphin County say that we would not support this unless we have some guarantees that if our taxpayers have out-of-pocket expenses that money comes back to them and we're fairly certain and confident that it will.

Mr. Haste: The other thing that you need to keep in mind Steve and I had this discussion with a lot of municipalities more in the northern end than southern. You need to keep in mind if the Incinerator isn't there and you don't have that disposal rights you can almost guarantee your costs are going to go up. As I think Paul mentioned before, tipping fees at a lot of landfills are reaching $60 a ton. If you are not paying $60 a ton you can sort of bet that it would be and it would go up from there.

Mr. Letavic: I think as an individual owner my bill may go up, but it is not going to go up by $500 or $1,000 a year. That is the potential tax impact.

Mr. Haste: No.

Mr. DiFrancesco: Nowhere close.

Mr. Hartwick: That's not even close.

Mr. Haste: Again, you are confusing what it would impact the City resident versus the County. You have to take the $2 million across all the residents in the County and you are nowhere near that number.

Mr. Cluck: I'm Bill Cluck. I live in Shipoke, that is still within the City of Harrisburg although we are talking about annexation.

I'm your citizen representative on your Solid Waste Advisory Committee. We haven't met. I can give you no advice on what the input of the citizens of Dauphin County is with respect to any of these issues. I'm going to ask some questions as an environmental lawyer. There was discussion about an increase in tipping fee. I didn't hear anything. Mr. Zwally when he opened he said that is part of this. What is going to be the increase? It's what $51 a ton for the 39 municipalities now.

Mr. Hartwick: That is correct.

Mr. Haste: That is not part of our resolution. That was one of the options given in Mr. Barnes' scenario and I think that is part of the request. The Resolution that we passed does not address tipping fees.

Mr. Cluck: Which by the way I think the Sunshine Law allows me reasonable opportunity to participate and comment before you pass the Resolution. I don't know if that Resolution has substance. So, there is no proposed tipping fee increase for non-Harrisburg/Dauphin County residents.

Mr. Hartwick: That is correct.

Mr. Haste: The Authority has asked for it.

Mr. Cluck: How much?

Mr. Haste: I think it was roughly $10.

Mr. Cluck: I understand that is separate from the County's $4.90 per ton County fee.

Mr. Haste: Correct.

Mr. Cluck: My reading of two cases at the Commonwealth Court says that the County has no legal authority to impose and add on a fee. I also understand from legal council that the County's position is well those two Court cases don't apply to us. I wonder if the 39 municipalities know that there is an argument that they shouldn't be paying $4.90 to the County for waste being processed at the Harrisburg Incinerator.

Mr. Haste: The haulers mention that frequently so they are aware of it.

Mr. Cluck: Eventually the household pays it.

A separate issue, the County has a Recycling Facility I understand. Is there any opportunity to find out what the financials are? Could that be shared with your Solid Waste Advisory Committee? What are the revenues being brought in by the recyclable materials being brought to the County's facility? Why is the County only paying $1 in rent to utilize the Harrisburg Authority property for this recycling facility and what are the expenses? Is this all State grant money, so that I don't really care or is it taxpayer money? Is that going to become a financial boondoggle in the future? With respect to financing, I don't think it was this Board of Commissioners, it was probably the prior Board, but the County is the enabler of the Harrisburg Incinerator. Without your guarantee of 200,000 tons per year they would not have been able to perform the 2003 Retrofit. The City of Harrisburg only contributes 50,000 tons. The whole thing that happened in 2003 would not have occurred if it wasn't for the County stepping forward and saying here take our waste and thank you for the second guarantee. I think as an enabler you need to be a full partner with the City. The City not only has guaranteed the $110 million, they also guaranteed the pre-existing $128 million debt. We're talking over $200 million that the taxpayers are ultimately responsible for. All I'm asking of the County--City Council and this City is just too afraid to take on another $40 million. I think all they are looking for is for the County to be a full partner and guarantee the $43. They are not saying that we don't have responsibility for the Incinerator. Oh my God, of course they have responsibility for the Incinerator. We are asking the County to be a full partner. If you don't want to get into who is first and who's second, then come in equally. That would be my compromise.

Mr. Haste: I would totally oppose that. I'm not going to ask the other 39 municipalities to do that.

Mr. Cluck: Okay and I appreciate that. I think I needed to speak up. Lastly, somebody and I don't care if it is the County, the Harrisburg Authority or City Council, please require an independent investigation of what happened.

Mr. Haste: How do you know that hasn't already been done?

Mr. Cluck: Well I've been asking for it for the past six months. Has an independent investigation been performed and what happened?

Mr. Haste: There are other entities that do that, not us.

Mr. Cluck: Are you aware of anybody that has?

Mr. Haste: I think maybe others are.

Mr. Cluck: This individual who is very knowledgeable and has participated is not aware of any independent investigation on what went wrong. I've heard stories, but I'd like people under oath and I would like an investigation and I would like to know if there is a possibility for a cause of action for the mismanagement, whether it was in the contracting, construction or failure to have an oversight. We have to learn from our mistakes, before we go forward with Covanta. I think they are good, but I also thought Barlowe was good. We need to know what happened and if we don't know what happened we are going to make the same mistake the next time. With that thank you for your time.

ADJOURNMENT

> **There being no further business, it was moved by Mr. DiFrancesco and seconded by Mr. Hartwick that the Board adjourned.**

Respectfully submitted,

Chad Saylor, Chief Clerk

Transcribed by: Richie-Ann Martz