DAUPHIN COUNTY BOARD OF COMMISSIONERS

WORKSHOP MEETING

April 14, 2004
10:00 a.m.

MEMBERS PRESENT

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

STAFF PRESENT

Marie Rebuck, Controller; Robert F. Dick, Treasurer; Chad Saylor, Chief Clerk; Robert Knupp, Esq., Solicitor's Office; Judge Joseph Kleinfelter, Courts; Robert Wentzel, Director of EMA; Gary Serhan, Deputy Controller; Carolyn Thompson, Court Administrator; Jennifer Kocher, Communications; Diane McNaughton, Communications; Randy Baratucci, Director of Purchasing; Faye Fisher, Director of Personnel; Garry Esworthy, Risk Manager; Noel Falk, County Project Assistant; Bob Burns, Commissioners' Office; Sharon Ludwig, Personnel; Kay Sinner, Personnel; Rita Frealing-Shultz, Director of Domestic Relations; Ed Chubb, Director of Parks & Recreation; Carl Dickson, Parks & Recreation; Melanie McCaffrey, Solicitor's Office; Dan Robinson, Director of Community and Economic Development; Dave Schreiber, Personnel; Edgar Cohen, Director of Facilities Maintenance; Leila McAdoo, Economic Development; Craig Powers, EMA; Ryan Rodgers, EMA; Jodi Pottiger, EMA; Jena Wolgemuth, Commissioners' Office; Richie Martz, Commissioners' Office and Mike Pries, Director of Safety & Security

GUESTS PRESENT

Jack Sherzer, Patriot-News; Lou Verdelli; Dave Twaddell, Esq.; Mike McCoy; Scott Shearer and Andrew McKendrick

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 Minutes from the March 24, 2004 Legislative Meeting and the March 24, 2004 Public Hearing; which will be reviewed and approved next week.

PUBLIC PARTICIPATION

Mr. Haste: At this point in time we are open for public participation. (There was no public participation.)

PROCLAMATION – PUBLIC SAFETY TELECOMMUNICATIONS WEEK

Mr. Haste: I am going to move the Agenda around a little bit and call on Commissioner DiFrancesco to present a Proclamation.

Mr. DiFrancesco: The Board of Commissioners has an opportunity today to spotlight some very special people who have a position that is very critical to our community and yet is one that is not necessarily profiled or highlighted very much. These guys tend to work in the shadows of the lower level of our emergency operations center and the public doesn't get to see them very often, but they do get to reach out and touch them very often and the work that they perform is very important.

(Mr. DiFrancesco read the Proclamation.)

Office of County Commissioner
Dauphin County, Pennsylvania

Proclamation

We, *the Dauphin County Board of Commissioners, recognize that Public Safety Telecommunicators are the first and most critical contact our residents have with emergency services when faced with a crisis;*

Whereas, in Dauphin County alone more than a half a million callers a year depend on the skill, expertise and commitment of the highly-trained men and women in our 911 Communications Center;

Whereas, these 45 men and women are the essence of poise under pressure, providing callers aid and compassion in times of distress and critical decision-making within seconds;

Whereas, telecommunicators often deal with people who are experiencing the worst moment of their life, and – with remarkable skill and speed combined with a sense of calm – they get that person the needed help, hang up the phone, then pick up another stressful call to help yet another distraught person;

Whereas, they are the critical link in saving countless lives by responding to emergency calls, dispatching emergency professionals and equipment while providing support to callers;

Whereas, many people don't think about the seemingly nameless, faceless person on the other end of the phone, but they have come to depend on hearing that caring compassionate voice backed by unmatched skill and expertise when they dial 911;

Therefore, we join the 251,300 residents of Dauphin County in saying thank you for your hard work and dedication as 911 telecommunicators and declare April 11th to the 17th, 2004 Public Safety Telecommunications Week in Dauphin County.

Mr. DiFrancesco: With us today to receive the Proclamation from the Board, we have Craig Powers, Jodi Pottiger and Ryan Rodgers. (The public applauded.)

PERSONNEL

Ms. Sinner: In the Personnel Packet, I have two Salary Board requests. For Children and Youth, it is the creation of an Assistant Administrator II and a Casework Manager II. There is the Vacancy Listing. In the New Hires Listing, I would ask that you pull Item #6. In the Changes Listing, there are some appropriation code changes involving moving some people from a grant funded cost center to a County funded cost center. That is in Juvenile Probation. The District Attorney's Office is moving two people, but they cancel each other out. All five of these transactions are effective April 12th, the start of a pay period. I would ask that you vote and approve those transactions today. It would be Items #5 through #9.

Mr. Haste: Where is Mr. Yohe?

Mr. Saylor: Commissioner, I spoke with Mike about these. He was aware of all these changes. The Juvenile Probation ones were anticipated and basically he was moving these guys from grant funded positions into basically what were three vacancies that he held open. In Mike's view, they were neutral to the budget.

Mr. Haste: What about the District Attorney's Office?

Mr. Saylor: That was explained to me also. The District Attorney's Office was just a flip-flop. They are basically switching each other. One was grant funded and one was not.

Ms. Sinner: That is correct.

Mr. Saylor: I don't know what the reason was behind that.

Ms. Sinner: I don't know either.

I also have an Addendum. There are two vacancies that they are requesting approval to fill. The position in Domestic Relations is requested to be filled next week. There is a person that is moving into that position.

Mr. Haste: Which one are you referring to?

Ms. Sinner: On the Vacancies Listing Addendum, the Domestic Relations position, under vacancies approved by the President Judge. That is an enforcement officer and that position was just recently vacated. That person was promoted and now someone is transferring into the vacant enforcement officer position. That is actually listed on the Changes Addendum. On the New Hires Addendum, there are two positions being filled in Domestic Relations, two enforcement officer positions. These are the two that were created and approved at the February 25th meeting. The salaries for these people will be covered by a federal incentive. Also on the Changes Listing, there are transfers into other Domestic Relations positions, which again these positions were created and approved at the February 25th meeting as part of that special task enforcement unit. I have overtime reports and overtime requests from the Prison and the Prothonotary's Office.

Mr. Haste: The only action that you are requesting today is Items #5 through #9.

Ms. Sinner: On the original Changes Listing.

Mr. Haste: Chad, how are we dealing with the rest of these with the July 14th date?

Mr. Saylor: Some of these, for example Domestic Relations, we met and discussed those. The Committee (Faye Fisher, Mike Yohe and myself) also met with Mr. Farina to discuss his position. It was our decision, as I indicated to the Commissioners, that was not a position on emergency basis and should be filled in July and that resulted in his request for overtime, which can be considered at the Legislative Meeting. A number of these positions were submitted prior to when we were going to institute the hiring freeze, but we have been going through them and a lot of them are funded through grants or partial County funding. From here on in, after the meeting next week, any requests to hire someone before the 14th, are going to have to get emergency consideration through our Committee. We are also going to review the vacancies that currently exist in the departments and look at them proactively and bring those to your attention for consideration.

Mr. DiFrancesco: Question regarding that affect, the Children and Youth Assistant Administrator II position, because it says that it is not an existing position, is this part of the restructuring that has taken place in terms of Sandy moving? Is this the one that we were talking about taking on some of the roles of Children and Youth?

Mr. Hartwick: Yes.

Mr. DiFrancesco: So, even though it is a new position, in the overall matter of restructuring it will be under budget.

Mr. Hartwick: Yes.

Mr. Haste: We are not filling a director there.

Mr. Hartwick: We are still taking a look, but there at least will be over $300,000 less in salaries for the human service department.

Mr. Haste: Marie, do you have any questions?

Ms. Rebuck: No.

> **It was moved by Mr. DiFrancesco and seconded by Mr. Hartwick that the Board approve Items #5 through #9 on the Workshop Agenda Changes Listing for April 14, 2004; motion carried.**

Mr. Haste: Chad, will you give us more of a report next week on the rest of them?

Mr. Saylor: Absolutely.

Mr. Hartwick: I wanted to note the grand totals in pay and the significant reduction in overtime that has occurred during this period. The first time that we have seen almost a half of what was paid out in comparison to 2003. It has been reduced at Spring Creek for the first time, which is an indication that we are moving in the right direction and the Prison is also down significantly. Both are noteworthy. It appears that filling these positions and filling the vacancies has resulted in a net reduction in overtime and it has made a significant impact. Hopefully, if these totals continue they will certainly make an overall difference in tracking the overtime. We are well under budget in the area of overtime.

TRAINING PACKET

Mr. Haste: Chad, is there anything that we need to know on the Training Packet?

Mr. Saylor: There were 29 items and a 30th item was added today. Other than that, they have all been preapproved.

PURCHASE ORDERS

Mr. Baratucci: You should have all received your purchase order packet yesterday. There are a number of budget items that we need to fix. Mike and I are working on those. I just wanted to point out that on Page 42 of the packet is the items for the Court Room. That requisition is in here and what we have asked, through our Solicitor's

Office, is if we could get the vendor order forms signed and sent out this week so we won't lose another week until we actually get the purchase order. The Solicitor's Office said that Chad could sign that, which he did this morning. We are going to get that sent to the vendor to save the week of waiting for the PO. I went over this with the Controller, because there is also a deposit that is necessary for these. I just wanted to point that out, because that is in the Packet. In next week's final packet, there will be all of the requisitions for the items that were discussed last week. We got new quotes yesterday, but didn't have time to get them into this packet. All of these items that we discussed last week will be in next week's packet and actually after all the tweaking and the changing finishes, we ended up approximately $70 to the good. It will actually be a little less than what we talked about last week. If you have any questions on the packet I can answer them, otherwise, you will get a final packet next week with all of those items included. I just wanted to make sure that you had no problem with sending that order in ahead of time, because there is a long lead time there.

<u>DEPARTMENT DIRECTORS/GUESTS</u>

<u>Ed Chubb, Director of Parks & Recreation</u>
<u>Carl Dickson, Director of Fort Hunter</u>

Discussion on Star Barn

Mr. Chubb: Recently we met with Chief Clerk Saylor about the Star Barn and in discussions with him he thought it was to our advantage to bring it before the whole Board. We are here today to bring you up to speed, for the new Board, with the Star Barn project. If you recall Chairman Haste, last year we were approached by Preservation Pennsylvania about purchasing the Star Barn. Carl and I did an evaluation and it was presented to the Board last year, along with our conclusions. We could discuss those if you want to. At the time, it just didn't seem to be a good idea. If I can characterize the response at that time, the County wasn't interested. Preservation Pennsylvania informally approached Carl informing him that they still don't have any body to purchase it, might the County still be interested. Not much has changed. Knowing the County's financial situation, we are not in a better position to try it. We wanted to prepare the Commissioners for that response so they could respond appropriately. We also wanted to share that with the whole Board and get any thoughts or comments that you may have. It's certainly a high profile situation. Everybody is talking about it, but for 10 or 15 years nobody has done anything about it. They are looking for the deep pockets and trying to get out from under it. To summarize some of the past evaluations and conclusions we made, I think Carl said it best, he went there not wanting to like the situation or the building, and came away from it really impressed with the barn itself. It comes with three additional out buildings that are in dire need of repair. There are site constraints. There is no land around it to support parking or what we might want to do in the building. We would still have an option of maintaining the exterior of the barn as the landmark it is, but then trying to recognize that there are three other buildings that we have to do something with and spend money on. That comes back into the equation. In good conscience we can't say that it is a great idea to pursue it, but having said that, I give it back to the Board for any response or comment. We put some preliminary figures together back a year ago and they were $1.5 million to purchase, renovate, put a parking lot in and do a lot of other things that have to be done. Every body thinks it is a great idea, but no one can seem to come up with the money to do it. There has been many partners trying to do things. A group was formed and they didn't seem to be able to stay together.

Mr. DiFrancesco: Having grown up in the shadow of the barn, I would love to see that landmark preserved, but the bottom line from the position that we are in right now financially in Dauphin County, it would be very difficult for us to allocate resources to take over the responsibility for the barn and to maintain the barn, unless we could come up with some way that building meets another County goal. I have thought about that for some time now and have offered some ideas, but I don't think any of the ideas have really panned out. There are great limitations around the building, in terms as you already mentioned, the parking and so forth. It is landlocked and had that larger piece of property not been developed there were a lot of options that could have happened down there. But, the fact of the matter is the Church came in and bought that property and they have done very well to develop that piece of property. Maybe making the barn a little more difficult for us to put resources into. I think it is one of those landmarks that should be highlighted here in Dauphin County. It is something that I don't want to lose, but at the same time from a responsible point of view, the uses of the building are so limited that I can't see us putting valuable County resources and tax dollars into that building, again unless through the collective wisdom of the body we can come up with a purpose for it. Short of that, as much as I would love to preserve that building, I can't even advocate spending County resources to do it.

Mr. Chubb: We haven't been able to find willing partners. We know there is grant money out there that we can go after and that sort of stuff. Carl has done an outstanding job at Fort Hunter and we have the expertise in house. That is obviously why we were targeted to go after this thing. Again, there are positives and negatives to it. Given the state of the County's financial situation, we can't advocate for it. We could, but there are all the other issues. We just wanted to give the Board the opportunity to respond to that and to also make that appropriate response if in fact a formal request comes our way to say thanks, but no thanks. What amazes me is that this thing has not been able to get off the ground.

Mr. DiFrancesco: Has anything changed, is there someone living in the home?

Mr. Chubb: Yes. That is part of the issue. You have the house/mansion/home that sits right there. That has been treated in not a very kind sort of way. That is right tight up against it. Then you have the church. You actually have some space between the barn and the church right now. We have been told that might be a location for the church to actually build a sanctuary.

Mr. DiFrancesco: That was a phased project. There was more to come.

Mr. Chubb: That would encroach even farther upon the space of the barn. Then you have the pond there. Even if the pond isn't there, the three or four acres that comes with the site is not enough for adequate parking to support what activities you would have in the barn. Maybe we could share something with the Church, but then you get involved in negotiating that. Right now, the only thing that I see is if someone takes it over and just maintains it.

Mr. DiFrancesco: If there is an opportunity for partnership or for some creative thinker in the community to find a useful purpose then maybe as a Board we can look at ways to support them in their efforts in gaining ownership and taking responsibility. Again with resources as tight as they are it is not going to get any better going forward.

Mr. Chubb: I don't think our intent is turn our back on them, because if something like that were to come up, something really unique, I think we would come back to the Board and say there is an opportunity that we may want to be a part of, but we wanted to keep you apprised of the situation.

Mr. Hartwick: Knowing the church folks there, they are looking to expand and in light of the current situation, I am all for historic preservation, but that is not what I view as Dauphin County's priority at this time.

Mr. Haste: My position really hasn't changed either. We talked about this quite a bit last year. I really see no County purpose in the building other than the preservation of an historic landmark. Like Mr. DiFrancesco said, if there was a local community or a local organization that has a need and wants to use it, I would be willing to help them on a one-time basis. In addition to the $1.5 million, if my memory is right, it is like $100,000 a year just to maintain the thing, when we really have no County purpose. I don't think that is what we are here for. I would be willing to help someone else, if they stepped forward and said that they want it to do whatever I would be willing to help them so we could preserve that landmark, but I really see no reason why the County should own it.

Mr. Chubb: We just wanted to keep you apprised of the situation, because we were involved last year and we continue to be involved.

Mike McCoy, President of the New Baldwin Corridor Coalition

Presentation for Intergovernmental Grant

Mr. McCoy: Thank you for allowing me to appear before you today. What we are talking about here is more than just obtaining money from you, but asking for partnership with you in endeavors in regard to this County. We are the New Baldwin Corridor Coalition and to that end we have been around since the early 1990's dealing with issues that affect this Dauphin County community along the Corridor. We are composed of eight municipalities and we are asking for your participation. To that end, we are having a community development workshop Thursday, May 20th from 5:00 p.m. to 9:00 p.m. at HACC, at the Wildwood Conference Center. We would like to work with you in terms of issues that you may have and secondly in regard to funding. It is going to cost us approximately $700 to hold this workshop. We understand that it is not within the level of the Intergovernmental Grant. In talking with Mr. Robinson, he thinks he can find a way to help us with at least half of that. We have some assistance from other municipalities that have said that they would put in $100 and we have three so far that indicated they would do that.

Mr. Hartwick: Is Steelton one of them?

Mr. McCoy: Yes. I'm really looking forward to having you participate at this conference. Secondly we are having a meeting, we meet the third Tuesday of each month, at 8:00 a.m. and fortunately the meeting is going to be here this month. We rotate among our municipalities each month and our next meeting is going to be here in the building at 8:00 a.m. in the Second Floor Conference Room. We would be glad to add you to our email address. We think it is so vital to have the Commissioners involved and to work with us so we can work with you. There are a number of issues that you have that we need to help you with and there are a number of issues that we have and we would like your help as well. Any questions.

Mr. Haste: I support the request.

Mr. Hartwick: You got support for the request. Just one question, I have participated in a lot of the economic development workshops that the New Baldwin Corridor has had in the past, is there any specific theme for this workshop?

Mr. McCoy: Not at this point. With the County's financial situation, we could possibly participate in doing things that will supplement what the County Commissioners' agenda is.

Mr. Hartwick: Do you need action today?

Mr. McCoy: Yes.

> **It was moved by Mr. Hartwick and seconded by Mr. DiFrancesco that the Board approve the request submitted by the New Baldwin Corridor Coalition for $400 to help cover the cost of an economic development workshop; motion carried.**

<u>COMMISSIONERS' COMMENTS</u>

Mr. Haste: I would like to make two quick comments. Last night was the Prison Volunteer Appreciation Dinner held at Spring Creek. The folks at Spring Creek did a very nice job. Nick, please let them know. Mr. DiFrancesco was tied up with EMA. Marie and George were able to attend and I received a lot of positive comments afterwards that the volunteers really appreciated the effort. There are 270 volunteers, people in the community, that on some regular basis go out and assist the folks in the Prison with their needs. That is often overlooked that we have that many people in the community trying to help those folks out at the Prison turn their life around. That was a real compliment to our community. The volunteer of the year was a gentleman by the name of Ernest Perry. Ernest has been a long time volunteer there. He is quite active with the Prison and the inmates. It was an honor to give him the award last night.

Everyone is asking why I am not dressed up today. Today is the seedling sale that we have. I wanted to thank Noel, he was able to promote the seedling sale on his radio show. We had tremendous response in the number of seedlings that have been purchased by people in the County. Once a year the Conservation District sells seedling trees. I understand Mr. DiFrancesco's father had a unique request. Nick's father asked for a mile and a half worth of trees. That was a late request that we have to scurry to see if we can fulfill. That is the kind of thing that the community is out there trying to do. They can plant trees to keep things nice and green. I am going to do my duty as a conservation district member as soon as Lou and Mike start their show.

Mr. DiFrancesco: I think this is an important point to make that the reason my father requested a mile and a half of trees is because he wants to build a natural sound barrier between his neighborhood and the highway that runs right behind, as opposed to going to PennDOT and asking for a million dollar mile sound barrier.

Mr. Haste: Starting out with seedlings, it will take a while.

Mr. DiFrancesco: He actually did this once before and then the Highway crews came through and sprayed and killed them all. He is going to give them another shot.

Mr. Hartwick: Hopefully he will be around long enough to see them all grown.

Mr. DiFrancesco: That would be great.

While we have a moment here, I would like to bring something up. I have a request from Mayor Parker of Paxtang to have the Tax Assessment Office look at two properties that have back due taxes on them, but both properties are condemned because of fires that took place there. His request is that he would like to have those back taxes relieved so those properties can be sold. There is a developer that would like to put new buildings up on them and get them back on the tax rolls in a very productive way. I will pass this along to Tax Assessment.

Mr. Haste: That is not an uncommon request. It goes before the Tax Assessment Appeals Board and they make a determination.

Mr. DiFrancesco: We take bad properties and create good properties and help the tax base.

Mr. Hartwick: I know Nick and I have attended the forum that the Cumberland County Commissioners put on regarding Corridor One. Just a request, maybe for next week, because of the timing and the quick moving process on this Corridor One project, it probably would be a good idea to have the MTP folks come in here. We can get a list of questions together to begin the process of deciding what our position is on Corridor One as a Board. If we can do that next week.

Mr. Haste: Make that two weeks at a Workshop Meeting.

CHIEF CLERK

Mr. Saylor: Next Tuesday is County Government Day. We are going to have 23 County departments in Strawberry Square to greet and inform the public, to educate them on County government. I am told that this Sunday the Dauphin County Victim Witness Assistance Program is hosting an event. It is a play on homicide victims in Pennsylvania. There will be a silent vigil and remembrance ceremony at the Courthouse.

SOLICITOR'S REPORT

Mr. Knupp: You have the Solicitor's Report before you consisting of 15 items. They have been reviewed and will be placed on the agenda for consideration next week.

DIRECTORS/GUESTS

Lou Verdelli, Public Financial Management
Andrew McKendrick, Public Financial Management
Scott Shearer, Public Financial Management
Dave Eckhart, Image

Presentation and review of interest rate management plan for the 2004 debt restructuring

Mr. Verdelli: Just as a refresher, these Swaps are in conjunction with the debt restructuring that you have instructed the financing team to proceed with; which we will be bringing back to you for your final approval next Wednesday. Part of that restructuring called for the County to convert some of its debt from the fixed rate that it is in right now to a variable rate basis. We wanted to review that structure, what the potential benefit is, as well as, under the State law that allows you to do these types of transactions you need to enter into an interest rate management plan; which is a very comprehensive document that states that you understand the transaction that you are entering into, the benefits, the risks and how you will have to continue to monitor these interest rate Swaps over the life of the Swaps.

Page 2, this legislation has allowed you a very efficient way to convert your fixed rate debt into variable rate debt. Right now the County has 100% of its debt in a fixed rate basis. All the rates are locked from the time the debt was issued until any time that you would refinance it in the future. We are proposing to enter into interest rate Swaps on a portion of the debt. We have been looking at the 2002 Bonds, 2002A and the second Series of 2001. As we have reported, when we were last here, when you authorized this, there is a potential to receive upfront payments by selling options to enter into this variable rate debt. Right now we are projecting those upfront payments at approximately $850,000 per issue of those three that were mentioned that would potentially be converted into variable rate debt. As a result of the variable rate debt; which has historically had much lower interest rates than what the County's current fixed interest rates are, we would anticipate that each one of those issues, if historical rates are indicative of the future for variable rates, would produce $1 million worth of savings in terms of reducing your interest rate expense on each one of those financings. There would be significant savings. Those would be used to offset the additional costs of doing a debt restructuring. That is why the Swaps were an important component of the entire plan, not only to diversify the County's debt portfolio to have some variable rate debt, but also to achieve additional savings that can be used to offset the cost of the restructuring.

Page 3, Andrew will get into this in more detail, but I just wanted to help introduce the concept that an interest rate Swap really doesn't have anything to do with the bonds that you have outstanding. Those bonds will remain outstanding, the 2002's and 2001's. You are just entering into an agreement to exchange interest payments with someone. In this case it is proposed to be RBC. You are simply entering into an agreement where two parties are exchanging interest rates. The box down on the bottom of Page 3 basically shows all Swaps. There is always one person that pays a fixed rate and the person pays the variable. In this case, you're the one that would pay variable and the counter-party would pay you a fixed rate to be used to offset the cost of your existing bonds. Other people do transactions where they want to pay fixed rate and the counter party would pay you variable. So, it is always going one way or the other. It is just an exchange of payments. One of the terms that you hear Andrew refer to is notional amount. That is basically the dollar amount of bonds that are left on your issue that we are proposing to set the Swap up on. If we say we are going to do it on $15 million notional amount, that means that there is $15 million of Bonds outstanding on that issue; which will continue to be paid off each year. You are not changing anything, you will keep making your principal payments and the amount of the Swap will ratchet down also as you make those payments.

Page 4, just so you understand the authorization that you have been given by the legislature to use these types of instruments, it was Act 23, it started out as House Bill 1148; which is basically for the last two years this legislation has been kicking around at the Capitol to allow local governments to use these types of financial products. The legislation authorizes the use of interest management agreements. Those are the words that are actually in the legislation. We will refer to them as interest rate Swaps throughout this presentation. Some of the requirements under the legislation are that you must have a written interest rate management plan. That plan will basically detail the transaction that you are entering into, how much debt will become variable as a result of it, what your maximum annual debt service would be if interest rates went to 25%. Those types of things all are contained in that plan that you would be adopting. The County already has one of these plans. You were required to adopt it when you became a co-party to the Swap on the Harrisburg Incinerator financing. You have a plan that contemplated that Swap. It had nothing to do with any Swaps that the County had, because you had none at that point in time. It is that document that we will be required to now update and it will be a substantial revision of it, because it will now have to reflect everything that you are considering entering into. The legislation requires that you have an independent financial advisor prepare and review that plan. The transaction must be reported to the Pennsylvania Department of Community and Economic Development. It is similar to your Bond Issues where you submit them to DCED. Where it is different, is they do not review it to say its good, its bad, it meets anything, they just basically record that you have an interest rate Swap. It is kind of like when we do TRANS, it is just a filing with DCED to let them know that you entered into a contract. The Swap provider or counter-party, in this case it is RBC, the legislation does have minimum credit requirements so you can't enter into one of these transactions with a bank that hopefully doesn't go out of business in five years. The minimum requirements are that they must be in the A rating category or above. RBC is actually in the AA rating category. I don't know if there are any banks in the AAA category right now. There is probably only ten that are in the AA category. The state law does have some requirements in there to help protect you from what we would say as counter-party risk; which is the risk that they stop making payments to you that you need to make payments on your bonds.

Page 5 talks about a few of the required things that will be entered into your interest rate management plan. The amount of debt outstanding that you have, the proposed new debt, the details on the Swap, what the Swap fees are on the transaction, all of that has to be disclosed, the payments under the Swap, some risk analysis; which we will show you an example in just a minute. You also have to describe the ongoing management that you will be doing every year. You need to update this interest rate management plan so that you know the value of the Swaps that you have on your books. There is also some disclosure things that Mike Yohe will now have to make sure are noted in terms that you have an instrument like this on your books.

Page 6 shows why you are switching some of your debt from fixed rate to variable rate. This is an interest rate chart that goes back to the early 1980's when variable rate debt was created really for public entities and the top line shows fixed interest rates, traditional 30 year bond issues, the bottom line shows variable rates. You can see that since the early 1980's variable rate debt has historically come at a lower cost than fixed rate debt. From time-to-time, it is very substantial the spread obviously when you look at the last two or three years you see a very, very large differential there that people in the variable rate mode have saved a great deal of money over that time frame. The ten year average on this variable rate debt is just under 3%, so it is a pretty significant savings when we compare that to the traditional fixed rate of about 5%.

On the next page, I will turn things over to Andrew at this point to walk you through the mechanics of your specific Swap, as well as, continue to talk about what some of the risks are that we will have to disclose in your interest rate management plan, so that you fully understand those. He will also take you through some of the debt service schedules that show exactly what debt is being proposed to be moved into Swaps and there are some other tables that talk about the termination risk and give you some ideas of how Swaps are very different. One thing they are very different from Bonds. With a Bond Issue, if you want to refinance it or pay it off, we can do that once we get to the call date, at really anytime there is no premiums. That is very different with Swaps and Andrew will help describe all of that.

Mr. McKendrick: Starting on Page 7, the pictures here are probably the easiest thing to describe the way the mechanics of the product work. Again, as Lou said, we are not proposing to change the bonds themselves. What we are proposing to do is enter into this contract to adjust the interest basis of these Bonds from a fixed rate to a variable rate. The motivation being that this approach will save the County overall. The mechanics here, as you can see, the County has the fixed rate Bonds outstanding. We enter into a contract where the Swap counter-party pays a fixed rate to the County. In return for that, the County pays a variable rate. You, in affect, can cross out the two fixed rates in terms of the net exposure of the County. What you are left with is from an interest rate perspective just that variable rate. We have written in here BMA. The County, in the Swap floating rate or variable rate payer, at this BMA (Bond Market Association) rate; which is an index of tax exempt variable rates, the weekly index. What the Bond Market Association does is they take an average of the weekly rate on these. What you would be doing is getting a weekly tax exempt rate, much like you would do if you issued debt directly. Of course, here you don’t have all the associated costs from issuing variable rates directly and you don’t have to roll over letters of credit and liquidity fees. There are certain advantages to getting to variable rate debt through this mechanism.

Page 8 gets into a slightly more, I’ll call it the complication to the structure. The benefit to this complication is that it creates an upfront payment to the County. What the proposal is, rather than just immediately entering into the interest rate Swap, the County sells to RBC an option to put you into that Swap at some points in the future. If interest rates stay low, then they may not choose to put you into that interest rate Swap. That is the risk that you are taking. Of course, if interest rates stay low there are other benefits that we would probably look at refunding the outstanding debt. If interest rates stay the same or move slightly higher, when I say interest rates in that case I mean the fixed Swap rate, then RBC would choose to put you into that interest rate Swap. The distinction here is in case A where you just enter the interest rate Swap you are choosing to enter it any way. Here we are saying listen at the same interest rate we will give you the right to put us into that Swap in a years time. You are not left with the same exposure on the interest rate Swap only instead of being in there from day one you get paid a premium for that option and then down the road they put you into that interest rate Swap. You give up, in today’s market, BMA is about 1% roughly. We know that first year of the interest rate Swap, where they are paying you 5.15% and you are paying them BMA plus 1.25% you are going to get a benefit of almost 3%. You are giving that up in the first year for example. The premium payment is substantially larger than that benefit would have been. What we are doing in effect is accelerating the benefit of that variable rate plus getting an extra payment for the option in that structure. The risk to the County is if interest rates do go lower that you are no longer getting the benefit of lower variable rates. Our view, from the overall picture, is then you got this outstanding debt that is callable that you will get another benefit from interest rates declining. Our view is that you have in terms of your debt structure and natural offset to that risk and that makes the selling of the option here a little more palatable from the County's point of view.

How the actual money would move around, as Lou said, the Bonds themselves wouldn't change. We focused on the 2002 Issue. Currently, the County makes semi-annual payments on those Bonds. That would remain the same. From the Bondholders perspective, nothing would change.

Page 10 really just goes through what's outstanding on those Bonds and what we are proposing to Swap from a fixed rate to a variable rate. Page 11, every six month period we would agree on a settlement. We would look to what variable interest rates were, what that BMA plus 1.25% was and compare it to the 5.15% and for example today, with BMA at 1%, we expect that first settlement to be favorable to the County close to 3% from RBC. If variable rate interest rates rise in the future that would reduce or actually change around potentially the net flow. The risk in this one, when you are taking on variable rate exposure, is the risk that interest rates rise, whether it is a temporary or permanent change that the risk that interest rates rise above what your expected cost would be. I think that is a risk that is worth taking on a portion of the debt.

Mr. Shearer: Page 12 quantifies on a illustrated basis the actual proposed benefit, assuming historical rates that the County would realize. Columns 3, 4 and 5 are the calculations of what is being received by the County. This is what the Swap counter-party is actually paying on a semi-annual basis. Column 3 you can see that they are going to be paying you that 5.15%. In Column 5 that generates annual payments of approximately $840,000 for the next six or seven years and then it starts to decline after that. On the top portion of that you can see there at the 5.15% 2004 line that is actually where you would receive the estimated upfront payment today. This chart assumes that you would receive that upfront payment today and then the counter-party, RBC, would have the option starting one year from today to put you into that Swap and you would start paying a variable rate. That is why that line is there under 5.15% 2005. If you go to Columns 6, 7 and 8 that is actually what the County is liable for to pay the counter-party. In this case we are assuming an average variable rate. As Lou mentioned before, the historical average right now is about 3%. We over-estimated and made that about 4.25%. This is the assumption that we are making for variable rates over the next 20 years basically. So, Column 8 is what the County would be responsible for paying the counter-party roughly $697,000 or so for the next six or seven years and then that starts to decline as well. When you compare Columns 5 and 8, that is what generates Column 9 with the proposed benefit over the term on a future value basis, even including the upfront payment it is about $2.9 million when you present value that number back. That is how we got closer to the $1 million that Lou first mentioned on Page 2.

Page 13, we just showed again, after we dissected a couple of the different parts of this Swap, and put it all back together again. The illustration shows that the County is going to continue to pay the bondholders every six months that 5.15% average interest rate and then on the right side of this equation is where the contract is put in place between the County and RBC, as the counter-party, where the County is going to be receiving the fixed rate basically to offset what needs to be paid to the bondholders and in return the County is going to be paying RBC that variable rate.

Page 14 are some more numbers that illustrate the benefit. Column 11 is really the main column that should be looked at for internal purposes here at the County. Where you start out receiving that upfront payment and then again Column 11 just shows the expected net benefit over the life of the issue. For most of our clients where they are exposed to variable rates, we then say okay you are budgeting this variable rate, why don't you start putting money aside in a little kitty, so if in the future, the variable rate goes above that rate that you are receiving from the counter-party you have in Column 14 that you can start to pull some money out of this and use it for some capital projects. We like to call it rate stabilization and improvement fund. It could be used to offset some existing rates or could be used to pull some money out to pay for some projects.

Mr. McKendrick: There are a lot of assumptions built in. The important thing to remember is the recommendation is to take the variable rate risk to get that benefit. Those numbers are going to fluctuate over time and that is why Scott mentions the reserve fund as being an important part of taking variable rate interest rate risk. Going back to the interest rate Swap itself, I wanted to mention who the participants in these transactions are. Of course, there is the issuer of yourselves as the County. Going from there you need an independent financial advisor that is on the Swap itself. It is proposed that Public Financial Management and Image work together to prepare and review the interest rate management plan, do the transaction analysis, work with you to decide exactly which portions of which bonds the Swap should be done on, do the procurement, the pricing and providing of a fair market opinion and prepare and review all the documentation associated with this There are some standard documents that go together with interest rate Swaps, and we would be involved in preparing that with Swap counsel. Swap Counsel is Rhoads & Sinon. One of the things with the interest rate Swap is that you are entering into a long term contract to exchange money flows with a single counter-party. You are entering into documentation that is credit documentation in effect and we want to make sure that document fits your existing bond documents and is in compliance with those bond documents. Bond Counsel also reviews all the closing documents. The Swap provider, as mentioned, would be RBC, the Royal Bank of Canada. The important thing for the Swap provider is that it is a major financial institution and that they have the infrastructure to do these transactions. They have a high credit rating so that they would be expected to perform on this contract for you over the full term as proposed. They provide the link to the market, unlike a straight debt issuance where your debt is sold by an underwriter to various investors. Here they sit between you and the broader market. Your contract is just with them. It is likely that we'll also get Swap insurance. There are some benefits. First, though it seems that the benefits are to the provider of the Swap in that what the insurance does is it insures your scheduled payments to that provider. The benefit to you is that in these contracts there are provisions that allow either party to get out of that contract at a market price if there is a credit issue. If either of the counter-parties fall below a certain threshold and that is a negotiable threshold. Say for example, we put that threshold at A- and the County would go below A-, without insurance the counter-party could get out of that contract and cause you to lose your contract. By putting Swap insurance in place that protects you from that happening and that is why PFM is an advocate of using that type of insurance to protect the County from an adverse event.

Mr. Hartwick: Are those costs for insurance considered in this proposal?

Mr. McKendrick: Yes, absolutely. It is actually a small cost.

We listed on Page 16 some benefits and risks with this type of interest rate Swap. The main benefit that we are looking at here is the expected debt service savings. First of all by getting an upfront payment for the option and then also if you put into the variable rate, the historical and expectation is that variable rate will cost you less over the life of the issue. If interest rates do fall after you are exercised on that Swaption, these contracts have a market value so if there was a substantial fall in interest rates after you were put into this contract, you could potentially terminate that Swap and get a payment. We had a lot of issuers doing that. Most recently, about a month ago, issuers who had entered into similar contracts saying at this level we are going to readjust our floating to fixed balance and take a payment for that. The opposite of that is of course one of the risks is that if interest rates go substantially higher you defectively would be locked in unless you paid away a termination amount. A further benefit I mentioned earlier is that you get variable rate exposure without the traditional costs associated with variable rate debt. Some of the major risks are the counter-party default risk. The risk that RBC goes out of business and is no longer performing on that contract, we mitigate that by putting in a lot of protections in the documents, as well as, choosing someone who is AA rated to begin with. There is the interest rate risk, which is actually what we are after, but of course the risk to that is if rates rise more than you would expect and create a higher cost than you would be expecting. There is termination costs here, if one of these contracts is terminated prior to the maturity. The one risk that is harder to get a handle on is that by selling an option you don't know from the outset your exact floating to fixed mix, because it is a contingent situation that depends on the exercise of the option. As I said, the debt structure for the County provides a certain protection to you that if interest rates do fall substantially and you are not put into this Swap you are going to get other benefits from the callable nature of your debt.

Page 17 talks about how we would mitigate some of these risks. Counter-party credit risk is one that is fairly easy to approach. In the documents, first of all, we would start with the higher rated entity. We can put in a collateral agreement, it may or may not make sense. I think we would want to do some further analysis down that end. Part of the protections from this new legislation is that you must put in this interest rate management plan and you must monitor the performance of the Swap over time. At a minimum, the legislation says that you must provide annual evaluations and annual updates to the interest rate management plan. The interest rate risk is something that we are after and other than monitoring it and acting accordingly down the road that is the point of the transaction and the risk that we want to take. Termination risk is the risk that the Swap is terminated prior to when you want to. There is a couple of ways that this may come up. One would be a credit event to the County. Of course, we are hoping to mitigate that with Swap insurance. The other time could be if you wanted subsequent to this restructuring of your debt take out those bonds in another way down the road. It could be that you want to change the legal documents around those bonds. You might want to refund those bonds for another reason. Then there is the potential cost of terminating the Swap. The Swap has to go with some bonds. So, if those bonds go away then the Swap has to go away. The risk would be that you wanted to take those bonds out and interest rates were substantially higher. We are going to purchase Swap insurance that is going to eliminate or mitigate, to a large degree, the risk that if there is an adverse credit event at the County level causing you to be terminated when you don't want to be. Just to put some numbers around what that termination risk might be. For example, the table on Page 19, if interest rates move higher by 2% from the contract rate and you want to get out of that contract in November of 2005, remember here the principal we are talking about is $16.5 million, the costs would be this $2.9 million number. So, you can see it can be a substantial number, but this is only a risk if the contract is terminated. To us, we look at the likelihood of that contract being terminated and we'd say it would have to be either you want to restructure that debt for some reason; which we don't think is going to happen moving forward. The likelihood of it moving forward, once you have gone through the current process, is much lower. If we are looking at ten years out then we are looking, say the 2015 date, the numbers become much smaller as the debt becomes shorter and has less principal outstanding. The other times it could be an issue is if the County's credit rating declines and you lose your bond insurance, meaning the bond insurer goes out of business. Getting to an event where you would really have this liquidity need is to me a fairly remote event. We want to be clear that it is possible and the numbers involved are large. That sums up everything that we have to say immediately related to the Swap.

Mr. Verdelli: We had looked at an analysis of how much debt should the County have in a variable rate mode. You are 100% fixed rate right now and the credit rating agencies will say as long as it is a place that is run well they can have 25% or 35% of their debt in variable rate mode, and it is not going to cause a credit rating downgrade just because you switched your debt to variable rate mode. We actually have school district clients that have 50% and 60% of their debt in variable rate. Over the last five years, they have saved millions of dollars having more of that debt in the variable rate mode. With the Swaps that are being proposed and again, as Andrew mentioned, we are still working through all the numbers with RBC to get the right mix of your debt and which ones are most attractive to put into the Swaps, but we may end up at an area of around 25% of the County's debt in a variable rate mode. If you instruct us that you want to have more debt than that in variable rate, we could look into approaching the 30% number, because with Swaps we can really customize how much. We don't have to say your whole 2002 issue, we can say ¾'s of it, ½ of it and work more on your total overall debt picture on how much is in variable rate. If you say 25% is too much, lets bring it down to 20% we can adjust that, that just changes the upfront payments, it changes the future benefit if rates stay low like the averages have been. The other thing to keep in mind is that as the County borrows money for other projects in the future, depending if you do those as fixed rate debt or variable rate debt, if you do them as fixed rate the portion of debt that you have in variable will become smaller as a result of adding additional debt if you did it fixed rate. We do have to think about the future debt issuance whenever they may occur and whether we do those as fixed rate or variable rate in terms of what are you more comfortable with and what are the rating agencies comfortable with as to how much debt we have in variable rate. We would be happy to answer any questions. David Twaddell is also here to also help us with any of the legal issues.

Mr. Hartwick: Because rates are so low right now, is it a good time to be doing these variable rate Swaps or is it more advantageous doing the Swaps when the rates are up a little bit?

Mr. McKendrick: They are probably not as low as you think based on what the market has done in the last week. You are right, the most advantageous time would be to do this when rates are higher and in affect making the rate you receive, the difference between the rate you receive and the rate you pay on the Swap, as large as possible. Of course, the disadvantage is if you think about what I call carry, the interest rate you are paying today is 5% and the variable rate that you are not paying in affect by not entering into it is 1%, then your cost of not entering into it is the difference today. Part of the reason the ten year interest rate is so low is because everyone knows the one day interest rate is 1% and is likely to continue at 1% for at least several more months.

Mr. Hartwick: How long will several more months last?

Mr. McKendrick: That is kind of up in the air at the moment. We have had a lot of good economic data recently. The end of June is what people are talking about as the earliest meeting where they will raise interest rates. But, the question then is how much will they raise interest rates. One of the benefits with tax exempt short term interest rates is that when the Fed goes 2% higher in tax exempt terms you are probably looking at 1.5% higher. All the numbers we have run have been based upon a 3% tax exempt average rate over time. The question becomes if we expect the Fed to go to 8% and therefore tax exempt rates to go 5% then it is not a great idea. I don't think anyone expects that to happen at this stage. That is one of the risks that you need to be aware of.

Mr. Hartwick: Our ability to get out of contracts is pretty defined and certainly they don't have us walking around with a limp. It is a significant amount of money that you would have to pay to get out of these contracts if interest rates go up significantly?

Mr. McKendrick: Correct.

Mr. Hartwick: And that is the assumed risk, in a nutshell.

Mr. DiFrancesco: Just for clarity purposes, page 19, the 2% move again is that a 2% move in tax exempt rates?

Mr. McKendrick: In the tax exempt Swap rate. The way these are valued is that if you are receiving a fixed rate of 4% today and you want to get out of it you look to the replacement Swap rate that the counter-party would go to and if they could replace it at 3% that is a good thing. They would give you some benefit. If they had to replace it at 5% they would want to get or make whole the difference from you in order for you to get out of that contract.

Mr. Twaddell: As legal counsel, we have tried to better understand the termination amount and how it is calculated. One of the best examples for me in understanding how this is done is something that we are all fairly familiar with and that is on the investment side. Investing in a fixed rate security like a long term Treasury Bond. If you bought a ten year bond today and rates on the ten year are in the 4% area, if you buy that bond today and hold it to maturity obviously you get the benefit if you bargain the 4% interest for the life of that bond. If two years from now you decide that you would like to sell that bond the one thing that we know that is most likely the interest rate markets will be different two years from today. If rates are lower that fixed rate bond will be more valuable in the market place because the investor purchasing it from you can't get that 4% rate on the remaining eight years of life on that bond. Conversely, if interest rates have risen over the next two years and you find that you need to sell that bond you will take a loss for the same reason, because investors are earning more at that point in time on an eight year investment than the fixed 4% that you are paying. That is essentially the same calculation that is done when people terminate one of these interest rate Swap agreements. They are looking at what it costs the other party to replace that transaction at that point in time. It is a matter of where the market interest rates are at that time over the remaining life of the contract. Just as if you had a big swing in interest rate markets, lets say treasury bonds could become very valuable or have very little value if you were compelled to sell it. The same thing happens here with the termination amount.

Mr. Hartwick: As the financial advisor, what is your opinion and advice on whether or not this is the appropriate time to enter into the variable rate market?

Mr. Verdelli: We think it is appropriate for the County to have some of its debt in a variable rate mode. The County, two of the financings that were done in 2001 were variable rate financings. So, at one point there was $30 million of debt in a variable rate mode that saved a great deal of money, because while it was outstanding it was at 2.5%. It was before we got to these really low rates of 1%. But, there was variable rate debt here that we had recommended. The County had a large amount of debt, none of it was variable. You are not benefiting from those tremendously low rates and when we looked at that chart, just like you look at it and say the last 20 years variable rate has always been better. There are those little spikes up that are usually just a one week spike. They are usually at the end of the year when the people that buy variable rate bonds can't have them, they don't put them in their portfolios over year-end for closing purposes, so the rate comes right back down the first of January. The other spikes are usually right around tax time, right now, especially when the stock market had great years and people were writing big checks to Uncle Sam for capital gains, there were big withdrawals out of these variable rate funds so the rate spiked for a week or two. When you look at that chart and you see how low variable rates have been you have to say if we are trying to save money; which is the goal, shouldn't we have some of our debt in variable rate. Historically it has been proven to save money and when we think about what variable rate is we are borrowing at the lowest point of the yield curve, which is what we are just saying for the next week, I am going to loan you money. The next week, I am pretty sure that hopefully not too much is going to happen in the world or I'm going to be able to monitor what happens to you a week from now and readjust my rate so there is not that much risk. Whereas, if you say lets enter a loan for 50 years there is a lot of bad things that can go wrong in that time period and I would say I want an 8% rate if we are locking in to some rate for that long. You are borrowing at the shortest part of the yield curve, really seven day loans is what you are ending up with. We think it makes sense to have variable rate. The fact that we have structured these seems to be an extra economic benefit to sell that option, to get the upfront payment. You could enter a Swap right now and have variable rate tomorrow and start saving by having your debt at 1%. We ran the numbers that said if the County went into variable rate right away, what do you save. We looked at if the County sells an option and takes an upfront payment to go into variable rate and say they go in a year later, they have given up that opportunity to be in variable rates at 1% for a year. What is the economic value of that and we present value that, compare that to the upfront cash payment and right now that payment is more than what the potential savings would be; which is why we recommend that strategy. If that answer came out to be something different we'd say don't take the upfront payment, get in variable rate tomorrow, but the economics of the Swap markets are such that when we talked to RBC, RBC's original idea was just to put you in a Swap right away. We ran some numbers for some other clients on this option and showed it to RBC's trading desk and they were kind of scratching their heads saying that does look a little out of whack, but yes we checked with our Swap desk and they are saying the same thing. It is our recommendation that the County have some variable rate, whether you are comfortable with 25% or 35%, that is your decision. We can tell you that the rating agencies are okay with it, but we support having some portion of the County's debt in variable rate.

Mr. Hartwick: Are you saying that the amount of money that we could potentially gain in this piece, is it coming to the County in an upfront payment?

Mr. Verdelli: Yes, that is right.

Mr. Hartwick: So, in that upfront payment, I guess this would be a question to Mr. Yohe, as our Financial Advisor, are we using that to put towards our deficit that we had this year or are we going to keep that in a reserve fund to pay any future differences in those interest rates if they happen to peak? Are we going to have the money to make the payments out or are we going to be dipping into our general fund?

Mr. Verdelli: I think we would make two recommendations. One is that if the Swap is exercised and you are put into variable rate debt, say a year from now, our one recommendation would be lets budget 4% or 4.5%, lets not budget 2%, because it is

2% when it gets exercised. We would say budget a little bit more and definitely any excess put it aside in a rate stabilization fund. You should do that. The second recommendation is that with those upfront cash payments that you are receiving, we know that you were cited by Standard & Poor's of having a low fund balance, I think it would be prudent to start to build up that fund balance with those payments. It will certainly make S&P a little happier. They are pretty satisfied with everything else going on in the County. The one negative is the fund balance is a little lower than they would like. We can start to build that up with those payments that would probably be our recommendation. I think Mike Yohe and I have talked about that and I think that would be his preference too.

Mr. Hartwick: Is that a policy that we should be setting internally or is it something that is going to take action of the Board to determine how we want to be able to set those proceeds?

Mr. Verdelli: The Board needs to set that as a policy decision.

Mr. DiFrancesco: I don't want to say that I would only support this if that were the case, but I would strongly advocate for that reserve account to be set up, because this County is in dire need of reserve funds. I think it would be a bit shortsighted to take that money and spend it all.

Mr. Hartwick: Thanks for your diligence.

Mr. DiFrancesco: The chart that you have given on the interest rates, the BMA, is that the market trend on the Bond Marketing Association rating. That's basically what that is?

Mr. Verdelli: That is correct. That is the index of BMA.

Mr. DiFrancesco: So, that is a good representation on what the gaps have been, based on the product that we are buying.

Mr. Verdelli: Yes.

Mr. DiFrancesco: The next question is based on the numbers that you have provided upfront, I see clearly what we would be gaining. I am not so sure I see the fees and what I am curious about is what is the net gain to the County. What are the costs associated again? If you could clarify those a little bit more for me I would appreciate it. What does that $850,000 turn into once this thing is done?

Mr. Verdelli: Those numbers are all net of the cost.

Mr. DiFrancesco: Those are actually what we would gain.

Mr. Verdelli: Those are net numbers. Again, in the interest rate management plan, when we bring that back in final form, you don't see the interest rate management plan today. If we would have brought that along it would have really bored you because it didn't have any pictures or anything. It is text and it really bores people. Again, that is written to adhere to the State law that says you need to have this, this and this. When we bring that back it will talk about how much debt is in variable and how much is in fixed and how much each person that was involved in the transaction was paid. Those costs all have to be broken out for you under State law.

Mr. DiFrancesco: Finally, to understand the market a little bit better and to understand our risks a bit better, why does someone enter into this agreement with us? Obviously if it is a benefit to us, it is a loss to someone else. How do they receive their benefit on their side?

Mr. Verdelli: It is not necessarily a loss. You would think it is to someone.

Mr. McKendrick: First of all from RBC's point of view, they are not necessarily making a bet with you. They have a book of transactions and they are laying it off somewhere else, another client, another counter-part in the market. From their point of view, they are getting compensated purely on a spread between where they do a transaction with you and where they do a transaction with somebody else. The other people in the market, for example, it could be a borrower who wants fixed rate exposure and is doing it this way because they have some other benefit to doing an interest rate Swap and getting their funds that way. It really is, if you think about the difference between short term rates and long term rates, some people look at the interest rate Swap market as just a way to pass those risks around. I think that is a pretty good description of it. Borrowers of long term fixed rates; which the County has historically been, you are usually paying a premium, because you are getting that risk free money in effect. You know what your cost is going to be, but as Lou said to borrow money from somebody for 20 or 30 years, you have got to give them an incentive to give you that money for that length of time. The incentive is to pay them a higher rate than what they think they would get if they just left that in a variable rate fund for 30 years, where they had complete flexibility and they could put money in and out. The whole thing of my checking account. I have complete flexibility, but I don't get paid very much. If I go buy a five year bond, I don't have very much flexibility, but I have a better rate. That is really what is going on here.

Mr. Verdelli: The other way to understand it is that spread between when Andrew says they found somebody else at one rate and you at another rate and they are going to make the difference. If you buy a stock, you call your broker and he is going to say the price to buy one share of stock is $85 and you are going to pay $85 so you buy it at $85 and the very next day you decide that you don't want it any more and you call him back to sell it that broker isn't going to pay you $85 back. They will pay you $84.50 because that is their bid ask spread. So, the Swap counter-parties are RBC, the way they will make money on your transaction if you enter into this SWAP with them will be the same thing. They will find somebody that wants to enter one side of the trade at X% and then they are going to enter into it with you at X+10 so you are paying them that extra 10 basis points. That is how they are compensated and because they have set up their hedges whether interest rates go to 15% or go to 1% it doesn't matter to them. They make theirs upfront just like a stock broker that's making the bid ask spread every time someone buys or sells a stock.

Mr. DiFrancesco: I have no other questions.

Mr. Verdelli: I saw that Dave Eckert is here from Image. His firm will be assisting in the preparation of the interest rate management plan and the pricing when we come back to you with a final product.

Mr. DiFrancesco: Are there any other questions from any body else?

Mr. Verdelli: We will be back next Wednesday with the actual pricing of the bonds to lock in the interest rates on the bonds that are associated with restructuring the debt and then in terms of the only action you will be taking next week on the Swaps is that you will be adopting the interest rate management plan and you will be authorizing us to go forward and lock in the Swaps with RBC. Next Wednesday, we won't actually know exactly what your upfront payments are, we will be able to price them, but then we will have to report back once we have actually locked in those upfront payments and the pricing. Image and we will be doing after next Wednesday. So, we will provide you with a final report that details all of that.

Mr. Hartwick: Before next Wednesday, Lou can you set up a meeting with me. I have a question about maybe some other instruments that may be coming out for us to take a look at in this process as well. Please set something up with Kacey.

PUBLIC PARTICIPATION

There was no public participation.

ADJOURNMENT

It was moved by Mr. Hartwick and seconded by Mr. DiFrancesco that the Board adjourn.

Transcribed by: Richie Martz

Respectfully submitted,

Chad Saylor, Chief Clerk/Chief of Staff

printed 7/28/04