DAUPHIN COUNTY BOARD OF COMMISSIONERS

COMMISSIONERS' WORKSHOP MEETING

WEDNESDAY, JULY 26, 2006
10:00 A.M.

MEMBERS PRESENT

Jeff Haste, Chairman
George P. Hartwick, III, Secretary

Dominic D. DiFrancesco, II, Vice Chairman - Absent

STAFF PRESENT

Chad Saylor, Chief Clerk/Chief of Staff; Bill Tully, Esq., Solicitor; Bob Dick, Treasurer; Randy Baratucci, Purchasing Director; Tom Guenther, Information Technology Director; Mike Yohe, Budget & Finance Director; Leila McAdoo, Solicitor's Office; Dave Schreiber, Personnel; Kay Sinner; Personnel; Edgar Cohen, Facility Maintenance Director; Gregory Schneider, Budget & Finance; Richie Ann Martz, Commissioners' Office; Diane McNaughton, Press Secretary; Lena Martinez, Commissioners' Office; Jena Wolgemuth, Commissioners' Office; Kacey Truax, Commissioners' Office; Faye Fisher, Personnel Director; Mike Pries, Security Director; Garry Esworthy, Risk Manager; Donna Miller, Worker's Compensation; Donna Price, Controller's Office; Gail Nye, Commissioners' Office; and Julia E. Nace, Assistant Chief Clerk

GUESTS PRESENT

Lou Verdelli, Public Financial Management; Rev. Alvin Taylor;

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 four sets of meeting Minutes for approval next week.

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?

Mr. Taylor: My name is Rev. Alvin Taylor. I just came by to thank you for your support on the banquet. It was successful. We had 210 people participate, fairly new people. Everything went good. Thank you for your support. I did return it only because I saw we couldn't acknowledge it because the program was set with a lot of young people. Then we had the unfortunate circumstance of an electrical storm in North Carolina. The keynote speaker couldn't get out. He was at the airport Saturday morning. We had a lot of things happen that was unexpected. So I returned the proclamation also only because we didn't send it to him. But everything was in order up until 9:30 that morning. It was a great program. I was the keynote speaker. I'm going to forward to you two interviews that were done with the media and also the keynote address which I ended up doing which wasn't planned and also some of the residents that participated on that segment. I just want to give my profound thank you for your support because this was the first endeavor of this kind. Just getting back involved in the Harrisburg community where I grew up in, it was a challenge to say the least. I did know all of the entities but I do thank you for your support and hopefully we can continue going on. I wanted to come by and thank you personally.

Mr. Hartwick: Do you plan on having the event next year?

Rev. Taylor: I don't know. I'll tell you that took six months off my life. I've been hearing nothing but good follow-up. I just came back from Rutgers University teaching down there. I was getting a lot of feedback. I'm the type of person, you know you have to plan but it's not so much all the feedback but you give to those who supported it and let you know they were there. The Commissioners definitely were here with me. Sometimes when you're putting on an event for the first time, people don't know your name and I thought that was really good, too. I don't know about next year. It will be in God's hands.

Mr. Hartwick: Thanks for your work.

Mr. Haste: Is there anyone else that would like to address the Board? (There was none.)

DEPARTMENT DIRECTORS/GUESTS

Mr. Haste: Lou will you please come forward?

A. Lou Verdelli, Public Financial Management

1. Constant Maturity SWAP Proposals

Mr. Verdelli: Good morning Commissioners. The opportunity that we have for you to consider today is utilizing some interest rate Swap structures that are really driven by market conditions. This is an opportunity that wasn't around a year ago when we did the Basis Swap where we explained to you how you were exchanging just two variable rate payments and you're taking tax risk and we projected a PV benefit that was just under $400,000 on your 2004 D Bonds. This is an opportunity that is driven by what has been happening with the shape of the yield curve and the federal reserve. You probably all read about the fed increase in short-term rates seventeen consecutive times now. So we had short-term rates rising and the long-term market which is just based upon market conditions, those long-term interest rates have not moved. So what we've ended up with is a flat yield curve where interest rates for short-term borrowings are the same as what they are for long-term and the same for investment rates. Short-term rates in fact are now even higher than long-term rates. So we have an inverted yield curve and it has created an opportunity for this structure that's called a Constant Maturity Swap. It is very, very attractive. We have seen issuers all around the country. Some of the first to do this several months ago were some of the large airports and public power utilities and it has kind of trickled down now to smaller transactions. I think in Pennsylvania there have already been twenty-five of these transactions completed. So it is something that we've been discussing with Mike Yohe. He thought it was appropriate to bring it to your attention. I just wanted to give you a little bit of a background on it.

On page 2, at the top the Basis Swap that we did a year ago in exchange of their payments-the County on the left – you are exchanging payments with Royal Bank of Canada (RBC) and in the circle the projected benefit of $378,000 as a result of that transaction. What we would basically be doing is pretty much keeping the Swap the same except at the bottom of page 2 changing the variable rate formula for the payment that the County would receive. You see that it says a percentage of a ten year Constant Maturity Swap Rate. What we are doing effectively if you think about it is agreeing to pay a short-term rate, BMA is a weekly rate, and in exchange receive a ten year rate. So right now while the yield curve is flat those two work out to be about the same. But what you anticipate is that the yield curve goes back to a normal positive slope which over the last twenty years, it has had that positive slope about 95% of the time. Sometimes, it is really steep other times it is less steep but at least a positive slope. If you are in this structure, if you are receiving a percent of a ten year rate when those rates go back up and the yield curve is a positive slope you'll be receiving much more than what you are paying out on a short-term than you're paying here that is labeled BMA.

In one way you would think about it as a mismatch of your payments but it's built to take advantage of the normal positively sloped yield curve that over time you can look back and see that it has been that way the majority of the time.

That is kind of the big picture. If we flip to page 5, to illustrate the difference we go back in time that if you would have done this transaction back in 1989, you would have been paying out the blue line and you would have been receiving the green line. We had the same chart for you back when we did the Basis Swap and the lines were much closer together. With this, there is the opportunity that assuming you go back to a positively slope yield curve and you can see back in periods where we had those positively sloped yield curves in the early 90's, in 2002, 2003 and 2004 there is a huge difference between what you're paying versus what you are receiving and the ability to pick up those very large payments. Obviously, other times when the yield curve was more flat in the 90's you can see that the spread is narrow and in fact there are a few times where the pay is higher than what the receive is. We've shown that for you. Just to show you some numbers on page 6 to illustrate the years, had you done this back in 1989 there would have been a negative. You can see in 1989 and 1990 in column four the spreads were negative 80 Basis Points and negative seven. As you go down that column you can see years where there was a tremendous spread, 180 Basis Points, 148 then again in 1998 and in 2000 we were slightly negative. The average over that time period has been about 69 Basis Points of positive spread which translates into a $113,000 of positive cash flow every year. Just to put it in dollar terms again in column five, what we did was, we took the 2006 Bond Issue that you just did, the $16,450,000, and assumed that if you applied the Constant Maturity Swap to that Issue what would the annual cash flows have been. There you can see what those numbers look like. Obviously, in the bad years you can see the worst it ever was the negative 133 in 1989. Then some potentials for some very large years in terms of positive cash flow in those years where the yield curve was much more steep and had its positive slope that is on an average. It would have made $113,000 a year on the 2006 Bonds.

What we have done is looked at all the County's debt and said two Issues that probably make the most sense to apply one of these Swaps too would be with the 2006 Issue that you just did and one of the reasons being that at maturity, we know that we structure that to go about 15 years. So we're not going out to extreme blanks of time on some of your other debt that does go longer in terms of the time period that we have what will be called the main risk that you pick up if you do this yield curve risk. The risk is that the yield curve would stay perfectly flat like it is right now, or go inverted for extended periods of time. It was the 2006 Issue and the 2004 D, that's the one that currently has the Basis Swap on. We talked about why we picked that one last year. The same reasons, it is shorter in maturity and those two Issues when we put them together they comprise less than 30-35% of the County's debt. So it is not like we are applying this to 100% or even 50% of the County's total debt which we think is a reasonable amount to apply it to. We have some clients that have looked at this and thought it was tremendous and have applied this too close to 75% of their debt. That I think is kind of at the maximum amount of exposure you want to do. We've tested it and we've looked at the data and certainly all of the banking firms that do these types of Swap transactions have lots of data that they've also looked at. It appears to be a tremendous opportunity. Again, if you enter it when the yield curve is flat and you lock in these percentages that someone is willing to pay you and that yield curve goes back up. That is where the greatest potential is. I would liken it to if you bought a stock that was down $10 that day and you step in and you buy it in that situation you're giving yourself a lot more upside potential for when that stock comes back. That is kind of where the Constant Maturity Swaps are right now that if you enter it when the yield curve is perfectly flat that is about as good a pricing as you'll ever get assuming it goes back up. There is an opportunity for a great deal of benefits.

Just to summarize on page 7, the Swap's D of 2004 you have the existing Basis Swap that would stay in place. We still expect that benefit of $378,000 and then the proposal would be to apply a Constant Maturity Swap to that Issue. There you would see the projected benefit is $603,000 as a result of this new transaction. If you put those two together, we would anticipate close to a million dollars benefit through the maturity of those 2004 Bonds. There is a total projected benefit of $981,000. And at the bottom of the page is your new 2006 Bonds, apply the same type of Swap to that and you'll see the expected benefit of that is $934,000 over the life of that financing. What you would obviously do as those per-annual benefit payments come in most likely you would use that to offset the debt service payment that you have to make on those Issues.

The last thing that I will wrap up with on page 8, if you are interested in proceeding the team that would be in place is shown in terms of the Counterparty is RBC that you used before; Swap Broker, First Albany; Swap Advisors, our firm, PFM and Access Financial; and Counsel, McNees, Wallace & Nurick, LLC, who just helped you with the Swap on the 2006 Bonds.

Page 9, is the risk page which you've seen before. In the Basis Swap we had all of the same risks. The only difference is the yield curve risk and that is when we would enter a period where the yield curve would stay perfectly flat or went inverted for an extended period of time. Other than the amount, you're not increasing your risk in any of these categories based upon what you have right now. It is just the yield curve that you're picking up.

Mr. Hartwick: Has there been any time in history where that yield curve has been inverted for any substantial amount of time?

Mr. Verdelli: Yes, those periods you can kind of relate to them on the chart on page 5 where….

Mr. Hartwick: I'm saying prior to 1989?

Mr. Verdelli: I'm sorry prior to 1989.

Mr. Hartwick: We can see what it looks like from 1989 with your chart.

Mr. Verdelli: Part of the problem is, this Constant Maturity, the 10 year Swap wasn't around. Corporations have done this exact transaction for a long time and it was back in 1989 when the Constant Maturity Swap first began. So there is really nothing to chart off of it prior to that. There were times when the yield curve was inverted. I know on this chart the maximum amount of time it was inverted or flat was about 18 months. The current flat yield curve that we're experiencing now has been in place for about four months. The average amount of time, on page 5, that the yield curve was flat is between eight months and eighteen months. If you look at that and say right now we may be about half way through what the average amount of time is that a yield curve is flat.

Mr. Hartwick: In what cases would the County be in a position to terminate this particular Issue?

Mr. Verdelli: Really two cases would arise where you would terminate. One would be as we talked about in your other Swaps that the Counterparty always has the ability that only if your credit rating went below investment grade they could force you to terminate the transaction at whatever market value is at that point in time. If you did this and say something terrible happened and your credit rating went down a year from now and the yield curve was perfectly flat, your cost to terminate would be very minimal because we are still in about the same market environment. If the yield curve had gone more inverted than what we have today, you would owe a million or two million dollar termination payment to get out.

If the yield curve had gone more to its normal positive slope and you needed to terminate a year from now, in that situation it is not most likely you would be able to terminate and receive a payment. In fact many of these transactions, the strategy that many of these people are taking is put it on now, the yield curve is flat. If it goes back to a normal slope two years from now and the positive termination value to you is $2.5 million, you terminate, take your $2.5 million, your yield risk curve goes away and all that projected benefit that you were going to get over fifteen years, you've just made in two years. That is really the main strategy for a lot of people because a lot of people think at some point the yield curve has to go back to its normal positive slope. The only other reason that you would terminate is if we were in a prolonged period where you were making payments and the yield curve was staying flat and it looked like it was going to stay there and you said, "I need to stop this" and you would terminate. You would owe a payment at that point in time. It is really the only scenarios for termination is if either you are forced to due credit rating downgrade or if you terminate either because you want out for a positive or negative reason.

Mr. Hartwick: Thanks.

Mr. Haste: Do we have to amend our management plan?

Mr. Verdelli: Every time you do a new Swap we have to write a whole new management plan so that gets updated. Obviously it tracks all the Swaps you have in place now and would describe the new ones.

Mr. Haste: If the average is eight months, should we wait a couple of months?

Mr. Verdelli: What we have done, on page 7, if you look at the two sections that say proposed Swap, the second line says September 1, 2007 effective date-what we have begun doing here in the last month and half is recommending that while you would enter it today, it actually doesn't begin until a year from now, September, 2007 to basically insure that if the yield curve stays flat, that you're skipping that period and hopefully by September of 2007 it is back to a positive slope where you would have positive cash flow every year. We have had a couple of these that we did two and three months ago that we had them start immediately. The next week they started exchanging payments. We're in this inverted yield curve they are making payments right now. It is negative.

Mr. Haste: What if next month it goes that way and we don't want to wait a year?

Mr. Verdelli: We would not get that benefit. We are recommending that we start in September of 2007. That is just a recommendation. We talked also with Access about that.

Mr. Haste: So we aren't locked into 2007? If we see the curve go, we can kick it in?

Mr. Verdelli: No, what we would do is pick a date whenever you give your final approval to this. We would come back with the paperwork, say that is three or four weeks from now. The very next day with all the Swaps we would actually price and set that percentage. We don't know but we have a rough idea but it is not locked in stone. We would lock that percentage in. That is what's key. You locking that in today based on shape of the yield curve. The exchange of payments wouldn't start until, in this case September of 2007.

Mr. Haste: Okay, so we could lock the rate in right now and not wait until September, 2007?

Mr. Verdelli: Yes, we would lock in the transaction and know what the projected benefit would look like but hopefully skip this period where those negative payments happen. We talked to Matt Kirk about that, our Swap department. Right now we're starting them anywhere from six to twelve months.

Mr. Haste: After you lock the rate?

Mr. Verdelli: Right, that it looks like we could usually experience the same interest rate environment for about the next six months for sure. Many people expect that. So we are trying to skip that period of potential break even or even negative payments and get hopefully a time when the yield curve is back up.

Mr. Haste: Are there any other questions? (There were none.) Is there a motion to move forward with this Constant Maturity Swap proposal?

It was moved by Mr. Hartwick and seconded by Mr. Haste to move forward with the Constant Maturity Swap Proposal; motion carried.

Mr. Verdelli: We would probably look to be back in three to four weeks once all the documents are done, credit approvals, etc.

Commissioners: Thanks.

Mr. Haste: Mr. Cohen will you please come forward?

B. Edgar Cohen, Facility Maintenance Director

1. Renovations of the District Attorney's Office in the Courthouse.

Mr. Cohen: The reason it is chilly in this room is because the actuator is out. Last week it stuck open and we were able to fix the problem but it happened again. We have to replace that valve.

I'm here to give a report on the District Attorney's Office area and an outline of what is going on. Right now they are located on the fifth floor of the Veterans Memorial Building. We are doing extensive renovations starting with the HVAC section. That is the most costly. From the passed emails, you know how they are experiencing 55 degree temperatures or 100 degrees. There is no in between. We installed some new VAV boxes. We have to install at least 100' of new duct work. The one back section had no air flow at all because of an inadequate duct sizing. We're installing sprinkler lines and install new control valves on the existing window units. The window units are in good shape. It is just a matter of updating the controls. The window units supply the heat to areas. We are also installing new drop ceilings in some of the areas. They are a must because we need to hide a lot of the duct work. We are updating the phone lines, updating the electrical lines, installing and updating the light fixtures. We are making renovations like other existing office areas. There will also be new carpeting. That will be around 5,300 sq. ft. and approximately 2,500 sq. ft. of tile. We checked with the Solicitor and we must put the carpeting out for a bid. I need an okay from the Commissioners to work with Randy to put out a bid for the carpet. As they come in we'll bring it back to the Commissioners to announce the bid award. Sixty-five percent of the area will be done in-house. A lot of my staff will be doing the demo work. Other staff will be doing the carpenter work but the HVAC we have an outside contractor and also with the carpeting and sprinkler.

Mr. Haste: The sprinkler lines don't have to be bid as well?

Mr. Cohen: Because of the cost, it is not as great. The line is already there and all we have to do is run it from the hallway into the office area. That is it for the District Attorney's area. Do you have any questions?

Mr. Haste: What is the timeframe?

Mr. Cohen: I was looking at 2 ½ to 3 months but now I'm looking more at 3 months because of the bid for the carpet.

Mr. Haste: So it should be about the end of October?

Mr. Cohen: Yes, before the winter hits they should be back into their new office.

Mr. Haste: Are there any questions?

Mr. Hartwick: No.

PERSONNEL

Ms. Sinner: The first item I have is the Salary Board requests. Spring Creek is eliminating a Dietary Aide position and creating a Cook position. One of their cooks is out indefinitely. MDJ Semic is requesting permission to create a Legal Clerk I position.

Mr. Haste: I saw the emails flying around. Are we creating one or is there one existing or what?

Ms. Sinner: Bob thought there was one existing in Pianka's Office that was going to be eliminated. However, that position was never created. I have a salary board request for it but I didn't proceed with putting it before the Board because I had questions about creating it because we had trouble getting one created in Solomon's Office. I explained that to Bob. Since then, there has been a new Court Order drawn up and the number of positions that it calls for matches what Mike has on his budget.

Mr. Haste: So does this fall within that or?

Ms. Sinner: Yes, it does fall within the Order.

Mr. Haste: What is that magical number now?

Ms. Sinner: 85.5 translates to 86 in my book.

Mr. Haste: That .5 has to be a part-timer.

Ms. Sinner: There is a part-timer.

Mr. Haste: So what number will this one be?

Ms. Sinner: He was counting the position in Pianka's Office as the 85.5 which did not exist. So it is still 85.5.

Mr. Saylor: I believe we need Mr. Hawley here because we filled a position in Pianka's Office. I'm not sure that is the correct D.J.

Ms. Sinner: That would have been a vacant position. He actually was trying to create a Legal Clerk II position at one time the beginning of the year. I have the salary board request that he signed. Then it became that he wasn't going to be filling that. He wanted to put it in some other office.

Mr. Haste: That was this rotating person that they wanted and they were going to sort of house this person in Pianka's Office but he wanted to rotate it.

Ms. Sinner: The only ones that I knew that he was going to rotate were people who worked in Night Court.

Mr. Haste: He made a pitch about having a pool employee that they could move around but that was the Pianka position. It is clear we need to have a better explanation before next week.

Ms. Sinner: I'll make sure Bob is here.

Mr. Haste: Chad, please make sure that we are on the same page.

Mr. Hartwick: I have a problem with the position. Based upon what I hear this morning, I'm not clear at all. Nor did I hear from Semic or Hawley on this.

Ms. Sinner: In the personnel transactions, we have several vacancies requesting approval to fill. Some of which other transactions in the packet are contingent on these approvals. We have some new hires, two in Facility Maintenance, one in the District Attorney's Office, part-time Help Desk Technician in I.T. and we have a weekend Recyclable Materials Collector Assistant for Solid Waste. The hire for MDJ Semic's Office is what this new position is for so that hire would be contingent on the Salary Board approval.

Mr. Hartwick: I think there is some convincing to do with at least two or maybe three people before next week's meeting with Semic's position.

Mr. Saylor: Who is that person? Is she existing?

Ms. Sinner: No.

Mr. Saylor: So they selected a person and…..

Ms. Sinner: Yes, she is scheduled to start August 7th if all goes well. Then we have several personnel changes including some job title changes. There are some items that I'm going to request a vote on today.

Mr. Hartwick: Where are those items?

Ms. Sinner: New hire #18, and changes #36 & #40 due to the timing of those changes.

Mr. Hartwick: You said, #36 & what was the other one?

Ms. Sinner: 36 & 40, that is a transfer that is effective Monday, July 31st.

Mr. Hartwick: I see why now #40. You'll need to give me a minute until Commissioner Haste comes back.

At the sake of moving this along why don't I have Randy come up.

Ms. Sinner: I just want to point out that there are a couple overtime requests for Tax Assessment.

Mr. Hartwick: I already approved that.

(Purchase orders were reviewed at this time.)

Ms. Sinner: I would like to make a change on new hire #18. I won't be requesting approval on that today. We're changing the start date to August 7th.

Mr. Hartwick: So we are requesting a vote only on #36 & #40 today?

Ms. Sinner: That is correct.

(Commissioner Haste returned)

Mr. Hartwick: We need a motion on the personnel packet #36 & #40 today.

Mr. Haste: Okay.

It was moved by Mr. Hartwick and seconded by Mr. Haste to approval #36 and #40 in the personnel packet; motion carried.

PURCHASE ORDERS

Mr. Baratucci: You should have received your packet yesterday. As usual, we have a couple that are over budget that we'll take care of between now and next week. There is nothing unusual. There are a couple expenses for the D.A.'s Office that Edgar was talking about for some automated controls. And there are a couple of open P.O.'s for needed supplies as the project goes through. They are just small miscellaneous supplies. Other than that, it is pretty much a light packet. We'll fix the budget ones and have it back for approval next week.

Mr. Hartwick: I looked through it all and have no questions.

TRAINING PACKET

Mr. Hartwick: Chad, anything in the training packet?

Mr. Saylor: Can we hold that?

Mr. Hartwick: I will hold the training packet as well.

We also have a matter in the training packet that needs action.

Mr. Saylor: The request we have is from Mr. Nelson from EMA. This request came to us late and I understand that Mr. Nelson only found out about it late. It is a National Training Program of some prestige. Nick has given the oversight okay.

It was moved by Mr. Hartwick and seconded by Mr. Haste to approve a training request for Kevin Nelson from EMA to attend a National Fire Academy – All Hazards Planning Section Chief Pilot Conference July 25-28, 2006 at Emmitsburg, MD; motion carried.

SOLICITOR'S REPORT

Mr. Tully: I have nothing to add but would be happy to answer any questions you may have.

REPORT FROM CHIEF CLERK/CHIEF OF STAFF – CHAD SAYLOR

Mr. Saylor: We received through Patty Koble in Judge Pianka's Office who is apparently very active in the Big Brothers and Big Sisters. They are celebrating their 25th year of service to children in Dauphin County and Central Pennsylvania. They are very interested in partnering with the County to expand their services in getting county employees more involved in Big Brothers and Big Sisters. What I would like to do is with the Board's approval bring Susan Hair who is the Director of Programs for Big Brothers and Big Sisters in to do a presentation to talk about what they have exactly in mind.

Mr. Hartwick: I have met with the Executive Director on numerous occasions. We sent out emails to employees trying to encourage them to become Big Brothers or Big Sisters. We actually supported them both for kids' sake. I don't know what else they would like us to help with but I have no problem with them coming in to provide a presentation.

Mr. Saylor: That is all I have at this point.

COMMISSIONERS' COMMENTS

Mr. Hartwick: We'll now wait for Commissioner Haste for a final vote.

PUBLIC PARTICIPATION

Mr. Hartwick: At this time is there any public participation? (There was none.)

ADJOURNMENT

It was moved by Mr. Hartwick and seconded by Mr. Haste to adjourn the meeting.

Respectfully submitted,

Chad Saylor
Chief Clerk/Chief of Staff

Transcribed by: Julia E. Nace, Asst, Chief Clerk
July 26, 2006