

LOWER PAXTON TOWNSHIP  
BOARD OF SUPERVISORS

Minutes of Workshop Meeting held October 16, 2012

A workshop meeting of the Board of Supervisors of Lower Paxton Township was called to order at 5:35 p.m. by Chairman William B. Hawk on the above date in the Lower Paxton Township Municipal Center, 425 Prince Street, Harrisburg, Pennsylvania.

Supervisors present in addition to Mr. Hawk were: William C. Seeds, Sr., William L. Hornung, Gary A. Crissman, and David B. Blain.

Also in attendance was George Wolfe, Township Manager and Steven Stine, Township Solicitor.

**Pledge of Allegiance**

Mr. Crissman led in the recitation of the Pledge of Allegiance.

**Public Comment**

No public comment was presented.

Interviews with Financial Advisor Respondents

Presentation by Susquehanna Group

Mr. Hawk noted that the purpose of the workshop meeting is to interview candidates for Financial Advisor. He explained that the respondents would have 45 minutes to make their presentation to the Board members at which time there will be an opportunity for asking questions. He noted that Jay Wenger is present along with John Hewlett.

Mr. Wenger introduced his partner, John Hewlett who is the Director for the firm.

Mr. Wenger noted that his firm was started when Congress separated accounting firms from the consulting firms; therefore his firm is a combination of financial advisors and CPA's who have left the public practice to become consultants. He noted that he brings a combination of skill sets which border the applications as they do a lot of strategic planning and accounting

consulting work for municipalities across the Commonwealth, and some in the bordering states. He noted that he would focus on municipal finance for tonight's presentation.

Mr. Wenger noted that he has updated the refunding numbers as of today and will share that information with the Board.

Mr. Wenger noted that staff provided a very detailed Request for Proposal (FFP) and he would like to start with a review of his firm. He explained that Susquehanna Group Advisors, Inc. (SGA) is located in the Township at Sir Thomas Court for around 10 years and provide services in Pennsylvania, Maryland, New Jersey and Delaware. He noted that he has clients in the southwest corner of Pennsylvania, in Erie, New Jersey, the suburbs of Philadelphia, and the middle part of the State. He noted that he considers this area home and likes to work in this area as much as possible in order to keep down expenses.

Mr. Wenger noted if the Township was to retain SGA, he and Mr. Hewitt would be the primary contacts, and if for whatever reason neither would be available, there are many people who could step in to answer any questions that the Board may have and also to attend public meetings. He noted that he started in the early part of the 1980's as an investment banker and transitioned to the financial advisor side as he could see the evolving industry and the need for better service for the client. He noted that Mr. Hewitt is the in-house intellect who runs all the numbers and has been in the business since 1997, with 15 years experience. He noted that SGA will bring the king of experience that will benefit the Township to work with the financing team to execute whatever is needed. He noted something that is new to both SGA and the Township as a result of the financial crises, is that there is a clear distinction between underwriting and financial advisor services. He noted, whoever you retain as an underwriter, has to make it clear to the Township in writing that they are not the Township's financial advisor. He noted that it is a distinction that Congress thought existed all along but it was a gray area in the industry. He noted that there is a very clear distinction between an underwriter of municipal debt and the financial advisor. He noted that he made the transition because he felt that there was a real need for a voice on behalf of the client as opposed to the underwriter who is trying to maximum profits to sell the bonds in the market place. He noted that his role is to represent the client and only the client in the transaction. He noted if someone is doing something that is not in the best interest of the Township he will point that out.

Mr. Wenger explained that he knows that the Board has made a decision for the Bond Counsel and the remaining selection is the underwriter. He explained if the Board has an underwriter that it has a relationship with that it is satisfied with he would be fine with that. He noted that anytime the Board solicits proposals, the fees drop considerably and in some cases by 40%. He noted that it is a relationship issue that the Township must be comfortable with. He stated that he is comfortable working with any underwriter who has experience with Pennsylvania tax exempt financing. He noted that his role is to manage the process, so he would work with the bond counsel, manage the credit rating process that is one of the most important factors of the process. He noted that prior to the recession, the bond insurance industry had grown to a point where there were five or six Aaa bond insurers, all of which got good interest rates and no one asked questions about the Township. He noted with the dissolving of virtually all the bond insurance company there is one left and it has an Aa credit rating. He noted that the underlying credit rating of the borrower has become the most important part of the underwriting process. He noted that it is very important to get through this process effectively and efficiency so that the outcome is as positive as it can be. Mr. Hawk noted that it has become a standard now. Mr. Wenger explained that he doesn't see any that don't have rating because the buyers are not going to buy based upon a AA bond insurance policy that might not exist in three or four years. He noted that the buyer wants to know that Lower Paxton Township can survive and thrive regardless of what might be surrounding them in the bond insurance industry.

Mr. Hawk questioned if the fact that the Township is a taxing entity makes it any easier. Mr. Wenger answered that it helps as the Township has the ability to levy taxes. He noted that the agencies know that a township has the legal authority to raise taxes, but question if you have the political will to do it. He noted that rating agencies know that the legal ability to do it does not always translate into the will to do it due to voter preference. He noted that most of the rating conversations that we have really center on how supervisors are managing their budgets today, if they are drawing down the fund balance why are you doing it, and where is the stopping point and what will they do when they reach it. He noted they want to know if supervisors will raise taxes.

Mr. Crissman questioned what about the Township's assets. Mr. Wenger answered for a municipality this size; assets are almost a non-event in the rating process since they become core

or central assets. He noted that the ability to dispose of those assets is relatively limited. He noted for the City of Harrisburg, who has sellable assets; it becomes a little more important. He noted that the Township does not have those kinds of non-essential assets that can be sold.

Mr. Seeds noted that Governor Corbett stated that he won't raise taxes but is borrowing money. Mr. Wenger noted that he is borrowing \$1.5 billion for the unemployment fund. He noted that he does not understand how that works but it is a lot of money to match funds. He noted that the unemployment funds are over \$1 billion. He suggested that it is a matching contribution and not a payback.

Mr. Wenger noted that the rating process becomes the highlight of getting ready to get into the marketplace. He noted that his role is to work with Mr. Wolfe and the Board to make sure you have the right information and presentation. He noted the rating companies have a spread sheet that applies to the 1,000 plus municipal entities in the Commonwealth. He noted that he will be able to inform the Board in advance what the questions will be so we are prepared for them. He noted if we don't have an answer for a question, we can get back to them as they are looking for an honest response to their questions. He noted that it is all about the budget.

Mr. Wenger noted that Lower Paxton Township is one of the largest Townships in Central Pennsylvania with a very strong rating and economic base both in and around the Township. He noted that the City of Harrisburg is a major headline and the Township becomes guilty by association. He explained that we have to separate the Township from the City... Mr. Hawk questioned if it would be a deterrent for the Township. Mr. Wenger answered that it hasn't been, as he just was able to maintain an Aa rating for Swatara Township and they are in closer proximity to the City. He noted that it did not impact them, but it has a perception affect on Dauphin County's rating as they are closer to the exposure of the incinerator debt. He noted that it has not adversely affected the ratings, but it may change when the City gets to a final resolution.

Mr. Wenger noted once he gets through the rating process, his role becomes managing the underwriting team, to ensure that the documentation is ready to go and that the preliminary official statement is in proper order and ready to hit the marketplace. He noted that he would work with the underwriter to ensure that their pricing and thoughts for the marketplace are in line with SGA, and try to pick the right time to be in the marketplace. He noted that the Township

has the luxury of not having to do anything, as it is strictly a refunding opportunity. He noted that the bonds are callable beginning April 1<sup>st</sup>, 2013 so he would ideally wait to close January 1<sup>st</sup> or end, or later in 2013. He noted that it fits into the current refunding for federal tax purposes. He noted that it does not gain any interest rate savings now but it might produce another refunding opportunity down the road or preserve another for refunding.

Mr. Wenger noted that he does not see the market changing, but if he was chosen, the earliest he could be in the market would be close to Thanksgiving. He would discourage doing that during that week, as it is a very low attention week for investors. He noted that it gets the Township into December which would close at the very earliest January 2, 2013. He noted if he started working tomorrow it would be a January close. He explained that the economic costs of doing the issue in December and closing in January is very modest as opposed to waiting until March and closing April 1, 2013. He noted that he has a window from early December all the way up to early March where he would not be bypassing the refunding for the optional redemption date of the bonds to be refunded providing time to measure the market to find the best week.

Mr. Hawk questioned if there is an advantage to being bank qualified. Mr. Wenger answered yes, noting that he ran the refunding numbers for tonight's presentation on the assumption that it would be bank qualified. He noted that the principal amount is slightly more than \$10 million; therefore he will have to work with the structure of the refunding itself or just eliminate some of the bonds from the refunding to stay below the \$10 million threshold. He noted as of today it could be worth as much as 25 basis points in interest rates. He noted that is something he would measure as he gets closer to actual marking date. He explained that initially it would be structured as bank qualified and if there is no value to it not being bank qualified at the time, he could access the market with \$10 million and it would not matter. He noted that the goal is to be at \$10 million or less in issuance for a bank qualified status.

Mr. Wenger noted then it is a matter of processing documents. He noted that he has worked with Mette, Evans and Woodside through Dauphin County. Mr. Hawk noted that Mr. Wenger has worked with Mr. Tom Smida at the General Authority.

Mr. Wenger noted that he provided a list of clients, and locally that would be Swatara Township, Borough of Steelton, County of Dauphin, and the General Authority, mainly to

dispose of assets. He noted that he is also the financial advisor to the Airport Authority. He noted that the current transaction for Swatara Township is almost identical to the Township's as it is a utility debt being issued and financed by the Township as subsidized debt. He noted that he is very familiar with the legal structure and able to get through the rating process and into the marketplace with this debt. He explained that he is a local firm, and if you called any of his clients, they would provide a very high and glowing report about SGA service and qualifications. He noted that SGA is very hands on, very small operation and it lives and dies by its service. He noted that you only get one change to do a bad job.

Mr. Wenger noted that he has worked with Fayette County, school districts in suburban Philadelphia, Jefferson County, West Lampeter Township, and Lancaster County. He explained that he views this as home and wants to be very good for the community. He noted that he is a member of the Central Dauphin School District Board. He noted that it can be difficult as his firm works with Dauphin County and Swatara Township, so he has to work with a different hat for different parts of the day. He noted that there is a spirit to work together to try to resolve issues as best he can.

Mr. Hawk noted that in the presentation he saw the mention of derivatives. He questioned if you could discuss this with the Board. Mr. Wenger explained that there was a steep ascension back in 2003 when the legislature amended the Local Governing Debt Act to enter into interstate swap transactions. He noted that there were some isolated cases of transactions that did not go very well so now everyone thinks swaps are bad. He noted that Dauphin County has realized over \$5 million of cash from swap transactions. He noted that they have much more debt than most municipalities so they have more opportunities to generate those funds. He explained, in the right market, with the right client, swaps are a great value. He noted that there is not much that he would present to anyone at this time that would provide for a real value, but a year from now that might change. He noted that it depends on what the Township's debt portfolio looks like, what the cash portfolio looks like, and what the management practice and style is that would determine if you qualify. He noted that the Township has an Aa rate with substantial resources so it would pass the test but the real issue is if there is something that would work for the Township in the marketplace. Mr. Hawk noted that he is not in favor of swaps as the Board has a fiduciary responsibility to manage the money properly.

Mr. Wenger noted that he has done two or three swaps for the School District and made \$5 million but the School District has \$170 million in debt. He suggested that it is something that you might want to consider. He noted that some clients will say they don't want to do that. He noted for the clients that have done it, he insists on having multiple meetings to listen and ask questions before jumping into the process.

Mr. Crissman questioned what Mr. Wenger thought the Township's rating would be as a result of the current economy and the close proximity to the City of Harrisburg. Mr. Wenger noted if a significant layoff occurred in the area, such as Hershey Foods or Hershey Medical Center, it would impact the local economy. He noted unless the Township was way off the national trend, a rater would assume that the Township was in the room. He noted that it comes down to the budget and how the Board manages the current budget as well as next year's budget. He noted if the Township shows a trend of having drawn down the fund balance that becomes a significant black mark. He noted that Lancaster County, three years ago, had a Aa credit rating; however they started drawing down the fund balance from a healthy level and now they have a A credit rating.

Mr. Crissman questioned Mr. Wenger where the Township would fare in the rating process. Mr. Wenger answered that assuming that the 2013 budget does not draw down the fund balance, he believes that the Township would maintain its Aa rating. Mr. Seeds questioned if there is a certain percentage that you suggest the fund balance to be. Mr. Wenger suggested that it should be above 7% to maintain an Aa rating for the GF budget. Mr. Blain noted that the Township has a policy that states that the GF balance should be 25% of the operations, 90-days worth of cash flow fund. Mr. Seeds noted for the first time we borrowed money for a tax anticipation loan. He noted that the Township never did that. Mr. Wenger noted that is a matter of managing cash flow. Mr. Blain noted that it was a timing issue. Mr. Wenger noted that it is only an issue if you fail to repay it. Mr. Seeds noted in the 1990's, the Township had 50% in cash balance.

Mr. Wenger noted that the school district is an Aa and the fund balance on a \$155 million budget is \$10 to \$12 million. He noted if the Board would decide to draw down the fund balance he would suspect that the rating would change negatively in a two-year period. He noted that Swatara Township had a modest draw down in the fund balance that was used for capital instead

of borrowing money and they maintained a balanced budget and there it was no negative impact, but the rating company asked very pointed questions for why the Township was drawing down the money and how it was spent. He noted that you must be able to clearly articulate to the rating analyst what you are doing, how you did it, when you did it, and when it will stop.

Mr. Blain explained that the Board drew our fund balance down for capital projects, not to fund operations. He noted that the Board focused strong on keeping operations separate from capital projects and it was mainly used for capital projects, like George Park. Mr. Wenger noted that the fund balance is a number and if you can explain your policy and what the funds are used for and how you approach your operating policy, all that goes into their assessment. Mr. Crissman noted that all the rating company sees is spreadsheets. Mr. Wenger noted that the worst thing is that they ask a question and in their mind they have an answer but you fail to provide them with all the information.

Mr. Seeds questioned what would happen if the City of Harrisburg goes bankrupt; how would it impact the Township. Mr. Wenger answered that there is a significant Pennsylvania Constitutional issue that will have to be resolved at the highest level of court in the Commonwealth before anyone knows what that outcome will be. He noted that filing for bankruptcy will be another headline and it will take years before the issue will be resolved based upon what the city thinks it deserves and what creditors think they are owed. He noted that he would be surprised if it is settled in five years. He noted that it is a regional headline that will have to be discussed; he noted that it did not come up during the Swatara Township discussions. He noted that the only local entity that will be harmed by it will be Dauphin County given their guarantee.

Mr. Hewlett suggested that it may have more of an effect on potential buyers for the bonds as opposed to the rating. He noted that he hasn't seen any impact on the market.

Mr. Crissman requested Mr. Wenger to discuss the positive and negative on negotiated sales versus competitive sales and what your recommendation would be. Mr. Wenger explained that the positive is that you can put out the bond issue and if it is posted at eleven on a Thursday morning that is your political cover. He noted that 15 to 20 years ago a competitive bid would have saved you money versus a negotiated sale. He noted that due to electronic transmission of information nothing is a secret anymore. He noted that you could have hidden the underwriting

work years ago for a week, so it was a lot easier back then to sell \$10 million and no one knew what interest rate you sold the bond at other than the underwriter, staff and the ultimate buyers. He noted that now it is so transparent and information flows so freely. He noted that it is really hard to do an off-the-market transaction without everyone knowing it immediately. He noted that his role in a negotiated transaction is to make sure it is on the market and he will press the underwriter as hard as he can so it becomes a fair negotiated transaction. He noted that it doesn't matter to him which way the Township goes, noting that he does not think that one is superior to the other as long as the negotiated process is monitored. He noted that the downside to a competitive sale is that you have launched the Township into a date and time and could wake up on Thursday morning and if there is a lot of national or international bad news, all of a sudden the buy is half of what they would have been. He noted in a negotiated sale you have more flexibility to pick the day and time of day that you want to be in the marketplace. He noted that the one fee that is always negotiable is the underwriter's fee. He explained that either you effectively negotiated it upfront saying this is what we think it is worth in the marketplace and take it or leave it, or you start out with four or five firms and request a price. He noted if you try it negotiated one week, it could be higher the next week if you add the competition. He noted for a \$10 million refinancing it might result in a difference of \$25,000 to \$30,000 in fees. He noted over the life of the bond issue that is not a significant cost but it is a difference. He noted that for the Airport Authority, Goldman Sachs came in with a \$1 million fee. He explained they were directed to redo it and it is lowered to \$600,000. He noted that threat of competition reduced the fee by 40%.

Mr. Crissman noted that we could flip a coin. Mr. Wenger noted that is how he would approach it; saying that he does not feel that competitive is a superior approach. Mr. Crissman suggested that Mr. Wenger is suggesting negotiating. Mr. Wenger noted in the recent market where we did not see the volatility 15 years ago that we see today, negotiated sales provide an opportunity to pick. He noted that all the bidders know that you don't start bidding until the clock hits 11 o'clock. Mr. Hawk noted that it does not get hectic until the last minute. He noted that there is more flexibility in a negotiated sale but far more political coverage in a competitive sale. Mr. Hewlett noted that 90 to 95% are negotiated deals. Mr. Wenger noted in a competitive sale you don't get serious until the bell is about ready to ring. He noted that the big item that the

Board can control is the underwriter's fee very early in the process. He noted when it gets closer to December he likes to monitor traders who are protecting bonuses before December 31<sup>st</sup>. He noted in a competitive scale you might not get as good a sale as no one wants to be left with an inventory in the market on Christmas Eve when they start to calculate bonuses. He noted for a negotiated sale he can say to the underwriter, take it or leave it and more want them back. He noted that there are not many who will say that they are not willing to underwrite when they are forced to do so. He noted that his job is to get them to buy the bonds.

Mr. Hawk questioned Mr. Wenger if there were any questions that he expected the Board to ask and it didn't. Mr. Wenger answered that he provided the fee schedule in the back. He noted that he doesn't charge other fees, as most firms will charge extra fees for printing etc. He noted that the one fee covers everything. Mr. Wenger stated that he did not think that you would find someone who would charge less.

Mr. Hawk questioned if Mr. Wenger would do the Preliminary and Official Statements. Mr. Wenger noted that is the financial advisors role. He noted that part of going back to the underwriter is telling them what they will be expected to do and that is to sell bonds in the marketplace. He noted that they are not asked to do the rating process, or the Preliminary and Official Statement. He noted that it should have some effect on their fee proposal.

Mr. Crissman questioned in three short phrases, what are the three major strengths for your organization. Mr. Wenger answered integrity, service and skill. He noted that he would strongly encourage the Board to contact anyone on the reference list. Mr. Crissman questioned why the Board should hire you. Mr. Wenger answered that he believes that his firm will out perform our peer group in service; he thinks the firms years of experience is as good as anyone; and if the Board ask our clients, it would get an affirmation of that and the product that we deliver is second to none.

Mr. Hawk questioned if there are any questions that Mr. Wenger wants to ask the Board. Mr. Wenger answered that he sees the saving today at under \$1.4 million with a significant level of savings for the amount of debt over 13% of the bonds to be refunded. He noted that the go signal in the industry is 3%, so the market is really good. He noted that he does not see the market going significantly higher between now and early December, nor does he see it going lower. He noted that the industry is at a 50-year low for tax exempt market, ten-year treasury is

1.65%; 30 years is under 3%, and if you ask if this a good decision, it is a very good decision from the Board's side of the table. He noted that he does not see a need to close prior to January 2<sup>nd</sup>.

Mr. Hawk noted that many of the financial gurus are saying that the future will see a drop in the economy towards recession. Mr. Wenger noted that one school of thought is that sooner or later you get inflation, noting that we are two trillion into it and we have not seen inflation yet. He noted that the economy is still languishing on almost all accounts except the six o'clock news. He noted that unemployment is hovering around 8%, noting that the real unemployment rate is probably about 10%. He noted that there is very anemic wage growth in the United States economy so you don't see the economy taking off quickly. He noted that the November election will affect the market's perception of where the economy is going and might have a little tailwind or headwind depending on who wins. He noted that the "feds" are more concerned about deflation than inflation. He noted that some people say that rates are going down, but it is hard to image them going lower. He noted that he now feels that zero is the bottom. He noted that we are much like Japan was in that we have very low rates and it is not spurring economic activity. He noted that is our problem now. He noted if you go back to the early 1980's when President Reagan first took office and the growth rate was 21.5% and mortgage rates were 13% to 16%; for the following 25 years, it was an environment of lower interest rates that created monthly cash flow or equity value in homes which translated to purchasing power which translated to economic growth. He noted that there is almost no air left in the consumer's lungs to carry on the conversation anymore and the economy is struggling, although people received a check telling us to go spend money. He noted that they tried that and it did not work and most people used it to pay down their debt. He noted that we had a tremendous loss in home real estate values which was being used to finance cars, vacations and college educations. He noted that it became a source of equity and that has diminished if not completely dissipated and so it will be a struggle to get out of the tepid recovery. He noted if we don't find a way to reignite economic growth then we are facing another downturn. He noted at the very best we are looking at a 2% GDP growth.

Mr. Hornung noted in the 1970's there was a tax break for people who were willing to expand their business and it went away and never came back but at the time it spurred a lot of

investors. He questioned why they did not bring that back. Mr. Wenger answered that it was very effective at the small business level generating borrowing and expansion. He noted that it is not a great retail tool and at a national level most of the policy is driven by the consumer. He noted that we have not had this kind of unemployment problem since the late 1970's and early 1980's. He noted recessions were relatively short in their duration and the change in interest rates was not as dramatic until we got to the 1981 time period. He noted as the rates came down it created great opportunities and incentives to hire back as unemployment was the key thing. He noted that no one seems to be focused on that which is a bit surprising because if you put people back to work you would have a fairly robust economy in a short period of time.

Mr. Blain noted that we have an unemployment rate of 8% and the people don't have the right skill sets to be hired by manufacturers or the construction industry. He noted that the manufacturing community has hundreds of thousands of jobs available and they can't fill them because they can't find the skilled workers and the people don't want to get the skilled training as they don't want to do blue collar jobs. He noted that it is higher income work then it was 20 years ago. He noted that manufacturing is in a strong recovery and they have the money to expand but they can't find the workers to expand. He noted that they are concerned about a weak dollar and not being able to trade overseas. Mr. Hawk noted that some people had well paying jobs but lost them due to the economy and they are having problems getting back into the marketplace at that level, having to come in at a much lower pay level.

Mr. Seeds questioned if the fee is negotiable. Mr. Wenger answered that everything is negotiable but he feels that it is a very fair fee in the marketplace. He noted that it is on the very low side for what he would have charged due to proximity of the Township to the office.

Mr. Hawk thanked Mr. Wenger and Mr. Hewlett for their time and he will be in touch.

Mr. Hawk recessed the meeting with the end of the presentation at 6:24 p.m.

#### Presentation by Public Financial Management

Mr. Hawk called the meeting to order at 6:25 p.m.

Mr. Glenn Williard from Public Financial Management, Inc., (PFM) explained that he sent a proposal but also distributed a new one to the Board members. He noted that he has been with PFM for 32 years and was involved with the building of the Friendship Center. He noted

that he did that bond issue and refunded another issue for the Township over ten years ago. Mr. Wolfe noted that the financing occurred 12 to 15 years ago.

Mr. Williard noted that they are independent financial advisors and are not underwriters that work for tax-exempt or local government. He noted that he has offices in 30 cities, to include California, Texas, Florida, New York, and Boston with the home office in Pennsylvania. He noted that the Harrisburg office is located at Front and Market Street with 125 employees, many who live in the Township to include him. He noted that the bulk of the Harrisburg Office is the investment headquarters managing money for local governments in various states and \$43.8 billion of public money is managed in Harrisburg. He noted that 15 employees in the Harrisburg office work on debt transactions only.

Mr. Williard explained that the firm is the largest in the United States that does financial advisor work and the largest in Pennsylvania, working for the Commonwealth handling very large bond issues. He noted that the firm probably does 100 transactions every year for issuers in Pennsylvania. He noted that the Township has used Pennsylvania Local Government Investment Trust (PLGIT) in the past, and PFM is the investment advisor for them. He stated that the money is all managed in Harrisburg.

Mr. Williard noted on page three, left side, columns two, three and four show the tax exempt bonds for the Township and column five lists a taxable bond with one payment remaining. He noted that the 2006 bonds are Authority Bonds, the one that is up for refunding. He noted that column 11 lists the Build American Bonds (BAB) that were issued in 2009. He noted that column 13 sums up all the debt. He noted that his figures do not show level debt service and he may need to do more research to determine if he has all the accurate information that he researched on the internet. Mr. Crissman questioned if there is a problem with the debt service. Mr. Williard noted that for this year it is \$6 million, and then \$5.3 million and then \$4.9 million and then it goes back up to \$5.8 million. He noted that it looks like he might need to do more homework on his numbers. Mr. Crissman stated that the debt service should be pretty level. Mr. Williard noted that the Pennsylvania Infrastructure Bonds (PIB) and Pennvest Bonds are harder to research on the Internet so he might be missing something for his calculations. He noted that a new counsel at DCED, Bernadette Barattini retired and the new persons who approve the debt for refunding issues are interpreting the rules a little differently than what was

done in the past 20 years. He noted that you can't have changes in your debt service of greater than 10% and if you layer refunding savings on top of it, we will have to pay attention to this. He noted that there are a number of bonds that are non-callable; you might want to push the team on that for callable bonds. He noted that we all think that rates can't go any lower, but they keep going down. He noted that it would provide for some options and moves that you can do if you have callable debt. He noted that you may want to look into this as you do the next bonds. He explained that he will talk about the 2006 bonds in the next couple pages.

Mr. Williard noted page four shows that there is \$9.8 million of non-bank qualified bonds and if you refund those, it increases to \$10.2 million as you must pay for the interest payments, and cost of issuance. He noted that the IRS has an issue for what is bank qualified, and the maximum is \$10 million in a calendar year; therefore, if the Township issues \$10.2 it is over the limit and none of the bonds would be bank qualified. He noted in today's market, the interest rate difference for bank qualified and non-bank qualified for the maturities is around 30 to 35 basis points or 1/3 of a percent difference. He explained that you can issue non-bank qualified \$10.2 million with a savings of roughly \$1 million but you are giving up 35 basis points. He noted if you do it bank qualified the savings could be up to \$1.3 million. He noted that there is no rule for how much the difference is; it is just what the market decides to do. He noted that in today's world the buyers are looking for good investments and want to buy bank qualified bonds so that is the reason for the difference. Mr. Hawk questioned why only \$9.6 million would be used for bank qualified. Mr. Williard answered that the Township would not refund all of the bonds, only refunding \$9.6 million, leaving \$200,000 outstanding that could be refunded in 2013 if other refunding was done. He noted that the other option is that the Board could use its cash to call the bonds, kicking in \$200,000 in cash and it would result in a savings of \$1.5 million. He noted that \$10 million of bank qualified saves 1/3 of a percent. He noted that the \$1.5 million savings is a little misleading since the \$200,000 is the cash that the Board put in it. He noted that the Township would only save \$17,000 more. He explained for the \$200,000 the Township put in, it would get \$217,000 back and all of it is would be bank qualified. He noted for the bank qualified it would depend on the market conditions for how much it would be worth, and at this time it is 35 basis points. He noted that the Township could sell bank qualified bonds with a shorter call

feature for a five-year call but for a non-bank qualified it would be 7 to 10 years or they would be non-callable. He noted that it would give up the flexibility to refund these bonds again.

Mr. Williard noted for the non-qualified refunding, the Township would not be allowed to do any thing else in 2013 and have it bank qualified, to include a tax exempt lease for police cars, or anything like that as it would put the Township over the limit. He noted with the bank qualified refunding and adding a cash contribution, only \$205,000 counts towards the calendar limit allowing the Township to have \$9.7 million. Mr. Wolfe noted that the Township did a Tax Anticipation Note (TAN) in 2012. Mr. Williard noted in 2013, you could not do a bank qualified TAN using option one for refunding, but with the other two options you could.

Mr. Williard noted that these savings, which are a wrap around bond issue, get spread out over time. He noted for the red option it is spread out over four or six years, and in the blue it takes a little longer. He noted that the \$1.3 million savings for the bank qualified, using conservative interest rates, using the Municipal Market Data Index (MMD) running the scale at 60 basis points over the index... he explained that he sold an issued for a Township in Bucks County and the average was 10 basis points over the index and they got a fabulous bid. He noted if the Township has sold the bonds today, getting the same interest rate; the \$1.3 million would have been \$1.7 million. He noted that the Township would not receive a check for that amount, although you could, as you would save around \$200,000 for the next bunch of years. He noted that it would be possible to move an extra \$300,000 of that up front as the Township has a series 2010 A bond that has a \$300,000 payment due April 1, 2013. He noted that it would be possible to refund it and it would move \$300,000 to the savings for the 2013 year budget. He noted that in 2013, the 2006 bonds are refundable on April 1, 2013 paying the interest at the old rate up to that time. He noted that the IRS would allow the Township to close on the refunding bond issue up to 90-days earlier than that if it would like which would be January 2, 2013. He noted that the Township could sell the bonds the end of November or early December 2012, taking a month for approval for settlement by the State, but the interest rate would be locked in for the sell date in 2012.

Mr. Williard noted on page six, the RFP called for the underwriter selection process noting that you would need to hire one, as they are the people who sell the bonds. He noted, in the past, the Township has used Boenning and Scattergood for many of its transactions, so they

would be the normal underwriter. He noted that there are three ways to pick an underwriter. He noted that you would negotiate with Boenning and Scattergood and he would police and monitor the interest rates and bond discount and call feature.

Mr. Crissman questioned Mr. Williard which of the three options he would recommend. Mr. Williard noted that the competitive option, when you have full faith credit tax power, which is what you are pledging, that is the truest, cleanest, highest credit there is. He noted that the Township is rate AA2, it can only raise the rating two notches higher that lends itself to a competitive bid. Mr. Crissman noted that you are saying that competitive would be the best. Mr. Williard answered that the Board is the client and he wants the Board to understand the process. Mr. Crissman noted that Mr. Williard is the expert and he questioned what his recommendation would be. Mr. Williard noted the last page shows results from two competitive sales in his office this date, one at 11 a.m. and one at noon. He noted that South Fayette Township was rated A1 with a competitive sale and their spreads were 30 basis points off the index, with R. W. Baird as the winning underwriter. He noted an hour later, Solebury Township that is rate Aa3 had 9 basis points, and PNC Capital Markets was the winner and R. W. Baird was the lowest place. He explained that he has no idea who will show up with the best proposal. Mr. Hawk noted that it all depends on who shows up. Mr. Williard noted with a negotiated option, the Board picks one person and has a relationship with them. He noted that they know you and will tell you that they can do pre-marketing which is what they do to sell the bonds. He noted that you never know if they could have pushed it more.

Mr. Hawk questioned if Mr. Williard knew of a situation where the underwriter buys the issue. Mr. Williard noted in difficult market conditions, they may have to purchase part of the bond issue and hold it if they can't sell it all. He noted with the competitive option, the underwriters buy them all and own them all. Mr. Hawk questioned if one option is riskier than the others. Mr. Williard answered that the Township has good credit rating of AA2 which is better than both examples. He noted in today's world, the investors are eager to look for the bonds with the highest credit rating.

Mr. Crissman questioned with the expertise of the Township and surrounding areas where do you think the Township would fall in the rating especially in light of the City of Harrisburg. Mr. Williard noted that the existing is Aa2 and the rating agencies will look at the

fund balance, noting that you would keep the Aa2 rating. Mr. Wolfe noted that the Board raised taxes last year. Mr. Williard noted that he does not know what it would take to get the Township to an Aa1 rating.

Mr. Crissman questioned what the essential elements of the bond rating are. Mr. Williard answered that it would be the fund balance, the willingness of the Board to raise taxes, an OPEB liability and what is the shape of the pension plans. Mr. Williard noted the Township has shown that it has expenses or is willing to raise taxes. He noted when the fund balance continues to be drawn on that is an issue. Mr. Crissman questioned if assets are that important. Mr. Williard answered that it would depend on the particulars for the assets. He suggested that it would have a minor impact. He noted that management is very important at this time, and it is important that management can answer the questions and if it has a good handle of the situation. Mr. Crissman noted that the rating agencies look for the longevity of staff. Mr. Blain noted that the Board has had our Township Manager for 20 years who provides solid footing. Mr. Wolfe noted that he had the same person do the rating the last three times and we are starting to know each other.

Mr. Hornung questioned if the other staff is important in as far as the efficiency of the running of the Township, for example the awards that Mr. Wolfe has won. Mr. Williard explained that it tends to be a half hour phone call and we wanted to put a push on the rating, however if you have someone from the rating company come to the Township and you have their attention for an hour or two, take them on a tour, that would take longer. Mr. Crissman noted that he has gone to the rating agencies but it would be much better for them to come to us to see what we have. Mr. Hornung questioned what the rating worth is. Mr. Williard answered from an Aa2 to an Aa1, depending on the market, from two to three basis points to five basis points. He noted it would be worth more for the longer bond issues.

Mr. Crissman questioned if the Township should attempt to go for a rate increase. Mr. Williard noted that it would depend on the financial information. He questioned when the last time the Township was upgraded. Mr. Wolfe answered that the change from an Aa3 to an Aa2, occurred ten years. Mr. Crissman questioned if the Township is in a position to attempt to move its credit rating up. Mr. Williard noted that it is the entire picture and if you plan to invest in having the rating agency visit the Township it takes time noting that you have to put a 50 page book together, have Board members sit in, be instructed for what to say, design a tour of the

facility and Township... Mr. Crissman noted that it is a lot of work but in the end if the Township gets the upgrade it was worth the effort. Mr. Williard noted that the Township would have it for a couple of years.

Mr. Williard noted on page seven it shows the process, noting that the Township would not hold the underwriters to the proposals, having the flexibility to negotiate a little differently. He noted on page 11, shows a transaction for the Borough of Camp Hill noting that they went out to six places, and PNC had a true interest rate cost of 3.05% and the highest was Northland Securities at 3.36%.

Mr. Williard noted on page nine, the information on the Dodd-Frank Wall Street Reform and Rule G-23 took affect August 2, 2012 stating that the underwriters must disclose to the client that they don't have a fiduciary duty to the client, they are not the Township's financial advisor, noting that Boenning and Scattergood should be making this notification to the Township in the future. Mr. Crissman questioned if the Township should retain a financial advisor for borrowing. Mr. Williard answered yes. He noted that we have very smart people who would be selling the bonds but their lawyers will be telling you that you are on your own. Mr. Blain noted that it is like having an audit done, you have an independent public account firm who audits the books and records of your institution and provides an independent and objective opinion of what the position is for those financials so they can provide it to the banks.

Mr. Williard noted on page 12, the interest rates shows the pricing comparison for Upper Allen Township and Lower Paxton Township for a bond issue for March of this year. He noted page 15, shows that all the bonds are priced off the MMD and this shows the weekly rates for the week of October 8<sup>th</sup>. He noted when you place your bonds they will be priced off the MMD Rates.

Mr. Crissman questioned who the point person would be to work with the Township on any transactions. Mr. Williard answered that it would be him. He noted that he lives in the Township, he works for the Central Dauphin School District, and he tries to go to all their meetings and he is their point person.

Mr. Blain questioned if we could call the School District to get a reference. Mr. Williard answered yes.

Mr. Hawk questioned what should the Board have asked Mr. Williard that it did not. Mr. Williard answered that he thinks that he hit the highlights for a half hour presentation. He noted that the timeline for considering the savings for next year's budget, and since it is an unknown, they could be put in the fund balance or use it for special projects. Mr. Wolfe noted that he is not budgeting the savings to use next year. He noted that it might make sense to take an extra month or two as the Official Statement is put together to try to get a new rating. Mr. Hawk noted that the Board's goal is to have 25% of the operating budget in the fund balance. Mr. Williard questioned if it is in a written policy. Mr. Wolfe answered yes. Mr. Williard noted that the rating agencies are hot on written policies and 25% is a good number and it should buy some creditability for the Township. Mr. Seeds questioned if there is a number the credit rating agencies like to see. He noted that there are places that are AAA3 that are at 25%. He noted the more that we talk the more the Aa1 sounds good.

Mr. Crissman questioned what the School District's rating is. Mr. Williard answered that it is Aa2. Mr. Crissman noted that it was AAA3 when he was there. Mr. Williard noted that it could be due to bond insurance. Mr. Crissman noted that he pushed to keep that rating until he left the School District.

Mr. Seeds questioned if the fees were listed. Mr. Williard noted that they were listed in the previous materials sent to the Township, showing a range. Mr. Seeds questioned if Mr. Williard would charge for paper, copies, telephone calls, mileage, etc. Mr. Williard answered that he would not be charging for out of pocket expenses. He noted if he went to New York City that would be different. He noted if it was a negotiated deal and they had their official statement the fee could be improved a little, but if he does it all, it would be more work. Mr. Hawk noted that you would be doing all the official statements. Mr. Williard answered that it would be more work and if you had the word document and could send it to me it would be less work.

Mr. Seeds questioned if the fee is based on a negotiated bond issue. Mr. Williard noted for this bond issuance, to get it set up he could do it easier if it was negotiated. He noted that it is cheaper to do a negotiated bond issue. Mr. Seeds noted that Mr. Williard is not recommending a negotiated issue. Mr. Williard answered that is correct, noting that he could save more than the \$2,000 extra it would take for him to do it. Mr. Hawk questioned if the bond issue is done competitively, could the Board members watch it. Mr. Williard noted that he would provide the

webpage and password for the Board members to watch it on their computers. Mr. Seeds questioned how you time it. Mr. Williard answered that the notice goes out to 100 underwriters stating that it would occur between 12 noon and 12:15 p.m. and in today's world nothing happens until 12:14 p.m. He noted that all the bids are sent in at the same time and there is the two-minute rule, so whatever the winning bid is it extends the time for two minutes and sometimes it goes from five to fifteen minutes where people are still bidding. Mr. Seeds questioned how you determine the date for the bidding process. Mr. Williard noted for convenience we will use the date of the Board's meeting. He noted that you could approve it, give the Chairman the power to sign the documents... Mr. Seeds questioned if you could turn down the bids. Mr. Williard answered that you can do that if you like. Mr. Seeds questioned if you could then do it another time. He noted that it depends on how long you delay it. He noted if you wait six months, you need to start all over again. He noted that you could postpone and go out again in two or six weeks, other than the cost of the newspaper ad, the rating is good for so long.

Mr. Hornung requested Mr. Williard to talk more about negotiating. Mr. Williard noted that is what they did for Camp Hill. He explained that he put the interest statement together, secure ratings, and waited until the end of the process to pick the banker. He noted that you negotiate it and pick them out two to four months ahead of time, having all the work done, so if you receive a proposal on a Tuesday or Wednesday you would have it for the next meeting night. He noted that he picks a winner and they must start to sell the bonds in the next day or two and by Monday night he would look at the MMD and if it hasn't moved the bank better be where they said they would be. He noted if you wait 60 days... many things can happen, so the trick is to get their proposals the day or two before you want to sell the bonds. He noted if something is not right it gives them the change to re-price one or two maturities but they can't come in... noting that is how it would work.

Mr. Williard noted that some people are comfortable with the process, and they would be attracted to the Township's rating. Mr. Crissman noted that a higher rating would attract more buyers.

Mr. Crissman requested Mr. Williard to provide three words that describe the strength of the company. Mr. Williard answered integrity, largest in the County – size with many ideas, and

he lives in the Township. Mr. Crissman noted that Mr. Williard has a vested interest as a tax payer.

Mr. Crissman requested, in one sentence why the Township should hire him. Mr. Williard answered that his firm has a lot of experience; good ideas to bring forth, save the Township money, and make the Board proud of the debt portfolio.

Mr. Williard noted that his firm has been around for a long time and he plans to be working at the firm for some time, his son works for the firm, and he wants it to be a good place that people are proud to work for.

Mr. Crissman questioned if the Board selected Mr. Williard how much time would it take for him to do a quick assessment for this bond issue, and if there is enough time to apply to raise the Township's rating with Moody's. Mr. Williard answered that the Township will have to apply for a rating regardless of what he thinks it will be. Mr. Williard noted that the last rating was roughly nine months ago, so he could study that and get a good sense and have some discussion with Mr. Wolfe. He noted that he could provide an educated guess of what the rating might be, but it is good that the old rating is only nine months old. He suggested that he could look at that pretty quickly.

Mr. Seeds questioned how long it would take to secure a higher rating. Mr. Williard answered, to have Moody's come for a site visit, it would take one to two months to get it scheduled. He noted that it would slow down the timeline by a month or so. Mr. Seeds questioned when we need to do the refinancing by. Mr. Williard answered that the bonds are callable on April 1, 2013, and the earliest that you could do it is the end of the year. He noted if the process was slowed down the saving would still come in the next year as long as we are closed by April 1, 2013. Mr. Seeds noted that there would be a cost. Mr. Williard noted that they won't let the Township pay for the travel as it is all on their dime to do it.

The presentation ended at 7:21 p.m.

## **Adjournment**

There being no further business, Mr. Blain made a motion to adjourn the meeting. Mr. Hornung seconded the motion, and the meeting adjourned at 7:28 p.m.

Respectfully submitted,

Maureen Heberle  
Recording Secretary

Approved by,

Gary A. Crissman  
Township Secretary