NORTH HUNTINGDON TOWNSHIP MUNICIPAL AUTHORITY
Work Session, January 5, 2011, 5:30 P.M.
North Huntingdon Township Town House
11265 Center Highway, North Huntingdon, PA 15642

Roll Call:

Andrew Blenko	- Present	Kate Petrosky, Manager	- Present
Edward P. Shields	-Absent	Donald J. Snyder, Jr., Solicitor	- Absent
Drew Polczynski	- Present	Daniel J. Hewitt, Solicitor	- Present
Timothy J. Hondal	- Present	Chuck Gilbert, System Superintendent	- Present
Joseph M. Korenic, Jr.	- Present	David A. Coldren, KLH Engineers	- Present
		Michael L. Branthoover	-Absent

The Work Session of the North Huntingdon Township Municipal Authority was called to order at 5:30 P.M.

Citizen's Input –

No citizens were present.

Manager's Report

The Board discussed the draft resolution to amend the current policy on billing vacant structures. The resolution outlined a procedure whereby the owner would be compelled to totally disconnect and cap the line in order to have the billing discontinued, as was discussed the December, 2011 meeting. However, upon further discussion, a majority of the Board was not in favor of adopting this procedure. Several Board members raised the possibility of re-visiting the issue of consumption billing, which could also provide a method of reducing bills for vacant structures. The Board did not, however, instruct staff to begin work on this project.

Due to the absence of Mr. Shields, and Mr. Polczynski's need to leave early, the Board decided to postpone the Reorganization until the February meeting.

Engineer's Report

Engineer Coldren presented the results of the bid for lateral repairs. The apparent low bidder is Border Patrol. The bids are also being reviewed by the County. Solicitor Hewitt recommended that Border Patrol's ability to operate in the Commonwealth be verified before taking action on the bid, and the Board agreed to postpone that award until February.

Mr. Polczynski left the meeting at 6:05 PM due to another commitment.

2005 SWAP

Michael McCaig, of PNC Financial Markets, and Dean Richardson of Eckert Seimans were present to discuss the 2005 SWAP transaction. Mr. McCaig is the Authority's Investment Banker, and Mr. Richardson is the Authority's Bond Counsel.

Mr. McCaig gave a history of the SWAP transaction, and the assumptions that were made at that time. In 2001, the Authority issued bonds to both refinance outstanding bonds, and obtain new money for its PennVEST projects. In 2005 there was an advantage in refinancing the bonds due to the low interest rates, however the bonds were not callable at that time and could not be refinanced in a traditional manner.

The SWAP transaction was another mechanism to take advantage of the low interest rates in effect at that time, and a lot of time was taken investigating the numbers, and it seemed to make sense to capture the savings then, instead of waiting until the call date of April 1, 2011. There was still almost 6 years to go and the decision was made to go forward and take the savings.

The economics of the transaction were a gross savings to the Authority of $553,000. $44,000 was used to pay professional fees, leaving a balance of $510,000 that would be sitting in the bank for the Authority's use. The structure of the transaction was that the Authority sold the option to PNC, effective April 1, 2011, to refinance and issue variable rate bonds. So, depending on where the interest rates were on that date, PNC could exercise their option. PNC explained at that time that the Authority should assume that they would be issuing new bonds. If that were not the case, then all the money would end up being the Authority's to keep. Now, interest rates are fairly low, and lower than 2001.

The transaction is that the Authority will be issuing variable rate bonds and entering into a SWAP at the same time. The Authority will be making the same payments as on the old bonds. Out of the cash received in 2005, there was money to be used for the 2011 bond issuance costs, estimated to be $208,000, leaving a net to the Authority of $312,000 that the Authority could use. That's the economics of it. Because rates were low and it was the only way to gain the benefit of the low rates.

PNC had several meetings with the Board, and explained the risks. Unfortunately, what happened in 2008 was really unforeseen by almost everybody back in 2005. There was a credit crisis in 2008 that affected this transaction in a large way. Many of the large institutions that routinely provided bond insurance are no longer in business.

The 2008 credit crisis affected this transaction in two ways. The first is the cost of bond insurance. Many of the AAA bond insurers are no longer in business. We couldn't have seen this coming. The good news is that the Authority still has the cash in reserve, and it's been earning interest over the past 5 years.

Solicitor Hewitt noted that there's a 45-day notice requirement that PNC must provide to the Authority of its intent to exercise its option, but what is the actual lead time that's needed? Mr. Richardson that it's actually more than 45 days since the Township will be required to guarantee the bond issue, which is at least a 45-day process. The notice date is February 15, and the Authority Board should consider starting the process. Solicitor Hewitt asked if the deadline could be pushed back, and Mr. McCaig stated that it's not a drop-dead date, and there's some flexibility.

Mr. McCaig said the problem with the variable rate bonds is two-fold. One is the ratio of the CIFMA tax exempt rate versus the LIBOR taxable rate. The biggest problem is that when you issue the variable rate bonds, you have to have a letter of credit, or liquidity. PNC acts as marketing agent for the bonds, and they have to be able to find another buyer if a current owner wishes to cash in the bond. The letter of credit supports that marketing, and covers the possibility that a buyer cannot be found within the 7-day period that is required. These bonds are usually sold to a money market fund, and buyers want to know that they will get their money. The Authority doesn't want to get stuck writing a check if the bonds are turned in, and can't be sold within 7 days. In 2005, the cost of the letter of credit was estimated at 35 basis points. That rate is now 60 basis points from PNC, which is considerably lower than the rate being offered by other insurers. This rate will hold for only one or two years, and could then change, up or down. Hopefully, it will go down.

Mr. McCaig distributed updated proposals to the Board, which showed a bottom-line loss to the Authority, over the remaining life of the bonds, of $44,709.81. This amount can change, depending on the cost of the letter of credit going forward, as well as the ratio of CIFMA versus LIBOR. The biggest variable is the cost of the letter of credit.

The only other option would be to terminate the SWAP agreement, but the loss under that scenario would be $287,482.71. If the Authority continues with the SWAP, there is always the possibility that the cost of the letters of credit will decrease.

After further discussion, the Board decided to take action at its Regular Meeting to proceed with the SWAP, and authorize Mr. McCaig and Mr. Richardson to begin proceedings, including meeting with the Township.

Adjournment

The Work Session adjourned at 7:00 PM.

Edward P. Shields, Secretary