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COUNTY OF YORK, PENNSYLVANIA

ORDINANCE NO. 2008-01

REAFFIRMING THE COUNTY'S OBLIGATIONS REGARDING A QUALIFIED INTEREST RATE MANAGEMENT AGREEMENT (INTEREST RATE SWAP AGREEMENT) ORIGINALLY UNDERTAKEN IN CONNECTION WITH THE VARIABLE RATE DEMAND COUNTY GUARANTEED REVENUE BONDS, SERIES OF 2003, OF THE GENERAL AUTHORITY OF SOUTHCENTRAL PENNSYLVANIA THAT EVIDENCE LEASE RENTAL DEBT OF THE COUNTY; APPROVING AN AMENDMENT TO THE RELATED BONDS PROVISION IN SUCH AGREEMENT TO REFER TO THE PROPOSED VARIABLE RATE DEMAND COUNTY GUARANTEED REVENUE BONDS, SERIES OF 2008, TO BE ISSUED BY SAID AUTHORITY; SETTING FORTH THE SUBSTANTIAL FORM OF SAID AMENDMENT TO THE QUALIFIED INTEREST RATE MANAGEMENT AGREEMENT; REAFFIRMING AND INCLUDING THE INTEREST RATE MANAGEMENT PLAN PREVIOUSLY ADOPTED BY THE AUTHORITY AND THIS COUNTY; AMENDING THE PURPOSE OF THE DEBT DESCRIBED IN ORDINANCE 2003-03 OF THE COUNTY THAT AUTHORIZED LEASE RENTAL DEBT OF THE COUNTY IN THE MAXIMUM AGGREGATE PRINCIPAL AMOUNT OF $75,000,000, TO INCLUDE THE REFUNDING OF OTHER OUTSTANDING BONDS OF SAID AUTHORITY, IN ACCORDANCE WITH THE PENNSYLVANIA LOCAL GOVERNMENT UNIT DEBT ACT; AND AUTHORIZING APPROPRIATE OFFICERS AND AGENTS OF THE COUNTY TO TAKE RELATED ACTIONS.

WHEREAS, The County of York, Pennsylvania (the "County") is a political subdivision (a county of the third class) of the Commonwealth of Pennsylvania (the

"Commonwealth"), is governed by its Board of County Commissioners (the "Board"), and is a "Local Government Unit," within the meaning of the Local Government Unit Debt Act of the Commonwealth, 53 Pa. C.S. Chs. 80-82 (the "Debt Act"); and

WHEREAS, The General Authority of Southcentral Pennsylvania (the "Authority"), is a municipality authority incorporated by the County and is existing under the Municipality Authorities Act, 53 Pa.C.S. Ch. 56 (the "Authorities Act"); and

WHEREAS, The Authority was requested by the County to finance various capital projects (collectively, the "County Facilities") on behalf of the County, and for such purposes the Authority issued and delivered a series of bonds designated as its "Variable Rate Demand County Guaranteed Revenue Bonds, Series of 2003", on October 30, 2003, in the original aggregate principal amount of $32,620,000, and currently outstanding in the aggregate principal amount of $32,610,000 (the "2003 Authority Bonds"); and

WHEREAS, The County entered into a Loan Agreement, dated as of October 1, 2003 (the "Loan Agreement"), with the Authority pursuant to which the proceeds of County Guaranteed Revenue Bonds of the Authority (the "Authority Bonds"), including the 2003 Authority Bonds, would be made available to the County for the County Facilities and the County agreed to make payments to the Authority equal to all sums due on the Authority Bonds and related contracts; and

WHEREAS, The County enacted Ordinance #2003-03 on October 1, 2003 (the "2003 Guaranty Ordinance"), authorizing a Guaranty Agreement, dated as of October 1, 2003 (the "Guaranty Agreement"), pursuant to which the County guaranteed the payment of the principal of and interest on up to $75,000,000 principal amount of Authority Bonds issued by the Authority at the request of the County, as well as guaranteeing net payments due under interest rate swap agreements associated with such Authority Bonds; and

WHEREAS, The Guaranty Agreement evidences lease rental debt of the County, proceedings for which were approved by the Department of Community and Economic Development under Approval No. LRA-4072, dated October 27, 2003; and

WHEREAS, On March 14, 2005, the Authority approved by resolution an interest rate management plan prepared by Investment Management Advisory Group, Inc., an "Independent Financial Advisor" as defined in the Debt Act, which addressed financial information and risks associated with swap agreements of the Authority payable or guaranteed by the County (the "2005 Interest Rate Management Plan"), including a proposed interest rate swap agreement with the Royal Bank of Canada ("RBC"), under which the Authority (and the County under the Loan Agreement) would pay RBC a fixed rate and RBC would pay a variable rate over a term not to exceed the final maturity date of all outstanding Authority Bonds (the "2005 Swap Agreement"); and

WHEREAS, On March 16, 2005, the Board of the County enacted Ordinance #2005-04, which authorized and approved the execution and delivery of the 2005 Swap Agreement and/or related instruments by the Authority, and amended and increased the maximum interest rate payable under the Guaranty Agreement to include payments due under the 2005 Swap Agreement in accordance with Section 8284 of the Act; and

WHEREAS, On March 16, 2005, the Authority entered into the 2005 Swap Agreement which related its annual notional amounts to the annual principal payments due on the 2003 Authority Bonds; and

WHEREAS, The County has requested the Authority to refund and retire the 2003 Authority Bonds, outstanding in the aggregate principal amount of $32,610,000, by optional redemption on or about May 1, 2008, and to complete the County Facilities, with the proceeds of the Authority's "Variable Rate Demand County Guaranteed Revenue Bonds, Series of 2008", in the aggregate principal amount of $33,500,000 (the "2008 Authority Bonds"); and

WHEREAS, The County intends to make payments for the 2008 Authority Bonds under the Loan Agreement and guaranty the same under the Guaranty Agreement, in lieu of the retired 2003 Authority Bonds; and

WHEREAS, As contemplated by the Debt Act, the County intends to amend and expand the purposes of Authority Bonds, as recited in the 2003 Guaranty Ordinance and in the Guaranty Agreement, to include the refunding of other outstanding Authority Bonds; and

WHEREAS, The Board of the County desires to reaffirm and approve the 2005 Interest Rate Management Plan in light of the issuance of the 2008 Authority Bonds and the refunding of the 2003 Authority Bonds, and approve an amendment to the 2005 Swap Agreement to name the 2008 Authority Bonds (and corresponding principal payments) as the "related bonds" under the 2005 Swap Agreement; and

WHEREAS, The Board of the County desires to take all other necessary action to authorize and approve the amendment of the 2005 Swap Agreement and approve related instruments by the Authority, to amend the purposes of the financing set forth in the 2003 Guaranty Ordinance, and to execute and deliver such documents as may be necessary to implement the intent and purpose of this Ordinance.

NOW, THEREFORE, BE IT ENACTED AND ORDAINED, by the Board of the County, as follows:

SECTION 1. The purposes of the Authority Bonds set forth in the 2003 Guaranty Ordinance and the Guaranty Agreement are amended to include the refunding of other outstanding Authority Bonds, as well as acquiring and constructing the County Facilities. The Board of the County hereby requests that the Authority issue the 2008 Authority Bonds, for the purposes described in the 2003 Guaranty Ordinance, as amended hereby, and to redeem the 2003 Authority Bonds on or about May 1, 2008, pursuant to the Indenture, the Loan Agreement, the Guaranty Agreement and related documents. The realistic useful lives of the Capital Facilities, including those originally financed by the 2003 Authority Bonds, vary between a useful life of at least five (5) years and an useful life of at least thirty (30) years, with the aggregate principal amount of Bonds equal to the separate cost of each project being stated to mature prior to the end of such useful life. The refunding of the 2003 Authority Bonds is permitted by 53 Pa.C.S. §8241(b)(1) (reducing total debt service over the life of the series).

SECTION 2. The Board of the County reaffirms its obligations under the Loan Agreement and Guaranty Agreement with respect to the payment and guaranty of the 2008 Authority Bonds.

SECTION 3. The Board of the County reaffirms the 2005 Interest Rate Management Plan, originally attached to the 2003 Guaranty Ordinance and attached hereto as **Appendix A**.

SECTION 4. The Board of the County approves an amendment to the 2005 Swap Agreement, by amending the language of the Confirmation to name the 2008 Authority Bonds as the "related bonds". The amended Confirmation so approved shall be substantially in the form attached hereto as **Appendix B**.

SECTION 5. The Authority is requested to enter into said amendment to the 2005 Swap Agreement, with such insertions, omissions and variations as the County Administrator may request and approve, consistent with this Ordinance, the execution of the Confirmation by the President or Vice President of the Board of the County to constitute conclusive evidence of such approval.

SECTION 6. Proper officers and agents of the County shall file appropriate proceedings regarding the amendment to the 2005 Swap Agreement, and the amendment of the Guaranty Ordinance and Guaranty Agreement, with the Department of Community and Economic Development, as may be required by the Debt Act.

SECTION 7. The prior advertisement of a public notice of intent to enact this Ordinance in one or more newspapers of general circulation in the County is hereby ratified and confirmed, and the advertisement of a public notice of the enactment of this Ordinance within 15 days following its enactment, as required by the Debt Act, is hereby authorized and directed. Proper officers of the County hereby authorized and directed to arrange for the advertisement of such notices or to authorize and direct the Solicitor or Bond Counsel for the County to make such arrangements.

SECTION 8. Proper officers of the County are authorized and directed to take all other required, necessary and/or appropriate action, or to authorize all other required, necessary or appropriate action to be taken, by or on behalf of the County, to assure the prompt issuance of the 2008 Authority Bonds and the redemption of the 2003 Authority Bonds by the Authority, and the amendment to the 2005 Swap Agreement.

SECTION 9. Proper officers of the Authority are authorized and requested to take all other required, necessary and/or appropriate action, or to authorize all other required necessary or appropriate action to be taken, by or on behalf of the Authority, to implement the intent and purpose of this Ordinance.

SECTION 10. Any reference in this Ordinance to proper officers of the County shall mean the member of the Board or officer of the County customarily responsible for such action, and shall be deemed to refer to his or her duly qualified successor in office, if applicable.

SECTION 11. This Ordinance shall be effective for all purposes immediately upon its enactment.

SECTION 12. In the event any provision, section, sentence, clause or part of this Ordinance shall be held to be invalid, such invalidity shall not affect or impair any remaining provision, section, sentence, clause or part of this Ordinance, it being the intent of the County that such remainder shall be and shall remain in full force and effect.

SECTION 13. Any part of the 2003 Guaranty Ordinance, and any other ordinances or parts of ordinances, insofar as the same shall be inconsistent herewith, are repealed. The remaining portions of the 2003 Guaranty Ordinance consistent herewith are ratified and confirmed.

DULY ENACTED, by the Board of the County, in lawful session duly assembled, this 9th day of April, 2008.

COUNTY OF YORK, PENNSYLVANIA

By: ______________________
County Commissioner

By: ______________________
County Commissioner

By: Doug Hoke
County Commissioner

ATTEST:

____
Chief Clerk

(SEAL)

APPENDIX A

2005 INTEREST RATE MANAGEMENT PLAN

March 14, 2005

General Authority of Southcentral Pennsylvania and the County of York, Pennsylvania

Interest Rate Management Plan

OVERVIEW

In accordance with the requirements of Pennsylvania Debt Act 23 of 2003, amending the Pennsylvania Local Government Unit Debt Act ("LGUDA" or the "Debt Act"), this report shall serve as the Interest Rate Management Plan (the "Plan") of the General Authority of Southcentral Pennsylvania ("GASP") and of the County of York, Pennsylvania (the "County"). This Plan shall cover all Qualified Interest Rate Management Agreements ("QIRMAs"), as that phrase is defined in the Debt Act, including but not limited to the 2000A/2003 Bonds Fixed Pay Swaps (hereinafter defined), and all other interest rate swaps, caps, floors, swaptions and similar derivative instruments currently payable or guaranteed by the County (but not to agreements entered into by GASP or YCIDA, hereinafter defined, with respect to bonds or other obligations which are not payable by or guaranteed by the County).

This analysis has been performed specifically with regard to two new QIRMAs which would be entered into by GASP in the near future, and which would be paid by the County under Loan Agreements with GASP. The County has also guaranteed certain sums payable by GASP such QIRMAs under Guaranty Agreements.

The GASP, at the County's request, will enter into two forward starting, floating rate receipt/fixed rate pay swaps (together, the "2000A/2003 Bonds Fixed Pay Swaps"), that will relate to (1) GASP's $19,090,000 outstanding County Guaranteed Revenue Bonds Series A of 2000 (the "2000A GASP Bonds"), currently in a term rate (fixed) mode through December 1, 2008, and its corresponding floating rate pay/fixed rate receipt obligations under the 2004 Term Rate Swap (hereinafter defined), and (2) GASP's $32,260,000 outstanding County Guaranteed Revenue Bonds, Series of 2003 (the "2003 GASP Bonds"), currently in a weekly floating rate mode. It is expected that the 2000A/2003 Bonds Fixed Pay Swaps will be structured with a declining notional (principal) amount which will mirror the principal amortization schedules on the 2000A GASP Bonds and 2003 GASP Bonds, respectively, thus creating "synthetic fixed rate" liabilities of GASP and the County.

The final termination date of the 2000A/2003 Bonds Fixed Pay Swaps will not be later than the final maturity date of the 2000A GASP Bonds and the 2003 GASP Bonds, respectively. The 2000A/2003 Bonds Fixed Pay Swaps will be structured so that after their effective date, which is assumed for this analysis to be June 1, 2006, GASP will receive semiannual payments equal to the notional amount of each of the 2000A/2003 Bonds Fixed Pay Swaps multiplied by a floating rate based on 100% of the rate established by the Bond Market Association ("BMA") tax-exempt obligation floating rate index, during that period. On the same payment dates, GASP will be required to make payments, based on the same notional amounts, multiplied by a fixed rate or rates of interest to be determined on the pricing date of the 2000A/2003 Bonds Fixed Pay Swaps. These payments will be netted against each other, resulting in a payment from one party or the other on each payment period. The GASP (via the County) will continue to make regularly scheduled payments on the Bonds. The net effect being that GASP will create a synthetic fixed rate obligation from the effective date to the termination date of the 2000A/2003 Bonds Fixed Pay Swaps.

The Royal Bank of Canada ("RBC") is the intended provider of the 2000A/2003 Bonds Fixed Pay Swaps. The selection of RBC was made prior to IMAGE's involvement with the 2000A/2003 Bonds Fixed Pay Swaps. The GASP, or third parties retained by GASP or the County in connection with the 2000A/2003 Bonds Fixed Pay Swaps, will receive upfront payments from RBC as a result of entering into the 2000A/2003 Bonds Fixed Pay Swaps, equal to certain costs of the transaction (as listed in Appendix B). These payments have the affect of increasing the fixed interest rate payable by GASP/County.

I. County Debt Outstanding

The County had total debt outstanding backed by its full faith, credit and taxing power of $130,335,000 as of this date, consisting of $37,605,000 of General Obligation Bonds of the County itself, $82,355,000 of lease rental debt evidenced by outstanding bonds or notes of GASP (as to which the County is the guarantor), and $10,375,000 of lease rental debt evidence by outstanding bonds or notes of the York County Industrial Development Authority ("YCIDA") (as to which the County is the guarantor). A schedule of all currently outstanding debt obligations, including fixed annual debt service and, for floating rate debt, estimated annual debt service, is shown in Appendix A. No new debt is proposed or associated with entering into the 2000A/2003 Bonds Fixed Pay Swaps.

II. County/Authority Swaps Outstanding

The County has not entered into any swaps allocable to its own general obligation bonds as of this date. The County has, however, effectively guaranteed three swaps that are currently outstanding, two signed by GASP and one signed by YCIDA.

On June 29, 2000, GASP issued the 2000A GASP Bonds in the aggregate principal amounts of $22,035,000 ($19,090,000 of which remain outstanding). On October 19, 2001, GASP issued its Variable Rate Demand County Guaranteed Revenue Bonds, Series of 2001 (the "2001 GASP Bonds"), in the aggregate principal amount of $32,435,000 ($30,645,000 of which remain outstanding). The 2000A GASP Bonds and the 2001 GASP Bonds were issued in a floating rate mode with weekly interest rate resets, and both carry AMBAC municipal bond insurance. The 2000A Bonds were further secured by a Standby Bond Purchase Agreement issued by First Union/Wachovia Bank (together, the "2000A Liquidity Facility"). The 2001 Bonds were further secured by a Standby Bond Purchase Agreement issued by JP Morgan/Chase Bank (the "2001 Liquidity Facility"). All sums due on the 2000A GASP Bonds and on the 2000A Liquidity Facility, as well as all sums due on the 2001 GASP Bonds and on the 2001 Liquidity Facility, are payable by the County under a Loan Agreement (which does not legally constitute County indebtedness), and under a Guaranty Agreement (which does constitute County lease rental debt), both dated as of June 1, 2000. The maximum interest rate on the 2000A GASP Bonds and on the 2001 GASP Bonds is 15.0%.

On June 27, 2003, GASP entered into a forward starting interest rate swap with RBC with respect to the $32,435,000 then outstanding principal amount of the 2001 GASP Bonds, under the terms of which GASP (and the County under the Loan Agreement and Guaranty Agreement) make fixed rate payments of 4.06% and receive a floating rate payments based on 100% of the BMA Index commencing on January 2, 2004 (the "2001 Bonds Fixed Pay Swap").

On October 30, 2003, GASP issued the 2003 GASP Bonds in the aggregate principal amounts of $32,620,000 (all of which remain outstanding). The 2003 GASP Bonds were issued in a floating rate mode, with weekly interest rate resets (which continues today), and carry AMBAC municipal bond insurance. The 2003 Bonds were further secured by a Standby Bond Purchase Agreement issued by RBC Centura Bank (the "2003 Liquidity Facility"). All sums due on the 2003 GASP Bonds and on the 2003 Liquidity Facility are payable by the County under a Loan Agreement (which does not legally constitute County indebtedness), and under a Guaranty Agreement (which does constitute County lease rental debt), both dated as of October 1, 2003. The maximum interest rate on the 2003 GASP Bonds is 15.0%.

On March 1, 2004, GASP (at the request of the County) did the following: a) converted both the 2000A GASP Bonds and the 2001 GASP Bonds from the weekly floating rate mode to a term rate mode having a fixed rate of 4.50% for a period ending on December 1, 2008, b) applied additional proceeds of the remarketing of the 2000A GASP Bonds and 2001 GASP Bonds at a premium interest rate (reducing the outstanding principal amount of the 2000A GASP Bonds from $21,590,000 to $19,090,000, and reducing the outstanding principal amount of the 2001 GASP Bonds from $32,435,000 to $30,645,000, c) terminated the 2000A Liquidity Facility and 2001

Liquidity Facility, and the Remarketing Agreements associated with the 2000A GASP Bonds and the 2001 GASP Bonds, during the term rate period, and d) simultaneously executed a floating rate pay (100% of BMA)/fixed rate receipt (2.51%) interest rate swap (the "2000A/2001 Term Period Floating Pay Swap") with RBC to synthetically convert the 2000A GASP Bonds and 2001 GASP Bonds *back* to floating rate obligations (plus the differential in the fixed rate obligations) during the same term rate period. The 2001 Bond Fixed Pay Swap remained in place as originally contemplated so that the floating rate obligations on the 2000A/2001 Term Period Floating Pay Swap attributable to the 2001 GASP Bonds are offset to create "synthetic fixed rate" obligations on the 2001 GASP Bonds. The maximum interest rate applicable to payments by the County on the 2000A/2001 Term Period Floating Pay Swap is 17.51%.

On November 16, 2004, YCIDA entered into a floating rate (100% of LIBOR) receipt/fixed rate (4.71%) pay (the "2003B YCIDA Bonds Fixed Pay Swap") relating to a portion of the YCIDA's outstanding $8,375,000 Variable Rate Demand County Guaranteed Economic Development Revenues Bonds (York County Economic Development Corporation Project), Series 2003B (Taxable) (the "2003B YCIDA Bonds"). The 2003B YCIDA Bonds Fixed Pay Swap is on an initial notional amount of $5,000,000 declining to $3,000,000 on December 1, 2009, creating a partial "synthetic fixed rate" liability of GASP (and the County as guarantor of the 2003B YCIDA Bonds and the 2003B YCIDA Bonds Fixed Pay Swap). RBC is the provider of the 2003B YCIDA Bonds Fixed Pay Swap. The final termination date of the 2003B YCIDA Bonds Swap is December 1, 2014, which is not later than the final maturity date of the 2003B YCIDA Bonds. The remaining portion of the 2003B YCIDA Bonds in the amount of $2,375,000 (increasing to $5,375,000) will remain as unhedged floating rate bonds. Also, the $2,000,000 Variable Rate Demand County Guaranteed Economic Development Revenues Bonds (York County Economic Development Corporation Project), Series 2003A (Taxable) (the "2003A YCIDA Bonds"), also guaranteed by the County, remain unhedged in a floating rate mode. The maximum interest rate on the 2003A YCIDA Bonds and on the 2003B YCIDA Bonds is 25.0%.

The proposed 2000A/2003 Bonds Fixed Pay Swaps, the 2001 Bonds Fixed Pay Swap, the 2000A/2001 Term Period Floating Pay Swap and the 2003B YCIDA Bonds Fixed Pay Swap are collectively referred to as the "County Swaps".

III. Fees Paid or Payable in Connection with the 2000A/2003 Bonds Fixed Pay Swaps

The Debt Act states that a QIRMA must contain, among other provisions "a schedule listing all consulting, advisory, brokerage or similar fees, paid or payable, by the local government unit in connection with the qualified interest management agreement, and a schedule of any finder's fees, consulting fees, or brokerage fees, paid or payable by the other party in connection with the qualified interest management agreement." A schedule of all consulting, advisory, brokerage or similar fees to be paid by GASP, the County, RBC and any other party in connection with the 2000A/2003 Bonds Fixed Pay Swaps, is shown in Appendix B.

IV. Scheduled Periodic Payments under the 2000A/2003 Bonds Fixed Pay Swaps

A schedule of fixed, and in the case of floating rate obligations, estimated and maximum periodic scheduled annual payments, payable by GASP and the County, and to be received from RBC under the 2000A/2003 Bonds Fixed Pay Swaps in each year during the term of the 2000A/2003 Bonds Fixed Pay Swaps, is shown in Appendix C.

V. Risk Analysis on the Proposed 2000A/2003 Bonds Fixed Pay Swaps

The following is an analysis of certain potential (1) risks to the County by entering into the 2000A/2003 Bonds Fixed Pay Swaps, (2) the risks inherent in the County's currently outstanding debt, and (3) risks already assumed by the County under the documents supporting the other County Swaps (because the County is the true obligor on the County Swaps, we will refer to the obligations as being those of the County even though GASP is the party signing the contract as the issuer of the underlying bonds):

Classifications of Risks Inherent in Swap Contracts

1. Interest Rate Risk is the risk that short term interest rates payable on floating rate bonds payable by the County increase in the future due to a change generally in the tax-exempt bond market, or due specifically to credit concerns relating to the County. The County currently has exposure to floating interest rates on the 2000A GASP Bonds (combined with the 2000A/2001 Term Period Floating Pay Swap) and on the 2003 GASP Bonds which would be mitigated substantially by the BMA floating rate payments it would receive on the 2000A/2003 Bonds Fixed Pay Swaps. The 2001 GASP Bonds are already hedged by the 2001 Bonds Fixed Pay Swap. The $5,000,000 out of the $8,375,000 outstanding 2003B YCIDA Bonds are effectively at fixed rates under the 2003B YCIDA Bonds Fixed Pay Swap (though the $2,000,000 2003A YCIDA Bonds remain floating), and are payable from sources other than County general revenues.

   After entering into the 2000A/2003 Bonds Fixed Pay Swaps, 100% of the debt service payable by the County general revenues will be in fixed rate bonds or synthetically fixed by swap transactions, thereby minimizing interest rate risk. Interest rate increases due specifically to County credit perceptions in the marketplace (and resulting mismatches between bond payments and receipts based on a nationwide index) can be avoided by the County observing sound fiscal policies. The use of municipal bond insurance (and the insured AAA rating) on the underlying bonds should also allow the bonds to be remarketed at variable rates approximating the BMA index.

2. Counterparty Risk is the risk that the swap counterparty will not perform pursuant to the swap contract's terms. Under the proposed structure, for example, if RBC defaults and the County elects to terminate the swap, the County would return to (an unhedged) floating rate position, reassuming the original interest rate risk of the bonds. With regard to the 2000A/2003 Bonds Fixed Pay Swaps, under the liquidated damages clause in the swap contracts, an early termination of a contract would require a payment by the County to RBC (even if RBC defaulted), if interest rates have declined or remained approximately the same, or a payment by RBC to the County, if interest rates have increased, since the date the contract was entered into.

RBC is the counterparty on a total of $80,380,000 of swaps contracts currently payable or guaranteed by the County, however some of that exposure is currently offsetting, for a net exposure of $19,090,000. The addition of the 2000A/2003 Bonds Fixed Pay Swaps will increase the principal amount of such swaps to total $112,995,000 with a net exposure after June 1, 2006 of just $32,615,000. After December 1, 2008 however, the exposure will increase to $82,340,000 (as 2000A and 2001 Term Period Floating Pay Swaps expire).

RBC's credit rating is currently AA- by Moody's Investor's Service, Aa2 by Standard & Poor's Corporation and AA by Fitch Investors Service. These are relatively high ratings (in the second highest rating category), and compare favorably to other providers of such swaps of municipal obligations in Pennsylvania. RBC's credit ratings exceed the Debt Act's minimum credit rating requirement of "at least the third highest rating category from a nationally recognized rating agency". Nevertheless, the County should continuously monitor exposure levels, ratings thresholds and collateralization requirements, if necessary, on all County Swaps by regularly consulting with a qualified swap advisory firm.

3. Termination Risk is the risk that a swap could be terminated unintentionally and prematurely as a result of any of several events, which may include a covenant default by the counterparty (which would relate to counterparty risk), a credit rating downgrade against the County or RBC (due to financial distress or otherwise), bond payment defaults (cross defaults), and other specified termination events as defined in the swap documents. As stated above for counterparty risk, a premature termination, *regardless of fault or the party*

causing the termination, could result in a termination payment being owed by the County dependent on the prevailing interest rate market. The party not causing the termination event typically has the option of terminating or not terminating the contract, but who makes the payment is determined entirely by market conditions.

The most common cause of unintended termination is a credit rating downgrade against one of the parties to the transaction. The existing and proposed County Swap documents provide for a termination event if the County's credit rating falls below BBB/Baa2 (at RBC's option), or in the event RBC's credit rating falls below BBB/Baa2 (at the County's option).

The County's credit rating is currently AA- by Standard & Poor's Corporation, two grades above the termination rating. The County's finances are currently sound based upon analyses conducted by the various insurers of its Bonds within the past year, as well as analyses performed by Standard & Poor's in assigning these underlying ratings.

RBC's credit ratings of AA-/Aa2/AA, as previously discussed, are relatively high at two grades above the termination threshold. Swap documents can provide for collateralization from both the Counterparty or the Issuer that require a downgraded party to post marketable securities (such as treasury obligations) as collateral, held by a third party custodian at various rating levels triggered as a result of successive downgrades, that can by liquidated in the event of a termination. Collateral posted by the County is the subject of legal issues regardingthe ability of a public body segregating funds for that purpose. IMAGE believes that given the credit rating of RBC and the County, the County need not require RBC to post collateral to support its obligations under the 2000A/2003 Bonds Fixed Pay Swaps (and incur the resulting interest rate impact in the swap fixed rate payable by the County).

A schedule illustrating the consequences of terminating the County's Swaps prior to their expiration dates, including payments to be made or received by the County under various assumed interest rate environments, is included in Appendix D.

4. Market Access Risk is the risk that the County is unable to access the debt market when it has capital needs in the future in association with a swap transaction. This risk is subject to overall general market conditions as well as the County's credit at the time. Given the County's current rating and financial condition, market access risk appears to be minimal. This could change, however, if the County fails to continue observing prudent fiscal policies.,

The County will be required to access the capital markets at end of the term rate period on December 1, 2008, to remarket the 2000A GASP Bonds and the 2001 GASP Bonds. Because the 2000A/2003 Bonds Fixed Pay Swaps are floating receipt swaps, these underlying bonds would need to be remarketed to a floating rate mode or one that would be created via another floating pay swap. If the bonds are remarketed in a floating rate mode, the County would need to obtain a liquidity facility at that time (see Liquidity/Remarketing Risk below).

5. Basis Risk is the risk of a mismatch between the monthly floating rate payments receivable by the County from the counterparty and the monthly interest payments due on the County's floating rate obligations. If the floating swap payments by RBC, based on 100% of the BMA index are less than the what the County owes on the bonds, it will be required to pay the difference in addition to the fixed payments due on the County Swaps. Because the interest payable on the 2001A GASP Bonds and the 2003 GASP Bonds have historically traded at BMA plus 2-5 basis points. However, basis differential could increase if the County's financial situation deteriorates resulting in remarketing rates on the floating rate bonds which are higher than BMA, causing a negative mismatch of payments and receipts.

6. Tax Risk is the risk all issuers of tax-exempt floating rate debt face, because the floating rate demanded by bondholders will increase if marginal income tax rates decline (and the benefit of tax exemption is reduced). This possibility of (primarily federal) tax law changes is known as tax risk, which also creates basis risk if the underlying index for the swap is based on taxable rates (such as LIBOR) and the bond payments are at tax-exempt rates. Using a percentage of the taxable LIBOR index (67% for example) to hedge tax-exempt obligations is a common strategy for municipal issuers, but it places tax risk with the issuer since the interest rate payments could increase following an adverse tax law change, but the taxable rate index would not increase the payments receivable by the issuer (creating the mismatch described above).

The 2000A/2003 Bonds Fixed Pay Swaps are based on the BMA Index, which is an index of tax-exempt interest rates, and payments to the County would increase following an adverse tax law change commensurate with the tax-exempt bond rates it is paying. Hence, tax risk is not material for the 2000A/2003 Bonds Fixed Pay Swaps. If however, the swap transactions are terminated the County would reassume tax risk inherent in unhedged floating rate tax-exempt bonds.

7. Liquidity/Remarketing Risk is the risk that the County will be unable to obtain a reasonably priced renewal of existing Standby Bond Purchase Agreements or new letters or line of credit to support the County's obligation to purchase bonds that are tendered and cannot be remarketed. A required remarketing will also occur at the end of the term rate period on December 1, 2008, for the 2000A GASP Bonds and the 2001 GASP Bonds. This risk exists independently of the 2000A/2003 Bonds Fixed Pay Swaps, however in the event

that liquidity is not available and the underlying bonds would have be retired (presumably with fixed rate refunding bonds) which, under the Debt Act, would require the related swap(s) to be terminated. A termination payment might then be due depending on the general level of interest rates at the time. A strategy similar to that which was utilized to create a synthetic floating rate (eliminating the need for a liquidity facility) under the 2000A/2001 Term Period Floating Pay Swap could be utilized. In any event, IMAGE does not believe Liquid/Remarketing Risk is material for the County.

8. <u>Amortization Risk</u> is the risk of the County facing a termination payment resulting from the remaining notional amount of an outstanding swap exceeding the outstanding principal amount of the underlying bonds. Under the Debt Act the notional amount of a swap cannot exceed the principal of the underlying bonds. The scheduled reduction in the notional amounts of the 2000A/2003 Bonds Fixed Pay Swaps will mirror the principal amortization of the 2001A GASP Bonds and the 2003 GASP Bonds. However, if the County prepays any of the 2001A GASP Bonds or the 2003 GASP Bonds, it would be forced to terminate at least a matched portion of the 2000A/2003 Bonds Fixed Pay Swaps which could trigger a payment by the County in an unfavorable market conditions. This situation could create costs of optionally redeeming floating rate bonds if there are remaining unspent proceeds of the bonds or the County wishes to prepay debt with available cash.

VI. ONGOING MONITORING

Appendix A and C contain schedules of the fixed, estimated and maximum net scheduled periodic payments (a) due under the 2000A/2003 Bonds Fixed Pay Swaps, (b) due on all indebtedness issued or guaranteed by the County and (c) due under all other County Swaps. The 2003A and B YCIDA Bonds and corresponding 2003B YCIDA Bonds Fixed Pay Swap are illustrated for educational purposes, but are self-liquidating from non-County revenues.

The Debt Act requires the County to monitor and disclose certain information relating to interest rate risk, basis risk, termination risk, credit risk, market-access risk and other risks, including the valuation of the market and termination cost/value of the 2000A/2003 Bonds Fixed Pay Swaps and all other swaps payable by the County. IMAGE recommends that the County retain a qualified swap advisor to monitor, report and document the following items, including coordinating such maters with the County's auditors and financial personnel, on no less than an annual basis:

1. Maintain a database of existing County Swaps including a description of all outstanding interest rate swap agreements, including bond series, type of