FINANCE & PHYSICAL RESOURCES COMMITTEE MINUTES

Tuesday, June 20, 2006 - 8:00 a.m.
Board Room - County Administration Building

MEMBERS PRESENT: Chair Dan Koorndyk; Commissioners Jack Boelema, Gary Rolls, Tom Postmus, Art Tanis, Richard VanderMolen, James Vaughn, Harold Voorhees, and Fritz Wahlfield.

ALSO PRESENT: County Administrator Daryl Delabbio; Assistant Administrators Mary Swanson and Wayman Britt; Chair of the Board Roger Morgan; Commissioner Dick Bulkowski; Civil Counsel Sherry Batzer; Assistant Corporate Counsel Linda Howell; Management Analysts Jennifer DeHaan, Darwin Baas, and Matthew VanZetten; Purchasing Manager Jon Denhof; Deputy Director of Fiscal Services Stephen Duarte; Budget Coordinator Marvin VanNortwick; Facilities Management Director Bob Mihos; Director of Information Technology Craig Paull; Sheriff Larry Stelma; Undersheriff Jon Hess; Human Services Director Don Clack; Director of Housing Programs for Community Development Jim Winslow; Finance Director for the Health Dept. Gail Brink; County Clerk Mary Hollinrake; Director of the Airport Jim Koslosky; Finance Division Director at the Airport Brian Picardat; JP Morgan Representatives Kevin Carney and Kisti Shaw; Public Financial Group Representative Kari Blanchett; Dickinson Wright Representative Terry Donnelly; and Senior Administrative Specialist Sandra Winchester.

NEWS MEDIA: Rick Wilson, Grand Rapids Press; and David Czurak, Grand Rapids Business Journal.

Mr. Koorndyk called the meeting to order at 8:30 a.m.

I. BUDGET DISCUSSION – FY 2007 BUDGET OVERVIEW

Budget Coordinator Marvin VanNortwick reviewed the FY 2007 General Operating Fund Budget Requests (revenues and expenditures). A copy of the overview is on file in the Board of Commissioners’ Office. He noted that the budgeting calendar provides for delivery of the Administrative budget recommendations to the Finance & Physical Resources Committee at its meeting scheduled for August 1, 2006.

II. PUBLIC COMMENT

None.

III. CONSENT AGENDA

a) Approval of the Minutes of June 20, 2006
b) Auditing of Checks and Purchase Order Activity – See Attachment A
   Road Commission - $2,686,773.86
   Warrants - #41360 - #41602 for period ending June 14, 2006
c) Community Corrections – Authorization to Submit a Grant Application and Contract Approval – Comprehensive Plan – Bd. 6/22
d) Community Development – Approve Contract with Kent County Department of Human Services and Authorize Board Chair to Sign – Bd. 6/22
e) Various – Bid Awards
f) Various – CIP Expenditures

Mr. Rolls requested to remove items 3c, e, and f from the Consent Agenda.

Mr. VanderMolen moved to approve the remaining items on the Consent Agenda as presented.

Supported by Mr. Voorhees.

Motion carried.

IIIC. COMMUNITY CORRECTIONS – AUTHORIZATION TO SUBMIT A GRANT APPLICATION AND CONTRACT APPROVAL – COMPREHENSIVE PLAN

Mr. Delabbio stated that approval is requested to recommend to the Board of Commissioners the annual Community Corrections’ Comprehensive Plan and application for funding under PA 511 of 1988, and to authorize contracts with the proposed vendors not-to-exceed the recommended funding amount. This item is proposed to go to the Board on June 22, 2006. A summary of the request follows.

- Public Act 511 of 1988 provides funding for Community Corrections Advisory Boards to administer and operate programs to provide alternatives to incarceration for offenders.

- The administrative amount requested represents the full amount of funds available to Kent County. Since administration costs exceed the cap imposed by the grantor, an allocation of general fund dollars will be included in the County’s 2007 budget to support the full cost of the program.

- If approved, funding will be provided to the following local programs: Kent County Court Services Department (Pretrial Programs, Work Crew and Community Service Programs, Case Management and Risk Assessment), Kent County Sheriff’s Department, Pine Rest Mental Health Services, Project Rehab, Alternative Directions, Arbor Circle AOS, Grand Rapids Public School’s Business and Industry Center, Prodigal Human Services, Network 180, Goodwill Industries, Family Outreach Center, 61st District Court and the Kent County Correctional Facility.

- The grant request also includes funding for Probation Residential Services for Alternative Directions, Pine Rest, and Project Rehab.

- The anticipated grant period is October 1, 2006, to September 30, 2007. It is expected that the grant will be renewable.

The total cost is $2,469,693. $2,305,946 will be requested from the Michigan Department of Corrections; $163,747 in General Fund contribution to fully fund cost allocation charges and other administrative costs will be included in the 2007 recommended budget.
Mr. VanderMolen moved to recommend to the Board of Commissioners approval of the annual Community Corrections’ Comprehensive Plan and application for funding under PA 511 of 1988, and to authorize contracts with the proposed vendors not-to-exceed the recommended funding amount.

Supported by Mr. Tanis.

Mr. Rolls asked for a breakdown of the administrative expenses.

Ms. Mary Swanson, Assistant Administrator, explained that the administrative expenses were grouped together in the grant summary form and since she did not have the breakdown of the numbers with her, she would provide it to the Commissioners after the meeting.

Mr. Rolls noted 25 percent of the mental health funds are going to Pine Rest Mental Health Services and asked why it is so high.

Ms. Swanson explained that the Alternatives Committee is requesting additional funds for that particular agency because they are trying to obtain more State funding.

Motion carried.

IIe. VARIOUS – BID AWARD

Mr. VanderMolen moved to approve the bid awards as submitted.

Supported by Mr. Postmus.

Mr. Rolls questioned why the low bidders were not chosen when it appears they met qualifications.

Mr. Jon Denhof, Purchasing Division Director, explained that in the case of the chassis for the Airport, although Kodiak Northwest indicated they could not meet all the requested specifications, they did not indicate which specifications they were taking exception to. In addition, Airport staff indicated that the performance of the Kodiak equipment they currently use has higher than normal service problems and it is difficult to obtain replacement parts.

Mr. Denhof explained that one of the apparent low bidders for the second item, plow equipment for the Airport, was Deeds Equipment. The location of Deeds’ factory is in Indiana and when shipping costs were factored in, they were no longer low bid. When the maintenance department at the Airport was contacted regarding the other low bidder, Schmidt Engineering, it was determined the equipment was not heavy duty enough for the conditions.

Motion carried.
IIIif. VARIOUS – CIP EXPENDITURES

Mr. Wahlfield moved to approve the CIP Expenditures as presented.

Supported by Mr. VanderMolen.

Mr. Rolls questioned if there are other vendors who provide this service.

Ms. Gail Brink, Finance Director at the Health Department, explained that they received three quotes and Rave It Solutions provided the lowest quote.

Mr. Denhof added that if any Commissioners are interested, the two other quotes are available for review.

Motion carried.

IV. FACILITIES MANAGEMENT – REVISION TO 82 IONIA PARKING RAMP FEE SCHEDULE

Mr. Delabbio stated approval is requested to recommend to the Board of Commissioners to approve amendments to the 82 Ionia Parking Ramp fee schedule effective July 1, 2006. This item is proposed to go to the Board on June 22, 2006. A summary of the request follows.

• On March 1, 2005, Kent County purchased the 82 Ionia building including a two level parking structure totaling 122 parking spaces.

• Approximately 55 parking spaces are leased on a monthly basis by local area businesses and residents. The leases and rates for these parking spaces were assumed by Kent County from the previous building owner, SIBSCO, LLC. Annual revenue received by the County for the 82 Ionia parking structure is approximately $75,000.

• The City of Grand Rapids Parking Services, which owns and manages local parking ramps, evaluates their parking rates annually and adjusts them on July 1. The following table indicates adjacent City of Grand Rapids Parking Services Parking Ramp rates, effective, July 1, 2005:

<table>
<thead>
<tr>
<th>Parking Ramp</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearl—Ionia Ramp</td>
<td>$132.00 per month</td>
</tr>
<tr>
<td>Monroe-Ionia Ramp</td>
<td>$120.50 per month</td>
</tr>
</tbody>
</table>

• Kent County’s current monthly rate for the 82 Ionia parking ramp is $114.00

• The City of Grand Rapids has approved an increase to their rates of 2.8% effective July 1, 2006.
Facilities Management recommends to increase 82 Ionia parking rates by 2.8%, which will result in a monthly parking rate of $117.00 per space, effective July 1, 2006.

There is no funding required.

Mr. Rolls moved to recommend to the Board of Commissioners approval of the amendments to the 82 Ionia Parking Ramp fee schedule effective July 1, 2006.

Supported by Mr. VanderMolen.

Motion carried.

V. AERONAUTICS – PARKING RAMP PROJECT/BONDS PRESENTATION

Mr. Brian Picardat, Finance Director at the Airport, introduced the subject by stating that the Aeronautics Board and the Department of Aeronautics is currently designing a 4,900 stall parking structure to meet their 20-year demand for parking at the Airport. Staff is anticipating having 95 percent of the design drawings in September of this year. Construction would start in May of 2007. The Aeronautics Board is planning on financing the construction of the structure with a combination of Airport reserves and proceeds from a bond sale. The bond issue is currently planned for the spring of 2007. A financing team has been assembled, which includes Bob White, the County’s Fiscal Services Director. The financing team has been meeting and discussing the possibility of locking in an interest rate for the bonds prior to the sale in May. Some of the team members are present to discuss this option in the presentation including JP Morgan, Underwriters; Public Financial Management (PFM), Financial Advisors; and Dickinson Wright, Bond Counsel.

Mr. Picardat noted that this is not a new idea for the Board of Commissioners. In the 1990’s, a similar type of deal was done by the Department of Public Works for the Incinerator and Terry Donnelly (Airport’s bond counsel) from Dickinson Wright was the bond counsel on that deal.

The Finance Committee members were provided a copy of the booklet used for the presentation entitled “Briefing on Interest Rate Hedging.” A copy of the booklet is on file in the Board of Commissioners’ Office.

Mr. Picardat then introduced Kevin Carney from JP Morgan to begin the presentation.

Mr. Carney began by reviewing the following Executive Summary with the Committee:

- The current market is characterized by increasing short-term interest rates and a relatively flat yield curve
- The Aeronautics Department can protect itself from an increase in interest rates by hedging all or a portion of the upcoming issue
• Every 10 basis points rise in interest rates costs the Department approximately $1.8 million in total net debt service (approximately $70,000 in annual net debt service)
• A 50 basis points rise in rates costs the Department approximately $9.2 million in total net debt service (approximately $330,000 in annual net debt service), or
• For every 10 basis points rise in interest rates, the Department would have to reduce project funds by approximately $1 million to keep net debt service at today’s level
• A 50 basis points rise in rates could cost the Department as much as $4.7 million in project funds
• Even after execution, a hedge can be amended to fit the Department’s needs.

The following individuals then reviewed various sections of the presentation booklet: Kisti Shaw, JP Morgan; Kari Blanchett, Public Financial Management; and Terry Donnelly, Dickinson Wright.

Mr. Picardat then asked if the Committee members had questions.

Mr. Voorhees questioned if this information has been reviewed with the County’s elected Treasurer to see whether it meets the guidelines of the County’s investment criteria that has been established.

Mr. Delabbio explained that Fiscal Services Director Bob White has been involved, but not the County Treasurer. He would not be opposed to discussing this issue with the Treasurer.

Mr. Voorhees stated he would like the presentation made to Treasurer Ken Parrish.

Mr. Wahlfield stated that the Pension Board has made a decision to not be involved in interest rate hedging. He questioned if the airports listed in the booklet that have utilized derivative structures are clients of JP Morgan.

Ms. Kisti Shaw of JP Morgan replied that the airports listed have done similar concepts to what is being proposed for Kent County’s airport. She added that the municipalities listed in the booklet are clients of JP Morgan.

Mr. Wahlfield asked what the risks are.

Ms. Shaw replied the Commissioners should ask themselves two questions:

1) Where do you think interest rates are going – up or down?
2) Are you comfortable with what is being paid to JP Morgan and that it will be equitable to what is being paid out?
Ms. Shaw noted that JP Morgan has been in this business for 20 years and they plan to be in it for another 20 years. They have a level of expertise required to mitigate the risks.

Mr. Wahlfield asked who can cancel.

Ms. Shaw replied that only the County has the ability to cancel; JP Morgan does not.

Mr. Postmus stated that one word stands out to him when reading the booklet and it is the word “risk.” When taxpayers’ money is being spent, they need to be very careful. He hopes to get more information before a decision is made on this issue.

Chair of the Board Morgan noted that there are several decision points that will need to be made on this issue, and if the Board is uncomfortable at any point, they can stop the process.

Mr. Terry Donnelly, Bond Counsel from Dickinson Wright, stated that the Aeronautics Board will make a decision on whether or not to proceed with the parking project. If they decide to proceed, bonds would be issued in May 2007. At that time, the Board of Commissioners would need to make a final decision.

Mr. Donnelly explained the following time line is being proposed:

<table>
<thead>
<tr>
<th>July</th>
<th>Preparation of Debt and Swap Management Plans and Swap Documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>August</td>
<td>Preparation of Debt and Swap Management Plans and Swap Documentation</td>
</tr>
<tr>
<td>Sept. 18</td>
<td>Meeting with Aeronautics Board Finance Committee</td>
</tr>
<tr>
<td>Sept. 19</td>
<td>Meeting with Board of Commissioners’ Finance Committee</td>
</tr>
<tr>
<td>Sept. 20</td>
<td>Meeting with Aeronautics Board</td>
</tr>
<tr>
<td>Oct. 12</td>
<td>Meeting with Board of Commissioners’ – approves resolutions.</td>
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</tbody>
</table>

To summarize, Mr. Morgan stated that if the County and Aeronautics Board decide to go ahead with this and interest rates rise, we are “in the money” as they say.

Mr. Donnelly said that is correct. If the Commissioners do not feel interest rates will rise, it may not make sense to do this deal. That is basically the bottom line.

Mr. Tanis asked when the County would be locked into the deal.

Mr. Donnelly answered the County would be locked in once the last of the four documents are signed. The interest rate would be locked in until May or when the bonds are issued.
Mr. VanderMolen summarized the presentation in terms of something he could relate to in everyday life. He likened the interest rate hedging to borrowing money to build a house. For example, if he decided to start building a house next May but feels interest rates will be higher at that point in time, he could “lock-in” the interest rate today in anticipation of building the house the following May.

Mr. Rolls asked if a move should be made before the Board makes a final decision in October assuming there is an upward trend in interest rates.

Mr. Donnelly stated that if the County enters into this swap, it first needs to have a pretty good idea that they do, in fact, want to issue bonds.

Mr. Rolls suggested that a contingency plan be spelled out in the case of a major economic disaster or some other type of disaster.

There being no further questions, Mr. Koorndyk thanked all of the presenters for the information provided today.

VI. MISCELLANEOUS

None.

VII. ADJOURNMENT

There being no other business for discussion, Mr. Koorndyk declared the meeting adjourned at 9:22 a.m.

ADMINISTRATIVE APPROVAL FOR DISTRIBUTION____________________________

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