

Response to Northampton County Termination of Swaption Agreement

On March 1, 2012, Northampton County Council voted to terminate a Swaption agreement that had lingered ominously over the county for nine years, thus concluding the chapter on one of the county's worst financial travesties. Council made this decision to protect the County from the ever-increasing debt service and mounting financial risk that the Swaption required.

Closing out the Swaption was never going to be cheap or easy. In 2010, County Council terminated a discussion that investigated the elimination of the Swaption ended when they determined they could neither fund nor refinance the swap. The collapse of the economy, prior to 2012, along with a weak investment climate, had sent rates skyrocketing, bringing Northampton County to a buyout figure in October, 2012, of over 25 million dollars.

Northampton County Council's vote to kill the Swaption was based upon potential massive financial impact, special committees' input, and financial advisors' recommendations, as well as strategies and timelines and eventually resulted in a 4.1 million dollar savings. The County made further adjustments during this time to reduce its mandatory emergency fund from 16 million to 8 million dollars. Timing was everything.

Had County Council not moved on a decision for a "kill order" regarding this financial situation, losses from debt services could have hamstrung the County's ability to balance upcoming budgets and would have passed on huge burdens to future councils. With an eye on the next 18 years, the Northampton County financial advisory team negotiated with bank advisors for a lower interest rate and avoided a fiscal meltdown with a full payoff.

The decision to end the Swaption allowed Northampton County to level its debt service from 2009 and reduce the tax impact to the County. The County has positioned itself to payback debt service in 10 years (2023) and maintain a AA credit rating, all of which had been in jeopardy by the 2003 Swaption.

The 2003 Swaption deal, in my estimation, was a misunderstood financial scheme and predatory gimmick. At best, it was a gamble and risk taken with taxpayer dollars and without proper guidance or stewardship from the banks and advisors selling and marketing it and without adequate investigation by elected officials.

In 2003, though swaptions were approved for use by the Commonwealth, Council's decision to attempt to predict long-range financial outcomes proved to be unwise; furthermore, Council should not have relied on proposed rate predictions by banks, as interest rates seldom, and, certainly not in this case, adhere to forecasts. Taking this history into account, on July 19, 2012, nine years later, Northampton County Council approved a resolution that places a ban on such risky future investments.

Respectfully Submitted to : Senator Eichelberger

Bob Werner (Northampton County Councilman)