

F.C. 8/12/15 Agenda Item A

MARIN EMERGENCY RADIO AUTHORITY

c/o Novato Fire Protection District
95 Rowland Way, Novato, CA 94945
PHONE: (415) 878-2690 FAX: (415) 878-2660
WWW.MERAONLINE.ORG

MERA Finance Committee
Minutes of March 2, 2015 Meeting

Draft: 4/9/15

Call to Order

The meeting was called to order by Chair Hymel at 3:44 p.m. on March 2, 2015 in the Marin Civic Center, Room 315, San Rafael, CA.

Committee Members Present:

County of Marin	Matthew Hymel
Town of Ross	Tom Gaffney
Tiburon Fire Protection District	Richard Pearce

Committee Members Absent:

Marin County Sheriff	Robert Doyle
City of Novato	Jim Berg

Staff Present:

MERA Executive Officer	Maureen Cassingham
MERA Deputy E.O. – Next Gen Project	Dave Jeffries
MERA Admin. Assistant – Next Gen Project	Alex Anderson
MERA Operations Officer	Craig Tackabery

Guests Present:

Marin County Public Works Director	Raul Rojas
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A. Minutes of November 6, 2014 Finance Committee Meeting

M/S/P Pearce/Gaffney to approve the minutes from November 6, 2014, Finance Committee Meeting with the addition of an “M” after 11.5 in assets in the third paragraph on Page 2.

AYES: ALL
NAYS: NONE
Motion carried.

B. Proposed Preliminary FY15-16 Operating Budget, New Project Financing and Refunding Revenue Bonds Budgets (Cassingham)

Cassingham distributed Exhibits 1 and 2 to the Proposed Preliminary FY15-16 Operating Budget which provide detail for the Operating Expense line items. She summarized her staff report noting the Operating Budget of \$1,811,251 reflects a 6% increase over prior year. The other Budgets, namely the Citizen Bank 2007 Loan and Debt Service for the 2010 Refunding Revenue Bonds, have little or no discretion respectively. The Contract Services and County Services line items reflect increases, noting the three contracts for County System Maintenance, Technical Services and Communications Engineering Services will be presented to the Executive and Governing Boards at their May meetings. She said the purpose of presenting these preliminary budgets now is to assist member agencies with the development of their proposed FY15-16 budgets.

Pearce asked if the County contracts reflected straight pass-through or if they could be negotiated. He said explanations for the increases should be provided to the Boards. Cassingham clarified that overhead calculations were discussed when the County Communications Engineering Services contract reflected the change from Chuck's independent contractor to County employee status. Hymel said the County doesn't want to subsidize these services and is open to discussing the level of services provided. He said most of these increases are based on cost-of-living adjustments. Pearce concurred with the reality of the cost increases but wanted to be prepared to explain them. Tackabery said the costs reflect the same service levels plus CPI.

Hymel asked about the increase in Contingency. Cassingham said the current year's Contingency of \$20,000 was used for additional Executive Officer administrative hours which had not been approved when the Operating Budget was adopted. She is recommending \$40,000 in FY15-16 given other impending Operating uncertainties. Gaffney asked how the budget numbers were developed. Cassingham confirmed the County provides their line item numbers. In the case of Site Rentals and Leases, the costs reflect escalators in longstanding leases that include required annual adjustments and/or CPI increases. Likewise, she monitors monthly utility billings for usage and factors in announced rate adjustments. Hymel confirmed that rents are prescribed by contracts and utilities are based on usage and rates. Cassingham said that any unanticipated expenses need to be covered by Contingency because we do not seek increases in member Operating contributions during the fiscal period. Any unexpended funds from the Operating Budget are transferred by Governing Board action to the Replacement Fund upon acceptance of the Annual Audit. Cassingham confirmed for Hymel she will provide the member contribution schedules when the Preliminary Budgets are presented to the Executive Board on March 11. He said when members see their individual costs, it will be easier for them to put the proposed increase into context.

Gaffney inquired about the Project Note and Debt Service Budgets noting the actual Project Note payment of \$225,000 is somewhat less than that. Cassingham said the

Governing Board established this payment and that the actual is \$16,000 less. The difference increases the Project Note Budget by that amount annually and this Fund is used for capital purposes. Gaffney clarified the Debt Service payment is the actual amount collected by the Trustee. He confirmed that the amount of the Bond Reserve is recalculated annually based on 10% of the descending remaining outstanding balance. Cassingham said the Trustee credits MERA with the difference which is identified in a sub fund for the Reserve. Hymel asked if the Executive Officer's time spent on the Next Gen Project could be charged to the Replacement Fund, thereby reducing the Operating Budget. Cassingham explained that her 18 general administrative hours per week are charged to Operating and 7 hours per week for Next Gen are charged to the Replacement Fund.

M/S/P Gaffney/Pearce to recommend the proposed Preliminary FY15-16 Operating, New Project Financing and Refunding Revenue Bonds Budgets as presented, to the Executive Board for action on March 11, 2015.

AYES: ALL
NAYS: NONE
ABSTENTIONS: NONE
Motion carried.

C. Next Gen Project Cash Flow Projections – FY15-16 and FY16-17 (Tackabery)

Tackabery said he was asked to project Project cash flows for the next two fiscal years, which is challenging without a vendor contract. The forecasts are based on assumptions about timing and the amounts required to be paid upon milestones in the contract. As each milestone is reached, the estimates will be more refined. Hymel confirmed the annual parcel tax proceeds are \$3.6M and that the entire proceeds would be received within the fiscal year. He said MERA could appropriate these funds based on the fiscal year revenue. Gaffney said we could sign a contract for design and probably pay with cash. Tackabery added the assumptions the vendor contract would stipulate 20% due upon contract execution, 5% due on preliminary design completion, 5% due on final design completion, and 40% due on shipment of backbone equipment. Gaffney said the Project dictates the financing. Hymel added that bond proceeds would be needed in FY16-17 and parcel taxes could be used in FY15-16.

Gaffney asked about the use of generic radios and delay going out to bid on radios until later. Also, MERA could ask the vendor to guarantee radio prices for two years. There would be \$2.6M in interest costs if we sell bonds upfront. However, delaying issuance for one year would result in \$2.6M savings in interest costs. Tackabery replied that once the vendor is selected, we can negotiate a schedule of expenditures. Gaffney said the cash flow schedule should be updated based on changed date of issuance of the RFP. Tackabery said the vendor RFP should be issued this summer. This week the Consultant RFP will be released and the Consultant will work on the vendor RFP. Gaffney clarified that Appendix G: Estimated Costs for radios as \$8M. Rojas clarified that it is conceivable we could use generic radios but cautioned they could cost more in the end with additional features. He

said this should be looked into. The first batch of radios may be a better deal than later batches but this should be vetted with the vendor. Jeffries noted lessons learned from Gen I with early ordering of radios that sat for a long time. Rojas said the vendor should not deliver the radios until we are ready to have them go online. Jeffries added that new models may become available after the contract is approved. Rojas said we need to make sure we have the latest when we go live.

Gaffney asked about the number of radio sites, noting he thought there were currently 17. He noted that 4 new sites are part of Next Gen. Pearce asked for clarification of which are current and which are proposed for the Executive Board.

D. Review of MERA Reserve Funds Balances Re: Next Gen Project Cash Flow (Cassingham)

- Other Short-Term Options

Cassingham summarized her staff report, noting the depleted balance of the Replacement Fund which eliminates its use as a resource for FY15-16 Next Gen Project cash flow. While her report offered several resources for this use, if parcel tax proceeds can be advanced earlier in the fiscal period, these options may not be needed. An interfund transfer from the Emergency Fund to the Replacement should not be considered if there are other resources like a short-term loan or phased-bond financing.

Hymel said he will talk with County Finance about a dry-period loan which is a standard procedure for property tax entities. However, MERA's is not a property tax which may require a separate agreement. Gaffney said there is another option which is to access the current \$1.5M Bond Reserve for FY15-16 Next Gen costs and replace it with a surety policy for a cost of \$20,000 to \$30,000. Gaffney said he and staff could pursue this on MERA's behalf by seeking input from several consultants. We should also review this with Bond Counsel. Gaffney confirmed this would be a one-time transaction for the remaining life of the current Bonds. The disadvantage would be the loss of annual interest earnings which would be about \$50,000-\$60,000. He said a summary could be presented to the Executive and Governing Boards which discusses the surety's pros and cons. This is a good way to inexpensively access funds given the current minimal interest earnings on the Bond Reserve. It used to be an advantage to keep the Reserve given better past interest rates, but that is no longer the case.

Gaffney noted MERA received an unsolicited offer to refund the 2007 New Project Note at a 2.7% interest rate resulting in a savings of \$8,000 per year. While this is not a great interest rate, this is a good idea. Hymel inquired about rolling in the old debt to the new financing. Gaffney said this may not be possible since the Note was structured like an operating note. Hymel clarified this old debt would be separated from the Project at possibly a better interest. Gaffney said another reason to delay our bond issuance is to determine that actual amount of revenue the parcel tax will generate. Hymel agreed that not having to sell bonds in FY15-16 would give us this assurance. Gaffney said interest savings in doing this would add to the Project Contingency. We should also analyze a

short-term loan from the County as another option. Hymel said postponing financing would shorten the term of the bonds, possibly by as much as two years. He also confirmed that the new financing reserve could likewise be replaced by a surety. Gaffney said the Project Budget included capitalized interest, which we will not need and this can be used elsewhere in the Project.

Gaffney said Governing Board approval would be needed to use the current reserve as we are proposing. Hymel suggested adding this matter to the Governing Board's May meeting agenda at the same time they consider the annual budgets. Gaffney said since interest rates are not time sensitive at this point, this could wait until May. It was agreed that the old debt be refinanced when new financing is planned to reduce issuance costs. Pearce asked about the downside of waiting to issue bonds. Gaffney said current interest rates are very favorable now. The Project Budget was based on 4.5% estimated interest and we are in the area of 2.9% range now. Hymel said there is an issue of interest rate risk by waiting. Gaffney said by waiting one year, we benefit by confirming actual tax proceeds and save interest. Hymel added that by waiting, the Validation Action will be completed.

Cassingham provided a brief update on the Validation timeline, with the next step by Bond Counsel being to request an Entry of Default. The unknown is when we can get a court date. She will provide an updated schedule to the Executive Board on March 11. Hymel said this is a standard due diligence practice when you base your bond payment on a certain revenue stream. This should result in a more favorable interest rate when we issue which is a savings to the taxpayers. Cassingham said General Counsel has stated the validation process is a standard action by public agencies dating back to the 1960's. Gaffney confirmed MERA should pay for this action as part of its due diligence to strengthen our bond issue, save interest, and protect tax dollars. Cassingham said this action has been vetted with this Committee and Boards as a standard operating procedure to be taken upon the passage of Measure A which was confirmed on November 21. Gaffney added that, given legal challenges to other parcel charges, that it is incumbent on us to undertake the Validation.

It was the consensus of the Committee to authorize Gaffney and Cassingham to proceed with an analysis of surety replacement and recommendation of a consultant to facilitate acquisition of a surety to replace the current Bond Reserve, along with a cost comparison to permit its use for FY15-16 Next Gen Project cash flow. Their report will be presented at the May Executive and Governing Board meetings.

E. Next Gen Project Financing Team and Timeline (Cassingham)

It was agreed this had been discussed as part of Item D.

F. Financing of Next Gen Project Non-Police/Fire Services Costs (Cassingham)

Gaffney asked about reimbursement of the Replacement Fund for Next Gen Project expenses from parcel tax proceeds. Cassingham estimated the amount is about \$1M. She

noted the Governing Board in December 2013 had directed the use of MERA Reserves to pay for non-police/fire services Next Gen Project costs. Pearce said we need to be very clear about the possible use of the current Bond Reserve for Next Gen cash flow costs which precludes its availability for these Project expenses. Gaffney recommended hiring a Financial Advisor, not him as a volunteer, when we sell bonds and that bonds be competitively sold. Hymel asked about a competitive process to hire the F.A. Gaffney confirmed this should be done via an RFP. He said no RFP was used to hire Bond Counsel but MERA has had significant history with current bond counsel.

Hymel said to cover the estimated \$2M in non-police/fire Project costs, we could use a combination of the surety and reimbursement of the Replacement Fund. We would have to reimburse ourselves later due to initial cash flow requirements in FY15-16. Cassingham said bond financing would constitute a second validation action regarding defining allowable parcel tax expenditures associated with public safety response which could reduce the \$2M estimated non-police/fire costs.

G. Other Information Items

None.

H. Open Time for Items Not on Agenda

None.

I. Adjournment

The meeting was adjourned at 4:29 p.m.

Respectfully submitted by,

Maureen Cassingham
MERA Executive Officer and Secretary