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

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MERA Finance Committee
Minutes of November 4, 2015 Meeting

Call to Order

The meeting was called to order by Chair Hymel at 4:01 p.m. on November 4, 2015, in the Marin Civic Center - Room 315, San Rafael, CA.

Committee Members Present:

County of Marin	Matthew Hymel
Town of Ross	Tom Gaffney
City of Novato	Jim Berg
Tiburon Fire Protection District	Richard Pearce

Committee Members Absent:

Marin County Sheriff	Robert Doyle

Staff Present:

MERA Executive Officer	Maureen Cassingham
MERA Operations Officer	Pat Echols

Guests Present:

Maher Accountancy	John Maher
Sperry Capital, Inc.	Jim Gibbs and Martha Vajovich

A. Minutes of August 12, 2015 Finance Committee Meeting

M/S/P Pearce/Gaffney to approve the minutes from August 12, 2015, Finance Committee Meeting as presented.

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

B. FY14-15 Draft Audited Financial Statements and Auditors' Report – Maher Accountancy

Maher provided a summary of the draft, noting it is a "clean" audit and virtually complete. There may be minor changes in some classifications and the representation letter needs to be finalized. The Management Discussion and Analysis Section presents highlights and an overview of the financial statements. He noted the net position decreased by $1,746,000 due to accelerated depreciation. He said the life expectancy of the new system will be re-visited. The towers are of nominal value and the radio system is almost all of the remaining value. There has been no detailed engineering analysis of what portions of the original system will be continued.

Hymel asked how the 2 different systems will be treated in transition. Maher said at abandonment of the first system, you would write it down to zero, but that will not occur. We may want to slow depreciation based on extension of Project completion dates. Depreciation of the new System should begin as it takes over from the old one. If the old system remains in service, it makes sense to depreciate both. Hymel clarified that there would be a sub-depreciation schedule for reference. Maher said, depreciation for the new System would be more detailed. Gaffney said MERA should request this detail be provided.

Maher referenced the Notes regarding current depreciation. There is 2.5 years remaining life. Original estimated building and equipment lives were noted on page 11 and that the useful lives will not extend beyond FY2017-18. Hymel said given the old towers would be in use with the new System, their depreciation would be shifted to the new System. Maher said the towers, which are valued at most at $500,000, would continue on. Hymel confirmed that the depreciation of the current System would be zeroed out in 2018 and the towers would be continued. Maher said the book value of the towers could be reassessed based on useful life at that point. Hymel asked to reassess the current aggressive depreciation schedule next year.

Maher recapped page 4, Statement of Revenues, Expenses and Changes in net position. He may modify the restricted assets based on further discussion with Tax Counsel of the amount held by BNY for current debt retirement or capital outlay. The amount restricted for Bond Debt Service will go to zero resulting in no net change. He confirmed the assets will be depreciated 3 years before the Bonds are retired.

Maher noted page 8 of Revenues and Expenses and identified depreciation as the big non-cash expense. The cash flow statement on page 9 does not reflect service payments directly collected by the Trustee as cash. Page 15 notes little capital assets activity except for final Forbes activity and other minor equipment purchases.

Maher noted on page 17 regarding the Bonds, the possibility of early retirement of the last payment the year before. Gaffney said as soon as we collect the funds, we can retire them. Maher commented on the Budgetary Comparison schedules for the various Funds beginning on page 21. The Budget for the Replacement Fund on page 24 reflected customization of expense categories due to the unique activities of last year. This is not consistent with conventional accounting lines. Accounting was not consistent standard budget categories. Every fund needs a budget that is presented in tabular form. These expense categories will be reviewed and going forward entered into the accounting system at the beginning of the year. Another approach would be to use a supplemental schedule to reflect greater detail.

Gaffney mentioned GASB schedule 4568 which should note MERA has no employees and therefore no pension liability. Maher will add a note to clarify. Pearce added that MERA's contracts with the County include salaries and benefits of the staff providing services to MERA which is a pass-through with no pension liability to MERA. Maher said it would be good to document this.

M/S/P Pearce/Gaffney to present the revised draft of the FY14-15 Audited Financial Statements and Auditors' Report to the Executive Board on November 18, 2015.

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

C. Report on Initial Financial Advisory Services for Next Gen Project

Cassingham summarized her staff report and introduced Gibbs and Vujovich with Sperry Capital to comment on their initial work. Gibbs said their focus is to stay on top of the planning for Project financing. This includes the timing of borrowing based on market conditions and minimizing the negative investment of borrowed funds. They will be analyzing when and how to borrow. He noted that estimated Project costs are now 5 years old, which need to be updated by Federal Engineering (FE) along with a revised Project schedule which will help determine when funds are needed. Borrowing in a good market outweighs everything else. Their guidance will be based on the best assumptions available.

Pearce clarified with Gibbs that the estimated cost of issuance is $250,000 for each tranch. Gaffney said a line of credit with a bank for construction may be a good idea, possibly at a cost of .02% on the line. When payments start, we might be paying 3.5% which is only paid on what we have spent. Gibbs and Vujovich have come up with good scenarios for us to consider. The initial financial services budget will allow them to run the numbers at this very important stage of the Project.

Hymel asked if Sperry has looked at Scenarios 1A and 1B. Gibbs said they have preliminarily but the date on which you start construction is very important. At this point, without this information, a recommended option is hard to provide. Hymel asked about the requirement to spend proceeds within 3 years. Gibbs said this should not pose much of a constraint given what is known about the Project Timeline at this point. If $40M was borrowed in January 2016 and spending did not start until late August, over the next 3 years, there will be a big balance in the construction fund and MERA will be paying 2.5% – 3% in interest rates even though MERA is paying low interest on the bonds. Borrowing in January versus August will cost MERA $400,000.

Hymel said his biggest concern is the market changing. He prefers to issue early at a low rate rather than issue later when rates may go up. A rate sensitivity analysis is critical. Gibbs, in response to Gaffney, said they will be presenting examples over the next month including a construction line which will save a great deal of money. Hymel said the County did a refi and within 3 weeks, the market shifted 25 basis points which reduced net proceeds by $5M. He is worried that by trying to save $400,000, we could lose much more in net proceeds.

Hymel said we should develop a schedule for issuance so we can be ready to move quickly. Gaffney said Disclosure Counsel would do most of this work and suggested issuance would take 3 months, start-to-finish. Disclosure Counsel would have an initial statement to work from but would need to gather financials from the larger agencies. Pearce noted the current market volatility. Gibbs confirmed this especially so in the stock market. He said a number of options will be developed soon with lots of alternatives to consider. Also, he will sharpen the schedule to get into the market.

Gaffney said the difference between what the County did is that MERA has revenues coming in. If we don’t sell, we pay no interest and we work off cash. Gibbs will work this option into his alternatives. Gibbs said these bonds are tax-backed and should be close to AAA rated at an estimated interest rate of 2.25%. Hymel said we may lose more by waiting a year without debt service. Hymel said we should seek approval in December from the Governing Board to start the process. Gaffney said Gibbs is underway so costs would be incurred to engage Bond and Disclosure Counsels to produce an official statement which may need to be redone as the fiscal period changes. Nonetheless, it may be worth it to proceed. Bond Counsel would require minimal expense in this scenario. Echols said FE should have a preliminary Project schedule in the next week or two, which will be helpful. Hymel and Gaffney confirmed there was agreement by the Committee Members on recommending engaging Bond and Disclosure Counsel to the Governing Board. Gaffney said we don’t need to issue $40M now. Hymel concurred that phasing could be a hedge. Gaffney said the amounts of issues should be worked in with cash flow. Pearce said the cost of each tranch must be considered. Gibbs asked if FE could update the Project Budget. Berg said Tackabery updated it about a year ago versus spending $90,000 to have the consultant do it. Gaffney said an updated schedule was critical to knowing when we would need funds for various stages of the Project.

Gaffney presented to the Committee his suggested requests of FE for the vendor RFP. They include providing a supply of high quality standard radios with any extras at member agency cost, cost estimates for special requests beyond P25 standards, vendor financing or phased payment plans, phased or multiple vendor contracts and postponement of radio purchases until the end of the Project. He said FE is experienced with phased financing which should be considered along with bond issuance. Gaffney confirmed with Berg that a

line of credit was sufficient to cover a vendor contract. Hymel commented that vendor financing presupposes not issuing bonds. Gaffney said with vendor financing, we might sell only $10M in bonds upfront. He said for 10 years, bond interest rates have been predicted to go up but have not. He does not support selling bonds too soon for favorable interest rates,

Hymel said additional net proceeds from issuing $40M in bonds could be used to pay for Next Gen replacement radios during the Next Gen lifecycle. Not issuing early runs the risk of not generating these proceeds. Echols said there are other components of the System that will need replacement during the Next Gen lifecycle which could be paid for with these proceeds. Pearce suggested that while all this is being analyzed, we recommend Governing Board action to fast-track the process. Gaffney said we should engage Bond and Disclosure Counsels with direction to Disclosure Counsel to begin gearing up to issue bonds.

Berg said Bond Counsel should be asked about funding the Service Upgrade Agreement (SUA) as a capital cost for the Next Gen Project using parcel tax proceeds. The Agreement would be part of the Project. Hymel concurred with not bonding the whole revenue stream but a considerable amount upfront. Gibbs will include this option in his analyses. Also, he will initiate talks with the rating agencies as this is a new credit as a fixed amount parcel tax revenue. Included in this discussion will be phased issuance.

M/S/P Gaffney/Pearce to recommend Executive Board support of the engagement of Bond and Disclosure Counsels and Bond Trustee by the Governing Board to prepare for the issuance of bonds as early as 2016 for the Next Gen Project.

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

D. Report on Next Gen System Project Costs Replenishment

Cassingham summarized her informational report noting the fourth replenishment will be submitted in mid-December versus mid-November noted in the report. Cassingham confirmed for Hymel that drawdowns for replenishments must be done by requisitions accompanied by invoice documentation. She also confirmed future replenishments would cover new Next Gen Project expenses.

E. Update on Measure A Parcel Tax Bill Inquiries

Cassingham presented her report including an informational update on Low-Income Senior Exemptions, related late applications and other exemption requests. She distributed a list of the categories of exemption requests which include contiguous, eroded and underwater parcels, along with non-combinable and small size parcels. She noted there is work to be done among the parties involved with Measure A administration to improve communications and provide more consistent information to property taxpayers. Given this is the first year of the parcel tax, it is understandable that administrative issues would arise and that there would be taxpayer inquiries. Consideration of additional exemptions would result in ad hoc administration.

Cassingham requested guidance on how to handle other categories of exemptions which are not provided for in the Tax Ordinance. The only exemption is for Low-Income Seniors and only the Board of Supervisors can approve other exemptions. She added MERA General Counsel and County Counsel are reviewing the application of the Measure A tax on floating homes and mobile home parks. The final outcome of their review will be presented to the Executive Board. Pearce noted that mobile homes are big users of the MERA system. Cassingham said there are 661 floating and mobile homes which account for $19,000/year in parcel tax revenues or $384,000 over the life of Measure A. She also noted the equity issue posed by not imposing the tax as required by Measure A. After further discussion, the Committee concurred this was a legal issue to be resolved.

Regarding the other categories of requests for exemption, Pearce said we need to respond according the letter of the Tax Ordinance passed by the voters. After considerable discussion, it was the consensus of the Committee to adhere to the Tax Ordinance given all parcels receive or are eligible to receive police and fire services without exception, unless relieved of all other property taxes. It was also the consensus of the Committee that the Executive Officer handle administratively any late applications for Low-Income Senior Exemptions.

Cassingham said she will provide a Tax Administration update to the Executive and Governing Boards.

F. Other Information Items

Cassingham distributed Dave Jeffries' summary of the last Project Oversight Committee Meeting. She also summarized SMART PROCEDURE's Public Records Act request which incurred legal and financial services costs in order to respond.

G. Open Time for Items Not on Agenda

None.

H. Adjournment

The meeting was adjourned at 5:38 p.m.

Respectfully submitted by,

Maureen Cassingham
MERA Executive Officer
and Secretary