

MARIN EMERGENCY RADIO AUTHORITY

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

MEMORANDUM

DATE: May 19, 2010

TO: MERA Board of Directors

FROM: Maureen Cassingham, Executive Officer

SUBJECT: AGENDA ITEM **B-1:** FINAL REPORT ON REFUNDING OF MERA'S 1999 REVENUE BONDS

Recommended Action: As recommended by the Executive Committee on March 10, 2010, receive and file the Final Report on Refunding of MERA's 1999 Revenue Bonds.

Background: Refunding of MERA's outstanding 1999 Revenue Bonds was successfully completed at closing on February 4, 2010. Estimated interest savings of \$1.3M from the refunding were reported to the Finance and Executive Committees and Board in December and January. Actual net present value interest savings were \$1.6M.

During closing due diligence, beginning January 20 through February 4, 2010, the Financing team (underwriter, bond counsel and disclosure counsel) set about confirming the amounts on deposit to finalize the sizing of the refunding. The team determined that the first prepaid debt service required by the Project Operating Agreement had not been utilized by the Authority according to the bond documents. This "prepayment" was intended to be the source of the upfront funds for capital projects.

Additional reviews of this funding were undertaken by the Trustee, MERA's Financial Advisor, Maher Accountancy and MERA Bond Counsel which verified this result. Several factors have been identified as contributing to the need to use refunding savings to address the required prepayment of member debt service and synchronize future payments with the Project Operating Agreement.

They are as follows:

- 1) The original Project Operating Agreement required that each year's debt-service payment be collected July 1 for the following February 15 interest payment and August 15 principal and interest payments. Instead, beginning back in 2002 it was discovered that each July 1, principal and interest were collected for that fiscal year's August 15 payment and the following February 15 interest payment. This put debt service collection out of sync with the Project Operating Agreement by failing to

establish the property tax intercept according to the payment schedule. While the operating agreement debt-service schedule was clear, the agreement language may not have been as clear about this requirement.

- 2) The Member agencies' first scheduled debt-service payment in 2001-02 was not collected by the Authority. Capitalized interest was used to pay payments through mid FY02-03. This initial collection was intended to establish the required debt-service prepayment.
- 3) In 2002-03, the Member agencies began paying their annual debt service based on the "out-of-synch" payment schedule discussed in Factor 1 above.
- 4) Inconsistency of bond administration, payment oversight and documentation have been a collective issue from the beginning with the 1999 bonds. For example, the Trustee was required by the Project Operating Agreement to directly collect and hold member debt service. Collection was, in fact, performed by Authority staff, and funds were deposited with the County of Marin. Such inconsistencies can occur due to staff turnover, when service providers change (e.g., Bond Trustee in 2001), or when operations are not structured to address complex procedures such as those required for the 1999 Bonds.

In summary, the \$1.6M in interest savings from the refunding has been used to cure the required prepaid debt shortfall of \$1.5M, prevent Authority default and avoid supplemental collection from MERA members. In July 2010, when the members are billed as required by the Trustee, the Authority will have an estimated \$167,000 available for improvements.

While this is a disappointing outcome for the Authority, refunding was critical to addressing the prepayment debt-service shortfall and putting MERA on the right payment track going forward.

At the suggestion of President Kinsey, concurrence of Vice President Nordhoff, and with Executive Committee support, I began communicating the outcome of the refunding, along with other important MERA matters (e.g., progress with strategic planning, recent actions taken on reserves, development of a new DPW System Maintenance Agreement and the additional frequencies project), at meetings of the Marin Managers' Association (March 25), Marin County Council of Mayors and Councilmembers (April 28), upcoming meetings of the Marin County Police and Fire Chiefs Associations and now before the MERA Board. MERA Operations Officer Mansourian or his representative has been invited to join me in these updates.

It is important to update our member agencies in these venues and let their representatives know that MERA has a number of important issues it is dealing with that may have cost consequences for them during these challenging economic times.