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TO: Maureen Cassingham, Executive Officer
Marin Emergency Radio Authority

FROM: Tom Gaffney

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SUBJ: Refunding Analysis 1999 Revenue Bonds

Enclosed please find a series of tables that analyze a potential refunding of the MERA's outstanding revenue bonds.

Summary
The refunding analysis shows that an advanced refunding under current market conditions does not appear feasable at this time. The standard refunding requirement is for a minimum present value savings equal to at least 3 percent of the outstanding principal amount of bonds. The analysis shows an estimated refunding savings of 2.88 percent. This is very close to the minimum savings target and some argument could be made to proceed at this time. However the bonds are callable next year in August and a nontraditional refunding using a bank loan offers the potential for much greater savings.

Review
Table 1 shows debt service on the outstanding revenue bonds. Interest rates range from 5% to 4.75%. Annual bond service averages about $2.125 million.

Table 2 shows the payments required until the first call date of August 15, 2008. Any refinancing before the first call date is an advance refunding and the refunding must provide funding for all costs up to the first call date. Proceeds from the refunding are invested in "AAA" rated special local government securities (SLGS) as shown in Table 3. SLGS yield less than the interest cost of the refunded bonds, so this results in lower refunding savings.

Table 4 shows the sources of funds available and the uses of refunding proceeds. Issuance, legal, and underwriting costs are estimated to total over $500,000. Table 5 shows estimated annual debt service for the refunding bonds. Current interest rates ranging from 2.5% to 4.1% are well below the 1999 revenue bond interest rates. Table 6 is a technical calculation to determine the arbitrage yield limit (AYL). An AYL calculation is required by US Treasury regulations.

Table 7 develops the present value of the refunding bonds and Table 8 compares the present value of the existing bonds to the refunding bonds. The difference is Present Value Savings and equals about $582,000 or about 2.88% of the current outstanding principal amount of revenue bonds.

Conclusion

An advanced refunding barely misses the target minimum savings of 3% of the outstanding principal amount of bonds. US Treasury regulations permit only one advanced refunding per issue. With the first call date on August 15, 2009, the revenue bonds may be currently refunded. This is a less cumbersome and less expensive financing. In addition, if interest rates remain reasonably close to current levels, a bank loan refinancing may prove much less expensive. We recommend that MERA not proceed with a refunding at this time.

Table 8
Marin Emergency Radio Authority
1999 Revenue Bonds Refinancing Analysis
Savings Analysis

Gross Savings	
Total payments on existing debt after August 20, 2008	27,628,062.50
Total payments on proposed debt service after August 20, 2008	27,404,349.92
Gross savings	223,712.58
Gross savings as % of outstanding principal	1.11%
PV of savings	
Total PV of existing payments at AYL	21,242,022.30
Total PV of proposed debt service	20,660,231.54
PV savings	581,790.76
PV of savings as % of outstanding principal	2.88%