

MARIN EMERGENCY RADIO AUTHORITY

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Agenda Item B-1

MEMORANDUM

DATE: March 10, 2010

TO: MERA Executive Committee

FROM: Maureen Cassingham, Executive Officer

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

Recommended Action: Recommend that the Board receive and file the Final Report on Refunding of MERA's 1999 Revenue Bonds and approve the proposed communication plan for this Report.

Background: The refunding of MERA's outstanding 1999 Revenue Bonds was successfully completed at closing on February 4, 2010. \$1.3M in estimated interest savings from the refunding was 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 (underwriters, 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 pre-paid debt service required by the Project Operating Agreement had not been collected by the Authority. This "pre-payment" was intended to be the source of the upfront funds for capital projects.

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

Some of those contributing factors are as follows:

- 1) The original Project Operating Agreement required a one-year "pre-paid" debt service payment to effect the property tax intercept as security. Each July 1, debt service was to be collected for the following February 15 interest

only and August 15 principal and interest payments. Instead, each July 1, principal and interest was collected for the immediate August 15 payment and the following February 15 interest payment which put debt service collection out of synch with the Project Operating Agreement. While the debt agreement debt service schedule is clear, the agreement language is not explicit about this requirement.

- 2) Capitalized interest was used to pay payments through mid FY02-03.
- 3) The Member agencies first scheduled debt service payment in 2001-02 was not collected by the Authority. This collection was intended to fulfill the required debt service pre-payment.
- 4) In 2002-03, the Member agencies began paying their annual debt service based on the “out-of-synch” payment schedule discussed above.
- 5) Inconsistency of 1999 bond administration, payment oversight and documentation has been a collective issue from the beginning. 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. Such inconsistencies can occur with staff turnover, when services providers change (e.g. Bond Trustee in 2001) and when operations are not structured to address complex procedures such as required for the 1999 Bonds.

In summary, the \$1.6M in interest savings from the refunding have been used to cure the required pre-paid 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 not the outcome the Authority expected, which is a disappointment, refunding was critical to addressing the pre-payment debt service shortfall and putting MERA on the right payment track going forward.

Communication Plan: At the suggestion of President Kinsey and concurrence of Vice President Nordhoff, I am proposing to communicate the outcome of the refunding along with other important matters (e.g. MERA’s progress with its strategic plan, recent actions taken on reserves, negotiation of the upcoming County Maintenance new agreement and funding for the additional frequencies project) at upcoming meetings of the County City Managers’ Group and Police Chiefs’ and Fire Chiefs’ Associations.

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I intend to invite MERA Operations Officer Mansourian or his representative to join me in these updates.

It is important to let our members know that MERA has a number of issues it is dealing with that may have cost consequences for them during these already bad economic times.