

Corinne W. Wiley, President
Catharine Benediktsson, Vice President
Roy Fedotoff, Secretary

Claire McAuliffe, Director
William Teiser, Director

**Sanitary District No. 5 of Marin County
Minutes of a Special Board Meeting
at Sanitary District No. 5 of Marin County Meeting Room
2001 Paradise Drive, Tiburon, California
Tuesday, May 17, 2011, 9:00 a.m.**

CALL TO ORDER by Pres. Wiley at 9:11 a.m.

ROLL CALL: Directors present:

Corinne W. Wiley, President
Catharine Benediktsson, Vice President
Roy Fedotoff, Secretary
Claire McAuliffe
William Teiser

Staff present:

Robert L. Lynch, District Manager
Samantha Miller, Office/Finance Manager
Tony Rubio, Wastewater Facilities Manager
Lynn Henriksen, Administrative Assistant

Consultants present:

John Farnkopf, HF&H Consultants
Sima Mostafaei, HF&H Consultants
Mark Pressman, Wulff, Hansen & Co.

Others present:

Paul Garbarini
Bob McCaskill
Deirdre McCrohan, *The Ark Newspaper*

PUBLIC OPEN TIME: No public comments were made.

BOARD WORKSHOP

1. Discussion of Debt Financing Options for Potential Main Plant Rehabilitation Project

Pres. Wiley asked Mgr. Miller to begin the meeting by explaining the summary sheet she had compiled which covered additional research on the three final recommended options requested by the Finance Committee for debt financing for the proposed Main Plant Rehabilitation project. The three final contenders include a loan from Bank of Marin and bond issuance from either Wulff Hansen or Stone & Youngberg.

At which point, Dir. McAuliffe inquired as to why Citigroup had been eliminated as a bond issuance option. Mr. Bob McCaskill said Citigroup was eliminated due to its nationwide presence in favor of the mechanics of local bond issuance firms like Wulff Hansen and Stone & Youngberg, and because their bid rate estimate was approximately 0.7% higher than the others.

Dir. Fedotoff reiterated that the decisive factor in choosing the appropriate debt financing option comes down to one thing—an objective analysis of the options to result in the best possible financing deal for the District's ratepayers. The idea of hiring an outside, independent consultant to analyze the numbers staff has put together by ranking the options for quality and cost was rejected in part because the Board deemed the cost of doing so, at around \$50,000, was unnecessarily expensive. V.P. Benediktsson asked Mr. John Farnkopf if he provided this service. He said his firm focuses on the impact on ratepayers, and he did not really recommend the District hiring a consultant. The Board and the Advisory Group discussed the fact that the District has gone to great lengths in conducting due diligence, and none of the contenders were eliminated for lack of information. Mgr. Miller emailed each financing proposer copies of the spreadsheets the Finance Committee and the Advisory Group commissioned and each of them responded in regards to the accuracy of their positions as outlined in the summary sheets. They either agreed with the data on the summary sheet or they requested modifications be made to update the data so that fair and clear comparisons could be made. This task was completed by Mgr. Miller.

The Board noted that the goal for the Special Board Meeting this morning was to review all financing options for further consideration so that at this evening's Regular Board Meeting a vote could be called for to choose a favorable financing option for the Main Plant Rehabilitation project. Based on the data provided directly by the proposers, Mgr. Miller constructed a comparison sheet and also plugged these numbers into Mr. John Farnkopf's financial model. As she explained the options to the Board, focusing on the general notes as well as the specific notes for Bank of Marin, Wulff Hansen, and Stone & Youngberg, questions on the ramifications of each option were discussed in detail.

It was noted that Las Gallinas Valley Sanitary District (LGVSD) is presently in the process of completing a similar loan transaction with Bank of Marin. Mgr. Miller spoke with Susan McGuire, LGVSD finance manager, who said working with Bank of Marin was a good experience, and it seemed a bank loan was perhaps a more simple process than was bond issuance. However, they have spent a good deal of time back and forth between the attorneys on both sides of the funding transaction in regards to fees, call features, and overall mechanics of the bank loan.

The Board further discussed the fact that none of the proposers have the ability to lock in rates until the time of loan or bond approval. Dir. Teiser reiterated that time is of the essence in securing solid financing for the Main Plant Rehabilitation project, since interest rates are projected to rise in the near future. Mr. Paul Garbarini agreed that the sooner we are in a position to lock in an interest rate the better for the District.

The Board reviewed Mr. Farnkopf and Ms. Sima Mostafaei's (HF&H Consultants) updated presentation of the financial model and its impact on the District's sewer rates. In reply to V.P. Benediktsson's request for financial advice, Mr. Farnkopf said that he saw very little difference between the funding alternatives. He stressed the need, however, for the District to go forward with the approved maximum sewer rate increases (from the 2010 Prop 218 process) for both zones, and to stick with this plan over the next four years. Mr. Farnkopf applauded the District for, in essence, keeping itself out of a lot of trouble that other sewer districts have found themselves in in the recent past.

Dir. Teiser said he believes Bank of Marin's loan would give the District the most flexibility and competitive value. He likes the option they provide to draw down the funds as the District needs them, much like the way in which a construction loan works, rather than receive the funds in a lump sum as with bond issuance. The Board requested Mgr. Miller find out from Bank of Marin when the twenty-year amortization begins. Pres. Wiley believes that banks, in general, often have cumbersome restrictions and compliance issues that would continue for the length of the loan; therefore, she prefers bond issuance. She also commended Mgr. Miller, Mr. Farnkopf, and Ms. Mostafaei for their considerable work in presenting the funding options to the Board in a straight-forward manner, and Mgr. Miller in particular for her remarkable work researching and pulling together all the information together regarding the various financing options. Dir. McAuliffe opts for bonds also, since she thinks it is a simpler route to take given that the alternatives are comparatively equal. Mr. Farnkopf said in his opinion the District is going about the selection of a funding source correctly, with a great deal of due diligence, and he reiterated he does not think hiring a consultant would benefit the District.

ADJOURNMENT:

Motion (McAuliffe/Benediktsson) to adjourn at 10:43 a.m. to a Regular Board Meeting on May 17, 2011, at 7:00 p.m. at the Sanitary District No. 5 of Marin County Meeting Room at 2001 Paradise Drive, Tiburon, California. Passed, all present.

Approved:

Attest:

Corinne W. Wiley
President, Board of Directors

Roy Fedotoff
Secretary, Board of Directors