HONEY LAKE VALLEY RECREATION AUTHORITY
GOVERNING BOARD MEETING
Regular Meeting Minutes
October 7, 2014 – 3:00 p.m.
City Council Chambers 66 North Lassen Street Susanville CA 96130

Meeting was called to order at 3:05 p.m. by President Brian Wilson.

Roll Call of Board of Directors present: Brian Wilson, Nick McBride, and Dave Meserve.
Absent: Jim Chapman, Larry Wosick

Staff Present: Jared Hancock, Executive Officer, Krystle Hollandsworth, Administrative Staff Assistant.

APPROVAL OF AGENDA: Motion by Board member McBride, second by Board member Meserve to approve the agenda as posted; motion carried. Absent: Chapman and Wosick.

APPROVAL OF MINUTES: Motion by Board member McBride, second by Board member Meserve to approve the minutes from the August 19, 2014, meeting; motion carried unanimously. Absent: Wosick and Chapman.
Motion by President Wilson to table the September 16, 2014 minutes pending the determination of quorum requirements per public.

5 <u>CORRESPONDANCE:</u> None.

6 <u>PUBLIC COMMENT:</u> Mr. Jonas requested a determination of the quorum issues.

7 <u>MATTERS FOR BOARD CONSIDERATION</u>:

7A Discuss Audit Options
Mr. Hancock states that the JPA was formed in the fiscal year 2013/2014 as such we have the responsibility at the closure of the fiscal year to audit the financial statements. During the fiscal year the JPA had approximately 5 financial transactions. Mr. Hancock requested a few different quotes from different companies but because of the small nature of the contract there has been little to no response, however the county auditor who is Price Paige and Company has offered to perform the audit. The price would be $3,250.00 for this fiscal year audit but it was brought to the JPA's attention that they may be eligible for a two (2) year contract option, which means your books are audited on a two year cycle. Every year you would be audited but the two (2) year audit would be about the same amount $3,250.00. There has been some discussion if the JPA is eligible for the two (2) year option, preliminarily it looks like we are but if it discovered that we are not eligible for the two (2) year option we will continue on with the single year option. Mr. Hancock asks the Board, would you like to pursue the two year audit option or the single year audit option?

President Wilson clarifies that we may not even be eligible for the two (2) year audit option.

Mr. Hancock stated that on the surface it appears that we are but that would need to get that approved and that procedure has not been determined yet.

Bill Feierabend (public) inquired about a local firm possibly doing the audit gratis?

Mr. Hancock responded to the inquiry that they have sent one request to an accounting firm that does government work to see if that is a possibility and he has not received a response.

President Wilson stated he is in favor of the two (2) year option to recognize the cost savings as long as the JPA is eligible. He would like the five transactions to be very open to the public.

Tony Jonas (public) asks, what is the cost of the combined two year audit?

Board member Wosick arrives at 3:10 p.m.

Mr. Hancock confirms that the price would be the same as the single year $3,250.00

Board member Meserve stated that he feels they should go with the two (2) year option if the JPA is eligible. He knows that some special districts under certain circumstances are. The question as Jared has pointed out is if we fall under the same guidelines.

Board member McBride is ok going with the two year audit but after that audit he would like to go with the annual option because the project will have broken ground then and there will be a lot more transactions.

Mr. Hancock announced that he could make a determination within a week if the JPA is eligible for the two year audit and would like to move forward for this round and consider after that audit is done if the JPA will continue on the two year cycle or move back to the annual. He also clarified he will confer with the auditors if once the JPA selects a two year audit are you required to stick with it after the initial 2 year cycle.

Mr. Hancock asks for direction from the Board.

President Wilson asks if the item is coming back to the Board.

Mr. Hancock replies that it will not have to because it is below the purchasing threshold so he can execute that contract.

President Wilson asks for a vote.

Motion by Board member McBride, second by Board member Meserve to approve the two year audit cycle based on the ability to go to annual contract after the initial two year audit; motioned carried. Ayes: McBride, Meserve and Wilson. Abstain: Wosick. Absent: Chapman.

7B Construction Finance Options

Mr. Hancock directed the public's attention to additional resources on the table that would make it easier to follow along with the discussion. Mr. Hancock identified the purpose for today was to follow up on the financing discussions from a few months ago, which options were available to a JPA? Those options range from self-financing to a private debt issuance, also have it financed through a construction company that would be contracted to do the work. The direction from the Board at that time was to work towards the most cost effective options. Which were self-financing and looking at the USDA Rural Development Loan Program. If those two options are not available the JPA would look at private debt issuance. How is the JPA going to design, build and set up programs for this facility so it is operating within budget? The pool budget has been very clearly defined and established with the formation of the JPA documents. It defines a $400,000.00 annual contribution with $200,000.00 from the City and $200,000.00 from the County over a 15 year period. In addition to these annual contributions it is anticipated that the pool will generate revenues on its own through programming and gate fees. It is anticipated that gate and usage fees will be used to offset as much of the operational cost as possible. It has also been discussed about fundraising and community contributions and what those monies will be spent on. The direction from the Board on that issue is that the money would be reserved for aquatic facilities and improvements not necessarily spent on overhead expenses.

So the task of the JPA is, make sure to design a pool and an operational structure that makes sure the $400,000.00 is enough to cover the construction cost over a 15yr period in addition to any deficit operational costs. Aquatic Design Group expressed that community pools don't make money. You do your best to include features that can recover as much of the cost as possible but it is not a revenue generator. So in the next few weeks they will be looking at the different design options and features that can be added to the facility. Which ones will have the greatest potential to generate the most revenue to offset the cost? Mr. Hancock stated that if we stay on this course in 15 years the JPA will have a debt free facility, which is half the expected life of a community pool. By doing that it increases the operational viability depending on what the direction this project is going to take after the 15 year period. Does it turn into a special district or if the City and County will continue on with the JPA or other arrangements.

Mr. Hancock explained how different financing options effect the bottom line and the amount of money available for construction. He referenced the amortization table that was supplied at the meeting to show the range of an annual payment on a 3 to 4 million dollar loan for a basic pool. He explained the annual cost would vary depending on interest rate and amount financed. He stated that of the $400,000.00 contribution each year, what did not go to payment of the loan would be used to offset operational costs. As you design a facility you can quickly add features that will easily add 1 million or 2 million dollars or even 3 million to the facilities cost but that table highlighted the reality of what will be available from the annual contributions. He noted that one of the handouts was an annual return rate from LAIF. Typically, Local Agencies will take funds that they have and invest in LAIF because that cash needs to be readily available. The interest rate is more like the equivalent to a checking account. Reference the sheet for current interest rates on those funds and note the variance from past years. The 3% corresponds with a more standard government interest rate. During staff discussions with private placement firms who issue debt issuance for government agencies, Mr. Hancock stated that for a similar project the mark up rate is 6% and requires collateral from the City and or County or both and without collateral the rate would be 9%. So you can see that at 15 years at 9% amortization it basically uses up the entire budget of $400,000.00 a year and would leave very little wiggle room to cover operational deficits.

Mr. Hancock explained that the most viable option and the one that the Board has been leaning towards, going to the member entities and request their level of interest in self-funding their portion of the construction costs. Based on their portion they are willing to self-finance their annual percentage rate decreasing their required annual contribution. They would be essentially loaning the money to themselves and contributing a lump sum to the JPA. Based on this information it appears like this is the fastest and least expensive option but it all depends on those member entities and financial ability to do that. It is time to ask that question of the member entities and if it is not an option we need to quickly move on to an alternative source like the USDA or other financing alternatives.

Board member Wosick wanted to clarify about the source of the 3% money and if that is from the USDA.

Mr. Hancock verified that the USDA still has a Rural Community Development Program and Community facilities is one of the activities that they have approved loans for a 3% rate. They would require the JPA to go through their review and approval process. The JPA would have to have all of the designs and the costs dialed in and then make application for those funds.

Board member Wosick stated that one thing that needed to very clear and that the entities were sold on is that this was going to be a minimum facility. It wasn't going to be a big, fancy extravagant 7, 8, 9 million dollar project. He thinks that the JPA needs a target number because the first thing the other board members of the entities are going to ask is, how much is that going to cost? We will be able to answer that question be coming up with a number, say it is 3.5 million. We say it is going to cost no more than 3.5 million. They will ask, how do you know because we don't have the design yet? We can state that the design will be dictated by the budget rather going to get a design before the budget. It's like going to buy a house and not know what you qualify for, no we need to know what we qualify for and that is the type of pool that is going to be built. So at the 3% for 3.5 million it looks like we would be in the $290,000.00 range which leaves about $110,000.00 available for overheard operation costs. I think that number makes sense based on the allocation from each entity. That number will service the debt and leave money for the shortfall. If we have to go to our respective bodies, it will be 1.75 million dollars each. We each already have about $400,000.00 in and I think that we can try the self-finance first to save the money. Even the money that we would save on interest would go a long way in taking down the old pool site. There is a tremendous benefit in trying to find the money ourselves and if we can't, we quickly move on to plan B and try to find 3% money. We have a set of money that the designer has to work with, we can't go over. That would be my recommendation.

Mr. Hancock stated the JPA is about 3 weeks away from getting preliminary designs.

Board member Wosick states that 3.5 million is the maximum. Our annual budget is $400,000.00 and we need to keep some of that for the shortage. Based on that, the number is 3.5 million whether we finance it or self-fund it.

Board member Meserve agreed we should look at the option that will reduce the overall cost. As time goes on, inflation will be a factor and what we have coming in we don't know yet. I think that has to be considered.

Board member McBride agreed, we need to have a cap on the budget.

Mr. Hancock explained that would give the consultant some clear parameters. The JPA needs to design a facility not to exceed 3.5 million in total cost. That number will include site preparation costs and the money it would take to run a variety of programs and features that would help facilitate the JPA operating at no more than $100,000.00 deficit. Mr. Hancock elaborated that one of the advantages of picking the firm that the JPA did is, they are not only involved in construction they are also involved in setting up the programming and running cost recovery estimates as well.

President Wilson explained that he agrees with the concept of having a cap on the budget. When we go to our respective boards if this is the direction we want to go, of no greater than, I think that when it actually comes down to it and we are working with our pool consultant we are going to find that 3.5 is probably on the high side and we won't actually wind up spending 3.5. When the budget gets all worked out he doesn't think that the JPA will be able to go that high. If the JPA does go with a number like 3.5 million it puts us safely where we will need to be and if we don't need all of it, great. One thing that you didn't mention Jared, at least with the City and what we earn with the monies that we have in the bank is nowhere near 2-3%. We are earning substantially lower than that. In some ways instead of investing the money into LAIF we are investing them into something that is paying a higher interest rate which is the pool. We would be paying ourselves a higher rate then what we would earn.

Mr. Hancock agreed with President Wilson that each individual entity would have to look at it in the sense that, rather than have the full $200.000.00 annual contribution they would be able to reduce that by $100 - $150,000.00 a year. By paying the money up front, they would be essentially paying themselves. I know from the City's stand point we have approximately 12 million dollars invested in LAIF right now which is at .24%. Each Board would have to look at those funds because they will have to go through a process of designating which funds are loaning the money and where it is coming from.

Mr. Wosick stated that for the sake of simplicity we go to our Boards and request 1.5 million each we would basically be reducing or contribution from $200,000.00 to $100.000.00 annually. To figure out the contribution for the remaining years you will assess the upfront funding to the balance and then divide by the remainder of years to figure out the new annual contribution amount.

Mr. Hancock asked Board member Wosick if he is including the funds that have been paid to date.

President Wilson confirmed there are 13 payments left.

Board member Wosick replied, yes divide the amount by 13. We would say it is the same money but we pay it now instead of paying out every year, $200,000.00. The benefit is we get to build the pool straight away and we will make more money investing in ourselves.

President Wilson explained that there are two ways, depending on if the entity is pre-paying or financing it. If you are pre-paying it, the payments will be reduced going forward but if they are financing it....Richard might have a better answer to that. Is it better for the money to go to the JPA and they pay back the loan or not?

Richard Egan (public) replied, there are a couple of apples and oranges that are going on here. Right now each entity has agreed to contribute $200,000.00 per year. Now if either chooses and the JPA agrees to make an upfront contribution then I think it would be appropriate to apply a "reasonable discount rate" to that so in other words if the County or the City contributed 1.5 million it's not just a straight todays money for tomorrows money. He doesn't think todays LAIF rate should be used as a discount rate because LAIF is a 1 year return rate not a 15 year rate. You would need to look at a reasonable index which may be the average LAIF rate over the last 15 years and that would be probably more like 5%. If both parties put in the same amount then it doesn't matter because we are a 50/50 partnership.

Mr. Hancock explained that the JPA is not trying to add years to the initial contract that was formed with the terms of 15 years.

Board member Wosick, if this group thinks that 3.5 million is the right figure then we need to get it to our respective boards.

Mr. Hancock asked the JPA, so we are asking our Boards for an upfront contribution of 1.75 million on the high end.

Board member Wosick believed that the entities should be able to deduct what they have already put in the JPA fund.

President Wilson agreed with Board member Wosick that some of the money can be credited.

Board member Wosick believed since the shortfall will occur after the pool opens we don't need to account for it yet.

Richard Egan (public) suggested that rough numbers with the already $700,000.00 that gets the budget down to 2.8 million. That would work out to be about 1.4 million, plus an annual contribution of $80 – $100,000.00 rather than the $200,000.00 agreed upon now may work. I know that the JPA has established a tentative time frame which has the beginning of construction for Feb. 1st 2015, that is a little aggressive. If that is the case then it seriously limits the finance options as far as getting outside funding.

Eileen Spencer (public) asked if she heard correctly, the designs will be done in 3 weeks and you will have to make the decision about the money.

Mr. Hancock stated that on September 30, 2014 the JPA had a design workshop where Aquatic Design Group came and held a community forum to go over the basic needs and desires of the community. Over the last 2 weeks Aquatic Design Group has been drawing up preliminary designs and in the upcoming weeks they will be looking at different programming options. The JPA's goal is at the next meeting we will have another workshop with those designs available. It will be an overall build out with the phase 1 construction costs which is what the JPA is looking at. After that staff will use the input from the Board and community to refine the plans and have a finished project.

Eileen Spencer (public) agreed with Board member Wosick that designs should be created from a budget.

Mr. Hancock replied that the Design Group is working with a tentative 2.5 million dollar budget. Preliminarily that gets the community a 4 lane pool with some other stuff. There are a number of factors that go into the overall design. The Design group was hesitant to throw out that this is what you can get for 2.5 million.

Eileen Spencer (public) asked Mr. Hancock, what is the construction start and finish date estimate?

Mr. Hancock responded by saying typically 5-7 months. The timeline is based on best case scenario and could be subject to change due to weather constraints.

Bill Feierabend (public) stated, I keep multiplying $400,000 by 15 and am coming up with 4 million.

President Wilson addressed Mr. Feierabend's inquiry. That is correct based on supplemental overheard or interest or future repairs. We are making sure that in 15 years from now the needed maintenance can occur.

Bill Feierabend (public) agreed that the best option would be the City and County self-financing. If they self-financed 1% would be held back from the annual contribution?

President Wilson stated that those numbers are still to be determined if we go the direction of self-financing.

Tony Jonas (public) asked Mr. Hancock, could you elaborate on the percentages in front of me? They were defined as soft cost and contingency and site prep.

Mr. Hancock responded, when you plan out a project there are additional costs that go into the overall construction cost. Site preparation fees, engineering costs, permitting fees. Most firms want 9-13% of the budget for preparation of plans but the JPA are in a contract that is based on a project cost with a not to exceed cost because of the budget. In addition to that you have the cost of putting in the pool and rather than itemize each individual item they have created a percentage of what they call a soft cost or equipment cost. Those vary from 18-30%.

Tony Jonas (public) asked if there is an estimate on a 3.5 million dollar project.

Mr. Hancock replied yes, but I don't know the percentages off the top of my head.

Board member Wosick wanted to clarify that the number is 3.5 million and Mr. Egan and you will figure out the format?

Mr. Hancock confirmed that based on the discussion today the JPA will be presenting two options to the member entities. Staff will define that we are looking at a not to exceed project cost of 3.5 million dollars of which 1.75 million would be there share. Staff will be asking if they are willing to up front the cost in which they would be paying the JPA money to reduce their annual contribution or would they be willing to loan the JPA money at a set interest rate which would be at 3%.

Richard Egan (public) replied I think the County and the City would be precluded from loaning the money in excess of 5 years. He believe that is in the government code, which would essentially be an investment of the treasury and limit it to the 5 year rule. So the contribution would be the only practical way to do it and would require for an amendment to the JPA agreement which calls for the $200,000.00 annually.

President Wilson stated that the direction from the Board to Mr. Hancock is, get the letter in front of the 2 Boards with those options.

Mr. Hancock stated that he will get the letter drafted and out by the end of the week.

Richard Egan (public) replied, we can get it on the Agenda for the 21st. It would be nice to have a request from the JPA to frame the discussion.

7C Finalize Fundraising Options

Mr. Hancock opened with, we have a lot of people in the community that are very enthusiastic about the pool and we have a lot of people who have contributed already through the Pennies for the Pool Project. These individuals really want to see this pool be a success. There is an informal group that wanted to wait until we had a site and design and it will take 60 days to set up a non-profit. The JPA is at the point where we want to know if they will serve as the fundraising arm for the JPA and if not Mr. Hancock strongly urges the JPA to begin aggressively fundraising for the project. When the designs come out it will be a great opportunity to capitalize on the excited and give the community an opportunity to invest in the project.

Board member Wosick asked what would be the negative in having the JPA organized to accept a fundraising. We want them to move forward but why not have both?

Board member McBride stated, the JPA is already set up to accept donations.

Mr. Hancock believes to avoid confusion there should only be one fundraising group. He suggested that the JPA write a letter to the individuals and see if they would like to move forward. If they do staff will wait but if not or is a delay he recommends that the JPA move forward independently.

Board member Wosick would like to know at what stage we will have the elements they are waiting for.

Mr. Hancock replied, about 6 weeks.

President Wilson believes this is a little premature, 6 weeks out of having a design. His assumption was that the JPA would build everything they could with the money that they had and that group would be adding amenities. President Wilson would like to hear from that group. If in six weeks we give you a design and site plan are they ready to hit the ground running?

Mr. Hancock confirmed that staff will reach out to them and request that they provide an update at the next meeting.

7D Site Acquisition

Mr. Hancock relayed that some of the things getting worked on right now are; surveying services for the site acquisition, staff is revising a contract with H&K for a Phase 1 analysis with additional focused Phase 2 work. If you have a property that has the potential of contaminates it is prudent to perform a Phase 1. By having the Phase 1 completed and if you do come across contaminates during construction since you have done your due diligence you mitigate your responsibility for cleanup and opens up more options for help. The phase 2 is soil sampling and profiles for the construction of the site that will describe the compaction and density. We are also preparing to release a RFP for demolition of the existing pool. We are planning to meet with the County next week to go over the proposed property lines, we are working on getting a fence and in order to save cost we are going to use the inmate work crew from Herlong.

Board member McBride inquired where are we with the garage?

Mr. Hancock stated that they are meeting next week.

Tony Jonas (public) asked, when is the close of escrow on the 800 site?

Mr. Hancock responded, at the completion of the phase 1 about 2-3 weeks. The other thing that is happening is Tim Purdy has volunteered to supply a historic background for that phase.

President Wilson stated they will bring back the minutes of the Sept. 16th meeting at the next JPA meeting.

8 **BOARD MEMBER ISSUES/REPORTS:** None.

PUBLIC COMMENT TO CLOSED SESSION ITEMS: (if any): Any person may address the Board at this time upon any discussion during Closed Session.

Eileen Spencer (public) wanted to know who the Legal Counsel for the JPA was.

Mr. Hancock explained to her that the JPA does not have a full time Counsel but uses specialty Legal Counsel for various items.

CLOSED SESSION: At 4:15 p.m. the Honey Lake Valley Recreation Authority recessed to closed session to discuss the following:

A. Conference with Legal Counsel: Significant exposure to litigation pursuant to Subdivision (d) (2) Government code Section §54956.9

10 **RETURN TO OPEN SESSION:** At 4:24 p.m. the Honey Lake Valley Recreation Authority reconvened in open session.

A. No direction given, no reportable action

ADJOURNMENT: Meeting adjourned at 4:30 p.m.

Brian Wilson, President

Respectfully Submitted by

Krystle Hollandsworth, Administrative Staff Assistant