

MARIN EMERGENCY RADIO AUTHORITY

c/o Novato Fire Protection District
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F.C. 11/6/14 Agenda Item A

MERA Finance Committee **Minutes of September 10, 2014 Meeting**

Draft: 9/26/14

Call to Order

The meeting was called to order by Chair Hymel at 2:40 p.m. on September 10, 2014 in the Heritage Conference Room, Novato Fire Protection District Administration Office, 95 Rowland Way, Novato, CA 94945.

Committee Members Present:

County of Marin	Matthew Hymel
Marin County Sheriff	Robert Doyle
Town of Ross	Tom Gaffney
City of Novato	Jim Berg
Tiburon Fire Protection District	Richard Pearce

Staff Present:

MERA Executive Officer	Maureen Cassingham
MERA Operations Officer	Craig Tackabery
DPW Communications Services Manager	Shelly Nelson
County Communications Engineer	Richard Chuck

Guests Present:

County Deputy Fire Chief	Mark Brown
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A. Minutes from February 18, 2014 Finance Committee Meeting

M/S/P Pearce/Gaffney to approve the minutes from February 18, 2014 Finance Committee Meeting as presented.

AYES: ALL

NAYS: NONE

Motion carried.

B. Discussion of Equipment Replacement Reserve for Gen III System

Cassingham said Auditor Maher had provided a memo on General Concepts, Methodologies and an Equipment Reserve Schedule for this discussion. She distributed the

Schedule of Member Operating and Service Payments from the FY12-13 Audit. She presented several questions for consideration regarding whether current taxpayers should bear the cost of assets for the benefit of future taxpayers by bearing current debt service while accumulating a reserve for Gen III and the uncertainty of accumulating a reserve for equipment, subject to technology changes. She added a Gen III reserve would be affected by the availability of parcel tax proceeds.

Cassingham said this matter was agendaized to begin discussion now and to address why members did not set-aside for Next Gen when financing the current system. Gaffney said he is not aware of agencies setting aside for major future replacement projects while they are replacing systems. While some agencies set-aside for vehicle and other equipment replacement, this would be very unusual. He noted the Fairfield–Suisun Water Treatment Plan replacement in Solano as a rare example. Hymel said we became aware of the need for replacement some time ago but the economic downturn and the effects of asking members to put funds aside for a replacement system in that climate was not possible. There is a higher likelihood now of doing so with a parcel tax. Going forward, we do not want to be paying debt service on a system that has outlived its life. We need to consider how to extend system life so as not to be in this position again. When debt service is retired, we should consider whether this becomes a windfall to members or be used for an extended warranty and for a replacement reserve. Berg noted the example of how the PERS windfall was used. Pearce emphasized creating a Gen III reserve is based on receiving a parcel tax. Hymel said this discussion is about due diligence and developing some scenarios about how a Gen III reserve might be created.

Gaffney said we should have an annual replacement set aside, say up to 10% for system replacement study and design. 100% replacement is not rational since the public would be paying twice. Hymel noted the variation of useful life with current system assets. Continuing some portion of member debt service would permit us to cover certain assets with shorter useful lives, which would give us assurance that those assets will be extended for the life of the replacement system. Pearce agreed with setting aside frontend monies for a replacement system, given how our Reserves have been used in planning for the Next Gen System. Hymel said we want to assure voters that with a parcel tax, we are taking steps to assure the Next Gen System lasts its useful life and we are planning for any uncertainties and at least partial replacement. Gaffney said if we continue current debt service collections beyond retirement, it would generate \$2.2M per year. He said we had also discussed using any available funds to add additional sites beyond the 4 budgeted. Tackabery said 7 sites were prioritized, 4 budgeted and with favorable bids, we might be able to add sites. Hymel said he had also hoped the bump in operating costs for Next Gen with additional sites would be covered by maintaining ongoing debt service payments along with setting aside for a replacement reserve.

Hymel discussed the Members getting used to the \$450,000-per-year payment for a System Upgrade Agreement as part of the useful life extension/system replacement reserve approach. Tackabery and Nelson said a prospective vendor would upgrade the replacement system every 2 years with mostly software and some backbone equipment. Chuck added

this does not include mobile support. Tackabery clarified for Gaffney that upgrades over 20 years is dependent on the vendor. Pearce clarified that an SUA may or may not be from day one and may be in increments thereafter based on the vendor. Nelson said there is usually a warranty period followed by the SUA but this is vendor dependent.

Berg asked why there is no drop-off in O&M when Gen I is phased out. Hymel said we are adding more sites with Next Gen. Tackabery said there will be more lease expense, some utilities drop-off and more labor costs. Hymel said what we are trying to achieve is to think about extension of Next Gen useful life, develop scenarios to fund it and set aside for some Gen III replacement costs. In response to Gaffney, he said a policy should drive some offset for increased operating cost while funding useful life extension and some replacement reserve. Gaffney said this policy would have Members understanding and considering such a plan early on versus using retired debt-service for other purposes.

Gaffney said he envisioned project financing with a parcel tax as not having to sell all the bonds right away. We could start with a small bond issue or pay as we go for a year or two to fund design to save interest. We could sell bonds when we start construction. The parcel tax would generate \$3.6M per year. Berg said the first order of business would be to reimburse the MERA Replacement Reserve for all related expenses of the Strategic Plan Implementation and Next Gen System planning.

C. Discussion of System Upgrade Agreement (SUA) for Gen II System

Pearce expressed concern over the \$450,000 annual estimated amount for the SUA. Cassingham said the excerpts from the DPW Feasibility Study on the SUA option and costs Pearce referred to were included in the agenda packet to initiate this discussion. SUA cost would be a member operating cost. Hymel referenced Doyle's analogy of the SUA to a vehicle extended warranty. Tackabery said a closer analogy would be a software upgrade to the latest version to ensure compatibility. He said an SUA is not a warranty for breakage. It keeps you current with the latest technology. Berg asked about hardware failure once it is not supported by the vendor, which is where we are now. Hymel asked if neighboring public agencies having these systems are funding SUAs. Nelson said Alameda, Contra Costa and San Francisco are doing it. She said upgrading along the way will lower the costs of the next steps. Gaffney asked if the system lives of other agencies had been checked. Nelson said others are projecting 15-20-year system life which is consistent with the estimate in the Next Gen Feasibility Study. Pearce said third-party input on the RFP regarding system life should help clarify all this. Hymel said continued debt service as an SUA funding source should assure Members they don't have to dig deeper for funding this as an operating cost.

Pearce asked if we would proceed with the Project RFP right after the election. Hymel said we are on a two-path scenario. Pearce sees December as a possible fork in the road. Hymel continues to assume we will go forward with Next Gen in December no matter what. The Governing Board would be presented with a financing smoothing scenario without a parcel tax. If successful, we will look at Member continuing current debt service

to cover increased operating and SUA and a reserve for Gen II. Gaffney added consideration of another election as an option. Hymel was dubious about success of this. Other tax measures in 2016 could make this problematic.

D. Timeline for Communications to Members and Non-Member Users –
Next Gen Project Radio Costs

Cassingham summarized Jeffries' staff report on Member Next Gen radio replacement and date setting for the number to be replaced along with non-Member and Mutual-aid user Next Gen operating cost-sharing. These issues have been raised in past discussions and purpose of the report is to identify a timeline and solutions for MERA Executive and Governing Board action. She noted annual review of the fee policy for non-Member and Mutual-aid users which resulted in greater attention to this usage. She added that any changes to the current zero-fee policy needed to be communicated well in advance of implementation.

Pearce asked about larger users like NPS and whether they or any others pay the County for dispatch. The answer was no. Hymel asked about the user list attached to the staff report. Tackabery said there are various lists and this one reflects non-MERA Mutual-aid users who bought their radios. There are also Mutual-aid users who were given their radios which were paid for by the initial Bond, like the Humane Society.

Hymel returned to the possible cutoff date for the number of Member radio replacements. The report suggested 11/2015 prior to vendor contract negotiations. Berg said, given ongoing additional radio requests, he suggested using the 11-4-14 Election, with the passage of the parcel tax and member radio counts on that date. Gaffney said the Executive Board should decide this sooner versus later. Cassingham said a decision would need to be communicated immediately thereafter to the Members. There was consensus on presenting this recommendation to the Executive Board in November.

Hymel said he favored holding off on the question of non-member and mutual aid users participating in O&M costs. We need to know what our future looks like when we have this discussion. Berg and Gaffney concurred. Gaffney noted some MERA users also have their own radio systems. Hymel said we want users who contribute to public safety to have MERA radios, so we will have to break the types of usage down.

Doyle commented about the number of radios assigned to NPS, noting they are not 24-hour users. Chuck verified there is quite a bit of usage by NPS. Berg said some consideration of O&M participation based on type of usage would be fair to the Members. Doyle and some of the users are for the Members' benefit, so we need to take a closer look. Pearce noted he and Gray volunteered to assist with looking at who is on the System and what they are doing, but their availability has been limited of late.

Tackabery asked for input on recommending dual band radios for future purchase, which would work with both the Gen I and the Next Gen Systems. They will cost 20% more.

Useful life is 7-10 years and more. He suggested this be presented to the Executive Board with the number of radios' cutoff date. DPW suggests any radios being replaced now until the Next Gen System radios are ordered in 2017-2018 should be dual band.

In response to Berg, Nelson said there is about \$1,500 difference in the cost of the Gen I radio and a dual band. Hymel asked Tackabery for a report on this and the concept of mitigating the costs for non-police and fire radios by incenting dual band purchases now for police and fire. This would give them a credit towards their non-police and fire radios or they could give the ones they purchase for police and fire to non-police and fire users.

E. Discussion of Recommendations to Executive and Governing Boards in November/December Re: Next Gen System

Cassingham said this discussion was to initiate thinking on what needed to be presented to and decided by the two Boards on Next Gen System implementation such as proceeding with financing, forming a Project Oversight Committee, MERA staffing and more. Hymel suggested scheduling another Finance Committee meeting in November, right after the election, to develop and finalize recommendations on Next Gen next steps.

F. Other Information Items

None.

G. Open Time for Items Not on Agenda

None.

H. Adjournment

The meeting was adjourned at 3:30 p.m.

Respectfully submitted by,

Maureen Cassingham
MERA Executive Officer