

MARIN EMERGENCY RADIO AUTHORITY

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E.B. 11/4/15 Agenda Item A

MERA Finance Committee Minutes of August 12, 2015 Meeting

DRAFT: 9/24/15

Call to Order

The meeting was called to order by Chair Hymel at 3:04 p.m. on August 12, 2015 in the Marin Civic Center-Room 315, San Rafael, CA.

Committee Members Present:

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

Committee Members Absent:

Marin County Sheriff	Robert Doyle
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Staff Present:

MERA Executive Officer	Maureen Cassingham
MERA Operations Officer	Craig Tackabery
County Communications Services Manager	Shelly Nelson

A. Minutes of March 2, 2015 Finance Committee Meeting

M/S/P Pearce/Gaffney to approve the minutes from March 2, 2015 Finance Committee Meeting as presented.

AYES: ALL

NAYS: NONE

ABSTENTIONS: Berg

Motion carried.

B. Report on Financial Advisory Services for Next Gen Project Financing, Request for Proposals and Selection Process/Schedule

Cassingham presented the recommended actions including approving the staff report on Financial Advisory Services for the Next Gen Project, the RFP for those services, selection process and schedule and authorization of the Committee Vice Chair and Executive Officer

to conduct the selection process and recommend the selected Financial Advisor to the Executive Board on September 9. She noted four of the five Finance Committee members are on the Executive Board which would negate the need for a separate Finance Committee meeting. Vice Chair Gaffney, the fifth member, would be attending to co-present the recommendation. The Committee concurred.

Cassingham summarized the staff report noting extensive Committee and Board past discussions on forming a Finance Team for future bond issuance and proceeding with selecting a Financial Advisor sooner than later. Proceeding with this selection permits us, via a third party, to look at the financing landscape and test our financial planning assumptions. The RFP includes a \$10,000 budget for advisory services prior to the issuance of bonds. Gaffney has assisted with the development of the RFP and offered to participate in the evaluation of proposals. She noted the approved RFP will be added as a Quick Link on meraonline.org on August 13. With Gaffney's input, a short list of local qualified firms has been developed to receive the RFP. Any other firm can be referred by members to the website.

Cassingham said the RFP will be issued on August 13 with an August 28 submission deadline. She said the RFP references Nossaman as Bond Counsel and Hawkins, Delafield & Wood as Disclosure Counsel. MERA has worked with these legal advisors in the past and found their services to be excellent. Gaffney added that we will get cost estimates from both Counsels for each of the bond issue sizes. He added that an F.A. will double check all financing assumptions to date, and our pay-as-you-go approach to achieve interest savings. The F.A. will ready us for a bond sale as monies are needed for the Project. Hymel said this is a good approach and supported an objective analysis of interest rate risk sooner versus later. Pearce inquired about the quick turnaround time for selection. Gaffney said proposals were limited to five pages in length to permit quicker review. Cassingham confirmed she and Gaffney had concurred with the schedule and felt the length of time for submission and review was doable.

Berg confirmed that Gaffney and Cassingham's proposed RFP changes were clerical and not substantive. Tackabery concurred with getting the F.A. on board now. He suggested adding to the F.A.'s scope, a review of a vendor financing option as noted in the 2010 vendor RFP. Berg said the vendor financing in one of the proposals from 2010 was very attractive. Hymel said the interest rate would be better with tax-exempt financing, however, we should look at this option. Gaffney said a vendor would try to sell us the whole project upfront and the finance it. We are seeking to finance in phases as needed. He concurred with adding vendor financing to the RFP.

M/S/P Pearce/Berg to approve the Report on Financial Advisory Services, the RFP with clerical corrections and vendor financing review, the selection process and schedule as presented and authorization of Gaffney and Cassingham to conduct the selection process and recommend the selected Financial Advisor to the Executive Board on September 9.

AYES: ALL
NAYS: NONE
ABSTENTIONS: NONE
Motion carried.

Cassingham reported as additional information relative to Item B that NBS has confirmed that 90,400 parcels were successfully submitted onto the County tax roll for FY15-16 for a total levy of \$3,592,011.60. NBS will bill 102 utility-owned parcels on MERA's behalf, with a total levy of \$18,554.20. The total parcel tax levy is \$3,610,565.80. Cassingham confirmed this amount was spot-on with the NBS Parcel Tax Study estimate.

Gaffney said the County will charge \$2 per parcel for annual collection costs, potentially \$180,000. Pearce confirmed there were 17 senior exemptions approved of the 18 applications filed. After some discussion about the collection amount and the County's billing process, Cassingham said she will confirm the County's collection charges and report back.

C. Report on Reserve Reimbursement for Next Gen System Project Advances

Cassingham summarized the work performed to date in requisitioning MERA's Next Gen Project expenses from the freed-up current Bond Reserve held by BNY. Bond Counsel Reyes developed the requisition format which BNY approved. The detail accompanying the requisitions, which are developed by fiscal year, has been very labor intensive. The amount of the first requisition for FY14-15 submitted on July 30 is \$376,917.13. A second requisition was submitted on August 11 for FY13-14 in the amount of \$398,998.67. By month's end, all requisitions will have been submitted for an estimated total of \$1.2M.

Cassingham confirmed for Pearce that the accounting for these amounts will be confirmed with Auditor Maher and NFPD Finance Director Hom. The intention is to deposit these monies in MERA's Replacement Fund. Hymel discussed the eligibility of the \$1.2M as payable from MERA's bond financing as a Next Gen Project-related expense. Gaffney said 92% of the parcel tax is eligible for use on the Project, which excludes non-police/fire costs. Berg asked if only 92% of the Project costs to date could be reimbursed. Gaffney said he was uncertain about this. Hymel said what he is clarifying is the \$1.2M for Project costs advanced by the Replacement Fund can be paid from future parcel taxes. This leads to the discussion of how we pay for non-police/fire Project costs. Hymel added that use of the current Reserve is permitting Project cash flow now and that \$1.2M would be replenished from the parcel tax and used for non-police and fire radios. The Reserve is MERA money that MERA can use for those radios. Tackabery said the replenishment of the \$1.2M from the parcel tax will be complex for the Citizens Oversight Committee to understand.

Hymel said MERA adopted a resolution to reimburse itself for Project expenses and this is an appropriate part of the process which happens with many projects. Gaffney concurred

that the intention all along was to reimburse ourselves for Project costs, which is what we are doing. Hymel asked if these funds should be differentiated in a Project account and that replenishment is borrowing from that account to be paid back with parcel taxes. He added that the \$1.2M would be a “due to” the Project Fund from future parcel tax receipts to clarify its use. Gaffney said he preferred that the \$1.2M go into the Replacement Fund and not a Project Fund. Cassingham will confirm how the funds will be accounted for with Maher to assure clarity of their use.

D. Proposed Gen III Replacement Reserve Options

Cassingham presented the staff report, including the direction from the Governing Board to the Finance Committee to develop a Reserve Plan. She reviewed some of the key issues discussed to date associated with determining the amount of the Reserve, possible sources of funding and regular review of Gen III Project costs and Reserve goals. She noted this came up frequently during MERA’s outreach efforts and ultimately was embraced as an appropriate action to take. Cassingham added that continuation of some or all of the member debt service contributions have been discussed along with the SUA option to address the system’s useful life. She said the goal of funding 100% of Gen III costs would be extraordinary versus some percentage thereof. Tackabery would need to give input on Gen III Project costs and on the goal of the reserve. Another factor in how much of the debt service might be continued is the increased Next Gen operating costs the members will have to share. Lastly, timing of when the Reserve will begin to be funded needs to be established.

Hymel offered an illustration of the increase in O&M with the Next Gen System next to the current debt service which extends until 2020. When the \$2.1M debt service drops off, instead of having a windfall, it could be continued straight for some period until the two points meet and a reserve is created. This way, the members would not receive a windfall but would not be affected by the O&M increase. He said it would be good to get an F.A.’s input on this. Members would get a benefit from the creation of a reserve without receiving a windfall and they would also not be charged annual O&M increases. Operating increases would be covered by what members used to pay for capital. Hymel said while the O&M budget would go up every year, the combined payments from the members for debt service and O&M would remain the same.

Gaffney said we are dealing with theoreticals at this point given not knowing Gen III costs or what the technology will be. Hymel said, even though we have six years, we want to give members lead time to consider and accept the Reserve Plan and extension of debt service payments for which they might have other plans when debt service is retired. Tackabery said in year 10 of the Next Gen System, we can really hone in on Gen III costs. Hymel replied what we need to identify is a reasonable dollar amount for the Reserve since it will be years before we have firm numbers on III costs. If we let these funds go, there will be no source in place which will result in us going back to members.

Gaffney said with a joint project like this, it is always a challenge to address the upfront costs. As a rule of thumb, he likes to have all the engineering, planning, other soft costs and a project contingency funded or up to 25% of the project costs. Using Next Gen as an example, he estimated the upfront as \$5M. Pearce asked Tackabery about the consultants' upcoming work on system life expectancy and whether the SUA should be kept out of that review and considered separately at a later time. Tackabery responded that keeping the SUA in the discussion with vendors assures the best possible pricing versus coming back to it later. He added that it would be presented as an option. Gaffney suggested life expectancy and SUA should be considered in the analysis of vendor bids. Tackabery said the consultant would be asked to assess vendor life expectancy proposals as part of the bid review.

Berg asked if the SUA would truly extend system life. Nelson and Tackabery confirmed the SUA would keep the Next Gen System current. Hymel said SUA cost will be evaluated when presented and its costs will be on top of debt service. It could, however, be funded as part of continued debt service. Berg inquired about the value of keeping a system current using the example of the present system, even though not current, is still functioning. Nelson said it is still working because we haven't experienced failures that we couldn't get equipment for. Nelson confirmed for Berg that the SUA is mostly software and some hardware. Issues can occur with both. The SUA will also address the cost of upgrades for components with shorter life expectancy along the way. Pearce asked if it would be better to self-fund the SUA given the SUA cost. Hymel said this will be part of the analysis when this option is considered. One criteria of vendor bids is what is offered to extend system life. Nelson said she had asked IST professionals how the cost estimate for this SUA compares with other large SUAs. They said this was a good deal in that Microsoft upgrades are up to 4% per year. Most vendors for these types of systems are 2%.

Hymel said the staff report on this item should be revised to include an Item 2-a about maintaining member capital costs that will partially absorb future operating cost increases. This would offer member O&M cost stability for the next 15 years versus a windfall. Cassingham confirmed that the F.A. should confer with the DPW team based on this discussion as to what various funding scenarios would generate in addressing what we are trying to achieve. Tackabery said these efforts should be coordinated with the consultant's work on system life cycle.

E. Pre-Next Gen System Member Radio Replacement

Cassingham summarized her staff report and asked for Committee input on member replacement of Next Gen compatible radios prior to one-for-one replacement included in the Next Gen Budget. Hymel asked for confirmation of the three levels of replacement radios for Next Gen compatibility. Nelson said there are non-compatibles at \$5,000 per radio, dual-band capable that can be upgraded to include 700MHz at \$5,500 and dual-band operational at \$6,000. Gaffney said we should not pay for the "no value" and reimburse for dual-band capable and operational. Pearce said the value is to have the radios purchased now, be serviceable on the new System for potential use by non-police/fire. Hymel said

these handed-down radios might be perceived by users as second class. Berg said radios being purchased now will be halfway through their useful lives when Next Gen goes online in 2018. Nelson confirmed radio life as 7-11 years. Hymel asked about our current policy. Nelson confirmed dual-band capable is the minimum that can be purchased. Tackabery said this is the policy for additional radios purchased by MERA members, not replacements. Hymel said, then replacements should be added to the policy. Nelson confirmed that since the policy was adopted, no one has replaced or added with less than dual-band capable. Berg confirmed with Nelson that the radio vendor Red Cloud was requested to match member purchase pricing with the County's. Gaffney said he supported reimbursement.

Hymel asked about future credits for replacement radios. He said, using Berg's 75 Next Gen allocated radios as an example, we would replace the 60 needed and give a credit for 15 future ones. This would use credits versus cash. Berg said, from an operational standpoint, you want all officers to be using the exact same radios for functional purposes. The radios in use in 2018 would be replaced and turned in for non-police/fire use. Hymel said this approach would result in savings to the \$2M allocation from MERA Reserves for non-police/fire radios.

Cassingham said she is exploring with Bond Counsel whether or not the payment of non-police/fire radios can be made from the parcel tax given those services can be integral to first responders and delivery of emergency services. She cited Measure A approval of the use of a non-uniform parcel tax while approving the use of all Measure A tax proceeds solely for the Next Gen Project. Hymel said we should not stray away from the commitment to Next Gen as a police/fire system and MERA's commitment to funding non-police/fire costs with MERA Reserves. Gaffney confirmed with Tackabery that we determined that public works and like support users were partially related to police and fire. Tackabery said DPW justified the entire system backbone for police and fire and that police and fire could not use the System if it was incomplete. This justifies funding all of the backbone with the parcel tax, along with police and fire radios. Hymel said this reinforces MERA's position to pay the estimated \$2M for non-police-fire radios.

Berg said he would like to see a baseline inventory of radios which would indicate which ones could be used in a non-police/fire cache when replaced in 2018. Hymel said the tax pays for 3,000 radios in 2018, which dovetails into his suggestion about credits as radios are replaced now. He added whether replacement dual bands now are going to be viewed as clunkers by non-police/fire users. Nelson said they could also be used for emergency caches or replacements for minimally-used radios. Berg said there may be the assumption on the part of members users with the passages of the parcel tax that they will all get new radios. Hymel said MERA committed its reserves to fund non-police/fire radios so all member users would get new radios.

Hymel said when radios are turned in, they could become part of the member agencies cache or MERA's cache. Berg asked if they could be cannibalized. Nelson said they could possibly be for the first generation that hits the street. She added that the credit approach

might be very difficult to track. Gaffney said if the Project comes in under budget, unused parcel taxes could be used to fund future replacement radios.

Hymel supported amendment of the policy to require dual band capable for replacements. He added that we consider the parcel tax passage date as baseline date for the number of radios to be replaced from Next Gen. Tackabery said if the November 4 date was established, DPW can track this going forward. Gaffney said we would replace existing radios with Hymel adding this can't be a rolling number. He said the current dual bands could be used when members need additional radios. Hymel summarized that we should require replacement radios to be dual band capable, establish the Measure A election date as a baseline and decide what to do with replacements later.

Tackabery asked about the non-Member mutual aid users, volunteer groups and those who were given MERA radios under the current Bonds. Gaffney said the requirement for them should be dual capable. Hymel said MERA only committed to replacing member agency radios. Tackabery said this has never been communicated to non-member users. Hymel agreed this needs to be done. Tackabery said this might start with the Chiefs. Gaffney agreed there should be outreach to non-members about this. Hymel clarified that member police/fire radios would be paid for by the parcel tax and member non-police/fire radios would be paid for by other MERA Reserves. Other non-member radios would have to be funded by those users. Tackabery reiterated that this is important to be communicated. Tackabery cited examples of these users including Pt. Reyes Seashore, CHP, GGNRA, private ambulance companies, U.S. Coast Guard, American Red Cross, Fish & Game, etc. Hymel said they may want to replace with dual-band operational radios. He added that this should apply to all non-member users who did not buy into the system or pay for operations. All that is being asked is that they pay for their radios. Our policy needs to be disseminated as soon as we are ready, which will allow these users to plan. Gaffney commented that these users may want to revisit the number they need. Hymel said this approach is consistent with how we have conceived the Next Gen Project and member only radio replacement. Berg confirmed that these policy changes would be presented to the Executive Board for approval. Hymel added that non-member replacements should be dual-band operational. Berg said we could give them the option to upgrade from dual-band capable later. Hymel agreed with the option.

Tackabery noted that some non-member users were given free radios by MERA. Nelson clarified that volunteer radios were paid for by the initial Bond including Nicasio, Tomales, Stinson and San Antonio. Hymel said he did not realize this was the case and how this might factor into police/fire radio replacement. Hymel said if we funded radios for them before, then this is a change the Committee needs to talk more about. Berg added maybe they should be allocated the upgraded radios. Gaffney said maybe these users should be included as they were initially given by MERA and their residents are paying the parcel tax. Hymel said if they were in our original baseline and are police/fire, they should be eligible. Gaffney concurred. Hymel asked for this matter to be agendaized for the next committee meeting. Tackabery said this will be researched for future action. He said he would update the July radio list as of November 4 for the member baseline. Hymel

confirmed of the \$40M Project Budget, \$10M+ was radios and non-police/fire was 20% of that or \$2M. Gaffney said we used a discounted per-radio cost of \$4,500 each for the Budget. Pearce confirmed with Tackabery and Nelson that this discounted rate could be extended to our non-member users.

F. Financing of Next Gen Project Non Police/Fire Costs

Cassingham said she raised this matter for discussion and clarification. Based on discussion of the previous item, it was the consensus to proceed relying on the parcel tax to fund police/fire Next Gen costs and MERA Reserves to fund non-police/fire radios. Cassingham said she will advise Bond and Tax Counsels accordingly. Gaffney said this will exhaust MERA's \$2M reserve. Pearce said we should consider future operating contributions by large non-member users, like NPS.

G. Report on Non-member System Users Zero-Rate Fee Schedule and Next Gen Operating Cost Share

Cassingham reported there have been challenges in convening a Committee meeting on revisiting this matter. She is trying to confirm a meeting on September 9 before the Executive Board meeting.

H. Other Information Items

- Direction Re: Next Gen System New Members

Cassingham reported that she and DPW have been discussing the agencies that have approached them about MERA membership and the impacts on planning for Next Gen capacity and coverage. She said possible new members are MCOE, Las Gallinas Sanitary District, Central Marin Sanitary Agency, North Marin Water District and Ross Valley Sanitary District. Member agency MMWD may seek to add another 30-60 radios due to expanding use by their Corporation Yard. She said new member inquiries are strictly exploratory about whether to join now or with Next Gen. Hymel clarified that with the exception of MMWD, these would be new users of the system. Nelson added that MMWD has their own Corp Yard System that DPW maintains. Hymel said there are two issues, which are capacity and sharing operating costs. Cassingham said it is also a value-added issue for the MERA members. Hymel said with capital costs of Next Gen paid by the parcel tax, MERA could offer an O&M cost share which might be a good option for MERA. Other questions to be considered is their use of the System and participation value. Nelson added we need to consider whether they can be well served with future coverage. Hymel said Schools should be offered pro rata O&M, with them paying for their own radios. Tackabery clarified that the Schools were offered in writing years ago that, if they joined, they would not have to pay O&M, only for their radios. Hymel said, given this, it would be the policy for Schools.

Tackabery said Next Gen will be designed for 5,000 radios and 3,000 were in the budget. Hymel asked if the long-term growth in radios would be retained for police and fire growth or for other users. Nelson said initially they were adding radios to the System which has leveled off. Hymel said our core system should be for police/fire and their growth. If there is capacity left, possibly we can accommodate other users which could help spread member O&M. He clarified that during storm response, other users could be bumped for police/fire priority. Hymel asked if new membership inquiries were formal requests. Cassingham said they were informal email communications to date. Formal application is required for detailed costs estimates. Ballpark cost estimates have been provided based on like-member-type costs. Committee consensus was to defer any action until Next Gen. Tackabery said new members will likely decide on costs. Nelson added that we need to understand their use and expectations of Next Gen to assure they are happy with the service. Pearce said it may make more sense for them to be on the VHF System. Nelson confirmed most are.

It was agreed new members would wait until Next Gen and confirmation of capacity and coverage. Hymel said any incremental capacity costs necessitated by new members would have to be passed on. Tackabery said we need to design for all the capacity MERA wants, including new members if desired, noting we are going to be setting coverage requirements in the RFP. Another issue is whether potential new member input is needed. Nelson differentiated these new members usage as day-to-day non-mutual aid. Hymel confirmed with Tackabery MERA is driving Next Gen capacity. Nelson said in addition to the number of radios is the number of frequencies. Hymel said with system design for 5,000 radios, we need to identify what we need for member use growth and reserve for new members. Nelson said the growth projections need to account for quality of service for public safety. Hymel said we cannot spec the system for new members and fund with the parcel tax. If there were costs for more capacity, new members would have to bear them. It was agreed the 5,000 radios did not contemplate new members.

I. Open Time for Items Not on Agenda

None.

J. Adjournment

The meeting was adjourned at 4:44 p.m.

Respectfully submitted by,

Maureen Cassingham
MERA Executive Officer and Secretary