

MARIN EMERGENCY RADIO AUTHORITY

c/o Novato Fire Protection District
95 Rowland Way, Novato, CA 94945
PHONE: (415) 878-2690 FAX: (415) 878-2660
WWW.MERAONLINE.ORG

DRAFT: 12/6/16

MERA Finance Committee **Minutes of October 31, 2016 Meeting**

Call to Order

The meeting was called to order by Chair Hymel at 3:07 p.m. on October 31, 2016 in the Marin Civic Center, Room 410B, San Rafael, CA.

Committee Members Present:

County of Marin	Matthew Hymel
Town of Ross	Tom Gaffney
Town of Corte Madera	Todd Cusimano

Committee Members Absent:

Marin County Sheriff
Tiburon Fire Protection District

Staff Present:

MERA Executive Officer	Maureen Cassingham
MERA Deputy Executive Officer - NextGen Project	Dave Jeffries

Guests Present:

Maher Accountancy	John Maher
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A. Minutes of February 22, 2016 Finance Committee Meeting

M/S/P Gaffney/Cusimano to approve the minutes from February 22, 2016 Finance Committee Meeting as presented.

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

B. FY15-16 Draft Audited Financial Statements and Auditor's Report – Maher Accountancy

Maher presented the Preliminary Draft of the Financial Statements and Auditors' Report dated 10-31-16. He noted its delivery to the Committee was affected by last minute changes. A few last-minute cleanups will be needed. Maher said his Auditor's Report provided a clean opinion.

Beginning with Page 3, Management Discussion and Analysis, Maher said this is a high-level recap noting an almost \$2.2M increase in net position. He summarized the budgetary comparison of revenues, expenses and transfers for the six MERA funds. He distinguished the activity of the Replacement Fund as requiring additional conversation. Page 4 presents the changes in net position between 2015 and 2016. The big decrease in Property and Equipment reflects nearly \$2M in depreciated expense. Gaffney asked if the \$2M will continue each year. Maher said this number is being fast-tracked and will be going down quickly with the target being 2017. This could be tweaked if MERA goes online with the new System in late-2018.

Gaffney asked if there should be a residual depreciation for towers. Maher said there is about \$600,000 for total tower costs. Hymel asked at what point do we combine the balance sheets for the current and replacement systems. Maher said when the old debt is gone, there will be more debt than net assets. This section on Page 4 will undergo some minor changes. Measure A acquisitions will affect net position. Hymel said the current and Next Gen Systems fulfill the same purpose of providing emergency response. Maher noted the cash and debt for these offset each other.

Gaffney asked about the \$238,000 restricted Bond Debt Service. Maher said he would re-review this calculation. A revision will be sent out later this week. Hymel asked if the \$238,000 was attributable to prior year for debt service payment, would this mean the \$2.1M plus \$238,000 would be available from the Parcel Tax. He is asking to differentiate between the 2016 and 2010 Bond debt. Maher clarified that \$238,000 was restricted to the current debt. Maher will recheck this and produce a side memo for the Executive Board explaining the calculations.

Maher reviewed Page 5, noting the property tax revenues which account for the big swing in total revenues. Gaffney requested that the term "property taxes" be revised to "parcel taxes." Gaffney inquired about the swing in operating expenses between 2015 and 2016. Maher said it was due to depreciation. He also noted the changed standard for debt issuance costs that must be written off as incurred. Some of it was grandfathered in with the refinancing.

Maher said he was working with Cassingham on a rewrite of the Page 6 narrative on the Authority's future. He recapped Page 8 as a relatively traditional balance sheet up to Restricted Assets, which is a statement of bond funds and restricted freed-up reserves. Total liabilities are \$46.2M and there are \$47M in assets which are being consumed by

depreciation. Page 9 reflects Operating revenues and expenses along with non-operating expenses and revenues.

Maher said the Cash Flow statement on Pages 10 and 11 is a reconciliation of accrual items. Cash flows represent use of funds on a day-to-day basis versus what is shown in reserves. Page 17 presents a discussion of Restricted Assets. He noted, in response to Hymel, that the \$2.1M is cash versus fund balance. This recitation discloses in the disbursements both current expenses and reimbursements to other funds for Next Gen prior year expenses. Page 18 discloses what is inside the Restricted numbers with a total of \$36.9M in cash and investments. He mentioned the asterisk next to the Proceeds of Bonded Debt which reflects a borrowing and repayment for Next Gen Project expenses.

Maher reviewed Pages 19, 20, and 21, which are an overview of MERA's debt tables. Page 22 is the routine commitment summary of leases and commitments listed on Page 23. Hymel asked about the wording of excess of revenues of \$196,826 over expenditures on Page 24. In essence, this says we spent \$196,000 under the budget. He said this seems like a subcategory of revenues less expenditures. Maher is open to modifying this terminology.

Regarding the 2007 Bank Note Budget Comparison Schedule, Maher said he will discuss with Cassingham the fact that the budget does not reflect the main purpose of the Fund and whether the \$225,000 was implied by the Board to be the budget. He noted there is no budget next to the Debt Service line item of \$208,499 for debt service. Gaffney said the Board historically agrees to the Debt Service payment as the budget. During the year, the Board approved both planned and unplanned projects. Gaffney said Maher's interpretation is that the \$225,000 is the Board's budget for these projects. Maher said the original budget did not contemplate additional expenses that exceed it, which will go against the fund balance. Hymel asked if Gaffney could attend the Executive Board meeting to address questions on this.

Gaffney asked for a revision to Paragraph 3 on Page 6 to read "MERA" issued versus "we." Maher said this is typically worded from an Executive Officer's perspective. Regarding Page 26, Maher said the Transfer from other funds was \$100,000 from Operating and \$926,313 from the Replacement Fund. The last page of the Audit is a Debt Service Schedule for the 2010 and 2016 Bonds.

M/S/P Gaffney/Cusimano to recommend Executive Board acceptance of the Preliminary Financial Statements and Auditor's Report for FY15-16 as revised.

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

C. Report on NextGen System Project Negotiations - Jeffries

Jeffries updated the Committee on the status of negotiations with Motorola, noting the significant reductions in costs coming out of two face-to-face negotiation sessions. The number of radios was reduced from 5,000 to 3,000 and reduction of dual band radios, which are more expensive. MERA has committed to one-for-one single band radio replacements. An agency can upgrade to dual band at its own expense. Areas still under discussion are coverage, fire station alerting and volunteer paging. Representatives of the Fire and Police Chiefs' Associations and West County Fire Chiefs' attended the Motorola presentation about areas under discussion. There continues to be dialogue over site issues.

Hymel asked if Motorola was being more responsive. Jeffries said considerable progress has been made and solutions identified, with some details to be worked out. He added, within the next few weeks contract costs will be ready to present to this Committee. Cassingham clarified that Federal Engineering's (FE) updated Project cost estimate is \$42M. Jeffries added that MERA's internal staffing costs, site construction costs and environmental work are examples of just a few of the budget components that must be identified after factoring in Motorola contract costs.

Jeffries said the proposals for volunteer paging and fire station alerting were not in Motorola's original base proposal. Reference checks of proposed vendors including calls and visits to field check their customers' systems are pending. He said there is a possibility of removing two sites in North County and one site may need to be put back in, which has cost impacts. One site will be required in Central County to improve in-building coverage.

Hymel asked about the Motorola contract components. Jeffries said radios are included, but site construction is separate. He noted it needs to be clarified who pays for the pagers for volunteer paging. Gaffney asked about pager costs. Jeffries said with the charger, a pager costs about \$1,000, which may be reduced by quantity purchasing. He added a radio will cost about \$4,500 on average, based on the radio selected.

Hymel asked if the Committee would be seeing a Project budget of which the Motorola contract would be a part. Jeffries said they would, but there is still greater fine tuning of costs to be achieved. Hymel asked about the non-safety radio costs as part of the budget to be dealt with non-parcel tax funds which need to be tracked. Jeffries noted we need to build in a sufficient contingency to deal with the unforeseen costs that come with such a project.

Gaffney recalled Motorola had offered lease financing for the radios. Jeffries said this has not come up in negotiations. Hymel said since we issued debt, we may not be interested in this option.

D. Report on System Upgrade Agreement (SUA) Financing

Hymel asked about SUA financing as it pertains to the discussion of the Next Gen Project budget. Jeffries said client and other reference checks have underscored the importance of

a SUA. Another related cost component of the Motorola proposal that was reduced was system maintenance, which will be performed by the County Communications Division versus Motorola. In response to Gaffney, Jeffries said the cost quote for the SUA is subject to change based on the final number of sites. He clarified for Hymel that the SUA was for year 4 through year 15, commencing after warranty. Cassingham said that the SUA can be paid for by bond proceeds, which has been confirmed by Bond and Tax Counsel and MERA's Auditor.

Hymel asked about System useful life after 15 years. Jeffries said, given change in technology at that point, possibly another 5 years. He said System infrastructure would have benefitted by regular refreshes. End user equipment life is quoted as 7 years but our experience has been closer to 10 years. Hymel said one of our goals is to have System useful life correspond with the 20-year bond financing. If we have parcel tax proceeds net from the bond payments, we might be able to pay for replacement radios at 10 years or set up for blending NextGen with Gen III. The question is our spending options. There should be a plan for using all the parcel tax proceeds to support the Next Gen System ongoing.

Cusimano recalled discussion about continuing member payments after the debt is extinguished in 2020 to create a sinking fund and/or address increased System maintenance costs. Hymel said there are policy decisions to be made regarding these areas, including who pays for replacement radios. Jeffries added Next Gen may or may not morph into a First-Net type of system, which will entail unknown costs. Gaffney said the members would need to vote on whether to continue debt service to create a sinking fund or stop and receive savings. Hymel said there may be a blended use for keeping increased maintenance costs flat and creation of a maintenance fund. He felt it was better to address this on the front end of the Next Gen Project.

Jeffries said we will need Project Oversight Committee input on, for example, who will pay for volunteer paging and the pagers. Another example is fire station alerting requires an interface with the CAD and who will pay for that interface. Hymel asked for a Motorola cost estimate to achieve system life of 20 years and 10 year radio replacement. These costs should be factored into the overall Project budget. This will give us a total system cost and we can decide who will pay for them. Gaffney added we may also need a capital maintenance and replacement line item. Jeffries said we may need FE's help in estimating these additional line items.

E. Report on 2010 Bond Trustee Substitution

Cassingham reported that Trustee Substitution will be completed on November 15 with U.S. Bank taking over for Bank of New York Mellon for the 2010 Bonds.

F. Other Information Items:

None.

G. Open Time for Items Not on Agenda:

None.

H. Adjournment

The meeting was adjourned at 4:06 p.m.

Respectfully submitted by:

Maureen Cassingham
Executive Officer and Secretary