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: 12/3/18

FINANCE COMMITTEE MEETING

MINUTES OF NOVEMBER 14, 2018

Call to Order

The meeting was called to order by Chair Hymel at 2:01 p.m. on November 14, 2018 at the Novato Fire Protection District – Cavallero Room, Novato, CA.

By Committee consensus, it was agreed to reorder the Agenda to review Item G after Items A and B.

Committee Members Present:

County of Marin	Matthew Hymel
Marin County Sheriff	Robert Doyle
Town of Ross	Tom Gaffney
Central Marin Police Authority	Michael Norton

Committee Members Absent:
Town of Tiburon

Staff Present:

MERA Executive Officer	Maureen Cunningham
MERA Deputy Executive Officer – Next Gen Project	Dave Jeffries
MERA Operations Officer	Ernest Klock

Guests Present:

Public	Todd Cusimano

A. Minutes of September 12, 2018 Joint Meeting of Finance and Next Gen Project Oversight Committees

M/S/P Doyle/Gaffney to approve the minutes from September 12, 2018, Joint Meeting of Finance and Next Gen Project Oversight Committee, as presented.

AYES: All
NAYS: None
ABSTENTIONS: None
Motion carried.

B. <u>Report on Proposed Six-Month Notice: Non-Member System User Fees</u>

Cassingham presented the report, noting the Finance Committee annual charge to review the Non-member Fee Schedule due to the six-month notification required in the Letters of Agreement. As Executive Officer, she recommends continuance of the Zero-Rate Fee for FY19-20.

M/S/P Gaffney/Doyle to recommend Executive Board acceptance of the continuation of the Zero-Rate Fee Schedule for Non-Member System Users.

AYES: All
NAYS: None
ABSTENTIONS: None
Motion Carried.

G. <u>Update of Next Gen System Project Budget</u> – (Jeffries)

Hymel distributed an update to the Budget presented in the Report. Jeffries said the Budget attached to his staff report was approved by the Governing Board on September 26. Hymel said his Budget draft includes approved Change Orders #5, #6 and #9 and added a new total of what was available.

Jeffries said the dollar amounts of C.O.'s #7, #8, #10 and #11 were $631K, $2M, $4.2M and $424K, respectively. The cash flow Payment Schedule for each one were presented by CY quarter. Jeffries said payment schedules may change but dollar amounts should be the same. Klock said this is true except for C.O. #8. Jeffries noted Hymel's vendor contingency line item is $1.4M based on approved C.O.'s, with an unappropriated Project Reserve of $8M. Hymel said the total of C.O.'s #7, #8, #10 and #11 is $7.2M. This triggers a discussion of Project Reserve Policy as these C.O.'s bring us close to the $8M Reserve.

In response to Hymel, Jeffries clarified that a verbal report to the Executive Board later today on Change Order funding and cash flow in relation to the Project Budget was the goal. Hymel confirmed the importance of starting with the Budget big picture before proceeding with the C.O.'s.

C. <u>Review of Motorola Contract Change Order #7-AES/DES Encryption, Radio Management, WiFi, OTAP</u> – (Jeffries)

Jeffries said an overview of Change Orders #7, #8, #10 and #11 is presented as a lead-up to the Next Gen Budget discussion. Change Order #7 is connected to C.O. #11 as Radio Management, WiFi and OTAP is impacted by the Early Order Radios. This is the technology that would affect cutover and over the radio air programming which would reduce the Project Schedule. C.O. #7 cost is $631,403, which would be a one-time payment since it is all equipment. Payment date would be Q2 2022.

Jeffries said Payment Schedule for all the Change Orders is based on the Project Schedule current draft. A final schedule will be presented as part of Customer Design Review, post CEQA. He encouraged Committee review of all this in late-Spring and again in late-Fall 2019 in terms of cash flow projections.

Norton asked for clarification of the Committee's role in reviewing the C.O.s. He confirmed that this review is not a technology evaluation but fiscal feasibility with Measure A funding. Jeffries said the Governing Board would ultimately decide on the C.O.s based on Committee and Executive Board input on funding availability and cash flow. Some of the C.O. costs include SUA II, which is assessed in Years 4-15. Norton also inquired about the Committee's role in recommending a Project Contingency. Jeffries said overall contingency was part of the Committee's consideration.

Hymel inquired about the value of reviewing the Project Budget before the C.O.s to give it context. He noted the cost of the C.O.s exceeds the funding available. Jeffries said his intention was to summarize the C.O.s and then discuss the Budget. Gaffney favored reviewing the C.O.s we must have, prioritizing them and analyzing the remainders.

Jeffries reiterated the cost of C.O. #7 as $631K and noted support for it at prior Board meetings. Hymel said this is related to C.O. #11 and that it is being broken out because of its ongoing operational value to MERA. In response to Hymel, Jeffries said this will be presented to the Governing Board on November 28, given there are no Motorola special discounts in play. It could be pushed back; however, Radio Management, WiFi and OTAP would likely need incorporation into Motorola System Design post-CEQA.

Gaffney asked if C.O. #7 was absolutely needed. Jeffries said no, but there is future value in doing it as a savings in technician reprogramming time. Norton said this was value added for future reprogrammings. Jeffries said Radio Management has a huge impact on bringing mobile radios in early in terms of reducing the Project Schedules. Gaffney confirmed we could proceed with this authorization and expenditure would be later.

Hymel encouraged we come back to C.O. recommendations to the Governing Board without piecemealing them and in context with the Project Budget. Norton added these decisions need to be informed by funding availability.

D. Review of Motorola Contract Change Order #8 – Multi-Protocol Label Switching (MPLS) for the Microwave Network – Recommended with Conditions – (Klock)

Jeffries said new information has come to light on C.O. #8. Klock said he was a firm believer the System would benefit from C.O. #8 due to increased redundancy and reliability. He said we need to figure a way to at least get the equipment installed at a cost of $600K from the overall $2 M Change Order.

Klock said the $1.4M of this C.O. could be addressed by this approach along with other cost-saving measures to eliminate SUA II costs. Nokia could provide certain services remotely, including updates, repairs, exchange services and software subscription plans. The only decision is whether to go with MPLS as the design instead of Layer 2 as proposed. In response to Norton, Klock said the equipment would be turned on installed, and configured with the System. In Year One of the SUA II, we could use the Nokia 800 number for service. However, Radio Shop staff are adept at handling this and IT would maintain all the computer networks. With training, this work can be performed inhouse to avoid paying the $1.4M SUA II support and folding County staff costs into various other operating Agreements with MERA.

Klock said the MPLS equipment price of $600K provided by Motorola would include installation and configuration. Staff is seeking external bids on this equipment as the pricing seems high. Another company that bid on the microwave portion of the Motorola Contract was contacted. They were turned down by Motorola due to customer-specified routers, which they don't provide. Their price was $350K for a fully-installed and implemented MPLS network. In response to Gaffney, Klock said the maintenance portion could also be negotiated with them.

Hymel agreed this C.O. could not be decided on now but we could discuss our strategy. The decision point is the recommended platform, followed by who we buy the equipment from and who performs the maintenance. He questioned if Motorola could accept MPLS maintenance from another source. Jeffries said we have not discussed these options with Motorola. Other maintenance providers would also need to be assessed from a risk management perspective.

Hymel said we may need to consider a separate reserve for this equipment maintenance, say of $500,000, versus a $1.4M contract as an alternative. Klock said he has asked the other company for a maintenance quote in addition to the equipment costs. Klock said we could always stay with Layer 2, which is less resilient, and look at retrofit costs to Layer 3 later. Norton asked about a prorated warranty if we retrofit to Layer 3 later, funding permitting. Klock said this might be possible.

Cassingham said we came so close to approving this C.O. on 10/24 as originally presented and it is very disturbing to her to hear this update. Jeffries said more research would be done on this before re-presentation to the Governing Board. He also said more discussion with Motorola is in order. Public Member Cusimano asked the Committee what the increased resilience is protecting the system from. Klock said Layer 3 changes the network architecture to permit other sites to fill in if one site goes down. With Layer 2, there is more risk in that the entire system could go down. Jeffries added that the current system is carrying radio as well as data for such users as the FBI, Fire cameras and CHP. With MPLS, each use has its own "pipe" which insulates them from the other users.

Cusimano expressed issues regarding the non-MERA users. He is only concerned about MERA member usage. Klock said another risk would be that the MERA technicians, who cycle through, could make a mistake by plugging a network cable into the wrong port. This could inadvertently cause a radio storm that could circle the network and block operations.

Hymel added that MPLS could increase what could go over the system. Jeffries noted the Page 2 graphic of the C.O. #8 report, which identifies the technical and investment advantages of MPLS. Cusimano commented that MPLS is more about future versus current System usage. He asked why, if MPLS was so important, we were not having this conversation earlier. Klock said the 2010 AECOM report addressed the importance of MPLS and didn't know why Federal Engineering and others were not more involved in this discussion.

Klock has asked staff how we can prevent system interruptions if we stay with Layer 2. Data storm prevention could be through increased staff training and strict protocols for network servicing. Hymel said, given this, it seems hard to build a system that does not anticipate increased data use like graphics and photos. Cusimano asked if, given MERA's current System use, it was realistic to assume their data usage in the next 10 years. Jeffries said staff has been evaluating security cameras for the MERA sites, which would benefit members and be different than voice radio. He added that the County fire cameras may be moved to another network, which would not involve MERA.

Jeffries said if C.O. #8 concerns were about SUA costs, this could be addressed with Motorola. Cusimano commented about the proposed $2M cost and its benefits to the MERA members. Jeffries said once we talk with Motorola, more will be known about whether this is a good operational decision for presentation to the Governing Board.

Klock said Motorola provided him a contact in Glendale regarding Layer 2 versus MPLS. Motorola provided Glendale Layer 2 in their contract, which could not be configured properly, so they gave them MPLS for free. Glendale highly recommended MPLS whether MERA could afford it or not, because it is a much better system. Radio geeks think this is a must-have. The reason is the traffic control you get with MPLS, which you cannot get with Layer 2. Our option is to stay with Layer 2 and have Motorola configure it properly to work for MERA, if they can.

Jeffries said Motorola may be pushing MPLS in recognition of the problem they had in Glendale. By getting our buy-in, they avoid the issue. Cusimano asked about the Ops Group recommendation of C.O. #8, noting users favor adding these features. Jeffries said when they questioned Motorola about their experience with Layer 2 system failures, no examples were provided. Cusimano inquired about the final date for a decision on this. Klock said Motorola is a month away from Final Design, which has been put on pause due to the MPLS issue. He added we are 4 months away from completion of CEQA so we have time to make this decision. He noted this may affect discounts but we can take the time needed to make the decision.

Klock said, in response to Cassingham, the Governing Board gives him the authority to approve C.O.s but he has not approved any. There is no need to approve any C.O.'s until CEQA is done. So many scenarios could affect these C.O.s, like technology changes or CEQA delays. Hymel asked about the October Governing Board discussions around these issues. Klock said the Governing Board tabled C.O.'s #7 and #8, the latter due to research on Riverside's Microwave System usage cost recovery. He will present this along with the new information on MPLS obtained yesterday.

Norton noted the C.O.'s that were approved by the Governing Board on October 24 were either mandatory or lesser in cost. Gaffney said the Board felt there were options to #8, which they wanted more information on. Hymel agreed we need more analysis on the platform, the equipment and ongoing maintenance. Jeffries said staff will continue to provide the Governing Board with C.O. updates until they are finalized for decisions. Hymel stressed that consideration of another MPLS vendor must successfully integrate with Motorola without operating conflicts in future years.

Klock said Motorola has lost money on this Contract. Gaffney asked how this was possible. Jeffries said that due to system redesign issues, Motorola has had to provide equipment at no cost for 2 sites. More staff hours have been assigned as a result than was expected. He added that conflicts between the Motorola presale team and implementation team have created Contract issues. Hymel summarized the Committee's direction to place this matter on hold to allow for options to be explored.

E. Review of Motorola Contract Change Order #10 – Radio Accessories and Portable Chargers – (Jeffries)

Jeffries presented C.O. #10 as required. The Governing Board was briefed on what was specified in the Contract and what was listed as optional. The radio count has since been revised. Change Order cost is $4.2M, which includes additional portable and mobile radios, radio accessories which reflect necessary equipment enhancements, more battery capability and portable radio chargers previously listed as a Contract option along with Early Radio Order accessories. This is a one-time payment in Q3 of 2021 or Q2 of 2022 if radios are not brought in early.

Hymel said this was more costly than discussed, noting it now reflects an increase in unit costs and radio and accessory upgrades. Jeffries said the estimated C.O. cost may be reduced by another radio survey. Hymel reflected on the policy adopted when the Parcel Tax passed that radio replacement would be one-for-one based on member count on November 4, 2014. Jeffries said the cost now reflects greater accuracy in the count from original Radio Shop spreadsheets. The recent survey of member agencies produced many challenges which resulted in some inaccurate responses. Another on-site, physical radio count is scheduled for early-2019.

In response to Hymel, Jeffries said the current total radio count is 2,900+, but includes Non-Member radios. Another 260 radios is reflected in the latest count above the original contract estimate. Motorola needs a commitment in December for their $1M+ discounts. Commitment is not a billing, which does not occur until the order. All this affects C.O. #11, which was originally estimated at $1.3M and is now $424K due to discounts associated with dual band radio upgrade. Norton asked about the effect of the cumulative dollar amount of C.O.'s on available funding. In response to Jeffries, Hymel confirmed the 2 available funding sources of Contract Contingency and Unappropriated Reserves is $10.2M.

Norton inquired about an earlier Governing Board decision on the percentage of the Project cost Contingency or Reserve. Cassingham said it was $5M of the base Contract, which has been reduced by the Fire Station Alerting C.O. by $2.8M, leaving a total of $2.2M. Hymel said we need to establish a reserve from which we cannot go below, given the 20-Year Project life.

Hymel illustrated the radio order numeric breakdown. He noted the Contract number of 2,900 as of November 2014. Another number was for Non-Safety radios funded by non-Measure A monies. Non-member agency radios would be paid by them. Plus a future growth factor must be considered. Jeffries said the position has been if a Member added radios after November 2014, replacement cost was on them. The 2,900 radio estimate was for safety and non-safety as of November 2014. Jeffries confirmed the 280 additional radios are above the original Contract estimate plus accessories for them.

Hymel asked if the Radio Shop has any growth numbers. Jeffries said we can quantify the number approved by OPS and the Executive Board since November 2014 and extrapolate from there. This replacement cost would not be paid by Measure A nor would any upcoming additional radio orders. Jeffries said we could amend the Change Order to reflect the number of radios ordered as "up to" with a final number TBD. Klock added Motorola is looking for a commitment before year-ending with the final number subject to change.

Hymel agreed that an "up to" number is not as risky as signing off on a specific number. Jeffries said we are trying to manage the member safety and non-safety radios in the order to avoid losing discounts. A hard count is needed to confirm the original Radio Shop inventory. Anderson will be provided a count format and initially accompanied by Radio Shop staff to do the inventory. This will inform the original count along with any radios approved since November 2014. Klock confirmed Change Order Contract quantities are "up to."

Hymel asked about the accessories. Jeffries said chargers are either individual or six-packs and mics are shoulder. Batteries use should be extended for safety whereas Public Works batteries could be standard. Cases versus clips for radios are another variable.

Hymel said we should commit to the radios, sufficient batteries and chargers as first priority, but not use Measure A funds for every other accessory until available funding is confirmed. Norton added that 10% to 20% of his officers use the standard issue shoulder mics and with most preferring to buy their own high-tech models.

Gaffney asked what C.O.'s were included in Hymel's draft Project Budget. Klock said it included up through #5, #6 and #9. It does not include #7, #8, #10 or #11. Doyle said, regarding the accessories, chargers and shoulder mics should not be considered accessories. Hymel said we still need to be clear on a radio and accessory growth factor. He asked for a breakdown of C.O. #10's $4.2M cost. For example, the additional 280 radios may be a non-Project cost. Jeffries said the Radio Shop has indicated that these radios are part of the original count for replacement. He added that the original estimate of 400 radios has backed out Non-Members and post-2014 radios. Cassingham confirmed that non-safety radios would be paid by another MERA Reserve.

Hymel suggested these matters be re-presented at another Finance Committee meeting before final presentation to the Governing Board. Jeffries clarified that all the necessary C.O. research may result in scheduling these matters for the 12/12 Governing Board meeting. Klock clarified that commitments to Motorola before year-end may suffice for fully formalized C.O.s to preserve related discounts. Hymel said it would be good to schedule a December Finance meeting prior to 12/12.

F. <u>Review of Motorola Contract Change Order #11 – Early Order Mobile Radios</u> – (Jeffries)

Jeffries noted the $424K cost of this Change Order had been reduced due to Change Order #10. Once the cutover date is known, early order radios can be brought in 10 to 11 months earlier for programming and installation of dual-bands. This would potentially save us 8 months on the Project Schedule. There has been support for early order but concern about early delivery in Q3 2021. Hymel asked if discounts were still in play with this C.O. Jeffries confirmed they, along with the basic Contract discounts, were still included.

Hymel said if Motorola wants to book this sale in December, we are committing to this number. He asked, if we committed to an "up to" number, how Motorola would be able to book this sale. We need to decide the maximum number we are willing to commit to. He suggested approaching Motorola about, for example, committing to 80% of the base number with an option for the balance due to remaining survey work to be done with our members. Jeffries reminded that C.O.'s #10 and #11 are one-time equipment commitments.

Hymel said the Committee needs to consider the minimum Project Reserve, like $4M. Klock confirmed construction was the highest risk area when discussing this Reserve. He said he had included a contingency in this line item but it is a moving target. Jeffries added the timing of the completion of CEQA could be another significant cost factor. Hymel said part of the Reserve should be earmarked for extending System useful life.

Gaffney reminded that the proposed Unappropriated Project Reserve is out over 20 years and it represents future revenue we don't have at this time. The amount needed sooner may require a short-term borrowing, possibly $3M over 14 years.

Jeffries summarized that C.O.'s #7, #8 and #10 can be decided in December based on further research. He will share with the Governing Board any updates in November. In response to Norton, Hymel said the Finance Committee should also recommend a Project Reserve Policy in December to the Governing Board. Jeffries said a regular Project Budget discussion should be added to each future Governing Board Agenda until all budget impacts are resolved. Gaffney and Norton noted that C.O. #8 costs as we get into future discussions may not be affordable.

H. FY17-18 Preliminary Draft Audited Financial Statements and Auditor's Report – (Maher Accountancy)

Maher noted the Audit was on an accelerated production schedule and some text edits were still to be addressed. Format and content are much like in the past. The major change is the depreciable life of the existing System. In 2013, the prediction was useful life would end in 2018. In retrospect, this was aggressive. The question now is over what period of time will the existing System be in service. It appears it must be in service until 2022.

Maher said System costs need to be extended over useful life. He suggested there is a relatively small book value that should be spread over the remaining useful life. This reduces annual depreciation expense from $2.7M to $700K. This makes the Fund Balance look better but unreserved money would show a small deficit. He does not think it is appropriate to extend showing no associated costs.

Gaffney asked if this makes our retained earnings look as in deficit. Maher said depreciation reduces assets. Accumulation of Measure A Funds with depreciation shows some equity. Last year there was $2.8M in unrestricted, offset by some restricted funds. The unrestricted amount in FY17-18 is now a negative $500K, which next year should reflect a positive ±$2M. The Committee by consensus agreed with the Auditor's recommendation to extend costs over useful life.

Maher highlighted Management's Discussion and Analysis noting the Overview and changes in the Balance Sheets. Revenues and Expenses Costs were lower than planned. There were no other surprises. Gaffney said Revenues and Expenses were key. Maher recapped Restricted and Unrestricted Assets. The 2010 Bond $2M freed up Reserve is for capital outlay or debt service. Gaffney confirmed this amount was earmarked for Next Gen Non-Safety radios. Maher noted $30.3M in Next Gen Bond proceeds and $7.1M in Measure A Funds. Debt proceeds are offset by the debt.

Maher recapped Capital Asset activity citing the $1.2M in additions for construction. He capitalized Jeffries and Cassingham's time and some legal for a total of $150K. Gaffney confirmed these were eligible Measure A expenses. Page 19 is a Summary of Debt changes which is routine. Page 20 is a summary of future debt obligations. Page 25 is the Operating Fund Revenue and Expense Summary which shows revenues close to budget. Expenses were $200K below projections. Funds 70032 Note and 70035 2010 Bonds were not noteworthy. Fund 70036 Replacement reflects funds transferred in from the 2010 Bonds reserve.

Maher reviewed Page 30 Next Gen Fund 70038 which could be melded into 70039 but are maintained separately. Actuals were separated showing Parcel Taxes less Debt Service. Expenditures were in alignment with the Budget. Fund 70039 reflects transfers between it and 70038. Hymel asked if this was a clean opinion and whether there were any management findings. Maher said there were minor adjustments and his letter will be vanilla. One year ago, he recommended some budget changes which Cassingham addressed.

Maher noted the compressed Audit timetable due to his and Hom's scheduling. Cassingham responded to address all the issues and belated requests. Cassingham thanked Maher and his team for dealing with these challenges.

I. <u>Other Information Items.</u>

None.

J. <u>Open Time for Items Not on Agenda</u>

None.

K. <u>Adjournment</u>

The meeting was adjourned at 3:17 p.m.

Respectfully submitted by:

Maureen Cassingham
MERA Executive Officer
and Secretary