

F.C. 2/22/18 Agenda Item A
MARIN EMERGENCY RADIO AUTHORITY
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FINANCE COMMITTEE MEETING
MINUTES OF NOVEMBER 3, 2017

DRAFT: 1/4/18

Call to Order

The meeting was called to order by Vice Chair Gaffney at 11:06 a.m. on November 3, 2017, at the Marin Civic Center – CAO Room 315, San Rafael, California.

Committee Members Present:

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

Committee Members Absent:

Tiburon Fire Protection District	Richard Pearce
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Staff Present:

MERA Executive Officer	Maureen Cassingham
MERA Deputy Executive Officer - Next Gen Project	Dave Jeffries

Guests Present:

John Maher	Maher Accountancy
Ernest Klock	Marin County DPW Engineering Svcs Mgr

A. **Minutes of June 15, 2017 Joint Meeting of Finance and Next Gen Project Oversight Committees**

M/S/P Cusimano/Doyle to approve the minutes from the June 15, 2017 Joint Meeting of the Finance and Next Gen Project Oversight Committees as presented.

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

B. FY16-17 Draft Audited Financial Statements and Auditors' Report – Maher Accountancy

Maher presented the FY16-17 Draft Financial Statements and Auditors' Report beginning with Page 3, Management's Discussion and Analysis. He pointed out that MERA's net position increased by \$2.6M. The asterisks next to some of the Funds denote no budgeted revenue. These budgets are not absolutely essential or legally required, but traditional. He indicated that these amounts may be included in the final audit.

Cassingham noted that the Next Gen Project budget is still under development after several iterations which affect Funds 70038 and 70039. Maher said using estimated amounts is acceptable. Maher said debt service payments and interest should be budgeted, which are known and can be inserted in these budgets.

Maher noted Page 4, saying net assets are the equity. There are 3 categories of the net position, which include capital assets net of depreciation and debt. The net investment for the 2010 Bonds reflect depreciation. The second category of \$6.7M reflects the combination of the Measure A Funds and the freed-up 2010 Bonds Reserve requirement by a Surety. This amount is restricted to debt service or capital outlay. He will revise the description to show them separately. That will be \$1.9M for Measure A and an amount for the freed-up reserve. The third category is \$2.8M unrestricted balance. As the 2010 Bonds go away, this amount will go away as well.

Gaffney noted the restricted asset of \$40M. Maher clarified that \$32M is for Next Gen. He said the key fluctuation is the depreciation of the asset. A key decision was made several years ago to accelerate depreciation to correspond when the new System went live. This is not a cash flow deficit problem. On page 5, Maher noted the \$4.5M in operating expenses with depreciation of \$2.7M.

Maher highlighted Page 10, Statement of Cash Flows, noting the \$3.8M net increase in cash over last year for a total of \$11.9M. On Page 18, which summarizes funds reserved for various purposes, \$1.895M is the freed-up reserve. \$2.127M is member contributions for the 2010 Bonds August debt service and the Bank Loan Note. \$31M represents unexpended funds from 2016 Bonds proceeds. Some Measure A funds reside temporarily in Fund 39. Measure A funds are paid by the County to the Trustee. After debt service and interest, excess funds flow into Fund 38. \$4.8M is unspent Measure A Funds.

Gaffney asked about the \$2.1M in bonded debt. Maher said this is the cash collected from the members early to pay the August 2017 debt service. He noted he is uncertain what MERA will do with member payments when the 2010 Bonds are retired. Maher cited the \$2.2M in capital assets which include Project engineering costs and some capitalizable internal costs associated with the Next Gen Project. The latter numbers will be slightly modified by backing out certain RGS costs that shouldn't have been capitalized.

Maher noted the Bond activity summary on Page 19 and the Page 20 debt service recap. Page 21 reports on the Citizens Bank Note. Page 22 cites the two components of the

\$6.7M Net Assets total as \$4.8M from Measure A and \$1.8M in assets for debt service or capital outlay. Page 23 lists Commitments to Site Lease payments and contractual obligations, the largest of which is to Motorola. Page 24 discloses related party transactions between MERA and the County and NFPD.

Maher recapped the Operating Fund Schedule on Page 24, which is straightforward. Future inter-fund transfers should be done by formal budget approvals. He recommended before the end of the current fiscal year, a final budget be approved showing all approvals.

Maher reviewed Page 29, which is the Project Fund Schedule 70038, which includes non-capitalized Next Gen Project expenses. Hard expenses are in Fund 39. The Trustee automatically sweeps Measure A Funds into Fund 39. 39 pays hard expenses by requisition. Measure A funds reside in both 38 and 39. Due to the close relationship of these funds, Maher recommended combining them. Another alternative would be to show temporary transfers as inter-fund loans. If there is no preference, he will leave it as recorded.

Gaffney asked about 70039 interest. Maher said this was from investment earnings from Nataxis and U.S. Bank. Cassingham expressed a preference in keeping 38 and 39 separate, but deferred to the Committee. While Maher said there was no problem with 39 being requisitioned to pay Project hard costs, he would have expected 39 to reimburse 38 for these expenses. There are some hard and soft costs in both 38 and 39. He recommends Project costs be run through 38 in the future and will discuss this with Cassingham. Debt and investments would be in 39 with soft and capital costs in 38.

Cassingham said Bond Counsel prepared the requisition format to be used with the Trustee for paying capitalizable Project costs. In response to Maher, she said the Trustee makes payments to the County to reimburse it for Motorola and Federal Engineering costs, since the County holds the contracts. Hymel noted his confusion with budgets with no actuals and actual with no budgets and thought these alignments could be made more clear going forward. For example, Maher said, while previously authorized, there was no budget for 2016 Bond interest. He said it is not legally required, but traditional to do budgets which include annual principal and interest. He recommends doing so going forward.

Gaffney inquired about 70038 expenditures. Maher said, as previously concluded, these expenses are for the Next Gen System Project including financing, Measure A administration and capitalized costs. He added that not all Project costs funded by Measure A are required to be capitalized. Hymel clarified that any, for example, legal or website fees that are directly attributable to the Project are compliant expenses. Brief discussion followed regarding County Measure A collection costs which are deducted by the County before Measure A proceeds are paid to the Trustee.

In response to Gaffney, Cassingham said Bond Counsel opined that 70038 expenditures can be paid with Measure A funds if they are Project-related, but for the most part, are not capitalizable. Members will pay for the costs of Next Gen System operations when it is completed. Cassingham added, in response to Hymel, going forward budgets for all Funds will be created.

Maher said budgets will not be included in the final draft and minor adjustments will be made in the next iteration that reflect input from the Committee and his comments. This will include the adjustment of RGS costs to reflect what can be capitalized, which will not be a material change. Any other minor textual adjustments will be made which will not be material.

M/S/P Hymel/Cusimano to receive the FY16-17 Draft Audit and with noted minor corrections be forwarded to the Executive Board for recommendation for Governing Board acceptance.

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

C. Report on Proposed Six-Month Notice: Non-Member System User Fees

Cassingham reported that previously executed Letters of Agreement between MERA and Non-Member System Users require six-month advance notice of any fee change before the commencement of the next fiscal year. She recommends continuation of the zero-rate fee schedule for FY18-19.

M/S/P Hymel/Doyle to recommend continuation of the Zero-Rate Fee Schedule to the Governing Board for FY18-19.

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

D. Report on Next Gen System Project – (Jeffries)

Jeffries provided an update, noting Project design hit a snag in September over Regional Planning Committee (RPC) requirements. Motorola informed us when Project design was overlaid with these requirements, our coverage did not work. This was reported to the Governing Board. Motorola, with staff input, submitted an application to RPC for their November meeting, based on current design plus 2 additional sites at Mt. Tiburon and a new water tank site near Mill Valley City Hall. This should meet our coverage needs for

RPC consideration, plus sites at Mt. Burdell and County EOF for additional in-building coverage.

Jeffries said the RPC meeting is in San Rafael and incorporating its feedback is expected to move the application forward for RPC approval on December 14. He asked Klock for input based on a Project call earlier today. Klock said RPC Chair Lemmon, Federal Engineering and he were on the call. There will not be quorum of the 3 members on November 9, so no action is expected. Discussion should improve the December 14 application. Minor comments were received with Lemmon moving to put the application into his computer modeling for comparison. There is some bleed-over into Alameda County, which is not unsurmountable.

Jeffries added the 2 Counties where frequency issues might occur are El Dorado and Monterey, which may result in some frequency waivers since they are not adjacent. Hymel asked for clarification. Jeffries said these Counties are using the same frequencies we have and our coverage power could interfere with them. Deconfliction review is designed to identify possible interference. Technical feedback today and on November 9 will be important for the final application.

In response to Gaffney, Jeffries said we are requesting our original design of 12 sites and 4 additional sites for approval purposes. However, not all the 4 additional sites may be used. The Committee will then decide on how far MERA's RF can go. There are different ways of reducing impacts, including power and type and angle of antennas, which Motorola is working on.

In response to Gaffney, Jeffries said Mt. Tiburon is now a re-use site. This is not the Martha site. Mill Valley City Hall was a re-use, but now we are looking at a water tank on the northwest side of town. OTA and Mt. Burdell are also under review, which fulfill a priority area on 101. Martha has not been included due to it still being so nebulous, but it can be added later if needed.

Hymel asked if the Next Gen System will still be functional if new sites get delayed. Jeffries said this will become more clear as we go forward with design. The pending Project Oversight Committee meeting will include review of coverage overlays with the additional sites at Mt. Tiburon, Mill Valley water tank, Mt. Burdell and EOF, plus a discussion about costs. There may be coverage and cost tradeoffs. Hymel said it makes sense to ask for RPC approval of all of them which avoids going back for future approvals.

Hymel asked if the Tiburon and the water tank sites must be functional for the system to go live. Jeffries said a delay in Mill Valley might result in less in-building coverage. Lesser in-building coverage in some areas due to building types might not be problematic. Likewise, coverage holes might be due to 90% coverage reliability versus 97% system-wide. He hopes the current System hold-up due to Mt. Tiburon would not happen again. We are still struggling with microwave paths which affect the schedule.

Line of sight surveys have identified, for example, groves of trees which may require removal or taller towers.

Jeffries said Motorola has provided a revised schedule which will require refinement as more is known after January 1. Regarding payment milestones and tentative dates, he reported the first 10% payment at kickoff has been made with five more progress payments ahead, plus subscriber equipment. Milestone 2 completion of CDR at 10% has been pushed to 8/18. Milestone 3 at 45% is due upon shipment of the fixed network equipment and is now scheduled for 2/19. Milestone 4 is completion of site installation at 25% payment, is now scheduled for 9/20. The last 2 milestones are 5% payment each for System acceptance and final acceptance in June and July 2021, respectively.

Subscriber equipment, which is a 100% payment, was originally planned for December 31, 2017 and tied to a \$500,000 discount. This is now scheduled for 8/18. After this contract discount, a multiband portable and mobile radio upgrade was offered. The original proposal was for dual-band that could be programmed for the existing and new Systems. Based on our internal review, and feedback on dual bands, Motorola offered a free tri-band upgrade of portables if delivered in September 2017. As for mobiles, Motorola offered an upgrade cost of \$900 for each APX4500 and free upgrade to tri-band. Jeffries said a letter is expected from Motorola next week formalizing these offers. The tri-band order date will be proffered until December 31, 2017 and the dual-band order will be due June, 2018.

Jeffries explained the mobiles offer presents additional opportunities, especially for law supervisors and public works agencies. The timeline for evaluating the portable and mobile offers would require presentation of a change order to the Governing Board for action on December 13. We would need agency input by December 1. In response to Hymel about the 12/31/17 deadline, Jeffries said the radios could be deployed immediately since they will work on our current channels and will make the Next Gen transition easier. He distinguished the multi-band upgrade from the \$.5M discount for all the equipment, which is proposed to be extended to August 2018.

Hymel said to the extent Motorola contributed to the delay, MERA should not be paying the price. Jeffries said Motorola would like MERA to take their offer this quarter but we can make a counteroffer. He added he would like to see Motorola's offers tied to milestone dates versus schedule dates. Cusimano asked whether we will have the appropriate representatives from Motorola at the Project Oversight Committee workshop to confirm design option coverages, push out discount and upgrade offers to later in the Project and commit to the extension of current System useful life and at what cost. Another Motorola commitment to be explored were the schedule promises made in the Contract and member and public expectations from those representations. If additional sites will be required, this entails more costs and could add to delays for base System implementation.

Jeffries said we need to talk with Motorola as soon as possible about costs before we get

engineered into one solution. This must be provided in writing. Cusimano asked if we will know more about sites, like the Mill Valley water tank, by the Committee's workshop meeting on November 29. Jeffries said computer modeling can be presented that will show coverage with and without the sites.

Hymel reviewed discount timelines and assumptions for them with the Contract go-live date. Cassingham said that date was June 2019, with radios going live on the System ahead of this. Jeffries said late-2020 or early 2021 would be the schedule for the first users, predicated on an acceptance date of July 2021. Hymel asked if equipment delivery should be moved out two years if go live date is moved out 2 years. If their issues created the delay, their discounts should be rescheduled commensurately. Also, taking early delivery may not be worth the discount. In response to Hymel, Jeffries said Motorola's commitment to extending current System life was to help, not solve. Klock clarified there are hardware and software issues to be identified.

Jeffries explained there is still a need to confirm the need for a Layer 2 microwave backhaul system upgrade. The number of users on the microwave system and the additional sites will need to be revisited if Layer 2 specified in the Contract requires upgrade. The subscriber equipment inventory is about 95% complete and this will permit pricing of what the new order will look like. Templates are pending completion of the inventory.

Gaffney asked about the effects of the release of a new generation of radios in 2 years. Jeffries said Motorola will not confirm future new radio releases. Klock added this may be a factor in Motorola pushing for early delivery. Regarding frequency and microwave licensing, Jeffries noted this will be a post-RPC discussion and part of the FCC approval process. This is an opportunity to place these matters under MERA authority as part of the Next Gen System Project. This is legally permissible to do. In response to Gaffney, these licenses are currently held by the County.

E. Other Information Items

None.

F. Open Time for Items Not on Agenda

None.

G. Adjournment

The meeting was adjourned at 12:14 p.m.

Respectfully submitted by:

Maureen Cassingham
MERA Executive Officer and Secretary