

November 10, 2021

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Executive Board Communication

**TO: MERA Executive Board**

**FROM: Mary Morris-Mayorga, Interim Executive Officer**

**SUBJECT: NEXT GEN SYSTEM PROJECT BUDGET, CASH FLOW FORECAST, AND NEW REPLACEMENT FUND**

Recommended Action

Receive presentation on Next Gen System Project Budget, Cash Flow Forecast, and New Replacement Fund alternatives to provide staff direction on further action which may include:

- Incorporate feedback and/or recommended revisions;
- Provide a report to the Governing Board for members to discuss with respective agencies; and/or
- Other action as determined by the Executive Board.

Background

At the Executive Board Meeting on September 8, 2021, staff presented a proposed path to evaluate a proposed new replacement fund as was previously discussed at the Governing Board Meeting on April 28, 2021 (attached). After discussion, the Board supported this evaluation process:

- Establish and/or Refine Capital/Replacement Costs (non-safety radios, Next Gen, Gen 3)
- Complete Cash Flow Forecast
- Evaluate Projected Reserve Fund Balances for Funding Gaps
- Determine Funding Requirements, Impacts to Member Contributions, and Alternatives
- Assess Current Reserve Fund Policy for Possible Amendment(s)
- Executive Board Discussion
- Members Discuss with Agencies (as individually determined)
- Executive Board Discussion on Member Agency Feedback
- Governing Board Discussion

Staff has proceeded with the evaluation and is providing this report as an update for discussion, feedback, and direction in order to determine next steps.

Capital and Replacement Costs

The overall Next Gen Project budget is \$73,164,642 which includes a construction contingency for each site totaling approximately \$1.9M. As noted during project updates, some site costs are more than originally anticipated; however, staff works diligently to mitigate those increased costs to the extent possible.

An unappropriated reserve remains of \$855,000 after recent allocations of the original \$1.128M. With the pending construction schedule update, there will be a revised project budget in the coming months to incorporate related changes and reallocate costs between line items.

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<b>1</b>	<b>Active Line Items (2021-2024)</b>			
1-A	Vendor Contract - System	\$18,308,978	\$3,430,724	19%
1-B	Vendor Change Orders - System	\$3,225,495	\$564,648	18%
1-C	Vendor Contract - Public Safety Radi	\$5,698,226	\$4,360,144	77%
1-D	Vendor Change Orders - PS Radios	\$3,162,340	\$0	0%
1-E	Construction (NEW - eff 07/01/20)	\$10,474,438	\$197,951	2%
1-F	FE Project Management - Phase II	\$2,134,730	\$1,600,330	75%
1-G	AECOM Consulting Task 2 (Const.)	\$2,430,000	\$1,239,287	51%
1-H	RGS MERA Staffing	\$1,005,000	\$995,543	99%
1-I	Marin County Real Estate Services	\$50,000	\$57,217	114%
1-J	MERA Legal	\$400,000	\$257,219	64%
1-K	Admin Fees	\$3,200,000	\$1,035,789	32%
1-L	Financing Bond Interest	\$10,366,480	\$3,791,868	37%
	<b>Sub Total</b>	<b>\$60,455,686</b>	<b>\$17,530,721</b>	<b>29%</b>
<b>2</b>	<b>Closed Costs (Pre 2021)</b>			
2-A	CEQA	\$905,799	\$905,799	100%
2-B	AECOM CDR Consulting Services	\$201,853	\$201,853	100%
2-C	Public Outreach and Awareness	\$398,999	\$398,999	100%
2-D	Other Capital Costs	\$28,966	\$28,966	100%
2-E	DPW Project Implementation	\$918,930	\$918,930	100%
2-F	Marin DPW	\$11,640	\$11,640	100%
2-G	FE Consultants - Phase I	\$305,456	\$305,456	100%
	<b>Sub Total</b>	<b>\$2,771,643</b>	<b>\$2,771,643</b>	<b>100.00%</b>
<b>3</b>	<b>Future Costs (Post 2025)</b>			
3-A	System Upgrade Agreement (SUA)	\$8,301,299	\$0	0%
3-B	SUA from Contract Change Orders	\$1,636,014	\$0	0%
	<b>Sub Total</b>	<b>\$9,937,313</b>	<b>\$0</b>	<b>0%</b>
	<b>Total Project Budget:</b>	<b>\$73,164,642</b>	<b>\$20,302,364</b>	<b>28%</b>
<b>4</b>	<b>Contingencies and Reserves</b>			
4-A	Budgeted Project Contingency	\$0	% of Project Total	0%
4-B	Unappropriated Project Reserve	\$1,128,055	% of Project Total	2%
	<b>Project Total:</b>	<b>\$74,292,697</b>		

Cash Flow Forecast

While efforts continue on refining the cash flow forecast it has been provided below given the information known at this time; however, this will likely require a revision once the final construction schedule is received.

	2016 - 2020	2021	2022	2023	2024	2025+	Total
<u>Cash Flow Projection</u>							
Revenue (incl bond proceeds)	\$ 53,708,393	\$ 4,259,343	\$ 4,260,131	\$ 4,052,324	\$ 3,876,494	\$ 39,610,000	\$ 109,766,685
Administrative Expenses	1,611,566	676,895	413,639	327,528	207,625	1,749,705	\$ 4,986,957
Site Costs	373,415	-	-	-	-	-	\$ 373,415
Debt Service	10,189,730	2,402,800	2,404,250	2,400,050	2,400,200	26,532,850	\$ 46,329,880
Capital Outlay	2,771,643	11,514,938	14,445,268	11,901,074	6,131,872	11,285,856	\$ 58,050,651
<b>Net Cash Flow</b>	<b>\$ 38,762,039</b>	<b>\$ (10,335,289)</b>	<b>\$ (13,003,026)</b>	<b>\$ (10,576,328)</b>	<b>\$ (4,863,203)</b>	<b>\$ 41,590</b>	<b>\$ 25,783</b>

Projected Reserve Fund Balances

In addition to the parcel tax revenue fund, MERA has reserve funds as listed below. Following the final note payment, the New Project Fund balance of \$279,000 may be available for another purpose (this will be confirmed). The Emergency Fund is intended specifically for emergency condition system interruptions (see Reserve Fund Policy). The Replacement Fund balance of \$4.3M has been discussed as the potential funding mechanism for the non-public safety radios. If a lower cost alternative to these radios were acceptable, the remaining funds may be utilized for another purpose if approved by the Governing Board.

	Funds		
	70032	70036	70037
	New Project Financing	Replacement	Emergency
Projected Fund Balance 6/30/2022	\$ 279,083	\$ 4,396,543	\$ 543,313

Funding Requirements

While the project budget is currently funded and allows for some contingencies, there are unknowns that may impact this including, but not limited to:

- construction cost estimates will need to be recalculated based on revised drawings that have not been received yet; and
- Federal Engineering will need a contract extension through 2023 and potentially into 2024.

Alternatives

There are several alternatives for project funding of additional costs that extend beyond those budgeted, or in preparation of future systems:

- establishment of or increased reserve funding;
- grants; and/or
- member contributions.

If it is determined that member contributions should include funding toward a replacement or other reserve, the impact at various levels can be provided for further evaluation.

Reserve Fund Policy

As established by the Governing Board, the policy as currently written includes two reserve funds:

- Replacement – “...for repairing, improving or replacing the MERA communications system or any component thereof. The Fund will also subsidize the Operating Fund should any maintenance costs be extraordinary...”
- Emergency – “...to immediately address any emergency conditions causing or likely to cause system service interruption(s) before insurance is available, for underinsured or uninsured losses and to self-insure liability and property insurance deductibles. Additionally, this Fund may be used for short-term interfund transfers to the Replacement Fund or other approved fund.”

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There have been discussions to utilize the Replacement Fund for the non-public safety radios. With a current balance of \$4.3M and radios estimated to cost Nearly \$4M, this would leave a remaining balance of \$300,000. The fund minimum per the policy is \$500,000; therefore, in this case would require a transfer of \$200,000 from the Operating fund that would be funded by member contributions.

If new or increased funding of the existing Replacement Fund or establishment of a new Replacement Fund were determined, the policy would need to incorporate such language in the policy to set any specific parameters (purpose(s), annual amount, minimum, goal amount, etc.).

Attachments: September 8, 2021 EB Staff Report - Review MERA's Reserve Funds Policy  
Following Governing Board's April 28th Discussion of New Replacement Fund  
Reserve Funds Policy